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KAL JAPAN ABS 20 CAYMAN LIMITED

(incorporated with limited liability under the laws of the Cayman Islands)

¥10,000,000,000 Secured Fixed Rate Senior Notes due 2019
¥5,000,000,000 Secured Fixed Rate Subordinated Notes due 2019

The ¥10,000,000,000 Secured Fixed Rate Senior Notes due 2019 (the "**Senior Notes**") and the ¥5,000,000,000 Secured Fixed Rate Subordinated Notes due 2019 (the "**Subordinated Notes**", and together with the Senior Notes, the "**Notes**") of KAL Japan ABS 20 Cayman Limited (the "**Note Issuer**") will be constituted by a note trust deed (the "**Note Trust Deed**") dated on or about 29 December 2016 among, *inter alios*, the Note Issuer and DB Trustees (Hong Kong) Limited, as trustee for the holders of the Notes (the "**Note Trustee**"). The Subordinated Notes will rank junior to the Senior Notes in terms of payment and priority. The Notes are expected to be issued on or about 29 December 2016 (the "**Closing Date**"). The Notes are limited recourse obligations of the Note Issuer and will be secured by, *inter alia*, the ¥15,000,000,000 Secured Bond due 2019 (the "**Bond**") issued by KAL 20 Asset Securitization Specialty Company (the "**Bond Issuer**"), a Korean limited liability company (*yuhanhoesa*) incorporated under the Act Concerning Asset Backed Securitization of Korea and the Korean Commercial Code, to the Note Issuer on the Closing Date.

It is expected that the Senior Notes will, when issued, be assigned an "A-" rating by Japan Credit Rating Agency, Ltd. (the "**Rating Agency**") and the Subordinated Notes will, when issued, be assigned a "BBB" rating by the Rating Agency. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, qualification, suspension or withdrawal at any time by the assigning rating organisation.

Investing in the Notes involves risks. Prospective investors should have regard to the factors described under the section "*Risk Factors*" beginning on page 33.

Issue Price: 100%

The Notes are offered through BNP Paribas and The Korea Development Bank as joint arrangers, joint lead managers and initial purchasers (the "**Joint Arrangers**", the "**Joint Lead Managers**" and the "**Initial Purchasers**").

The Notes have not been and will not be registered under the United States Securities Act of 1933, as amended (the "U.S. Securities Act") or under the securities laws, or with any securities regulatory authority, of any state of the United States and, unless so registered, may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the U.S. Securities Act ("Regulation S")) except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act and applicable state securities laws. Accordingly, the Notes are being offered and sold only outside the United States to non-U.S. persons in accordance with Regulation S under the U.S. Securities Act.

Interest on the Notes is payable by reference to successive interest periods (each, an "**Interest Period**"). Interest will be payable on the Notes monthly in arrear on the 27th day of each month (each, a "**Payment Date**") commencing in February 2017. If a payment is due on a day which is not a Business Day (as defined herein), such payment will be made on the immediately succeeding Business Day, unless that day falls in the next calendar month, in which case it will be brought forward to the first preceding Business Day. Interest will accrue on the Principal Amount Outstanding (as defined herein) of the Notes as of the first day of each relevant Interest Period on the basis of a year of 360 days and twelve 30-day months at a rate per annum equal to the relevant Note Rate of Interest (as defined herein).

Unless previously redeemed or purchased and cancelled, the Note Issuer will redeem the Notes in full on the Payment Date falling in December 2019 (the "**Note Maturity Date**") at their Principal Amount Outstanding together with accrued interest to the Note Maturity Date. However, following the declaration of any Mandatory Redemption Event (as defined herein) and redemption of the Bond, the Note Issuer will redeem the Notes, in whole, to the extent of funds available therefor in accordance with the priority of payments set forth in the Note Trust Deed on the immediately succeeding Payment Date or on the relevant Mandatory Redemption Payment Date (as defined herein), at their Principal Amount Outstanding on such date together with accrued interest to such date. See "*Terms and Conditions of the Notes*".

Approval-in-principle has been received from the Singapore Exchange Securities Trading Limited (the "**SGX-ST**") for the listing and quotation of the Notes on the Official List of the SGX-ST. The SGX-ST assumes no responsibility for the correctness of any of the statements made or opinions expressed or reports contained herein. Admission of the Notes to the Official List of the SGX-ST or quotation of any Notes on the SGX-ST are not to be taken as an indication of the merits of the Note Issuer or the Notes. There can be no assurance that such listing will be maintained.

The Notes will be issued in registered form in the minimum denomination of ¥20,000,000 and integral multiples of ¥10,000,000 thereafter. The Notes will be exchangeable, and transfers thereof will be registrable, at the offices of Deutsche Bank AG, Hong Kong Branch as note registrar (the "**Note Registrar**"). It is expected that the Notes will be delivered through the facilities of Euroclear Bank S.A./N.V. as operator of the Euroclear System ("**Euroclear**") and Clearstream Banking S.A. ("**Clearstream**") on or about 29 December 2016.

BNP PARIBAS | KDB Bank

BNP PARIBAS | **The Korea Development Bank**

Joint Arrangers and Joint Lead Managers

The date of this Offering Circular is 29 December 2016

IMPORTANT NOTICE

Prospective investors should rely only on the information contained in this Offering Circular or to which reference is made herein. The Note Issuer has not authorised anyone to provide prospective investors with information that is different. This document may only be used where it is legal to sell the Notes. The information in this Offering Circular may only be accurate on the date of this Offering Circular.

On the Closing Date, the Note Issuer will use the proceeds of the issue of the Notes to subscribe for the Bond from the Bond Issuer. The Bond Issuer will use the proceeds of the issue of the Bond to purchase, from the Seller (as defined below), a beneficial interest (the "**Investor Beneficial Interest**"), represented by a Japanese Yen denominated certificate (the "**Investor Beneficial Certificate**"), in the assets of a trust (the "**Japanese Trust**") established pursuant to a trust agreement (the "**Trust Agreement**") dated 13 December 2016 among, *inter alios*, Korean Air Lines Co., Ltd. (the "**Trustor**", the "**Originator**", the "**Seller**", the "**Servicer**", "**Korean Air**", "**KAL**" or the "**Company**") and Deutsche Trust Company Limited Japan (the "**Japanese Trustee**"). In accordance with the Trust Agreement, on the Closing Date the Trustor will entrust certain BSP Receivables and the Reserve Funding Amount (each as defined herein) to the Japanese Trustee. The Bond Issuer, as holder of the Investor Beneficial Certificate, will be entitled to receive certain distributions from the assets of the Japanese Trust, as more fully described in "*Transaction Overview – The Trust*". The Bond Issuer will make payments of interest and principal on the Bond on each Bond Payment Date (as defined herein) or on the relevant Mandatory Redemption Payment Date following and to the extent of receipt of distributions of principal on the Investor Beneficial Certificate on each Trust Distribution Date (as defined herein) or on the relevant Mandatory Redemption Payment Date. The Note Issuer will make payments of interest and principal on the Notes on each Payment Date (as defined herein) or, as the case may be, Mandatory Redemption Payment Date, following receipt of payments of interest and principal on the Bond from the Bond Issuer. These transactions are more fully described in "*Transaction Overview*".

It is expected that the Senior Notes will, when issued, be assigned an "A-" rating by the Rating Agency and that the Subordinated Notes will, when issued, be assigned a "BBB" rating by the Rating Agency. The ratings will relate to the timely payments of interest and principal on the Notes. A rating is not a recommendation to buy, sell or hold securities, does not address the likelihood or timing of prepayment and may be subject to revision, qualification, suspension or withdrawal at any time by the assigning rating organisation. A revision, qualification, suspension or withdrawal of any rating assigned to the Notes may adversely affect the market price of the Notes.

The Notes have not been and will not be registered under the U.S. Securities Act or under the securities laws, or with any securities regulatory authority, of any state of the United States and, unless so registered, may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the U.S. Securities Act) except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act and applicable state securities laws. Accordingly, the Notes are being offered and sold only outside the United States to non-U.S. persons in accordance with Regulation S under the U.S. Securities Act. See "*Subscription and Sale*".

Any Definitive Note Certificate (as defined herein) issued in respect of the Notes will bear restrictive legends and will be subject to the restrictions on transfer as described herein.

The Notes are expected to settle in book-entry form through the facilities of Clearstream and Euroclear on or about the Closing Date against payment therefor in immediately available funds.

The Note Issuer accepts responsibility for all the information included in this Offering Circular. To the best of the knowledge and belief of the Note Issuer, the information contained in this Offering Circular is in accordance with the facts and does not omit anything likely to affect the import of such information.

No person is authorised in connection with the issue and sale of the Notes to give any information or to make any representation not contained in this Offering Circular and, if given or made, any such information or representation not contained herein must not be relied upon as having been authorised by or on behalf of the Note Issuer, the Bond Issuer, the Trustor, the Servicer, the Joint Arrangers, the Joint Lead Managers, the Japanese Trustee, the Note Trustee, the Security Agent or the other Agents (as defined herein). Neither the delivery of this Offering Circular at any time, nor any sale made in connection herewith, will, in any circumstance, create an implication that there has been no change in the affairs of the Note Issuer since the date hereof or that the information contained herein is correct as of any time subsequent to such date.

None of the Joint Arrangers, the Joint Lead Managers, the Initial Purchasers, the Japanese Trustee, the Bond Issuer, the Note Trustee, the Security Agent, the Transaction Administrator or the other Agents or has separately verified the information contained in this Offering Circular. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Joint Arrangers, the Joint Lead Managers, the Initial Purchasers, the Japanese Trustee, the Bond Issuer, the Transaction Administrator, the Note Trustee, the Security Agent, the Transaction Administrator or the other Agents as to the authenticity, origin, validity, accuracy or completeness of, or any errors in or omissions from, the information or statements contained in this Offering Circular or any other information supplied in connection with the Notes. Each person receiving this Offering Circular acknowledges that such person has not relied on the Joint Arrangers, the Joint Lead Managers, the Initial Purchasers, the Japanese Trustee, the Bond Issuer, the Note Trustee, the Security Agent, the Transaction Administrator or the other Agents, nor on any person affiliated with any of them in connection with its investigation of the accuracy of such information or its investment decision.

This Offering Circular does not constitute an offer of, or an invitation by or on behalf of, the Note Issuer, the Bond Issuer, the Trustor, the Servicer, the Joint Arrangers, the Joint Lead Managers, the Initial Purchasers, the Japanese Trustee, the Note Trustee, the Security Agent, the Transaction Administrator or the other Agents to subscribe for or purchase any of the Notes.

Save as mentioned under "*Subscription and Sale*", no action has been taken under any regulatory or other requirements of any jurisdiction or will be so taken to permit a public offering of the Notes or the distribution of this Offering Circular in any jurisdiction where action for that purpose is required. The distribution of this Offering Circular and the offering or sale of any Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes are required by the Note Issuer, the Joint Arrangers and the Joint Lead Managers to inform them about and to observe any such restrictions. For a description of certain restrictions on offers and sales of the Notes and the distribution of this Offering Circular, see "*Subscription and Sale*". This Offering Circular does not constitute, and may not be used for the purposes of, an offer or solicitation by any person in any jurisdiction in which such offer or solicitation is not authorised or to any person to whom it is unlawful to make such offer or solicitation.

Accordingly, the Notes may not be offered or sold, directly or indirectly, and neither this Offering Circular nor any part of it nor any other prospectus, form of application, advertisement, other offering material or other information may be issued, distributed or published in any country or jurisdiction except under circumstances that will result in compliance with all applicable laws, orders, rules and regulations.

Each person contemplating making an investment in the Notes must make its own investigation and analysis of the Note Issuer and the terms of the offering including the merits and risks involved, and its own determination of the suitability of any such investment, with particular reference to its own investment objectives and experience and any other factors which may be relevant to it in connection with such investment. 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.

None of the Note Issuer, the Bond Issuer, the Joint Arrangers, the Joint Lead Managers, the Initial Purchasers, the Trustor, the Japanese Trustee, the Note Trustee, the Security Agent, the Transaction Administrator or the other Agents makes any representation to any investor in the Notes regarding the legality of its investment under any applicable laws.

The contents of this Offering Circular should not be construed as providing legal, business, accounting or tax advice. Each prospective investor should consult its own legal, business, accounting and tax advisers prior to making a decision to invest in the Notes.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

The Trustor has prepared its financial statements as of and for the years ended 31 December 2014 and 2015 and as of and for the three and nine months ended 30 September 2015 and 2016 in Korean Won in accordance with the International Financial Reporting Standards as adopted by the Republic of Korea ("**K-IFRS**" or "**Korean International Financial Reporting Standards**").

All financial information in respect of the Trustor contained in this Offering Circular is presented on both a separate and consolidated basis, unless stated otherwise.

Reference in this Offering Circular to "**Japanese Yen**", "**Yen**", "**JPY**" or "**¥**" are to the lawful currency for the time being of Japan ("**Japan**"). References in this Offering Circular to "**KRW**", "**Won**" or "**Korean Won**" are to the lawful currency for the time being of the Republic of Korea ("**Korea**"). References in this Offering Circular to "**U.S.$**", "**Dollars**", "**U.S. dollars**", "$" or "**USD**" are to the lawful currency for the time being of the United States of America (the "**U.S.**" or the "**United States**"). References in this Offering Circular to "**CAD$**" are to the lawful currency for the time being of Canada. References in this Offering Circular to "**Euro**" or "€" are to the lawful currency introduced at the commencement of the third stage of the European Economic and Monetary Union (the "**EU**") on 1 January 1999 pursuant to the Treaty establishing the European Community as amended by the Treaty on European Union.

References in this Offering Circular to "**FSC**" refer to the Financial Services Commission of Korea. All references to the "**Government**" herein are references to the Government of Korea.

Discrepancies pertaining to certain tables in this Offering Circular are due to rounding. References to billions are to thousands of millions.

The language of the Offering Circular is English. Certain legislative references and technical terms have been cited in their original language in order that the correct technical meaning may be ascribed to them under applicable law.

AVAILABLE INFORMATION

The Note Issuer and the Servicer will furnish to the Note Trustee and holders of the beneficial interests in the Global Note Certificates (as defined herein) as identified by Euroclear and Clearstream certain information on a periodic basis.

EU RISK RETENTION REQUIREMENTS

Under Article 405 of Regulation 2013/575/EU (the "**CRR**"), an European Economic Area ("**EEA**") regulated institution investing in asset-backed securities, may hold the credit risk of such asset-backed securities in its trading book or non-trading book only if the originator, sponsor or original lender in respect of such asset-backed securities has explicitly disclosed to such institution that it will retain, on an ongoing basis, a material net economic interest which, in any event, will not be less than 5 per cent. of, *inter alia*, the aggregate nominal amount of the securitised exposures.

Similar requirements to those set out in Article 405 *et seq*. of the CRR have been implemented or may be implemented in the future for certain other EEA or EU regulated investors (including, without limitation, investment firms, insurance and reinsurance undertakings, certain fund managers and funds which require authorisation under Directive 2009/65/EC on Undertakings for Collective Investment in Transferable Securities, such requirements together with the Article 405 *et seq*. of the CRR, together, the "**Risk Retention Rules**"). For example, Article 51 *et seq*. of Chapter III, Section 5 of the Commission Delegated Regulation 231/2013 of 19 December 2012 (the "**AIFMR**"), is currently in effect and supplements the Alternative Investment Fund Managers Directive 2011/61/EU of the European Parliament and the Council of 22 July 2013 on alternative investment fund managers (the "**AIFMD**"), which establishes similar risk retention and due diligence requirements for certain fund managers. Furthermore, Article 135 of the Directive 2009/138/EC on the taking up and pursuit of the business of insurance and reinsurance (the "**Solvency II**"), as amended by Directive 2014/51/EU (the "**Omnibus II**"), imposes requirements on insurers and reinsurers authorised in the EU. Certain provisions of Solvency II had to be implemented by the member states until 31 March 2015 and apply as from 1 January 2016 onwards, or a later date. On 10 October 2014, the European Commission adopted a Delegated Act containing implementing rules for Solvency II which was published in the Official Journal on 17 January 2015, as Commission Delegated Regulation 2015/35/EU (the "**Solvency II Implementing Regulation**"), and entered into force the following day. Articles 254 *et seq*. of Chapter VIII of the Solvency II Implementing Regulation introduced risk retention and due diligence requirements which are similar (but not identical) to those which apply under Article 405 of the CRR *et seq*.

As of the Closing Date, Korean Air will retain for the life of the transaction a material net economic interest of not less than 5 per cent. in the transaction. Such net economic interest will, in accordance with Article 405 paragraph 1, subsection (b) of the CRR, be retained by way of a revolving interest in the assets of the Japanese Trust, through the Seller Beneficial Certificate equivalent to no less than 5 per cent. of the nominal amount of the securitised exposures. Any change to the manner in which this interest is held will be notified to investors. See "*Risk Factors – Other Risks – Regulatory initiatives may result in increased capital requirements and/or decreased liquidity in respect of the Notes*" and "*General Information*" for further information.

Each prospective investor or Noteholder is required to independently assess and determine the sufficiency of the information described in the preceding three paragraphs for the purposes of complying with the Risk Retention Rules, in particular with each of Section 5 of the CRR (including Article 405), Section 5 of Chapter III of the AIFMR (including Article 51) and Chapter VIII of the Solvency II Implementing Regulation (including Article 254) and any corresponding national measures which may be relevant. None of the Note Issuer, Korean Air (in its capacities as the Trustor and the Servicer), the Joint Arrangers, the Joint Lead Managers nor any other party to the Transaction Documents makes any representation or assurance that such information is sufficient in all circumstances for such purposes. In addition, if and to the extent the Risk Retention Rules are relevant to any prospective investor or Noteholder, such investor or Noteholder should ensure that it complies with the Risk Retention Rules in its relevant jurisdiction. Each prospective investor or Noteholder who is uncertain as to the requirements which apply to them in any relevant jurisdiction should seek guidance from the competent regulator.

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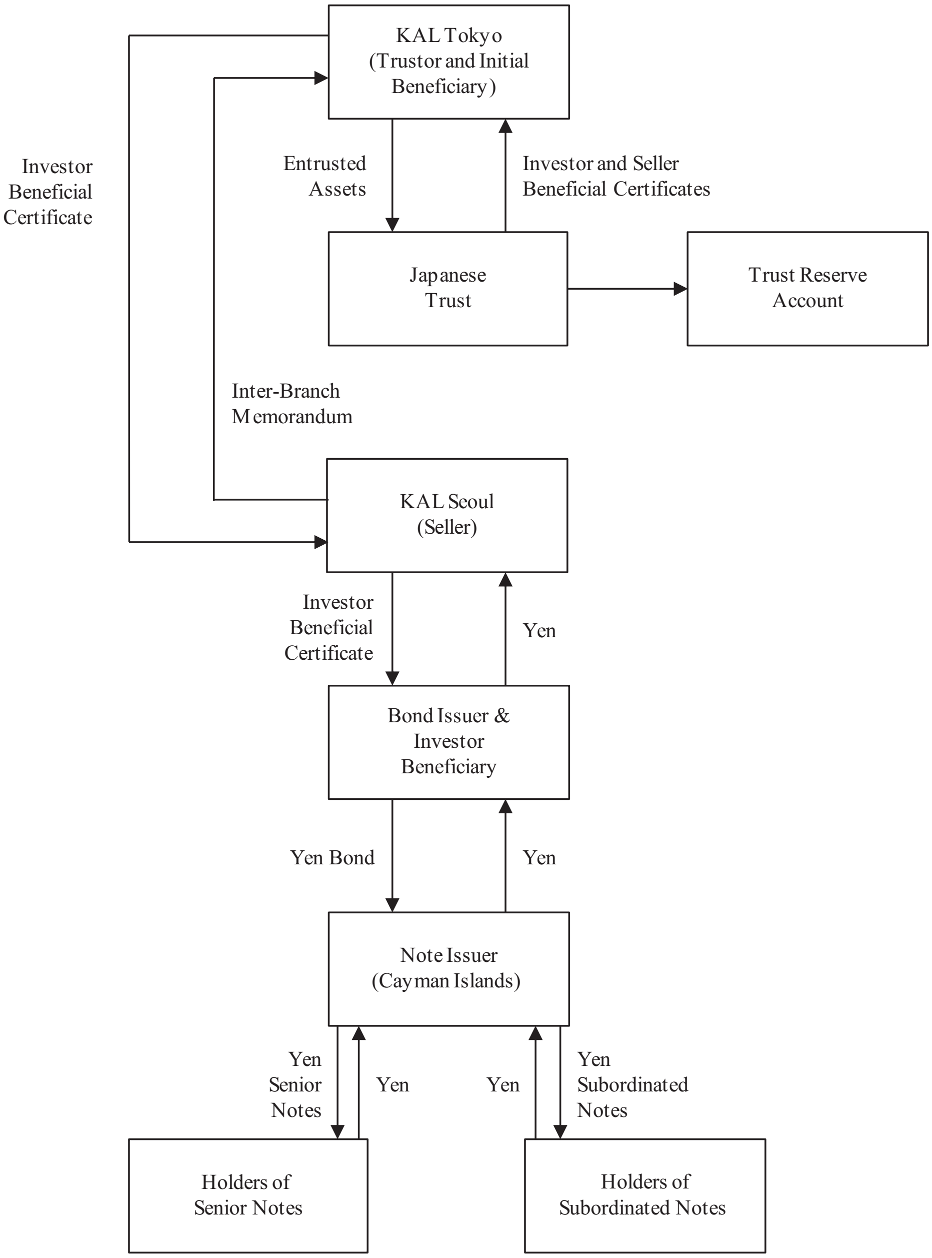
TRANSACTION OVERVIEW

The information set out below is a summary of the principal features of the transaction. As this is a transaction overview it is qualified in its entirety by reference to the detailed information appearing elsewhere in this Offering Circular, the Transaction Documents (as defined herein) and the documents referred to herein.



SUMMARY

Capitalised terms used in this Transaction Overview are defined in the more detailed sections below and in "The Glossary".

On or about 29 December 2016 (the "**Closing Date**"), the Note Issuer will apply the gross proceeds of the issue of ¥10,000,000,000 Secured Fixed Rate Notes due 2019 (the "**Senior Notes**") and the ¥5,000,000,000 Secured Fixed Rate Subordinated Notes due 2019 (the "**Subordinated Notes**" and together with the Senior Notes, the "**Notes**") to subscribe for a ¥15,000,000,000 Secured Bond due 2019 (the "**Bond**") from the Bond Issuer. The Bond Issuer will apply the proceeds of the issue of the Bond to purchase the Investor Beneficial Certificate from the Seller on the Closing Date.

The Japanese Trust will be formed pursuant to a trust agreement made between, *inter alios*, the Trustor and the Japanese Trustee dated 13 December 2016 (the "**Trust Agreement**") in accordance with which the Trustor will, on the Closing Date, entrust to the Japanese Trustee the BSP Receivables and the Reserve Funding Amount and the Japanese Trustee will issue the Investor Beneficial Certificate and the Seller Beneficial Certificate to the Trustor in its capacity as initial beneficiary (the "**Initial Beneficiary**"). The Trustor will acknowledge in the Inter-Branch Memorandum (as defined herein) that the Investor Beneficial Interest (represented by the Investor Beneficial Certificate) will be sold by KAL Seoul (as defined below) to the Bond Issuer on the Closing Date.

TRANSACTION PARTIES

The Note Issuer

KAL Japan ABS 20 Cayman Limited (the "**Note Issuer**" and the "**Bondholder**") is an exempted company incorporated with limited liability in the Cayman Islands and managed by the Cayman Administrator (as defined below).

The Bondholder's sole business will be (i) the purchase of the Bond (as defined herein) from the Bond Issuer (as defined below), (ii) the transfer and assignment to the Note Trustee (as defined below) of a security interest in substantially all of the Bondholder's property and assets (the "**Bondholder Secured Property**"), (iii) the issuance of the Notes and (iv) the entry into and performance of its obligations under, referred to in, or contemplated by, the Transaction Documents.

The Bond Issuer

KAL 20 Asset Securitization Specialty Company (the "**Bond Issuer**") is a limited liability special securitisation company (*yuhanhoesa*) incorporated in Korea and managed by the Bond Issuer Administrator (as defined below).

The sole business of the Bond Issuer will be (i) the purchase from KAL Seoul of the beneficial interest of the Investor Beneficiary (as defined below) in the Japanese Trust (the "**Investor Beneficial Interest**") represented by a Japanese Yen denominated certificate (the "**Investor Beneficial Certificate**"), created under the Trust Agreement (as defined below) pursuant to a sale and purchase agreement dated 13 December 2016 among, *inter alios*, KAL Seoul, the Bond Issuer in its capacity as investor beneficiary (the "**Investor Beneficiary**") and the Japanese Trustee (as defined below) (the "**Investor Beneficial Interest Sale and Purchase Agreement**"), (ii) the creation of the Bond Security (as defined below), (iii) the issuance of the Bond to the Bondholder and (iv) any other activities permitted pursuant to the Act Concerning Asset Backed Securitization of Korea (Law No. 5555, 16 September 1998) (the "**ABS Act**"), including entering into agreements necessary for the performance of its obligations under the transaction specified in the securitisation plan registered with the Financial Services Commission of Korea (the "**FSC**").

The Trustor

On the Closing Date, Korean Air Lines Co., Ltd. as trustor ("**KAL**", the "**Trustor**" or the "**Company**") acting through its Tokyo branch ("**KAL Tokyo**") will:

(a) pursuant to the provisions of the Trust Agreement:

   (i) entrust all of its rights, title, interest and benefit (present and future, actual and contingent) in, to and under certain receivables (the "**BSP Receivables**") owed to the Trustor from time to time by (1) the International Air Transport Association ("**IATA**") and paid by Citibank Japan Ltd. (the "**BSP Bank**") under the standard ticketing, reporting and remittance system operated by IATA (the "**BSP**" or "**Billing and Settlement Plan**") arising under the BSP Agreements (as defined herein) and (2) the various agents appointed by IATA (on behalf of the Trustor and the other airlines participating in the BSP) (the "**IATA Agents**") from time to time pursuant to various agency agreements entered into from time to time between IATA (on behalf of the Trustor and the other airlines who are members of the BSP) and the IATA Agents (the "**IATA Agency Agreements**") and payable to the Trustor through the BSP until the earlier to occur of (i) 31 December 2021 and (ii) such other date on which the entrustment under the Trust Agreement terminates, as is notified to the Trustor and IATA by the Japanese Trustee;

(ii) entrust ¥889,615,748 (the "**Reserve Funding Amount**") to fund the Trust Reserve Account (as defined herein); and

(iii) agree to entrust additional monies from time to time to the Japanese Trustee;

(b) take receipt of the Investor Beneficial Certificate and a Japanese Yen denominated certificate (the "**Seller Beneficial Certificate**") representing the beneficial interest of the Trustor in its capacity as seller beneficiary (the "**Seller Beneficiary**" and, together with the Investor Beneficiary, the "**Beneficiaries**") in the Japanese Trust (the "**Seller Beneficial Interest**"); and

(c) enter into an inter-branch memorandum on or about the Closing Date with Korean Air, acting through its Seoul office ("**KAL Seoul**") (the "**Inter-Branch Memorandum**").

The Servicer

The Trustor will act as the servicer (the "**Servicer**") for the Japanese Trustee in respect of the BSP Receivables (the "**Serviced Assets**"). The Servicer may, in the event of a Servicer Termination Event (as defined herein), be removed as Servicer. See "– *Servicing*".

The Japanese Trustee

Deutsche Trust Company Limited Japan will act as trustee of the Entrusted Assets (as defined below) (the "**Japanese Trustee**").

The Note Trustee

DB Trustees (Hong Kong) Limited will act as trustee for the holders of the Notes (the "**Note Trustee**") and will (i) provide certain administrative services to the Note Issuer in relation to the Secured Obligations (as defined herein) and (ii) hold the Bondholder Security (as defined herein) on behalf of the Noteholders and the other Bondholder Secured Parties (as defined herein) pursuant to the terms of the Note Trust Deed. See "– *The Note Trust Deed*" below.

The Note Trustee may retire at any time upon giving 90 days' notice in writing of such retirement to the Note Issuer. A successor note trustee will be appointed by the Note Issuer.

The Transaction Administrator, the Bond Issuer Servicer and the Bond Issuer Administrator

The Bond Issuer will appoint Deutsche Bank AG, Seoul Branch (the "**Transaction Administrator**") to provide certain administrative services in relation to the payment obligations of the Bond Issuer pursuant to the terms of a transaction administration agreement dated 13 December 2016 between, *inter alios*, the Bond Issuer and the Transaction Administrator (the "**Transaction Administration Agreement**").

The Transaction Administrator may resign from its appointment (without giving any reason for such resignation) at any time after providing a written notice to, *inter alios*, the Bond Issuer, the Bondholder, the Rating Agency and the Trustor not less than 60 days' prior to the effective date of such resignation; *provided, however, that* such resignation shall not be effective unless a successor transaction administrator has been appointed on substantially the same terms and conditions as the Transaction Administration Agreement.

The Bond Issuer may terminate the appointment of the Transaction Administrator on written notice to the Transaction Administrator following the occurrence of certain events of defaults by the Transaction Administrator or on the insolvency of the Transaction Administrator.

Pursuant to and in accordance with an agreement dated 13 December 2016 between, *inter alios*, Deutsche Bank AG, Seoul Branch (the "**Bond Issuer Servicer**") and the Bond Issuer (the "**Bond Issuer Servicing Agreement**"), the Bond Issuer Servicer will provide collection, management and administrative services to the Bond Issuer in relation to the Investor Beneficial Interest and the collections thereon.

Pursuant to and in accordance with an agreement dated 13 December 2016 between, *inter alios*, Daemyung Accounting Corp. (the "**Bond Issuer Administrator**") and the Bond Issuer (the "**Bond Issuer Administrator Agreement**"), the Bond Issuer Administrator will also provide certain administrative services to the Bond Issuer.

The Agents

The Note Issuer will appoint Deutsche Bank AG, Hong Kong Branch as principal paying agent and principal transfer agent (the "**Principal Paying Agent**" and the "**Principal Transfer Agent**") and Deutsche Bank AG, Hong Kong Branch, as note registrar (the "**Note Registrar**"), in each case in respect of the Notes, pursuant to the terms of an agency agreement dated on or about the Closing Date (the "**Note Agency Agreement**").

The Bondholder will appoint Deutsche Bank AG, Hong Kong Branch as its account bank (the "**Bondholder Account Bank**") in respect of the Bondholder Account (as defined herein) pursuant to an account bank agreement dated on or about the Closing Date among, *inter alios*, the Bondholder Account Bank and the Bondholder (the "**Bondholder Account Bank Agreement**"). The Bondholder will pay all Agency Fees (as defined below) of the Note Agents, the Note Trustee and the Bondholder Account Bank up to the Agency Fees Maximum Amount (as defined below) specified in a fee letter dated on or about the Closing Date and made between the Principal Paying Agent, the Principal Transfer Agent and the Note Registrar (together, the "**Note Agents**"), the Note Trustee, the Bondholder Account Bank, the Common Depositary and the Note Issuer (the "**DB Fee Letter**").

The Note Issuer will appoint Walkers Fiduciary Limited as Cayman Administrator for the Note Issuer (the "**Cayman Administrator**" and, together with the Note Agents and the Bond Agents (each as defined herein), the "**Agents**") pursuant to an administration agreement dated on or about the Closing Date between the Note Issuer and the Cayman Administrator (the "**Cayman Administrator Agreement**"). The Bondholder will pay all fees of the Cayman Administrator specified in the Cayman Administrator Agreement.

The Bond Issuer will appoint Deutsche Bank AG, Seoul Branch as its account bank (the "**Bond Issuer Account Bank**") in respect of the Bond Issuer Accounts (as defined herein).

The Security Agent (as defined herein), the Bond Issuer Servicer, the Transaction Administrator, the Bond Issuer Administrator and Deutsche Bank AG, Hong Kong Branch as the bond registrar (the "**Bond Registrar**") are together referred to as the "**Bond Agents**". The Bond Issuer will pay all Agency Fees of the Bond Agents and the Bond Issuer Account Bank up to the Agency Fees Maximum Amount specified in a fee letter dated on or about the Closing Date and made between the Bond Agents, the Bond Issuer Account Bank and the Bond Issuer (the "**DB Seoul Fee Letter**").

The Joint Lead Managers, Joint Arrangers and Initial Purchasers

BNP Paribas and The Korea Development Bank will act as Joint Lead Managers and Joint Arrangers of the offering of the Notes (the "**Joint Lead Managers**" and the "**Joint Arrangers**") and BNP Paribas and The Korea Development Bank will be the initial purchasers of the Notes (the "**Initial Purchaser**") pursuant to a note subscription agreement dated on or about 22 December 2016 (the "**Note Subscription Agreement**"). For a description of the Note Subscription Agreement, see "*Subscription and Sale*".

THE NOTES

The Notes

The Note Issuer will issue the Notes to investors on the Closing Date. The Notes will be secured by the Bondholder Security. The Subordinated Notes will rank junior to the Senior Notes in terms of payment and priority.

The Notes will be issued initially in registered global form only, without coupons attached, and will be deposited with a common depositary (the "**Common Depositary**") for Euroclear and Clearstream. The Notes are freely transferable in accordance with their terms and subject to certain restrictions on sales to U.S. persons. See "*Terms and Conditions of the Notes*" and "*Subscription and Sale – United States*". For a description of the Notes, see "*Terms and Conditions of the Notes*".

Issue Price

The Notes will be issued at 100 per cent. of their principal amount.

Further Issuances

The Note Issuer may, subject to the provisions of the Note Trust Deed and the conditions set out below, at any time before the Note Maturity Date in respect of the Notes and without the consent of the Noteholders or any other Bondholder Secured Party, create and issue (x) additional senior notes (the "**Additional Senior Notes**") which will have the same terms and conditions (except in relation to the issue date, the first Interest Period, the first Payment Date and the amount to be paid in respect of the first payment of interest thereon) as, and so that they shall be consolidated and form a single series and rank *pari passu* with, the Senior Notes then outstanding and/or (y) additional subordinated notes (the "**Additional Subordinated Notes**", and together with the Additional Senior Notes, the "**Additional Notes**") which will have the same terms and conditions (except in relation to the issue date, the first Interest Period, the first Payment Date and the amount to be paid in respect of the first payment of interest thereon) as, and so that they shall be consolidated and form a single series and rank *pari passu* with, the Subordinated Notes then outstanding. No Additional Notes may be issued unless each of the following conditions (each, an "**Additional Issuance Condition**") are satisfied:

(a) no Event of Default, Early Amortisation Event or Mandatory Redemption Event has occurred and is continuing in respect of the Notes then outstanding or will occur as a result of the issuance of the Additional Notes;

(b) the Debt Service Coverage Ratio, calculated on the basis that the Additional Notes have been issued and were outstanding for the period of calculation of such ratio, is equal to or greater than 3:1;

(c) upon the issuance of the Additional Notes, the Trustor has entrusted to the Japanese Trustee such amount in Yen as is required to ensure that the Required Trust Reserve Balance (calculated to take into account the issuance of the Additional Notes on such date) is on deposit in the Trust Reserve Account;

(d) the Rating Agency has confirmed that the then current rating of the Notes will not be negatively affected by the issuance of the Additional Notes; and

(e) all necessary filings and registrations (including, but not limited to, the registration of the amendment to the Securitisation Plan by the Bond Issuer and the registration of any additional securitisation plan in connection with any newly established bond issuer in relation to the issuance of additional bonds, respectively, to be filed with the FSC) shall have been made with the relevant Governmental Entities in accordance with all Applicable Laws and (where necessary under Applicable Law) shall have been accepted by such Governmental Entities.

The Note Issuer, the Note Trustee and each other Note Agent and Bond Agent will take all action as may be required to effect the issuance of such Additional Notes, including agreeing to amendments of the Transaction Documents and executing other documents, provided always that such amendments are permitted by the Transaction Documents. See "*Note Condition 2(e)*".

Ratings

The Senior Notes are expected to be rated "A-" by Japan Credit Rating Agency, Ltd. (the "**Rating Agency**") and the Subordinated Notes are expected to be rated "BBB" by the Rating Agency.

Bondholder Security

For a description of the Bondholder Security, see "*– The Note Trust Deed – Bondholder Security*".

Interest

Interest will be payable on the Notes monthly in arrear on the 27th day of each month (or, if such day is not a Business Day, the next day which is a Business Day) commencing on February 2017 (each, a "**Payment Date**") or, as the case may be, on the Mandatory Redemption Payment Date in respect of the Notes. Payment of interest on the Subordinated Notes is subordinated to, among other things, payments of interest on the Senior Notes.

"**Business Day**" means a day (other than a Saturday or Sunday) on which commercial banks are open for general business in Hong Kong, London, Seoul and Tokyo or, if otherwise specified in the relevant Transaction Document, in any one or more of such locations.

Interest on the Notes will be payable by reference to successive interest periods (each, an "**Interest Period**"). The initial Interest Period will commence on (and include) the Closing Date and end on (but exclude) the initial Payment Date. Each successive Interest Period will commence on (and include) a Payment Date and end on (but exclude) the immediately succeeding Payment Date or, as the case may be, on the Mandatory Redemption Payment Date in respect of the Notes.

Interest will accrue on the Principal Amount Outstanding of the Notes as of the first day of each relevant Interest Period (after giving effect to any payment of principal of the Notes made on such day) on the basis of a year of 360 days and twelve 30-day months at a rate per annum equal to the relevant Note Rate of Interest.

"**Note Rate of Interest**" means, in respect of the Senior Notes, the Senior Note Rate of Interest and, in respect of the Subordinated Notes, the Subordinated Note Rate of Interest.

"**Principal Amount Outstanding**" means: (i) in respect of a Note, on any date, the principal amount of that Note on the Closing Date *less* the aggregate amount of all payments of principal in respect of that Note which have been paid after the Closing Date and prior to such date and (ii) in respect of the Bond, on any date, the principal amount of the Bond on the Closing Date *less* the aggregate amount of all payments of principal in respect of the Bond which have been paid after the Closing Date and prior to such date.

"**Senior Note Rate of Interest**" means 1.839 per cent. per annum.

"**Subordinated Note Rate of Interest**" means 2.339 per cent. per annum.

Amortisation and Redemption

(a) ***Note Maturity***

Unless previously redeemed in full, the Note Issuer will redeem the Notes, to the extent of funds available therefor, in full on the Payment Date falling in December 2019 (the "**Note Maturity Date**") at the relevant Note Redemption Amount (as defined below) as at such date. Payment of principal on the Subordinated Notes is subordinated to, among other things, payments of principal on the Senior Notes.

(b) ***Controlled Amortisation Period***

On each Payment Date during the Controlled Amortisation Period (as defined below), principal in respect of the Senior Notes and the Subordinated Notes is scheduled to be paid in instalments (each, a "**Note Scheduled Amortisation Amount**") in accordance with the table set out in Note Condition 4 subject to available funds.

"**Controlled Amortisation Period**" means the period from and including the Closing Date until the earliest to occur of (i) the date on which the Early Amortisation Period (as defined below) commences, (ii) the date on which the Enforcement Period (as defined below) commences and (iii) the date on which all Secured Obligations have been paid in full.

"**Note Conditions**" means the terms and conditions of the Senior Notes and the Subordinated Notes as the same may be modified from time to time in accordance with the terms thereof, and any reference to a numbered Note Condition will be construed accordingly (see "*Terms and Conditions of the Notes*").

"**Note Redemption Amount**" means, on any date, an amount equal to the Principal Amount Outstanding of a Note as at such date *plus* accrued and unpaid interest thereon to, but excluding, such date.

(c) ***Early Amortisation Period/Enforcement Period***

On each Payment Date following a Trust Distribution Date (as defined below) falling in the Early Amortisation Period or the Enforcement Period, after payment of the relevant Note Scheduled Amortisation Amount that would have been due on such Payment Date if the Controlled Amortisation Period were continuing, amounts in respect of principal will be payable on the Notes up to their Principal Amount Outstanding in the inverse order of the original amortisation schedule, to the extent of funds available therefor, until the Notes have been repaid in full at the relevant Note Redemption Amount as at such date.

An "**Early Amortisation Event**" means the occurrence of any of the following events:

(i) a final judgment or judgments (which is not or are not appealable or which has not or have not been stayed pending appeal or as to which all rights of appeal have expired or been exhausted) will be rendered against the Trustor in excess of KRW10 billion (or an equivalent amount in another currency) in aggregate and will not be discharged within 30 days of such final judgment or judgments;

(ii) a final judgment or judgments (which is not or are not appealable or which has not or have not been stayed pending appeal or as to which all rights of appeal have expired or been exhausted) will be rendered against the Note Issuer for amounts not considered to be *de minimis*;

(iii) 40 per cent. or more by number of the Trustor's scheduled flights on the Routes (as defined herein) are cancelled for any reason;

(iv) any Collection is not made free and clear of, and without deduction or withholding for, any Tax (as defined herein);

(v) any Insolvency Event relating to the Trustor, the Bond Issuer, the Note Issuer or the Servicer occurs under the laws of Korea, Japan, the Cayman Islands or any applicable jurisdiction;

(vi) the KAL-IATA Agreement is terminated or the Trustor fails to comply with any of its material obligations thereunder;

(vii) the Trustor ceases to be a member of the BSP;

(viii) any of the Trustor, the BSP Bank, IATA, the Transaction Administrator or the Servicer fails to make any payment or transfer of funds in accordance with the Transaction Documents or the BSP Agreements, subject to any applicable grace periods specified therein;

(ix) any of the Bond Issuer, the Note Issuer or the Trustor fails to perform or comply with any of its material obligations under the Transaction Documents which failure is incapable of remedy, or, if capable of remedy, continues unremedied for a period of 30 days;

(x) any representation, warranty or certification made by the Bond Issuer, the Note Issuer or the Trustor in the Transaction Documents is or proves to be materially incorrect or misleading when made;

(xi) a Servicer Termination Event occurs;

(xii) the Note Trustee (acting on the instructions of the Instructing Noteholders (as defined herein)) determines that a Material Adverse Change (as defined below) has occurred in respect of the Servicer, the Trustor or the Japanese Trustee or that a Material Adverse Effect has occurred in respect of the Entrusted Assets;

(xiii) the Debt Service Coverage Ratio (as defined below) is equal to or falls below 1.8:1;

(xiv) a Mandatory Redemption Event occurs (whether or not declared by the Note Trustee (acting on the instructions of the Instructing Noteholders)); or

(xv) the settlement currency of any of the Entrusted Assets ceases to be Japanese Yen.

"**Bank Agreements**" means, together, the Korean Bank Agreements (as defined below) and the Bondholder Account Bank Agreement.

"**Bond Conditions**" means the terms and conditions of the Bond in the form set out in the Bond Subscription and Agency Agreement, and any reference to a numbered Bond Condition will be construed accordingly.

"**Bond Enforcement Notice**" means the notice delivered by the Security Agent to the Bond Issuer in accordance with Bond Condition 6 upon the written request of the Note Trustee (acting on the instructions of the Instructing Noteholders) on the occurrence of a Bond Event of Default.

"**BSP Agreements**" means, together, the KAL-IATA Agreement and the IATA-BSP Bank Agreement.

"**Debt Service Coverage Ratio**" means, on each date of calculation thereof, the ratio of: (i) the aggregate Collections (as defined herein) collected or received during the three immediately preceding Collection Periods (as defined herein) (excluding any amounts entrusted by the Trustor during such period in respect of an IATA Set-off (as defined herein)); to (ii) the aggregate amounts payable in respect of paragraphs (a) to (d) in "*Application of Funds – Application of Funds on Trust Distribution Dates*" below on the three Trust Distribution Dates related to such Collection Periods.

"**Early Amortisation Period**" means the period from and including the date on which an Early Amortisation Event is declared under the Transaction Administration Agreement until the earlier to occur of: (i) the date on which the Enforcement Period commences and (ii) the date on which the Secured Obligations have been paid in full.

"**Enforcement Date**" means the date on which an Enforcement Notice is delivered.

"**Enforcement Notice**" means either a Bond Enforcement Notice or a Security Enforcement Notice (as defined herein).

"**Enforcement Period**" means the period commencing on the Enforcement Date.

"**Event of Default**" means a Bond Event of Default or a Note Event of Default (each as defined below).

"**Governmental Entity**" means any (i) multinational, national, federal, provincial, state, regional, municipal, local or other government, governmental or public department, central bank, court, tribunal, arbitral body, commission, board, bureau or agency, domestic or foreign, (ii) any subdivision, agent, commission, board or authority of any of the foregoing or (iii) any quasi-governmental or private body exercising any executive, legislative, judicial, administrative, regulatory, expropriation or taxing authority under or for the account of any of the foregoing.

"**IATA-BSP Bank Agreement**" means the bank agreement dated as of 1 June 2013 (as amended from time to time) between the BSP Bank and IATA.

"**Insolvency Event**" means in relation to any Person:

(i) a court, agency or supervisory authority having jurisdiction enters a decree or order for the appointment of a receiver, trustee, examiner, administrator or liquidator for such Person in any insolvency, bankruptcy, corporate reorganisation, corporate rehabilitation, composition, examination, readjustment of debt, marshalling of assets and liabilities or similar proceedings, or for the winding up or liquidation of its affairs; or

(ii) such Person initiates or consents to the appointment of a receiver, trustee, examiner, administrator or liquidator in any insolvency, bankruptcy, corporate reorganisation, corporate rehabilitation, composition, examination, readjustment of debt, marshalling of assets and liabilities or similar proceedings of or relating to such Person or of or relating to substantially all of its property or such Person makes a conveyance or assignment for the benefit of creditors generally (or any class of its creditors) or enters into any composition, restructuring or renegotiation of debt with its creditors generally (or any class of its creditors); or

(iii) such Person admits in writing its inability to pay its debts generally as they become due, files a petition for its bankruptcy, composition or corporate reorganisation, makes an assignment for the benefit of any class of its creditors or members, enters into a moratorium involving any of them, or voluntarily suspends payments of its obligations or its liabilities exceed its assets; or

(iv) such Person ceases to carry on all or any substantial part of its business, or threatens to do so; or

(v) an application or petition for bankruptcy, composition, corporate rehabilitation, corporate reorganisation or insolvency proceedings is filed against such Person and any such petition or application has not been withdrawn or dismissed by the date of declaration of an Early Amortisation Event, Servicer Termination Event or Mandatory Redemption Event; or

(vi) such Person becomes a failing company (*busiljinghukiup*) under the Corporate Restructuring Promotion Act of Korea or any similar applicable law; or

(vii) any event analogous or having a similar effect to any of the events described in paragraphs (i) to (vi) above occurs under the laws of any relevant jurisdiction.

"**KAL-IATA Agreement**" means the agreement dated 1 May 1972 under which KAL became a party to the Billing and Settlement Plan.

"**Person**" includes any individual, company, corporation, firm, partnership, joint venture, association, organisation, trust, state or agency of a state (in each case, whether or not having separate legal personality).

"**Security Enforcement Notice**" means the notice delivered by the Note Trustee (acting on the instructions of the Instructing Noteholders) in accordance with Note Condition 8 upon the occurrence of a Note Event of Default.

"**Transaction Documents**" means, together, the Trust Agreement, the Servicing Agreement, the Transaction Administration Agreement, the Investor Beneficial Interest Sale and Purchase Agreement, the Inter-Branch Memorandum, the Bond Issuer Servicing Agreement, the Bond Issuer Administrator Agreement, the Bond Subscription and Agency Agreement, the Japanese Law Security Agreement, the Note Agency Agreement, the Note Trust Deed, the Cayman Administrator Agreement, the Note Subscription Agreement, the Bank Agreements, the Master Definitions Schedule, the Pledge Agreement, the Equity Pledge Agreement, the Security Assignment, the Closing Cashflow Letter Agreement and any other documents or agreements in connection therewith.

"**Trust Distribution Date**" means each date falling seven Business Days prior to each Payment Date.

Note Events of Default

If any of the events set out in Note Condition 8 (each, a "**Note Event of Default**") occurs, then the Note Trustee, if so requested by the Instructing Noteholders, will as soon as practicable declare that a Note Event of Default has occurred under the Notes and will deliver a Security Enforcement Notice to the Note Issuer in accordance with Note Trust Deed declaring that the Notes are, whereupon they will immediately become, immediately due and payable at the relevant Note Redemption Amount without any further action or formality.

"**Instructing Noteholders**" means, at any time, (i) the holders of the Senior Notes or, (ii) if no Senior Notes remain outstanding, the holders of the Subordinated Notes. Where any provision of the Notes or the Transaction Documents requires the Note Trustee or any other party to act in accordance with the instructions (whether written or otherwise) of the "Instructing Noteholders", any such instructions shall be given by a meeting held by, or written resolution of, the relevant Noteholders. The requirements relating to quorum and voting at any such meeting of the relevant Noteholders shall be determined in accordance with the provisions of the Note Trust Deed.

Withholding Taxes

All payments in respect of the Notes will be made free and clear of, and without withholding or deduction for or on account of, any present or future Taxes, unless such withholding or deduction is required by applicable law. In such event, the Note Issuer will withhold or deduct the relevant amount from such payment and will not be obliged to make any additional payments in respect of the Notes. "**Taxes**" means any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of any jurisdiction, including, without limitation, deductions in respect of withholding taxes, stamp registration or other taxes.

Bondholder Account

On or before the Closing Date, the Note Trustee will establish a Japanese Yen denominated segregated account (the "**Bondholder Account**") with the Bondholder Account Bank in the name of the Bondholder in order to receive, *inter alia*, payments from the Transaction Administrator on each Bond Payment Date (as defined herein) in respect of the Bond to make payments on the Notes. The Note Trustee will apply all funds on deposit in the Bondholder Account on each Payment Date and on any Mandatory Redemption Payment Date, in the order of priority set out in "*Application of Funds – Application of Funds on Payment Dates*" below.

Other Currencies

If any payments are to be made in a currency other than Japanese Yen (the "**Other Currency**") on any Payment Date or, in respect of any Bondholder Expenses denominated in U.S. dollars, on the date such expenses are due and payable, the Note Trustee is authorised to effect all foreign exchange transactions at the prevailing spot rate of exchange for the conversion of Japanese Yen into such Other Currency in order to effect the payment in such Other Currency.

Listing

Approval-in-principle has been received from the SGX-ST to have the Notes listed and quoted on the SGX-ST on or about the Closing Date. The Notes will be traded on the SGX-ST in a minimum board lot size of ¥20,000,000 for as long as the Notes are listed on the SGX-ST and the rules of the SGX-ST so require.

Limited Recourse

Recourse against the Note Issuer, and the liability of the Note Issuer, in relation to its obligations under the Notes and the Transaction Documents will be limited to the Bondholder Secured Property (as defined below), including the Bond and the amounts from time to time available in accordance with, and in the order of priority set out in, the Note Trust Deed. Noteholders will have no claim or recourse against the Note Issuer in respect of any unsatisfied amounts after the application in accordance with the Note Trust Deed of the funds comprising the Bondholder Secured Property and/or representing the proceeds of realisation thereof, and in such event the Notes and all other outstanding obligations of the Note Issuer will be waived and extinguished. The obligations of the Note Issuer under the Notes and the Transaction Documents are corporate obligations and Noteholders will have no claim or recourse against any shareholder, employee, officer, director or agent of the Note Issuer.

No Petition

Each Bondholder Secured Party will agree in the Transaction Documents to which it is a party that it will not petition a court for, or take any other action or commence any proceedings for, the liquidation, winding-up, bankruptcy or reorganisation of the Note Issuer, or for the appointment of a receiver, administrator, administrative receiver, trustee, liquidator, sequestrator or similar officer of the Note Issuer or of any or all of the Note Issuer's revenues, property and assets, until one year and one day after the payment in full of all amounts owing in respect of the Notes and all other Secured Obligations.

Governing Law

The Investor Beneficial Interest Sale and Purchase Agreement, the Bond Issuer Servicing Agreement, the Transaction Administration Agreement, the Korean Bank Agreements, the Pledge Agreement, the Equity Pledge Agreement, the DB Seoul Fee Letter and the Bond Issuer Administrator Agreement will be governed by Korean law.

The Notes, the Note Trust Deed, the Note Agency Agreement, the Bondholder Account Bank Agreement, the Bond, the Bond Subscription and Agency Agreement, the Security Assignment, the DB Fee Letter and the Note Subscription Agreement will be governed by English law.

The Trust Agreement, the Investor Beneficial Certificate, the Seller Beneficial Certificate, the Japanese Law Security Agreement, the Inter-Branch Memorandum and the Servicing Agreement will be governed by Japanese law.

The Cayman Administrator Agreement will be governed by Cayman Islands law.

THE NOTE TRUST DEED

The Notes

The Notes will be issued pursuant to the provisions of a note trust deed dated on or about the Closing Date and made between, *inter alios*, the Note Trustee and the Bondholder (the "**Note Trust Deed**").

Bondholder Security

Pursuant to the Note Trust Deed, the Bondholder will grant a security interest (the "**Bondholder Security**") over certain of its assets and property (the "**Bondholder Secured Property**") to the Note Trustee to hold for the benefit of the Bondholder Secured Parties to secure all amounts owed by the Note Issuer to the Bondholder Secured Parties under the Notes or in connection with the Transaction Documents (the "**Secured Obligations**").

"**Bondholder Secured Parties**" means the Note Trustee (in its capacity as trustee for the benefit of the Bondholder Secured Parties and in its individual capacity), the Noteholders, the Note Agents, the Cayman Administrator, the Common Depositary and the Bondholder Account Bank.

Pursuant to the Note Trust Deed, as continuing security for the fulfilment of the Secured Obligations, the Note Issuer will with full title guarantee:

(a) assign absolutely by way of first fixed security in favour of the Note Trustee all its rights, title, interest and benefit (present and future, actual and contingent) in, to and under each Transaction Document to which it is a party, including in each case, without limitation, all its rights to receive payment of any amounts which may become payable to the Note Issuer thereunder, its security interest in the Bond Secured Property, the Equity Pledge Assets and all payments received by the Note Issuer thereunder, all rights to serve notices and/or make demands thereunder and/or to take such action as is required to cause payments to become due and payable thereunder, all rights of action in respect of any breach thereof, and all rights to claim and receive damages or obtain other relief in respect thereof;

(b) charge by way of first fixed charge in favour of the Note Trustee all its rights, title, interest and benefit (present and future, actual and contingent) in, to and under all sums of money which may now be or hereafter are from time to time standing to the credit of the Bondholder Account and any other bank account (other than the bank account referred to in paragraphs (d) and (e) below) in which the Note Issuer may at any time acquire any right, title or interest or benefit, together with all interest accruing from time to time thereon and the debts represented thereby;

(c) assign absolutely by way of first fixed security in favour of the Note Trustee all its rights, title, interest and benefit (present and future, actual and contingent) in, to and under the Bond and all other contracts, deeds and documents, present and future, to which the Note Issuer is or may become a party;

(d) charge and agree to charge by way of first fixed charge in favour of the Note Trustee all its rights, title, interest and benefit (present and future, actual and contingent) in and to all other assets and property that it has acquired or may acquire (other than the proceeds of the Note Issuer's share capital, its transaction fees and the bank account where such amounts are deposited); and

(e) charge by way of first floating charge to the Note Trustee the whole of its undertaking and all of its property and assets, whatsoever and wheresoever situate, present and future (other than the proceeds of the Note Issuer's share capital, its transaction fees and the bank account where such amounts are deposited) to the extent not otherwise effectively charged by way of fixed charge or otherwise effectively assigned as security pursuant to paragraphs (a) to (d) above.

For the purpose of enabling the Note Trustee to exercise its rights under the Note Trust Deed, the Note Issuer will undertake forthwith to deposit, or procure that there be deposited, with the Note Trustee or its nominee and permit the Note Trustee or such nominee during the continuance of the security under the Note Trust Deed to hold and retain:

(i) all documents of title relating to the Bond or any other securities charged or assigned hereunder; and

(ii) such other documents as the Note Trustee may from time to time require for perfecting its title to the Bond or for vesting or enabling it to vest the same in itself or its nominees or in any purchaser to the intent that the Note Trustee may at any time without notice to the Note Issuer present them for registration.

Mandatory Redemption

Following the declaration of a Mandatory Redemption Event (as defined below) by the Note Trustee (acting on the instructions of the Instructing Noteholders) (*provided that*, in respect of paragraph (i) below, no such declaration shall be required and the occurrence of such event shall be deemed to be the declaration of a Mandatory Redemption Event) and upon receipt of notice thereof from the Note Trustee, the Trustor will be obliged to entrust the Mandatory Redemption Amount (as defined below) to the Japanese Trustee on the third Tokyo Business Day after the date of the notice declaring a Mandatory Redemption Event issued by the Note Trustee to the Trustor. The Japanese Trustee will apply the Mandatory Redemption Amount to redeem the Investor Beneficial Certificate, and consequently the Bond, and the Note Issuer will redeem the Notes, in whole, to the extent of funds available therefor on the relevant Mandatory Redemption Payment Date in accordance with the priority of payments set forth in "*Application of Funds – Application of Funds on Payment Dates*" below at the relevant Note Redemption Amount on such date.

For all purposes under this Offering Circular, all references to the "declaration" of a Mandatory Redemption Event shall be deemed to include the occurrence of an event specified in paragraph (i) of the definition of "Mandatory Redemption Event" below.

A "**Mandatory Redemption Event**" means the occurrence of any of the following events:

(i) the Debt Service Coverage Ratio falls below 1:1 due to a reduction in Collections as a result of a decrease in the generation of BSP Receivables;

(ii) the Trustor defaults in the performance of its obligations under the Trust Agreement or the other Transaction Documents;

(iii) a change in the Control (as defined below) of the Trustor which is not approved by the Note Trustee (acting on the instructions of the Instructing Noteholders);

(iv) the Trustor or the Servicer (if Korean Air is the Servicer) breaches materially any of the covenants, representations or warranties given by it in any of the Transaction Documents and such breach, if, in the reasonable opinion of the Note Trustee (acting on the instructions of the Instructing Noteholders), is capable of remedy, is not remedied within seven Business Days of the date of such breach;

(v) the Trust Agreement or any other Transaction Document or any authorisation, approval or licence delivered or required by any Governmental Entity (as defined above) in connection with the transactions contemplated by the Transaction Documents ceases to be in full force and effect;

(vi) any judgment is entered against the Trustor by any court in an amount which, when aggregated with the amount of all other unsatisfied judgments against the Trustor, is likely to have a Material Adverse Effect;

(vii) as a result of a change of law or regulation of any Governmental Entity or for any other reason, the entrustment of the Entrusted Assets, or any part thereof, to the Japanese Trustee is held to be invalid or subject to stay or is challenged by the Trustor or any receiver, liquidator or similar officer of the Trustor or is challenged before any Governmental Entity;

(viii) the Note Trustee ceases to have a first fixed and floating charge or absolute legal assignment over the Bondholder Secured Property or any part thereof;

(ix) any action or administrative proceeding of or before any court or agency with respect to the Trustor is commenced which is likely in the reasonable opinion of the Note Trustee to have a Material Adverse Effect on the financial condition of, or airline tickets sale business of, the Trustor;

(x) any Material Adverse Change occurs in respect of the Trustor;

(xi) a Bond Event of Default or a Note Event of Default occurs other than as a result of the failure of IATA or the IATA Agents to comply with their respective payment obligations under the BSP Agreements or the IATA Agency Agreements, as the case may be;

(xii) at any time following the declaration by the Note Trustee (acting on the instructions of the Instructing Noteholders) of an Early Amortisation Event, any of the Trustor, the Servicer, the Bond Issuer or the Note Issuer takes any action or fails to take any action the result of which is, in the reasonable opinion of the Note Trustee (acting on the instructions of the Instructing Noteholders), to deny the Japanese Trustee, the Transaction Administrator or the Note Trustee the ability to control or access the Japanese Trust Accounts (as defined below), the Bond Issuer Accounts or the Bondholder Account, respectively;

(xiii) any default occurs on any indebtedness of the Trustor or any default causes (or permits a holder or a trustee in respect of such indebtedness to cause) the acceleration of principal of such indebtedness in an aggregate amount in excess of KRW12 billion (or the equivalent thereof in any other currency); or

(xiv) any of the BSP Agreements is terminated; *provided that* the termination of any of the BSP Agreements as a result of a replacement or substitution of the BSP Bank with another account bank in accordance with the BSP Agreements shall not constitute a Mandatory Redemption Event.

"**Control**" means the power to direct the management and policies of a Person, directly or indirectly, whether through the ownership of voting shares, by contract or otherwise.

"**Mandatory Redemption Amount**" means the sum of:

(i) the Required Amount (as defined below) for the relevant Mandatory Redemption Payment Date; plus

(ii) any other accrued fees and expenses payable by the Japanese Trustee and the Bond Issuer up to (and including) the date on which the Bond is scheduled to be redeemed in full in accordance with the Bond Conditions and not included in paragraph (i) above; less

(iii) the aggregate amounts on deposit in the Trust Account, the Trust Reserve Account and the Collection Account (each as defined below) on the date of the Mandatory Redemption Notice.

"**Mandatory Redemption Payment Date**" means, following the declaration by the Note Trustee (acting on the instructions of the Instructing Noteholders) of a Mandatory Redemption Event:

(i) in respect of the payments to be made by the Japanese Trustee pursuant to the Trust Agreement, the second Business Day following the date on which the Mandatory Redemption Amount is entrusted to the Japanese Trustee;

(ii) in respect of the payments to be made by the Transaction Administrator pursuant to the Transaction Administration Agreement in respect of the Bond, the second Business Day following the date on which the Investor Beneficial Certificate is redeemed in full; or

(iii) in respect of the payment to be made by the Note Trustee pursuant to the Note Trust Deed in respect of the Notes, the fifth Business Day following the date on which the Bond is redeemed in full.

"**Material Adverse Change**" means, in respect of any Person, an adverse change in the legal status, business, financial condition, assets or business prospects of that Person which, in the opinion of the Note Trustee (acting on the instructions of the Instructing Noteholders), is material and affects that Person's ability to perform its obligations under the Transaction Documents.

"**Material Adverse Effect**" means any event or condition which would, in the opinion of the Note Trustee (acting on the instructions of the Instructing Noteholders), have a material adverse effect on (i) the collectability of the Entrusted Assets, (ii) the condition (financial or otherwise), results of operation, businesses or properties of the Trustor or the Servicer, (iii) the ability of the Trustor, the Transaction Administrator or the Servicer to perform their respective obligations under the Transaction Documents or (iv) the interests of the Investor Beneficiary, the Note Issuer or the Noteholders.

Resignation of Note Trustee

The Note Trustee may resign its appointment at any time upon giving not less than 90 days' notice in writing to the Bondholder without assigning any reason therefor and without being responsible for any costs, charges and expenses occasioned by such retirement. Pursuant to the Note Trust Deed, if the Note Trustee resigns its appointment, the Bondholder shall use its best endeavours to procure a new trustee. If the Bondholder fails to procure the appointment of a new trustee within the time specified in the Note Trust Deed, the Note Trustee may appoint a new trustee. A new note trustee may not be appointed without the prior written approval of the Instructing Noteholders.

THE BOND

The Bond

The Bond Issuer will issue the ¥15,000,000,000 Secured Bond due 2019 (the "**Bond**") to the Note Issuer (as "**Bondholder**") on the Closing Date pursuant to the provisions of a bond subscription and agency agreement dated on or about the Closing Date among, *inter alios*, the Bond Issuer, the Bondholder and the Note Trustee (the "**Bond Subscription and Agency Agreement**"). The Note Issuer will assign all of its rights to the Bond and its other property and assets to the Note Trustee as security for, *inter alia*, its obligations under the Notes. The Bond will be secured by the Bond Secured Property (as defined below). See "– *Bond Security*" below.

Bond Security

The obligations of the Bond Issuer will be secured by the pledge and assignment of the Bond Issuer's assets and equity pursuant to the Pledge Agreement, the Equity Pledge Agreement, the Security Assignment and the Japanese Law Security Agreement, each as defined below (the "**Bond Security**").

Pursuant to a pledge agreement dated the Closing Date between, *inter alios*, the Bond Issuer and the Security Agent (the "**Pledge Agreement**"), the Bond Issuer will grant a pledge in favour of the Bond Secured Parties (as defined below) over all of its rights and title to the following assets in order to secure the Bond Issuer Obligations:

(a) each of the Transaction Administration Agreement, the Bond Issuer Servicing Agreement, the Bond Issuer Administrator Agreement, the Korean Bank Agreements, the Investor Beneficial Interest Sale and Purchase Agreement, the DB Seoul Fee Letter, the Bond Issuer Administrator Fee Letter (as defined below) and all other agreements and documents delivered or executed in connection therewith (the "**Korean Pledged Documents**");

(b) each of the Bond Issuer Accounts, including all sub-accounts, and all balances, credits, deposits, monies or other sums therein or on deposit or payable or withdrawable therefrom and any interest accrued or payable thereon; and

(c) all of its other property and assets (to the extent permissible by applicable law).

"**Bond Issuer Obligations**" means all amounts owed by the Bond Issuer under the Bond or in connection with the Transaction Documents to the Bond Secured Parties.

Pursuant to an equity pledge agreement dated the Closing Date between, *inter alios*, the Bond Issuer and the Equity Pledgors (as defined below) (the "**Equity Pledge Agreement**"), the Equity Pledgors will grant a pledge in favour of the Bond Secured Parties over all of their rights and title to their respective equity interests in the Bond Issuer (the "**Equity Interests**") to secure the Bond Issuer Obligations. The authorised equity capital of the Bond Issuer consists of KRW20,000 divided into 200 units of a nominal or par value of KRW100 each which have been issued at par and fully paid, with 1 unit being held by the Trustor and 199 units being held by Seokjoo Lee (each, an "**Equity Pledgor**" and an "**Equityholder**"). See "*The Bond Issuer – Equity Capital*" and "*– Capitalisation and Indebtedness*".

Deutsche Bank AG, Seoul Branch (the "**Security Agent**") will hold the Bond Security as agent for the Bond Secured Parties pursuant to the terms of the Transaction Documents.

Pursuant to, and on the terms set out in, an agreement dated the Closing Date (the "**Security Assignment**") between, *inter alios*, the Bond Issuer and the Security Agent, (on behalf of the Bond Secured Parties), the Bond Issuer has assigned to the Bond Secured Parties all of its rights and title to, *inter alia*, the Bond Subscription and Agency Agreement and the Bond to secure the Bond Issuer Obligations.

Pursuant to, and on the terms set out in an agreement dated the Closing Date between, *inter alios*, the Bond Issuer and the Security Agent (the "**Japanese Law Security Agreement**"), the Bond Issuer will, in favour of the Security Agent, (on behalf of the Bond Secured Parties):

(a) grant a pledge over all of its rights in the Investor Beneficial Interest; and

(b) assign all of its rights, title, interest and benefit under the Trust Agreement and the Servicing Agreement, in each case to secure the Bond Issuer Obligations.

Each of the Pledge Agreement, the Equity Pledge Agreement, the Security Assignment and the Japanese Law Security Agreement provide for enforcement of the Bond Security and the exercise of rights generally by the Security Agent at the written direction of the Note Trustee in relation to the Bond Security upon the service of a Bond Enforcement Notice.

Proceeds of enforcement of the Bond Security will be applied by the Security Agent in the manner and order of priority specified in the Pledge Agreement. See "*Application of Funds – Application of Funds on Bond Payment Dates*".

"**Bond Secured Parties**" means, together, the Note Trustee (in its individual capacity and as trustee for the benefit of the Bondholder Secured Parties), the Bondholder, the Bond Agents and the Account Banks.

"**Korean Bank Agreements**" means, together, the bank agreements dated on or about the Closing Date among the Bond Issuer Account Bank and the Transaction Administrator in respect of the Bond Issuer Accounts.

Bond Interest

Interest will be payable on the Bond monthly in arrear on the fifth Business Day preceding each Payment Date (each, a "**Bond Payment Date**") commencing in February 2017 or, if such day is not a Business Day in each such location, the immediately succeeding Business Day in each such location.

Interest on the Bond will be payable by reference to successive interest periods (each, an "**Interest Period**"). The initial Interest Period will commence on (and include) the Closing Date and end on (but exclude) the initial Payment Date. Each successive Interest Period will commence on and include a Payment Date and end on (but exclude) the immediately succeeding Payment Date or, as the case may be, Mandatory Redemption Payment Date.

Interest will be payable in respect of the Bond in respect of an Interest Period in the sum of the interest amount specified in the table of interest payments (the "**Bond Interest Table**") set out in Bond Condition 2 in respect of such Interest Period.

As a separate obligation, the Bond Issuer agrees to pay to the Bondholder an amount (the "**Bond Additional Amount**") equal to the amount by which the Bond Interest Amount set out in the Bond Interest Table with respect to a Bond Payment Date is less than the sum of all amounts payable in respect of paragraphs (a), (b) and (c) of "*Application of Funds – Application of Funds on Payment Dates*" below on the immediately succeeding Payment Date.

Amortisation and Redemption

(a) *Bond Maturity*

Unless previously redeemed in full, the Bond Issuer will redeem the Bond, to the extent of funds available therefor, in full on the Bond Payment Date falling in December 2019 (the "**Bond Maturity Date**") at its Bond Redemption Amount (as defined below) as at such date.

"**Bond Redemption Amount**" means, at any date, an amount equal to the Principal Amount Outstanding of the Bond plus accrued and unpaid interest thereon to, but excluding, such date.

(b) ***Controlled Amortisation Period***

On each Bond Payment Date during the Controlled Amortisation Period, principal in respect of the Bond is scheduled to be paid in instalments (each, a "**Bond Scheduled Amortisation Amount**") in accordance with the Schedule set out in Bond Condition 3 subject to available funds.

(c) ***Early Amortisation Period/Enforcement Period***

On each Bond Payment Date following a Trust Distribution Date that falls in the Early Amortisation Period or the Enforcement Period, amounts in respect of principal will be payable on the Bond up to the Principal Amount Outstanding in the inverse order of the original amortisation schedule, to the extent of funds available therefor, until the Bond has been repaid in full at the Bond Redemption Amount as at such date.

(d) ***Mandatory Redemption***

Following the declaration of a Mandatory Redemption Event in respect of the Notes and upon receipt of notice thereof from the Transaction Administrator, the Bond Issuer will redeem the Bond, in whole, to the extent of funds available therefor in accordance with the priority of payments set forth in "*Application of Funds–Application of Funds on Bond Payment Dates*" below, on the relevant Mandatory Redemption Payment Date, at the Bond Redemption Amount on such date.

Bond Events of Default

Bond Condition 6 will define a "**Bond Event of Default**" to include:

(a) default is made in the repayment on the date when due of any principal amount of the Bond or in the payment on the date when due of any interest in respect of the Bond;

(b) default is made by the Bond Issuer in the performance or observance of any obligation, condition or provision binding on it under the Transaction Documents to which it is a party (other than any obligation for the payment of any principal or interest on the Bond) and, except where, in the opinion of the Note Trustee such default is not capable of remedy, such default continues for 30 days after written notice is delivered by the Security Agent (acting on the written instructions of the Note Trustee) to the Bond Issuer;

(c) an order is made by any competent court or an effective resolution is passed for the winding-up or dissolution of the Bond Issuer;

(d) (i) the Bond Issuer stops payment of its debts (within the meaning of any applicable bankruptcy law), or is unable to pay its debts as and when they fall due; or (ii) the Bond Issuer ceases or, through an official action of its director, or meeting of the Equityholders, of the Bond Issuer, threatens to cease, to carry on all or any substantial part of its business;

(e) one or more final judgments from which no further appeal or judicial review is permissible under applicable law are awarded against the Bond Issuer in an aggregate amount in excess of KRW10,000,000;

(f) proceedings are initiated against the Bond Issuer under any applicable liquidation, insolvency, composition, re-organisation or other similar laws including, for the avoidance of doubt, presentation to the court of an application for an administration order, or an administrative receiver or other receiver, administrator or other similar official is appointed in relation to the Bond Issuer or in relation to the whole or any substantial part of the undertaking or assets of the Bond Issuer or an encumbrancer takes possession of the whole or any substantial part of the undertaking or assets of the

Bond Issuer or a distress, execution, attachment, sequestration, diligence or other process is levied, enforced upon, sued out or put in force against the whole or any substantial part of the undertaking or assets of the Bond Issuer and, in any of the foregoing cases, it will not be discharged, annulled or withdrawn within 14 days or earlier if the relevant court has accepted the applications or petitions for such proceedings;

(g) any decree, resolution, authorisation, approval, consent, filing, registration or exemption necessary for the execution and delivery of the Bond on behalf of the Bond Issuer and the performance of the Bond Issuer's Obligations under the Bond or any of the Transaction Documents is withdrawn or modified or otherwise ceases to be in full force and effect, or it is unlawful for the Bond Issuer to comply with, or the Bond Issuer contests the validity or enforceability of or repudiates, any of its obligations under the Bond, the Bond Subscription and Agency Agreement or any of the other Transaction Documents;

(h) the Bond Issuer initiates or consents to judicial proceedings relating to itself under any applicable liquidation, insolvency, composition, reorganisation or other similar laws or makes a conveyance or assignment for the benefit of its creditors generally (or any class of its creditors) or enters into an arrangement or composition with its creditors generally (or any class of its creditors);

(i) any representation or warranty made by the Bond Issuer in any of the Transaction Documents proves to be incorrect or misleading in any material respect when made;

(j) a Note Event of Default occurs; or

(k) the Bond Security or any part thereof becomes invalid, void or unenforceable.

Upon the declaration of a Bond Event of Default by the Security Agent, the Enforcement Period will commence with respect to the Bond.

Transaction Administrator Report

The Transaction Administrator will deliver a monthly report to, *inter alios*, the Bond Issuer and the Rating Agency (the "**Transaction Administrator Report**") relating to Collections in respect of the immediately preceding Collection Period and the relevant Trust Distribution Date, Bond Payment Date, Payment Date and, if relevant, Mandatory Redemption Payment Date, setting forth certain information about the Collections, BSP Receivables, Bond Issuer's assets and Bondholder's assets. The Transaction Administrator will also publish the Transaction Administrator Report on a password-protected, secure website that the Transaction Administrator shall make available for such purpose, which as of the Closing Date will be advised by the Transaction Administrator.

Withholding Taxes

All payments in respect of the Bond will be made free and clear of, and without withholding or deduction for or on account of, any present or future Taxes, unless such withholding or deduction is required by applicable law. In such event, the Bond Issuer will pay, but only to the extent of funds available therefor in accordance with the priority of payments set forth in the Transaction Administration Agreement, such additional amount as may be necessary in order that the net amount received by the Bondholder in respect of the Bond after such withholding or deduction will equal the amount which would have been received in the absence of such withholding or deduction.

Bond Issuer Accounts

On or before the Closing Date, the Transaction Administrator will establish a Japanese Yen denominated segregated account with Deutsche Bank AG, Seoul Branch in the name of the Bond Issuer (the "**Bond Issuer Yen Account**") in order to receive payments from the Japanese Trustee on each Trust Distribution Date under the Investor Beneficial Certificate. Payments in respect of the Investor Beneficial Certificate will be paid on each Trust Distribution Date (other than following the declaration of a Mandatory Redemption Event, in which case on the relevant Mandatory Redemption Payment Date) into the Bond Issuer Yen Account in order to make payments under the Bond on the next Bond Payment Date or the relevant Mandatory Redemption Payment Date. On or prior to the Closing Date, the Transaction Administrator will also establish a Japanese Yen denominated segregated account and a Korean Won segregated account with Deutsche Bank AG, Seoul Branch in the name of the Bond Issuer (the "**Bond Issuer FX Account**" and the "**Bond Issuer Won Account**", respectively, and together with the Bond Issuer Yen Account, the "**Bond Issuer Accounts**").

"**Eligible Entity**" means any entity whose long-term foreign currency bank deposit rating is rated at least "A-" and/or the short-term foreign currency bank deposit rating is rated at least "J-1" by the Rating Agency; *provided that* in the case of each Account Bank, the relevant rating shall be that of its head office.

Other Currencies

If any payments which are to be made on any Bond Payment Date are to be made in the Other Currency, the Transaction Administrator is authorised to effect all foreign exchange transactions at or the prevailing spot rate of exchange for the conversion of Japanese Yen into such Other Currency in order to effect the payment in the Other Currency.

Limited Recourse

Each party to the Transaction Documents will agree that recourse against the Bond Issuer, and the liability of the Bond Issuer, in relation to its obligations under the Bond will be limited to the Bond Secured Property (as defined below) and the Equity Pledge Assets (as defined below) and the amounts from time to time available in accordance with, and in the order or priority set out in, the Transaction Administration Agreement.

"**Bond Issuer Property**" means together, the assets and property of the Bond Issuer which (i) have been assigned to the Bond Secured Parties and are subject to the Security created under the Security Assignment and (ii) are subject to the pledge created under the Pledge Agreement.

"**Bond Secured Property**" means (i) the Bond Issuer Property and (ii) the property and assets of the Bond Issuer which have been assigned or pledged by way of security to the Security Agent under the Japanese Law Security Agreement.

"**Equity Pledge Assets**" means, together, the Equity Interests held by each Equityholder and all dividends, interest and other moneys payable in respect thereof and any other rights, assets, benefits and proceeds in respect of or derived therefrom (whether by way of redemption, bonus, preference, option, substitution, conversion or otherwise) which are pledged to the Bond Secured Parties by the Equityholders pursuant to the Equity Pledge Agreement.

No Petition

Each Bond Secured Party will agree in the relevant Transaction Documents that it will not petition a court for, or take any other action or commence any proceedings for, the liquidation, winding-up, bankruptcy or reorganisation of the Bond Issuer, or for the appointment of a receiver, administrator, administrative receiver, trustee, liquidator, sequestrator or similar officer of the Bond Issuer or of any or all of the Bond Issuer's revenues, property and assets, until one year and one day after the payment in full of all amounts owing in respect of the Secured Obligations.

Registrations

On or before the Closing Date the Bond Issuer will file and register with the FSC, respectively, a securitisation plan relating to the purchase by the Bond Issuer of the Investor Beneficial Interest and the transfer by the Seller of the Investor Beneficial Interest in accordance with the provisions of the Investor Beneficial Interest Sale and Purchase Agreement.

THE ENTRUSTED ASSETS

Description

The Trustor is a Korean airline operating passenger and cargo services to various domestic and international destinations. The Trustor is entrusting assets arising in connection with the sale of passenger tickets for air transport and other related services which are sold in Japan and issued in the name of the Trustor ("**KAL Tickets**"). See "*The BSP Receivables*".

The assets to be entrusted by the Trustor to the Japanese Trustee on the Closing Date are:

(a) all BSP Receivables existing and outstanding as of 8:00 a.m. (Tokyo time) one Tokyo Business Day prior to the Closing Date and future BSP Receivables arising thereafter until the earlier to occur of (i) 31 December 2021 and (ii) such other date on which the entrustment under the Trust Agreement terminates, as is notified to the Trustor and IATA by the Japanese Trustee; and

(b) the Reserve Funding Amount.

The BSP Receivables are generated from the sale of KAL Tickets by IATA Agents on behalf of the Trustor and are settled through the BSP and payable by the BSP Bank to the Trustor.

Additional monies will be entrusted (i) upon the declaration of a Mandatory Redemption Event, *inter alia*, to redeem the Investor Beneficial Certificate and ultimately to pay all amounts owing under the Notes and (ii) in an amount equal to any IATA Set-off or IATA Agent Set-off from time to time in accordance with the provisions of the Trust Agreement (such additional amounts, together with the items in paragraphs (a) and (b) above, the "**Entrusted Assets**").

Pursuant to the Trust Agreement, on the Closing Date the Trustor will entrust the items in paragraphs (a) and (b) of the Entrusted Assets to the Japanese Trustee.

Perfection

The Trustor will obtain consent from IATA (the "**IATA Notice of Assignment**") in relation to the entrustment of the BSP Receivables to the Japanese Trustee. The Trustor will deliver such IATA Notice of Assignment to the Japanese Trustee on the Closing Date duly executed by the parties thereto and bearing a notarised date stamp (*kakutei hizuke*).

To perfect the entrustment of the BSP Receivables owed by the IATA Agents and IATA against third parties, the Trustor will make all necessary filings and registrations with the Quebec Register of Personal and Movable Real Rights and with the Nakano branch of the Tokyo Legal Affairs Bureau on or about the Closing Date.

SERVICING

Servicing

Pursuant to a servicing agreement dated 13 December 2016 among, *inter alios*, the Servicer and the Japanese Trustee (the "**Servicing Agreement**"), the Japanese Trustee will appoint the Servicer to manage, service, administer and collect the Serviced Assets and Collections thereon in accordance with the terms of the Servicing Agreement.

The Servicer will perform its services in accordance with its administrative procedures and the professional standards of care and practice of a prudent airline tickets receivables servicer managing, servicing, administering and collecting amounts due in respect of similar airline ticket receivables and bank accounts in Japan (the "**Industry Standards**") and otherwise in accordance with applicable law.

Servicer Duties

Under the Servicing Agreement, the Servicer will be required to, *inter alia*:

(a) manage, service and administer the Serviced Assets and the Collections thereon and collect amounts due in respect of the Serviced Assets in accordance with Industry Standards and the degree of skill and attention of a manager acting in good faith (*zenkan chuigimu*);

(b) comply with and perform the other agreements, covenants and obligations on its part set out in the Servicing Agreement and the other Transaction Documents to which it is a party; and

(c) provide a Monthly Servicer Report (as defined below) to the Seller Beneficiary (if it is not the Servicer), the Japanese Trustee, the Investor Beneficiary, the Bond Issuer Administrator, the Bond Issuer Servicer, the Security Agent, the Note Trustee, the Transaction Administrator and the Rating Agency in connection with the Serviced Assets.

Monthly Servicer Report

On or prior to the third Business Day of each month, the Servicer will be required to prepare and deliver to, *inter alios*, the Seller Beneficiary (if it is not the Servicer), the Japanese Trustee, the Investor Beneficiary, the Transaction Administrator, the Bond Issuer Administrator, the Bond Issuer Servicer, the Security Agent, the Note Trustee and the Rating Agency a report pursuant to the provisions of the Servicing Agreement with respect to activity during the immediately preceding calendar month relating to the Serviced Assets (the "**Monthly Servicer Report**"). The Servicer will also certify in each Monthly Servicer Report that no Servicer Termination Event, Early Amortisation Event, Potential Early Amortisation Event (as defined below), Event of Default, Potential Event of Default or Mandatory Redemption Event had occurred as of the last day of the monthly collection period (each, a "**Collection Period**") to which such Monthly Servicer Report relates or that such an event has occurred. The Monthly Servicer Report will relate to and include all Collections on the Serviced Assets during the relevant Collection Period.

A "**Potential Early Amortisation Event**" means any condition, event or act which, with the lapse of time and/or the issue, making or giving of any notice, certification, declaration, demand, determination and/or request and/or the taking of any similar action and/or the fulfilment of any similar condition, could constitute an Early Amortisation Event.

Servicer Covenants

The Servicer will covenant with each party to the Servicing Agreement that it will, *inter alia*:

(a) comply at all times with all laws applicable to or in any way affecting the creation and servicing of the BSP Receivables or the transactions contemplated by the Transaction Documents where failure to do so would have a Material Adverse Effect;

(b) execute all such further documents and take all such further actions as may be necessary on the Closing Date or thereafter, in the reasonable opinion of the Japanese Trustee, to ensure that the Japanese Trustee has an ownership interest in the BSP Receivables to the extent contemplated by the Transaction Documents and to give effect to the Servicing Agreement;

(c) keep separate and not commingle the BSP Receivables or Collections with any of its assets, except as contemplated by the Servicing Agreement and the Trust Agreement; and

(d) not create or permit to exist any Lien on any BSP Receivables, Collections or other rights entrusted pursuant to the Trust Agreement, except as permitted or required under the Transaction Documents.

Servicer Termination Events

The Servicing Agreement will define "**Servicer Termination Event**" to include, *inter alia*:

(a) the Servicer defaults in the payment or deposit on the due date of any payment or deposit due and payable by it under any Transaction Document to which it is a party (other than such default as may be caused by a technical or administrative error and is remedied within three Seoul and Tokyo Business Days), including the Servicer's failure to transfer Collections in accordance with the Servicing Agreement;

(b) the Servicer defaults in the performance or observance of any of its other covenants and obligations under any Transaction Document to which it is a party and (except where such default is incapable of remedy or where no applicable grace period is specified in the relevant Transaction Document) such default continues unremedied for a period of ten Seoul and Tokyo Business Days, and which default is, or is likely in the reasonable opinion of the Japanese Trustee to be, materially prejudicial to the interests of the Investor Beneficiary;

(c) the Servicer (if it is the Trustor) ceases or proposes to cease to carry on its business or a substantial part of its airline ticket receivables business in Japan;

(d) an Insolvency Event occurs in relation to the Servicer; or

(e) there is a suspension, revocation, termination or withdrawal of any approval, authorisation, consent or licence required by the Servicer to carry out any of its duties or obligations under any Transaction Document to which it is a party and such suspension, revocation, termination or withdrawal is not remedied within ten Seoul and Tokyo Business Days thereafter.

Pursuant to the Servicing Agreement, following the occurrence of a Servicer Termination Event which remains unremedied, the Japanese Trustee may terminate the appointment of the Servicer.

Upon termination of the Servicer's appointment, the Servicer will be immediately obliged to deliver or make available to such person as the Japanese Trustee directs, *inter alia*, all documents, files and records relating to the Entrusted Assets necessary for the collection thereof or the enforcement of the rights of the Japanese Trustee therein and all moneys or other assets then held by the Servicer on behalf of any party (other than the Seller Beneficiary) to any Transaction Document.

Following the termination of the Servicer's appointment, the Japanese Trustee shall nominate a Successor Servicer in accordance with the provisions of the Servicing Agreement. No removal, resignation or other termination of the Servicer shall be effective unless and until a Successor Servicer has been appointed and has accepted such appointment.

THE TRUST

The Japanese Trust

The Japanese Trust will be formed pursuant to the Trust Agreement (the "**Japanese Trust**") for the purpose of the entrustment by the Trustor of the Entrusted Assets. The Japanese Trustee will operate and administer the Japanese Trust pursuant to the provisions of the Trust Agreement. The Japanese Trust will terminate upon the earlier to occur of (i) 31 December 2021 and (ii) the date on which all amounts due under the Notes have been paid in full (the "**Trust Termination Date**").

The Japanese Trust Accounts

On or before the Closing Date, the Japanese Trustee will establish three segregated Japanese Yen-denominated bank accounts (the "**Collection Account**", the "**Trust Account**" and the "**Trust Reserve Account**" and together the "**Japanese Trust Accounts**") in its name with Deutsche Bank AG, Tokyo Branch (the "**Japanese Trust Account Bank**") for the purpose of, *inter alia*, collecting payments on the BSP Receivables (the "**Collections**") and making distributions on the Investor Beneficial Interest and the Seller Beneficial Interest. The Japanese Trustee will not invest amounts standing to the credit of the Japanese Trust Accounts but may deposit an amount up to the balance on deposit in the Trust Reserve Account in a principal protected interest bearing account with the Japanese Trust Account Bank.

Limited Recourse

Recourse against the Japanese Trustee, and the liability of the Japanese Trustee, in relation to its obligations under the Investor Beneficial Certificate and the Seller Beneficial Certificate will be limited to the Entrusted Assets and the amounts from time to time available in accordance with, and in the order of priority set out in, the Trust Agreement. The holders of the Investor Beneficial Certificate and the Seller Beneficial Certificate will have no claim or recourse against the Japanese Trust or the Japanese Trustee in respect of any unsatisfied amounts after the application in accordance with the Trust Agreement of the funds comprising the Entrusted Assets and/or representing the proceeds of realisation thereof, and in such event the Investor Beneficial Certificate and the Seller Beneficial Certificate will be waived and extinguished.

The Trust Reserve Account

The Trustor will entrust ¥889,615,748 to the Japanese Trustee on the Closing Date to fund the Trust Reserve Account. The Japanese Trustee will maintain the Required Trust Reserve Balance on deposit in the Trust Reserve Account at all times. The "**Required Trust Reserve Balance**" means:

(a) if no Event of Default, Early Amortisation Event or Mandatory Redemption Event has been declared and is continuing, the sum of (x) the aggregate Senior Investor Beneficial Certificate Obligations (as defined below) due on the immediately succeeding two Trust Distribution Dates *plus* if relevant (y) the First Trigger Amount (as defined below) *plus*, if relevant, (z) the Second Trigger Amount (as defined below); and

(b) following the declaration of an Event of Default, an Early Amortisation Event or a Mandatory Redemption Event, zero;

provided, however, that, in accordance with the Trust Agreement, in no event will the aggregate balance on deposit in the Trust Reserve Account and the Trust Account exceed the aggregate amount of all Required Amounts (excluding amounts payable pursuant to paragraph (e) of "*Application of Funds – Application of Funds on Trust Distribution Dates*" below) payable on the next Trust Distribution Date and each following Trust Distribution Date to and including the Trust Termination Date.

The Japanese Trustee will fund the Trust Reserve Account by transferring amounts from the Trust Account to the Trust Reserve Account up to the Required Trust Reserve Balance on each Trust Distribution Date (in accordance with the order of priority set out in "*Application of Funds – Application of Funds on Trust Distribution Dates*" below) and from the Collection Account to the Trust Reserve Account following the occurrence of a First Trigger or a Second Trigger. On any date on which the balance on deposit in the Trust Reserve Account is greater than the Required Trust Reserve Balance, the Japanese Trustee will transfer such excess amount to the Collection Account.

The Transaction Administrator will notify the Japanese Trustee of the occurrence, continuance or Cure of a First Trigger or a Second Trigger. A "**First Trigger**" will occur and be continuing on any date on which the Debt Service Coverage Ratio is equal to or less than 3:1 but greater than 2.5:1. A "**Second Trigger**" will occur and be continuing on any date on which the Debt Service Coverage Ratio is equal to or less than 2.5:1 but greater than 1.8:1.

"**Cure**" or "**Cured**" means (i) in respect of the First Trigger, the Debt Service Coverage Ratio as calculated and set out in three consecutive Transaction Administrator Reports is greater than 3:1 and (ii) in respect of the Second Trigger, the Debt Service Coverage Ratio as calculated and set out in three consecutive Transaction Administrator Reports is greater than 2.5:1.

"**First Trigger Amount**" means either:

(a) following the occurrence of a First Trigger and while it is continuing, an amount equal to the aggregate of the lesser of: (x) all Senior Investor Beneficial Certificate Obligations payable on the immediately succeeding four Trust Distribution Dates and (y) all Senior Investor Beneficial Certificate Obligations payable on the immediately succeeding Trust Distribution Dates until (and including) the Trust Termination Date; or

(b) on any date on which a First Trigger has been Cured and no further First Trigger has occurred and is continuing, zero.

"**Agency Fees**" means all fees, costs, expenses, indemnities, claims, demands, legal fees, liabilities and other amounts specified in the DB Seoul Fee Letter, the DB Fee Letter and/or the Bond Issuer Administrator Fee Letter as payable by the Bond Issuer or the Note Issuer in accordance with the provisions of the Transaction Documents to the Bond Agents, the Note Agents, the Note Trustee, the Account Banks, the Common Depositary and any party as may be notified to the Transaction Administrator by any of the Bond Issuer or the Note Issuer from time to time.

"**Agency Fees Maximum Amount**" means, on any Bond Payment Date or Payment Date, the maximum amount in Yen of fees specified as payable by the Bond Issuer or the Note Issuer to the Agents, the Common Depositary and the Account Banks under the DB Fee Letter and the DB Seoul Fee Letter, as applicable.

"**Bond Issuer Expenses**" means all fees, taxes, filing fees, administrative fees or other fees levied by any Governmental Entity or any rating agency in respect of the Bond Issuer.

"**Bond Issuer Administrator Fee Letter**" means the fee letter dated on or about the Closing Date among, *inter alios*, the Bond Issuer and the Bond Issuer Administrator in relation to the fees and expenses payable to the Bond Issuer Administrator under the Transaction Documents by the Bond Issuer.

"**Second Trigger Amount**" means either:

(a) following the occurrence of a Second Trigger and while it is continuing, all amounts that would otherwise be payable to the Seller Beneficiary under the Seller Beneficial Certificate; or

(b) on any date on which a Second Trigger has been Cured and no further First Trigger or Second Trigger has occurred, zero.

"**Seller**" means Korean Air Lines Co., Ltd. in its capacity as seller of the Investor Beneficial Certificate.

"**Senior Bond Issuer Obligations**" means, in respect of any Bond Payment Date or any relevant payment date following the declaration by the Note Trustee (acting on the instructions of the Instructing Noteholders) of a Mandatory Redemption Event, the aggregate amounts payable by the Bond Issuer on such date in respect of Bond Issuer Expenses, Agency Fees up to the Agency Fees Maximum Amount and interest and Bond Additional Amounts on the Bond.

"**Senior Investor Beneficial Certificate Obligations**" means, in respect of any Trust Distribution Date or any relevant distribution date following the declaration by the Note Trustee (acting on the instructions of the Instructing Noteholders) of a Mandatory Redemption Event, the aggregate amounts payable on such date in respect of Taxes on the Entrusted Assets, fees and expenses of the Japanese Trustee, Servicer Fees (if the Servicer is not the Trustor), Senior Bond Issuer Obligations and all amounts due in respect of principal on the Bond.

Collection Account

All Collections received by the Japanese Trustee will be credited to the Collection Account and transferred to the Trust Account until the Required Amount for the immediately succeeding Trust Distribution Date is on deposit in the Trust Account.

On the second Tokyo Business Day after each Collection Date (each a "**Cash Release Date**"), the Japanese Trustee will calculate whether the aggregate amounts on deposit in the Trust Account two Tokyo Business Days before the relevant Cash Release Date exceed the Required Amount for the immediately succeeding Trust Distribution Date. The Japanese Trustee will apply any such amounts in excess of the Required Amount (each such amount, a "**Cash Release Amount**") as an advance distribution of principal on the Seller Beneficial Interest on the relevant Cash Release Date if each of the following conditions have been satisfied two Business Days before such Cash Release Date (the "**Cash Release Conditions**"):

(a) no Early Amortisation Event, Potential Early Amortisation Event, Event of Default or Potential Event of Default (as defined below) will have occurred or be continuing and no Mandatory Redemption Event will have been declared on such date; and

(b) if any First Trigger or Second Trigger has occurred or is continuing on such date, the Required Trust Reserve Balance is on deposit in the Trust Reserve Account on such date.

In the event that the Required Amount for any Trust Distribution Date is not on deposit in the Trust Account on or before the fifth Tokyo Business Day preceding such Trust Distribution Date, the Japanese Trustee will transfer amounts to the Trust Account from the Trust Reserve Account until the Required Amount is on deposit in the Trust Account or until the balance on deposit in the Trust Reserve Account is zero.

"**Potential Event of Default**" means any condition, event or act which, with the lapse of time and/or the issue, making or giving of any notice, certification, declaration, demand, determination and/or request and/or the taking of any similar action and/or the fulfilment of any similar condition, could constitute a Note Event of Default for the purposes of the Notes, or a Bond Event of Default for the purposes of the Bond.

"**Required Amount**" means, in respect of any Trust Distribution Date or any relevant Mandatory Redemption Payment Date, all amounts payable by the Japanese Trustee in respect of paragraphs (a) to (g) (inclusive) in "*Application of Funds – Application of Funds on Trust Distribution Dates*" on such Trust Distribution Date or Mandatory Redemption Payment Date.

Trust Account

On each Collection Date and on any Mandatory Redemption Payment Date, all amounts standing to the credit of the Collection Account shall be transferred to the Trust Account until the Required Amount is on deposit.

The Japanese Trustee will distribute all amounts on deposit in the Trust Account on each Trust Distribution Date or on a Mandatory Redemption Payment Date in accordance with the order of priority set out in "*Application of Funds – Application of Funds on Trust Distribution Dates*" below.

Withholding Tax

Upon imposition of any withholding or other applicable Taxes on any payment on the Investor Beneficial Certificate, such payment will be increased by an amount sufficient to result in receipt by the Investor Beneficiary of a net amount equal to the payment that would have been received absent such Taxes.

Other Currencies

If any payments to be made on any Trust Distribution Date are to be made in any Other Currency, the Japanese Trustee is authorised to effect all foreign exchange transactions at the prevailing spot rate of exchange for the conversion of Japanese Yen into such Other Currency in order to effect the payment in such Other Currency.

THE TRUSTOR

Trustor Representations and Warranties

The Trustor will represent and warrant in the Trust Agreement, *inter alia,* that:

(a) it is a corporation duly organised and validly existing under the laws of Korea with branches registered in Japan with full power, authority and legal right to own its properties and conduct its business and to execute, deliver and perform its obligations under the Transaction Documents to which it is, or to which it becomes a party;

(b) it is duly qualified to do business in each jurisdiction in which it conducts its business and has obtained all licences and approvals required for the conduct of such business in such jurisdictions;

(c) the execution, delivery and performance of the Transaction Documents to which it is, or to which it becomes a party, has been duly authorised by all necessary action on its part and all actions, conditions and things required by the laws of Korea and Japan in connection therewith have been taken, fulfilled and done;

(d) all actions necessary to ensure the legality and enforceability or admissibility of the Transaction Documents to which it is, or to which it becomes a party, in Korea and Japan have been taken;

(e) the execution and delivery of the Transaction Documents to which it is, or to which it becomes a party, by it, the exercise of its rights set out therein, the performance of the transactions contemplated hereby and thereby and the fulfilment of the terms hereof and thereof will not conflict with, violate or result in any breach of any of the terms and provisions of, or constitute (with or without notice or lapse of time or both) a default under, (i) any indenture, contract, agreement, mortgage, deed of trust or other instrument to which either it is a party or by which it or any of its properties are bound or (ii) any requirement of law applicable to it;

(f) there are no litigation, arbitration or administrative proceedings or investigations pending or, to the best of its knowledge, threatened against it before any court, regulatory body, administrative agency or other tribunal or governmental instrumentality which relates to the transactions contemplated by the Transaction Documents to which it is, or to which it becomes a party;

(g) all necessary approvals, licences, authorisations, consents, orders or other actions of, or registration or declarations with, any Person or of or with any Governmental Entity required in connection with (i) the execution and delivery of the Transaction Documents, (ii) the performance by it of the transactions contemplated by the Transaction Documents and the fulfilment by it of the terms thereof and (iii) the operation of the Routes have been obtained and have not been withdrawn and it has satisfied all Korean, Japanese and international regulations to allow it to operate and continue to operate the Routes and to conduct its business generally;

(h) its obligations under the Transaction Documents to which it is or to which it becomes a party rank at least *pari passu* with all of its other unsecured and unsubordinated indebtedness;

(i) it is not in breach or default under any other agreement to which it is a party or which is binding on it or any of its assets to an extent or in a manner which is likely to have a Material Adverse Effect;

(j) no event has occurred on or prior to the Closing Date which adversely affects its operations or that affects its ability to perform the transactions contemplated by the Transaction Documents to which it is, or to which it becomes a party;

(k) it is solvent, has adequate capital to conduct its business, its total liabilities do not exceed its total assets, it has not suspended payments of its indebtedness other than such indebtedness which is contested by the Trustor in good faith, it is able to pay its debts generally, no petition has been filed by it or against it under the Bankruptcy Act of Japan, the Civil Rehabilitation Act of Japan, the Corporate Reorganisation Act of Japan, the Debtor Rehabilitation and Bankruptcy Act of Korea or the Corporate Restructuring Promotion Act of Korea and, after giving effect to the transactions contemplated in the Transaction Documents to which it is, or to which it becomes a party and within the reasonably foreseeable future, it shall not be rendered insolvent, shall have adequate capital to conduct its business, its total liabilities shall not exceed its total assets, it shall not have suspended payments of its indebtedness, it shall be able to pay its debts generally, no petitions shall be filed by it or against it under the Bankruptcy Act of Japan, the Civil Rehabilitation Act of Japan, the Corporate Reorganisation Act of Japan, the Debtor Rehabilitation and Bankruptcy Act of Korea or the Corporate Restructuring Promotion Act of Korea; and

(l) it has not taken any corporate action and, to the best of its knowledge, no other steps have been taken or proceedings been started or threatened against it for bankruptcy, composition, corporate reorganisation, relief under bankruptcy or insolvency laws, suspension of payments or the appointment of a receiver, trustee or similar officer of it or any or all of its assets in any applicable jurisdiction.

Trustor Covenants

The Trustor will covenant in the Trust Agreement, *inter alia*, that:

(a) except as contemplated by the Transaction Documents, it will not pledge, sell, assign or transfer to any other Person the Entrusted Assets or pledge, sell, assign or transfer any right to receive income in respect thereof or grant, create, incur, assume or suffer to exist any Lien on the Entrusted Assets;

(b) it will not set off any amounts owed by it under the Transaction Documents against amounts owed to it;

(c) it agrees to comply at all times in all material respects with all laws applicable to or in any way affecting the creation and servicing of the Entrusted Assets or the transactions contemplated in the Transaction Documents;

(d) it will not agree to any payment with respect to the Entrusted Assets to be made other than in Japanese Yen (unless otherwise with the approval of the Note Trustee (acting on the instructions of the Instructing Noteholders) or to any account other than to the Trust Account or such other account notified by the Japanese Trustee to the Trustor from time to time;

(e) it will perform diligently its obligations under the BSP Agreements in accordance with its usual working practices;

(f) it will not amend or agree to or permit any amendment of or cancel the BSP Agreements without the prior written consent of the Japanese Trustee, the Note Trustee (acting on the instructions of the Instructing Noteholders) and each Beneficiary (such consent not to be unreasonably withheld) and without delivery of prior written notice to the Rating Agency;

(g) it will comply at all times in all material respects with all domestic and international regulations relating to the operation of the Routes;

(h) it will maintain, and comply at all times in all material respects with, all licenses, approvals and consents relating to the operation of the Routes;

(i) it will not permit the ratio of its Adjusted Debt (as defined below) (with respect to itself and its consolidated Subsidiaries (as defined below)) to its Shareholder's Equity (as defined below) to exceed 10:1, as evidenced by the latest available audited annual financial statements of the Trustor;

(j) it will not permit the ratio of EBITDAR (as defined below) to Interest Expense (as defined below) to be lower than 1:1, as evidenced by the latest available audited annual financial statements of the Trustor;

(k) it will use all reasonable efforts to ensure that each of IATA and the IATA Agents complies with their respective obligations under the BSP Agreements or the IATA Agency Agreements, as the case may be;

(l) if the BSP Bank fails to perform any of its obligations under the BSP Agreements and (i) such failure would have a Material Adverse Effect and (ii) such failure is not remedied within 30 days of the date of such failure, it will replace, or cause IATA to replace, the BSP Bank with another bank as soon as practicable thereafter, but in no event within 30 days after the expiry of such remedy period; and

(m) if IATA fails to perform any of its obligations under the BSP Agreements and (i) such failure has a Material Adverse Effect and (ii) such failure is not remedied within 45 days of the date of such failure, it will implement an alternative system for the ticketing and reporting of, and collection and remittance of receivables generated from, the sale of KAL Tickets and will take all actions necessary for the entrustment of such receivables to the Japanese Trustee under the alternative system so implemented, including without limitation, obtaining consent from no less than 90 per cent. of the IATA Agents to such entrustment, as soon as practicable thereafter, but in no event within 45 days after the expiry of such remedy period.

"**Adjusted Debt**" means, as of any date of determination, with respect to the Trustor, the aggregate of (a) short-term borrowings, (b) bonds, (c) long-term borrowings, (d) long-term obligations under instalment purchases, (e) long-term obligations under capital lease, (f) guaranteed loans, (g) asset-backed securitisation loan and (h) the sum of the operating rentals due under aircraft operating leases for the immediately succeeding twelve month period multiplied by seven.

"**EBIT**" means, for any period, operating income from continuing operations of the Trustor as determined in accordance with K-IFRS (and in any event excluding extraordinary gains) for such period.

"**EBITDAR**" means, for any period, EBIT for the Trustor, plus the amount of non-cash charges, including non-cash charges for depreciation and amortisation and rental payments, of the Trustor for such period.

"**Interest Expense**" means, with respect to any period, interest expense (whether cash or accretion) and rental payments of the Trustor during such period determined in accordance with K-IFRS (excluding, for the avoidance of doubt, interest income) and shall include, in any event, interest expense with respect to indebtedness of the Trustor.

"**K-IFRS**" means the International Financial Reporting Standards as adopted in Korea.

"**Shareholder's Equity**" means, as of any date of determination, the shareholders' equity, as reflected on the last available audited annual balance sheet of the Trustor.

APPLICATION OF FUNDS

Application of Funds on Trust Distribution Dates

On each Trust Distribution Date relating to a Collection Period and on any relevant distribution date following the declaration of a Mandatory Redemption Event, all amounts on deposit in the Trust Account shall, to the extent such sums are available, be applied in or towards the satisfaction of the following amounts in the following order of priority (and in each case only and to the extent that payment or provisions of a higher priority have been made in full):

(a) *first*, to pay any Taxes with respect to the Entrusted Assets;

(b) *second*, to the Japanese Trustee, to pay all fees and expenses payable on such distribution date;

(c) *third*, to the Servicer (if the Servicer is not the Trustor), to pay the Servicer Fees and Servicing Expenses payable on such distribution date;

(d) *fourth*, to the Investor Beneficiary, to pay a principal distribution in an amount equal to the aggregate of (x) the Senior Bond Issuer Obligations payable on the following Bond Payment Date or following the declaration by the Note Trustee of a Mandatory Redemption Event, the Senior Bond Issuer Obligations payable on the date on which the Bond is scheduled to be redeemed in accordance with Bond Condition 3, in each case after taking into account all amounts on deposit in the Bond Issuer Accounts on such date; (y) during the Controlled Amortisation Period, any Bond Scheduled Amortisation Amounts on the following Bond Payment Date; and (z) following the occurrence of an Event of Default or the declaration by the Note Trustee of an Early Amortisation Event or a Mandatory Redemption Event, an amount equal to the aggregate Principal Amount Outstanding under the Bond;

(e) *fifth*, *provided that* no Event of Default has occurred and no Early Amortisation Event or Mandatory Redemption Event has been declared by the Note Trustee, to the Trust Reserve Account until the balance on deposit therein equals the Required Trust Reserve Balance;

(f) *sixth*, to the Investor Beneficiary, to pay an amount equal to the Junior Bond Issuer Obligations payable on the following Bond Payment Date or, following the declaration by the Note Trustee of a Mandatory Redemption Event, an amount equal to the Junior Bond Issuer Obligations on the date on which the Bond is scheduled to be redeemed in accordance with Bond Condition 3, as principal;

(g) *seventh*, to the Servicer, to pay the Servicer Fees and Servicing Expenses due, and/or accrued due but unpaid, on such distribution date (if the Servicer is the Trustor); and

(h) *eighth*, the balance to the Seller Beneficiary, as principal.

Application of Funds on Bond Payment Dates

All amounts on deposit in the Bond Issuer Accounts on each Bond Payment Date (or with respect to paragraphs (b), (c) and (d) below, the Bond Issuer FX Account) and on a Mandatory Redemption Payment Date will, to the extent of such sums, be applied in or towards the satisfaction of the following amounts in the following order of priority (and in each case only and to the extent that payment or provisions of a higher priority have been made in full):

(a) *first*, *pro rata* and *pari passu*, (x) to pay all Bond Issuer Expenses and (y) to the Bond Agents and to the Account Banks, to pay the Agency Fees up to the Agency Fees Maximum Amount payable on such payment date;

(b) *second*, to the Bondholder, to pay any interest and any Bond Additional Amounts due and/or accrued due but unpaid on the Bond on such payment date;

(c) *third*, to the Bondholder, to pay (x) any Bond Scheduled Amortisation Amounts due and/or accrued due but unpaid on such payment date and (y) following the occurrence of an Event of Default or the declaration of an Early Amortisation Event or a Mandatory Redemption Event, the aggregate Principal Amount Outstanding under the Bond;

(d) *fourth*, *pari passu*, to the Bondholder and the Bond Agents, to pay an amount equal to the Junior Bond Issuer Obligations payable on such Bond Payment Date; and

(e) *fifth*, the balance, to the Bond Issuer Yen Account.

Application of Funds on Payment Dates

All amounts on deposit in the Bondholder Account on each Payment Date and on a Mandatory Redemption Payment Date will, to the extent of such sums, be applied in or towards the satisfaction of the following amounts in the following order of priority (and in each case only and to the extent that payment or provisions of a higher priority have been made in full):

(a) *first*, *pro rata* and *pari passu*, (x) to the Note Trustee, the Note Agents, the Common Depositary and the Bondholder Account Bank, to pay the Agency Fees up to the Agency Fees Maximum Amount and (y) to pay all Bondholder Expenses;

(b) *second*, *pro rata* and *pari passu*, to the Holders of the Senior Notes to pay any interest due, and/or accrued due on the Senior Notes but unpaid, on such payment date;

(c) *third*, *pro rata* and *pari passu*, to the Holders of the Subordinated Notes to pay any interest due, and/or accrued due on the Subordinated Notes but unpaid on such payment date;

(d) *fourth*, *pro rata* and *pari passu,* to the Holders of the Senior Notes to pay in respect of the Senior Notes (x) any Note Scheduled Amortisation Amounts due, and/or accrued due but unpaid, on such payment date, (y) following the declaration by the Note Trustee of an Early Amortisation Event, to pay all other amounts due, and/or accrued due but unpaid, on the Senior Notes under Note Condition 4(c) and (z) following the commencement of the Enforcement Period or the declaration by the Note Trustee of a Mandatory Redemption Event, to pay the aggregate Principal Amount Outstanding of the Senior Notes due, and/or accrued due but unpaid, on the Senior Notes;

(e) *fifth*, *pro rata* and *pari passu*, to the Holders of the Subordinated Notes to pay in respect of the Subordinated Notes (x) any Note Scheduled Amortisation Amounts due, and/or accrued due but unpaid, on such payment date, (y) following the declaration by the Note Trustee of an Early Amortisation Event, to pay all other amounts due, and/or accrued due but unpaid, on the Subordinated Notes under Note Condition 4(c) and (z) following the commencement of the Enforcement Period or the declaration by the Note Trustee of a Mandatory Redemption Event, to pay the aggregate Principal Amount Outstanding of the Subordinated Notes due, and/or accrued due but unpaid, on the Subordinated Notes;

(f) *sixth*, *pro rata* and *pari passu*, to the Note Trustee, the Note Agents, the Common Depositary and the Bondholder Account Bank to pay the balance of the Agency Fees due, and/or accrued due but unpaid, on such payment date; and

(g) *seventh*, the balance, to the Bondholder Account.

"**Bondholder Expenses**" means all fees, taxes, filing fees, administrative fees or other fees levied by any Governmental Entity in respect of the Note Issuer or the Notes and the fees payable to the Cayman Administrator under the Cayman Administrator Agreement.

"**Junior Bond Issuer Obligations**" means, in respect of any Bond Payment Date or any relevant payment date following the declaration by the Note Trustee of a Mandatory Redemption Event, the aggregate amounts payable by the Bond Issuer on such date in respect of Junior Secured Obligations and any Agency Fees due and/or accrued due to the Bond Agents and the Bond Issuer Account Bank in excess of the Agency Fees Maximum Amount.

"**Junior Secured Obligations**" means, in respect of any Payment Date or any relevant payment date following the declaration by the Note Trustee of a Mandatory Redemption Event, the aggregate amounts payable by the Note Issuer in respect of any Agency Fees due and/or accrued due to the Note Agents, the Note Trustee and the Bondholder Account Bank in excess of the Agency Fees Maximum Amount.

"**Servicer Fees**" means the capped fees of the Servicer set out in the Servicing Agreement or, if a Successor Servicer is performing the Services, the fee negotiated at the time of such appointment and payable to the Servicer or Successor Servicer, as the case may be, in accordance with the provisions of the Servicing Agreement and the Trust Agreement.

"**Servicing Expenses**" means certain costs and expenses of the Servicer payable in accordance with the provisions of the Servicing Agreement.

"**Successor Servicer**" means a successor servicer nominated by the Japanese Trustee in accordance with the provisions of the Servicing Agreement.

RISK FACTORS

The following is a summary of certain aspects of the offering of the Notes about which prospective investors should be aware but is not intended to be exhaustive. Prospective investors should carefully consider the following factors together with the detailed information set out elsewhere in this Offering Circular before deciding to invest in the Notes and seek independent tax, legal and other relevant advice as to the structure and viability of making an investment in the Notes.

RISKS RELATING TO THE NOTES

There is currently no secondary market for the Notes and there may be limited liquidity for Noteholders

The Notes comprise a new issue of securities for which there is no current public market. No assurance can be given that a secondary trading market for the Notes will develop, or, if a secondary trading market does develop, that it will provide Noteholders with liquidity of investment or that such liquidity will be sustained. The market value of the Notes may fluctuate depending on factors including, among others:

(a) prevailing interest rates;

(b) the condition of the Korean airline industry;

(c) political and economic developments in Japan and Korea; and

(d) market conditions for similar securities.

Consequently, any sale of Notes by Noteholders in any secondary market which may develop may be at a discount from the original purchase price of such Notes. Approval-in-principle has been received from the SGX-ST for the listing and quotation of the Notes on the Official List of the SGX-ST. However, no assurance can be given that the Note Issuer will be able to obtain or maintain such listing or that, if listed, a trading market for the Notes will develop in the future.

The Note Issuer has no operating history

The Note Issuer is a special-purpose vehicle and has no operating history and no material assets other than the Bond. The Note Issuer will not engage in any business activity other than the issuance of the Notes, certain activities conducted in connection with the payment of amounts in respect of the Notes and other activities incidental or related to the foregoing. Income derived from the Bond will be the Note Issuer's principal source of funds.

The Notes are limited recourse obligations of the Note Issuer

The Note Conditions will provide that recourse against the Note Issuer in relation to its obligations under the Notes and all other obligations under the Transaction Documents will be limited to amounts from time to time available for such obligations in accordance with the Note Trust Deed. If such amounts are insufficient to pay in full all amounts due under the Notes after payment of all amounts having priority over the Notes, the Noteholders will have no further claim against the Note Issuer in respect of any unpaid amounts and the liability of the Note Issuer with respect to such unpaid amounts will be extinguished.

None of the shareholders, officers, directors or incorporators of the Note Issuer, the Initial Purchasers, the Japanese Trustee, the Security Agent, the Transaction Administrator and the Note Trustee, any of their respective affiliates or any other person or entity (other than the Note Issuer) will be obligated to make payments on the Notes. Noteholders must rely on payments received by the Note Issuer under the Bond for the payment of interest on and principal of the Notes and no assurance can be given that such amounts will be sufficient to pay all amounts due on the Notes.

Noteholders will have recourse only to the Bondholder Security for the payment of interest on and principal of the Notes and no assurance can be given that the Bondholder Security will be sufficient to pay all amounts due on the Notes.

Subordinated Notes rank junior to the Senior Notes in terms of payment and priority

The Subordinated Notes are by their terms subordinated in right of payment of interest to the payment of interest of the Senior Notes, and in right of payment of principal to the payment of principal of the Senior Notes. Accordingly, payments of interest or, as the case may be, principal may only be made in respect of the Subordinated Notes after scheduled payments of interest or, as the case may be, principal in respect of the Senior Notes and other amounts having priority over the Subordinated Notes have been made.

The Note Trust Deed provides that, if the Senior Notes are outstanding, the Note Trustee will act upon the instructions of the Instructing Noteholders in specified circumstances and the Note Trustee shall not act upon the instructions of the holders of the Subordinated Notes if any Senior Note is outstanding.

Payments on the Notes depend on Collections, the Investor Beneficial Certificate and the Bond

The ability of the Note Issuer to meet its obligations to pay interest and principal on the Notes will depend on timely payments with respect to Collections under the Investor Beneficial Certificate and the Bond and on the due performance by the other parties to the Transaction Documents of their obligations thereunder.

Withholding taxes under the Notes

All payments in respect of the Notes will be made free and clear of, and without withholding or deduction for, any present or future Taxes, unless such withholding or deduction is required by law. The Note Issuer shall not be obliged to make any additional payments as a result of the imposition of such withholding taxes on the Notes. The Note Issuer has, however, applied for, and expects to receive, an undertaking from the Governor-in-Council of the Cayman Islands that, for a period of 20 years from the date of the undertaking, no law imposing, among others, any withholding tax shall apply to the Note Issuer or its operations. See "*Taxation – Cayman Islands Taxation*".

The rating on the Notes may be changed at any time and may adversely affect the market price of the Notes

It is a condition to their issuance that the Senior Notes be rated "A-" and the Subordinated Notes be rated "BBB" by the Rating Agency upon issuance. The rating addresses the full and timely payment of interest and the timely repayment of principal on or before the Note Maturity Date in accordance with the terms and conditions of the Notes. The ratings of the Notes will be based primarily on an assessment of the BSP Receivables and relevant structural features of the transaction and the likelihood of the payment of interest and principal on the Notes in a full and timely manner. A rating is not a recommendation to purchase, hold or sell the Notes. No assurance can be given that a rating will remain in effect for any given period of time or that a rating will not be lowered or withdrawn entirely by an assigning rating agency in the future if, in its judgment, circumstances in the future so warrant. Any decline in the financial position of the Note Issuer may impair the ability of the Note Issuer to make payments to the Noteholders under the Notes and/or result in the rating of the Notes being lowered, suspended or withdrawn entirely. If the ratings initially assigned to the Notes are subsequently lowered or withdrawn for any reason, no person or entity will be obligated to provide any additional credit enhancement with respect to the Notes. Any reduction or withdrawal of a rating may have an adverse effect on the liquidity and market price of the Notes. Any reduction or withdrawal of a rating will not constitute a Note Event of Default or an event requiring the Note Issuer to redeem any Notes.

The Notes are subject to mandatory redemption under certain circumstances

Upon the declaration by the Note Trustee of a Mandatory Redemption Event, the Note Issuer will be obliged to redeem the Notes, in whole but not in part, on the relevant Mandatory Redemption Payment Date at the relevant Note Redemption Amount and the Bond Issuer will be obliged to redeem the Bond. If a Mandatory Redemption Event is declared (which includes a breach of any of the warranties with respect to any Entrusted Assets), the Trustor will be required to entrust to the Japanese Trustee additional Japanese Yen in an amount equal to the Mandatory Redemption Amount, such amount being sufficient to redeem fully the Investor Beneficial Certificate on or before the second Business Day following any such additional entrustment. Such additionally entrusted Japanese Yen shall be credited on such date to the Trust Account and will be used for redemption of the Investor Beneficial Certificate. No assurance can be given that the Trustor will have sufficient funds to entrust to the Japanese Trustee such additional Japanese Yen. The obligations of the Trustor are unsecured. Upon the declaration by the Note Trustee of a Mandatory Redemption Event, the Notes may be redeemed other than on a Payment Date.

Failure by the Trustor to deposit the Mandatory Redemption Amount in full will mean that there will be insufficient funds available to redeem the Bond and, accordingly, the Notes in full.

No investigation has been made in respect of the Note Issuer, the Bond Issuer, the Bondholder Security or the Bond Security

No investigation, and limited searches and enquiries, have been made by or on behalf of the Note Issuer and no investigations, searches and enquiries have been made by or on behalf of the Agents or the Note Trustee, in respect of the Note Issuer, the Bond Issuer, the Bondholder Security or the Bond Security. None of the Agents or the Note Trustee shall be bound or concerned to make any investigation into the creditworthiness of any party in respect of the Bondholder Security or the Bond Security, the validity of any of such party's obligations under or in respect of the Bondholder Security or the Bond Security or any of the terms of the Bondholder Security or the Bond Security.

U.S. source withholding taxes and information reporting

Under provisions of U.S. law commonly referred to as "**FATCA**", the Note Issuer may be subject to a 30 per cent. withholding tax on its income from U.S. sources and, beginning 1 January 2019, on the gross proceeds from the sale, maturity, or other disposition of certain of its assets that generate U.S.-source income. However, the Cayman Islands have entered into an intergovernmental agreement (the "**US IGA**") with the United States and have entered into a similar intergovernmental agreement (the "**UK IGA**") with the United Kingdom (together with the US IGA, the "**IGAs**"). The Note Issuer will be required to comply with the Cayman Islands Tax Information Authority Law (2014 Revision) (as amended) together with regulations and guidance notes made pursuant to such Law that give effect to the IGAs. To the extent the Note Issuer is a "Reporting Cayman Islands Financial Institution" (as defined in the IGAs), the Note Issuer will be required to undertake due diligence procedures that generally provide for the identification of certain direct and indirect U.S. and UK investors and reporting to the Cayman Islands Tax Information Authority (the "**TIA**") certain information with respect to such investors. The Cayman Islands Tax Information Authority will exchange such information with the U.S. Internal Revenue Service ("**IRS**") or Her Majesty's Revenues and Customs in the United Kingdom ("**HMRC**"), as the case may be, under the terms of the relevant IGA. Provided the Note Issuer complies with its obligations under the IGAs and the Cayman Islands implementing authorities, the Note Issuer generally will not be subject to withholding under FATCA, either on payments it makes or receives. The Note Issuer will endeavour to comply with these requirements and expects it will be able to do so.

On 29 October 2014, the Cayman Islands along with 50 other jurisdictions signed a Multilateral Competent Authority Agreement (the "**Multilateral Agreement**") to demonstrate its commitment to implement the OECD Standard for Automatic Exchange of Financial Account Information – Common Reporting Standard (the "**CRS**"). The Tax Information Authority (International Tax Compliance) (Common Reporting Standard) Regulations, 2015, which require extensive due diligence to be undertaken on new and pre-existing accounts, were enacted on 16

October 2015 with a view to commencing reporting on such accounts during 2017. With more than 80 countries having since agreed to implement the CRS, which will impose similar reporting and other obligations as the IGAs with respect to the Noteholders who are tax resident in other signatory jurisdictions, the scope of the Note Issuer's reporting obligations to the TIA will significantly increase in 2017, as will the level of dissemination of account information by the Cayman Islands Tax Information Authority to tax authorities around the globe. The Cayman Islands government may also enter into additional agreements with other countries in the future, and additional countries may adopt CRS, which will likely further increase the reporting and/or withholding obligations of the Note Issuer.

The Cayman Islands implementation process is not yet complete, and it is not certain that the Note Issuer will be able to comply with all of these requirements. Moreover, the US IGA provides that the United States and the Cayman Islands will develop an alternative approach to address "foreign passthru payments". It is unclear what approach will be taken, and it is possible, for example, that entities such as the Note Issuer will be required to withhold on payments that are treated as foreign passthru payments as early as 1 January 2019.

Whilst the Notes are in global form and held within Euroclear Bank or Clearstream (together, the "**ICSDs**"), it is expected that FATCA will not affect the amount of any payments made under, or in respect of, the Notes by the Note Issuer, any paying agent and the common depositary, given that each of the entities in the payment chain from (but excluding) the Note Issuer to (but including) the ICSDs is a major financial institution whose business is dependent on compliance with FATCA and that any alternative approach introduced under an IGA will be unlikely to affect the Notes. However, it should be noted that information relating to Noteholders and their investments in the Notes may need to be reported under regulations made pursuant to FATCA and/or CRS by financial institutions through which Noteholders collect payments made to them under the Notes.

If an amount in respect of U.S. withholding tax were to be deducted or withheld from interest, principal or other payments on the Notes as a result of FATCA, none of the Note Issuer, any paying agent or any other person would, pursuant to the terms and conditions of the Notes be required to pay additional amounts as a result of the deduction or withholding. As a result, investors may receive less interest or principal than expected.

FATCA and similar reporting regimes are particularly complex and their application is uncertain at this time. The above description is based in part on regulations, official guidance and intergovernmental agreements, all of which are subject to change or may be implemented in a materially different form. Prospective investors should consult their own tax advisers to obtain a more detailed explanation of FATCA and how FATCA may affect them.

RISKS RELATING TO THE BSP RECEIVABLES

Servicing and Ongoing Entrustment

Under the Servicing Agreement, the Trustor as Servicer is responsible for the management, servicing and administration of the BSP Receivables. Payments with respect to the BSP Receivables will be made directly to the Collection Account by IATA and/or the BSP Bank.

In connection with the entrustment of money following the declaration by the Note Trustee of a Mandatory Redemption Event, if the Trustor is declared bankrupt or is subject to bankruptcy or corporate rehabilitation proceedings or is otherwise in financial difficulties: (i) at any time during the period in which it is obligated to entrust such amounts pursuant to the Trust Agreement, there is a risk that the trustee appointed in such proceedings or other creditors of the Trustor could void such obligation; and (ii) at the time of or after remitting money to the Japanese Trustee, there is a risk that the trustee appointed in such proceedings or other creditors of the Trustor could avoid or rescind such payment and demand the Japanese Trustee to return such moneys to the Trustor. In such event, the Japanese Trustee would be treated as an unsecured creditor of the Trustor. In addition, the payments of distributions under the Trust Agreement and, in turn, the payments on the Bond and ultimately the Notes, may be adversely affected.

Perfection of Entrustment

The perfection of the entrustment of the BSP Receivables against IATA and third parties will be completed using procedures under the Civil Code of Japan by obtaining a written consent with a notarial certification (*kakutei hizuke*) from IATA through the IATA Notice of Assignment, which is governed by Japanese law. To perfect as against third parties, the entrustment of all of the Trustor's rights, title, interest and benefit (present and future, actual and contingent) in, to and under the IATA Agency Agreements to the Japanese Trustee, the Trustor will make all filings and registrations with the Nakano branch of the Tokyo Legal Affairs Bureau on or about the Closing Date in accordance with the Act on Special Provisions, etc. of the Civil Code Concerning the Perfection Requirements for the Assignment of Movables and Claims of Japan (the "**Perfection Act**"). IATA has advised the Note Issuer that each IATA Agency Agreement is governed by the law of the jurisdiction in which the relevant IATA Agent is located which, in respect of each IATA Agent, is Japan and, therefore, Japanese law. Japanese counsel will opine that the entrustment of the BSP Receivables to the Japanese Trustee on the Closing Date has been validly perfected against any third party, including a trustee in bankruptcy or in any reorganisation or civil rehabilitation proceedings of the Trustor, pursuant to the Civil Code of Japan and the Perfection Act, on the assumption that: (i) the Trustor has good and marketable title to the BSP Receivables free from any security interest, claim or encumbrance of any kind; (ii) no notice to or consent by any Person bearing a notarial certification (*kakutei hizuke*) in accordance with the Civil Code of Japan has been or will be made in connection with any assignment or entrustment of the BSP Receivables except in accordance with the Transaction Documents; and (iii) no filing of any registration pursuant to the Perfection Act has been or will be made in connection with any assignment or entrustment of the BSP Receivables except in accordance with the Transaction Documents. As IATA is incorporated in Canada the entrustment of the BSP Receivables will also be perfected in Canada by carrying out the required filings.

True Sale of the BSP Receivables and the Investor Beneficial Interest

Although neither statutory law nor judicial precedents provide significant guidance with respect to the distinction between a true sale and an assignment by way of security, Japanese counsel will opine that the entrustment of the BSP Receivables to the Japanese Trustee pursuant to the Trust Agreement is a true entrustment (and not an assignment by way of security) of the BSP Receivables to the Japanese Trustee and that the Trust Agreement constitutes the legal, valid and binding obligations of the parties thereto and is enforceable in accordance with the terms of the Trust Agreement. Japanese counsel is of the opinion that under Japanese law the entrustment of the BSP Receivables would not be recharacterised as an assignment by way of security (*joto tanpo*) of the BSP Receivables, and Korean counsel to the Joint Arrangers is of the opinion that if, under Japanese law, the entrustment of the BSP Receivables under the Trust Agreement is a true entrustment such that the BSP Receivables do not constitute a part of the bankruptcy estate or assets of the Trustor, then the Korean courts would not disregard the foregoing and legal title to the BSP Receivables would not be part of the Trustor's estate in insolvency proceedings, except in limited circumstances described in "*– Servicing and Ongoing Entrustment*" above.

Korean counsel to the Joint Arrangers will opine that the transfer of the Investor Beneficial Interest under the Investor Beneficial Interest Sale and Purchase Agreement constitutes or will constitute a sale of such Investor Beneficial Interest by the Trustor to the Bond Issuer rather than the grant of a security interest in such Investor Beneficial Interest so that such Investor Beneficial Interest would not be a part of the Trustor's bankruptcy estate or assets of the Trustor in the event that the Trustor is in an insolvency proceeding under the Debtor Rehabilitation and Bankruptcy Act of Korea.

It should be noted that the above statement is based on certain facts that are and/or will be represented and warranted as correct by the Trustor under the Trust Agreement and the Investor Beneficial Interest Sale and Purchase Agreement. No assurance can be made as to the accuracy of such facts, representations and warranties. A breach of those representations and warranties may affect the true sale nature of the entrustment of the BSP Receivables and the assignment of the Investor Beneficial Interest.

If the Trustor enters into insolvency proceedings, a third party such as a bankruptcy trustee could attempt to characterise the transfer of the BSP Receivables as a borrowing secured by the BSP Receivables. Although it is considered that any such attempt would be ultimately unsuccessful, it could result in delays in payments on the Investor Beneficial Interest and, thus, on the Bond and consequently the Notes.

IATA may set-off amounts due under the BSP Receivables against amounts due by the Trustor to IATA

The documentation governing the relationship between the Trustor and IATA is complex. However under such documentation, IATA has a right of set off against the Trustor under which IATA can set off (without limitation or restriction) amounts owed by the Trustor to IATA against amounts owed by IATA to the Trustor (an "**IATA Set-off**"), including amounts due with respect to the BSP Receivables. This right of set off is not restricted by the IATA Notice of Assignment. Any exercise by IATA of this right of set off with respect to amounts due under the BSP Receivables could result in reduced payments with respect to the Investor Beneficial Certificate and therefore to the Bond Issuer and consequently the Note Issuer having insufficient funds to meet their respective obligations under, *inter alia*, the Bond and the Notes. The Trustor is obliged, under the Trust Agreement, to entrust to the Japanese Trustee additional Japanese Yen in an amount equal to the amount set off by IATA. No assurance can be given that the Trustor will have sufficient funds to entrust to the Japanese Trustee such additional Japanese Yen.

IATA Agents may set-off amounts due by the Trustor against amounts due by the IATA Agents to the Trustor

The current arrangements between the Trustor and the IATA Agents provide that certain commissions due by the Trustor to the IATA Agents are paid outside BSP Japan (as defined herein). It is unclear whether the IATA Agents have a right of set-off with respect to such commissions under the existing documentation between IATA and the IATA Agents ("**IATA Agent Set-off**").

No assurance can be given that, in the event of the Trustor failing to pay such commissions to the IATA Agents or upon the occurrence of some other event such as the bankruptcy of Korean Air, the IATA Agents will not, as a practical matter, make payments to BSP Japan after deduction of such commissions. In that event, the Japanese Trustee may have insufficient Collections to make payments with respect to the Investor Beneficial Interest and therefore the Note Issuer may be unable to make payments due on the Notes. The Trustor is obliged, under the Trust Agreement, to entrust to the Japanese Trustee additional Japanese Yen in an amount equal to the amount set-off by the IATA Agents. No assurance can be given that the Trustor will have sufficient funds to entrust to the Japanese Trustee such additional Japanese Yen.

A Korean court may determine that all or part of the entrustment of the Entrusted Assets to the Japanese Trustee is not valid

Under the Trust Agreement, the Trustor will entrust to the Japanese Trustee, all of its rights, title, interest and benefit (present and future, actual and contingent) in, to and under the Entrusted Assets on the Closing Date and from time to time thereafter.

Korean counsel to the Joint Arrangers has advised that they are not aware of any court precedents as to whether the entrustment of Entrusted Assets pursuant to the Trust Agreement could be cancelled or avoided under the Civil Code of Japan or the Debtor Rehabilitation and Bankruptcy Act of Korea. Korean counsel to the Joint Arrangers will opine that, subject to certain assumptions and qualifications set forth in their opinion, the entrustment of the Entrusted Assets by the Trustor to the Japanese Trustee pursuant to the Trust Agreement would not be set aside or avoided under the Civil Code of Japan or the Debtor Rehabilitation and Bankruptcy Act of Korea. There can be, however, no assurance that a Korean court would not decide otherwise.

Generation of BSP Receivables

Generation of BSP Receivables depends primarily upon the continued operation of Korean Air's passenger services for flight routes operated by Korean Air (a) between Japan and Korea and/or onwards to other international destinations and (b) from Japan, or commencing in another country, and onwards to other international destinations (the "**Routes**"). Any significant reduction in Korean Air's provision of passenger air transportation services on the Routes, whether resulting from health events, competition, financial condition, market conditions, political events, labour actions or otherwise, would have an adverse impact on the generation of BSP Receivables and, consequently, the making of required payments on the Investor Beneficial Certificate, the Bond and consequently the Notes. While Korean Air, as of 30 September 2016, had a 26.2 per cent. market share for air travel between Japan and Korea, no assurance can be given that Korean Air will continue to have such a market share or operate the Routes at all or that BSP Receivables will continue to be generated at such levels in the future. See "*The BSP Receivables*".

Risks relating to Korean's Air's shareholding in Hanjin Shipping

In June 2014, as part of a restructuring within the Hanjin Group, and in order to harness greater synergies between the Group's air cargo and shipping businesses, Korean Air acquired 33.2 per cent. of the outstanding shares of Hanjin Shipping, Korea's biggest container shipping line and a member of the Hanjin Group listed on the Korea Exchange, through a capital injection of Won 400 billion and became the largest shareholder of Hanjin Shipping.

Hanjin Shipping's financial position has deteriorated considerably since that date as a result of a severe downturn in the global shipping industry and it entered into rehabilitation proceedings under the Debtor Rehabilitation and Bankruptcy Act of Korea in September 2016.

Hanjin Shipping's rehabilitation plan has not been submitted to the courts yet. The administrator of Hanjin Shipping is currently examining the claims filed by the creditors to prepare the rehabilitation plan. The courts are currently in the process of analysing Hanjin Shipping's value as a going concern and its value in liquidation, in order to determine whether to continue with the rehabilitation proceedings or whether to terminate the rehabilitation proceedings and either commence the liquidation of Hanjin Shipping or recommend another course of action. If the courts determines to proceed with the rehabilitation proceedings, the rehabilitation plan will be subject to the approval and consent of creditors of the company and, ultimately, to the approval of the Korean courts.

However, a rehabilitation of a corporation on the scale of Hanjin Shipping is not common in Korea and no predictions may be made as to the outcome of the court's deliberations on the rehabilitation plan or as to the future of Hanjin Shipping generally, or when such decision will be made or as to the effect of any such decision on Korean Air or its business. For more information about rehabilitation proceedings under Korean law generally, see "*Certain Legal Considerations – Korean Legal Considerations – Insolvency Laws in Korea*".

Risks relating to Korean Air's investments in Hanjin Shipping and liabilities towards Hanjin Shipping's creditors

To date, Korean Air has invested Won 825 billion in Hanjin Shipping in the form of equity injections, acquisition of capital securities issued by Hanjin Shipping and the guarantee of convertible bonds issued by Hanjin Shipping. Of this amount, Korean Air recognised impairment losses of approximately Won 433 billion as of 30 June 2016 and approximately Won 392 billion as of 30 September 2016, which amounts represent all of Korean Air's investment in Hanjin Shipping.

Korean Air's current investments and liabilities in respect of Hanjin Shipping are:

- *Investments in associates*: During the six months ended 30 June 2016, Korean Air recognised impairment losses of Won 281 billion on its holding of Hanjin Shipping shares held as investments in associates, as a result of the deterioration of Hanjin

Shipping's financial condition. As of 30 June 2016, Korean Air had remaining investments in associates of approximately Won 164 billion, all of which were attributed to its 33.2 per cent. ownership of Hanjin Shipping, and all of which have been recognised as impairment losses as at 30 September 2016.

- *Available-for-sale financial assets*: In February 2016, Korean Air acquired Won 220 billion hybrid capital securities issued by Hanjin Shipping, the proceeds of which Hanjin Shipping used to repay outstanding secured loans from Korean Air. During the six months ended 30 June 2016, Korean Air recognised impairment losses of Won 110 billion in respect of such securities, which are accounted for as available-for-sale financial assets. As at 30 September 2016, Korean Air recognised the remaining available-for-sale financial assets of Won 110 billion in respect of such securities as impairment losses.

- *Obligations under a Total Return Swap Agreement*: Hanjin Shipping issued Won 196 billion convertible bonds in December 2014. In December 2014, Korean Air entered into a Total Return Swap Agreement with holders of the convertible bonds which, in the event Hanjin Shipping's share price falls relative to the reference price at the time of early redemption, requires Korean Air to pay the amount by which the Hanjin Shipping share price has fallen. Hanjin Shipping's entry into rehabilitation proceedings triggered early redemption of the convertible bonds. As at 30 September 2016, Korean Air had made aggregate payments of Won 162 billion to the holders of the convertible bonds under the Total Return Swap Agreement. Korean Air recognised impairment losses of Won 54 billion as of 30 June 2016 and Won 108 billion on the remaining value of the investment as of 30 September 2016.

- *Liabilities in respect of Pledge of Shares in Hanjin Shipping*: Korean Air has pledged 81,019,733 of its shares in Hanjin Shipping as collateral for a U.S.$300 million guaranteed bond issued by Hanjin International Corporation, a subsidiary of Korean Air. Korean Air may be required to pledge other assets as replacement collateral for these shares depending on its negotiations with the guarantor.

- *Court approved loan to Hanjin Shipping*: On 3 October 2016, Korean Air made a loan of Won 60 billion to Hanjin Shipping in order to facilitate cargo deliveries by Hanjin Shipping and ease the supply-chain disruptions that followed the commencement of its rehabilitation proceedings. The loan is fully collateralised by security interests over certain accounts receivable, including freight charges, to be received when the relevant cargoes are delivered to their final destinations, as well as certain real estate owned by Hanjin Shipping. The Korean courts have approved the loan and the grant of security to Korean Air and it is recognised as a "claim for common benefits" which will be paid in priority to the rehabilitation claims of general creditors to Hanjin Shipping. As at 1 November 2016, Korean Air had received Won 8 billion in repayment of such loan. Korean Air has not recognised impairment losses against the balance of Won 52 billion as it expects to recover the full amount of the loan by 30 November 2016.

No assurance can be given that Korean Air will recover any of the amounts set out above.

While there is no basis under Korean law for the Korean Government to require Korean Air to make further equity or debt investments into Hanjin Shipping, no assurance can be given that the Korean Government will not make any such requests for investment into Hanjin Shipping in the future.

The interests of Hanjin KAL, the largest shareholder of Korean Air and the holding company of the Hanjin Group may conflict with those of Korean Air

As of 30 June 2016, Hanjin KAL Corp. ("**Hanjin KAL**"), the largest shareholder of Korean Air and the holding company of the Hanjin Group, owned 31.5 per cent. of Korean Air's voting stock, and Mr. Yang-Ho Cho who serves as Chairman of Hanjin KAL also serves as Chairman of Korean Air. When exercising its rights as Korean Air's largest shareholder, Hanjin KAL may take into account not only the interests of Korean Air but also its own interests and the interests of other affiliates in the Hanjin Group, which may, at times, conflict with Korean Air's interests in a number of areas relating to its business and management, including business acquisitions, incurrence of indebtedness, financial commitments and indemnity arrangements. Hanjin KAL and Mr. Cho have significant influence over Korean Air's management affairs and may influence business decisions taken by Korean Air in transactions with other affiliates of the Hanjin Group, which may benefit Hanjin KAL's interests more than those of Korean Air and result in a material adverse effect on Korean Air's financial condition and results of operations.

Korean Air as Servicer of the BSP Receivables

Under the Servicing Agreement, Korean Air has been named as the Servicer and has agreed to service, manage and administer the BSP Receivables and the Collections thereon in accordance with the terms of the Servicing Agreement. There can be no assurance that Korean Air will continue to operate as Servicer under the Servicing Agreement, or that any successor Servicer will be able to carry out its duties to the same level of efficiency as Korean Air. In the event that the Servicer or a successor Servicer is obliged to take any legal action, such action would be required to be conducted through a qualified lawyer or licensed servicer.

Competitive Environment

In respect of air travel between Japan and Korea, as at 30 September 2016, based on data published by the Korean Airports Corporation, Korean Air had a 26.2 per cent. market share, Japan Airlines ("**JAL**") had a 4 per cent. market share, Asiana Airlines, Inc. ("**Asiana**") had a 21.3 per cent. market share and low cost carriers, Jeju Air and Air Busan, had a 6 per cent. and 2 per cent. market share, respectively.

As an international full service carrier, Korean Air competes for passengers with other major full service airlines. International airlines increasingly compete on the basis of international marketing and code-share alliances formed by domestic and foreign carriers. Such alliances allow international carriers to increase their ability to sell international transportation between Korea and other countries. Korean Air's ability to attract and retain customers is dependent upon, among other things, its ability to offer customers convenient access to desired markets. Korean Air is a member of the SkyTeam alliance and has entered into code-sharing agreements with 35 airlines, including 17 members of the SkyTeam alliance and 18 airlines outside of the SkyTeam alliance. Korean Air's business may be adversely affected if it is unable to maintain or obtain alliance and marketing relationships with other air carriers in desired markets. In addition, Korean Air's business may be harmed if international alliances competing with the SkyTeam alliance are able to offer their member airlines competitive advantages that the SkyTeam alliance cannot offer its member airlines.

In recent years, the emergence of low cost carriers ("**LCCs**") has increased competition in the airline industry. Although the low fares offered by the LCCs is believed to have resulted in an increase in aggregate demand for air travel, competition from LCCs has had a significant impact on the Korean air travel service market, on both domestic and short-haul international routes. According to statistics released by the Korean Ministry of Land, Infrastructure and Transport (the "**MOLIT**"), the number of domestic passengers on the two full service airlines in Korea increased 5.0 per cent. from 2013 to 2014 and 4.4 per cent. from 2014 to 2015, while the number of domestic passengers on the five Korean LCCs increased 15.9 per cent. from 2013 to 2014 and 22.4 per cent. from 2014 to 2015. Over the same periods, the number of international passengers on the two full service airlines in Korea increased 2.4 per cent. from 2013 to 2014 and 4.9 per cent. from 2014 to 2015, while the number of international passengers on the five Korean LCCs increased 32.8 per cent. from 2013 to 2014 and 37.6 per cent. from 2014 to 2015. While Korean Air will continue to focus on product differentiation, productivity improvements and cost management measures in order to maintain its competitiveness, there can be no assurance that these measures will mitigate the impact of intensified competition from the LCCs.

Korean Air's hub location in Incheon, Korea, enjoys geographical advantages in linking traffic between regions. Incheon International Airport ("**Incheon Airport**") faces competition from the development and growth of other hub airports in the Asia-Pacific and/or the Middle East that may draw traffic away or allow traffic to by-pass Incheon Airport. A decline in traffic may be experienced by Korean Air should international air traffic patterns shift to other airports and by-pass Incheon Airport.

No assurance can be given that competition will not increase further or that Korean Air will maintain its current market share on the Routes or continue to operate all or any of the Routes at all.

RISKS RELATING TO THE AIRLINE INDUSTRY

Industry Conditions and Price Competition; Anti-Competition Regulations

Airline profit levels are highly sensitive to, and during recent years have been severely impacted by, changes in fuel costs, fare levels, passenger demand, market conditions, political events and health events or otherwise. Passenger demand and yields have been affected by, among other things, the general state of the economy, international events and actions taken by airlines with respect to fares.

The airline industry is increasingly competitive. There is increased use of advertising, pricing competition and incentive programmes and such factors outside the control of Korean Air could impact fares in the future including significant industry-wide fare discounts as well as global economic and health problems.

Korean Air is the largest airline service provider in Korea with leading domestic market shares for the passenger and cargo services business, which could subject it to antitrust regulation in certain aspects of its business. The Korean Fair Trade Commission (the "**KFTC**") monitors and prohibits certain practices considered to be anti-competitive or monopolistic. It focuses on the structural characteristics of a market, behaviour of competitors within a market and activities that are perceived to be an abuse of a leading position and also carries out investigations on unfair trade or price collusion on a regular basis. Korean Air prioritises compliance with all applicable laws and regulations but there can be no assurance that Korean Air will not be subject to investigations, action or proceedings that could have an adverse effect on its business, financial condition or results of operations.

From time to time, Korean Air is subject to investigations relating to antitrust violations in and outside of Korea. Korean Air agreed with the United States Department of Justice in August 2007, the Canadian Competition Bureau in July 2012, the Australian Competition and Consumer Commission in November 2011, the New Zealand Commerce Commission in July 2012 and the KFTC in January 2011 to plead guilty to price fixing charges and to pay U.S.$300 million, approximately U.S.$4 million, approximately U.S.$4 million, approximately U.S.$3 million and approximately U.S.$22 million, respectively, in fines or penalties for its role in conspiracies to fix one or more components of the passenger (in the case of the United States only) and cargo rates for flights between each respective country and Korea, of which an aggregate of U.S.$283 million has been paid as of 30 June 2016. See "*The Trustor and Servicer – Legal Proceedings*".

Aircraft Fuel

Fuel costs (including any applicable taxes) comprise a significant portion of any airline's costs. Korean Air is vulnerable to the movement of international crude oil prices and it currently hedges approximately 15 per cent. of its annual fuel consumption and, during 2017, Korean Air plans to hedge approximately 30 per cent. of its annual fuel consumption. The remaining 85 per cent. of its annual jet fuel consumption for 2016 was, and will continue to be, procured in spot transactions at the then prevailing market price. See "*The Trustor and Servicer – Risk Management*". However, its hedging policy may not fully protect the Company from significant increases in the price of jet fuel in the short or long-term or may limit the benefit the Company could derive from significant decreases in the price of jet fuel. In order to mitigate the effects of increased fuel prices Korean Air has been charging passengers a fuel surcharge which is dependent on the market price of fuel.

The Company's reliance on international sources for jet fuel is exacerbated by the fact that Korea imports 100 per cent. of its crude oil requirements. The Company cannot predict the development of either short-or long-term jet fuel prices or the availability of fuel. In the event of a fuel supply shortage resulting from a disruption of oil imports or otherwise, higher fuel prices and, consequently, a curtailment of the Company's scheduled services may result. In addition, all fuel costs are U.S. dollar denominated and therefore subject to the effects of currency exchange fluctuations.

Regulatory Matters

The availability of international routes to Korea's airlines is regulated by treaties and related agreements between the Government and foreign governments and the allocation of such available routes between Korea's airlines is regulated by the MOLIT. The MOLIT has established regulatory policies intended to promote controlled growth, which Korean Air believes will be beneficial to the development of the Korean airline industry. The regulatory framework within which Korean Air operates can, however, limit its flexibility to respond to market conditions, competition or changes in its cost structure and the implementation of specific MOLIT policies could adversely affect its operations.

High Operating Leverage

The airline industry is characterised by a high degree of operating leverage. The expenses of each flight, particularly labour and fuel costs, do not vary proportionately with the number of passengers carried, while revenues generated from a particular flight are directly related to the number of passengers carried and the fare structure of the flight. Accordingly, a decrease in the number of passengers carried and accordingly, passenger revenues would result in a disproportionately greater decrease in profits. This high operating leverage further accentuates the seasonality present in the airline industry. See "*The BSP Receivables*".

External Factors

The airline industry has recovered significantly from external factors, such as the terrorist attacks in the United States on 11 September 2001, the Iraq war, the Severe Acute Respiratory Syndrome ("**SARS**") outbreak in 2003 and the Middle East Respiratory Syndrome ("**MERS**") outbreak in Korea from May to July 2015. In addition, the global economic financial crisis in 2008 and the spread of H1N1 virus in 2009 caused a decrease in airline traffic globally. However, the performance of the Routes was less affected by such external factors due to a lower reliance on premium fare passengers.

No assurance can be given that similar events will not occur in the future or that other events will not occur which will have a material adverse impact on the world economy and air traffic (in particular, on the Routes) and therefore on the generation of BSP Receivables and ultimately on payments of the Notes.

RISKS RELATING TO JAPAN

Although there have been signs of economic recovery in Japan, the economic conditions in Japan and other major economies are currently fragile, and positive economic indicators are partially attributable to the effects of various government economic stimulus efforts. Unemployment in Japan has remained at a relatively high level since the spring of 2009 and chronic unemployment could negatively affect consumer confidence, private consumption and economic activity in Japan. The outlook for the Japanese economy is uncertain and recovery may be delayed due to the impact of the strong Japanese Yen. A return to former weak economic conditions in Japan could adversely affect the performance of the Routes and the generation of BSP Receivables and thereby negatively affect the cashflow available to make payments on the Notes.

On 11 March 2011, there was a massive earthquake and tsunami off the pacific coast of north-eastern Japan. Since that date, the Japanese government has carried out certain measures to mitigate the results of such events. At this time, the long-term effects of the earthquake and its aftermath on the Japanese economy still remain uncertain, and such long term effects may cause an adverse impact on Japan's fiscal and financial condition. Although these events caused a temporary decrease in the sales volume of air tickets on the Routes and such sales volumes recovered to previous levels within six months, no assurance can be given that the long-term effects of the earthquake and its aftermath will not adversely affect the performance of the Routes and the generation of BSP Receivables and thereby negatively affect the cashflow available to make payments on the Notes.

RISKS RELATING TO KOREA

The Originator is incorporated in Korea and a substantial part of the Servicer's operations are located in Korea. As a result, the Originator, the Servicer and the Bond Issuer are subject to political, economic, legal and regulatory risks specific to Korea. 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 Korean Air's control, including developments in the global economy.

Due to recent liquidity and credit concerns and volatility in the global financial markets, the value of the Won relative to the U.S. dollar and other foreign currencies and the stock prices of Korean companies have fluctuated significantly in recent years. Future declines in the Korea Composite Stock Price Index (known as KOSPI) and large amounts of sales of Korean securities by foreign investors and subsequent repatriation of the proceeds of such sales may adversely affect the value of the Won, the foreign currency reserves held by financial institutions in Korea, and the ability of Korean companies to raise capital. Any future deterioration of the Korean or global economy could adversely affect Korean Air's business, financial condition and results of operations.

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

- financial problems relating to *chaebols* (Korean conglomerates), or their suppliers, and their potential adverse impact on the Korean economy, including as a result of investigations relating to unlawful political contributions by *chaebols*;

- continuing difficulties in the housing and financial sectors in Korea, the United States and elsewhere and the resulting adverse effects on the global financial markets;

- continuing adverse conditions in the economies of countries that are important export markets for Korea, such as the United States, Japan and China, 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 favour 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;

- decreases in the market price of Korean real estate;

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

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

- 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;

- social and labour unrest;

- 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, loss of investor confidence arising from corporate accounting irregularities and corporate governance issues or lack of progress in the restructuring of Korean business groups, other large troubled companies, their suppliers or the financial sector;

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

- 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 MERS outbreak in Korea from May to July 2015;

- 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;

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

- 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;

- changes in financial regulations 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 and global economy could adversely affect the income, financial conditions and liquidity of Korean consumers in general, including Korean Air's customers, and in turn those of Korean Air.

Labour unrest may increase if the Korean economy experiences a downturn and may disrupt the operations of the Servicer and its ability to service the BSP Receivables

A downturn in the Korean economy, as well as the associated increase in the number of corporate restructurings and bankruptcies, may cause large-scale layoffs and increased unemployment in Korea. Increased unemployment may lead to social unrest and substantially increase the Government's expenditure for unemployment compensation and other costs for social programmes. No assurance can be given that layoffs will not occur in the near future or that labour unrest will not occur. Increasing unemployment and continuing labour unrest could disrupt the operations of the Servicer and its ability to service the BSP Receivables and could affect the cashflow of the Collections and financial matters in Korea generally. These results would be likely to have an adverse effect on Korean economic conditions and on the Note Issuer's ability to make payments due under the Notes.

Increased tensions between Korea and North Korea may have a material adverse effect on 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 current and 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 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:

- 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 and a submarine-launched ballistic missile test in August 2016. In August 2016, the United Nations Security Council issued a unanimous statement condemning North Korea and agreeing to continue to closely monitor the situation and to take further significant measures;

- 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 August 2015, two Korean soldiers were injured in a landmine explosion near the Korean demilitarised zone. Claiming the landmines were set by North Koreans, the Korean army re-initiated its propaganda program toward North Korea utilising loudspeakers near the demilitarised 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.

North Korea's economy also faces severe challenges, which may further aggravate social and political pressures within North Korea.

There can be no assurance that the level of tensions affecting the Korean peninsula will not escalate in the future. Any further increase in tensions, which may occur, for example, if North Korea experiences a leadership crisis, high-level contacts between Korea and North Korea break down or further military hostilities occur, could have a material adverse effect on the Korean economy and on Korean Air's business, financial condition and results of operations and the market value of the Notes.

OTHER RISKS

The Bond Issuer has no operating history

The Bond Issuer is a newly-formed entity and has no operating history and no material assets other than the Investor Beneficial Interest. The Bond Issuer will not engage in any business activity other than the issuance of the Bond, certain activities conducted in connection with the payment of amounts in respect of the Bond and other activities incidental or related to the foregoing. Income derived from the Investor Beneficial Interest will be the Bond Issuer's principal source of funds.

Limited recourse obligations of the Bond Issuer

The Bond Conditions will provide that recourse against the Bond Issuer in relation to its obligations under the Bond and all other obligations under the Transaction Documents will be limited to amounts from time to time available for such obligations in accordance with the Transaction Administration Agreement. If such amounts are insufficient to pay in full all amounts due under the Bond after payment of all amounts having priority over the Bond, the Note Issuer (in its capacity as Bondholder) will have no further claim against the Bond Issuer in respect of any unpaid amounts and the liability of the Bond Issuer with respect to such unpaid amounts shall be extinguished.

None of the equityholders, officers, directors or incorporators of the Bond Issuer, the Initial Purchasers, the Japanese Trustee, the Transaction Administrator and the Security Agent, any of their respective affiliates or any other person or entity (other than the Bond Issuer) will be obligated to make payments on the Bond. The Note Issuer (in its capacity as Bondholder) must rely on payments received in respect of the Bond for the payment of interest on the Notes and principal of the Notes and no assurance can be given that such payments will be sufficient to ensure that the Note Issuer has sufficient funds to pay all amounts due on the Notes.

Transfers of the Bond prohibited in certain circumstances

Under the Financial Investment Services and Capital Markets Act of Korea and the Regulations on Issuance, Public Disclosure, etc. of Securities of Korea, a transfer of the Bond by the Note Issuer to a "Korean Resident" (currently defined in the Foreign Exchange Transaction Act of Korea as an individual who has an address or a place of residence in Korea or a legal entity which has its main office in Korea) within one year of the date of its issuance would necessitate a filing of a securities registration statement by the Bond Issuer with the FSC. If the Bond Issuer breaches such prohibition, it may be subject to sanctions by the FSC. Each of the Note Issuer and the Note Trustee has covenanted in the Bond Subscription and Agency Agreement and the Note Trust Deed that it will not transfer the Bond to a Korean Resident within one year of the Closing Date. This may restrict the actions which the Note Trustee may take upon enforcement of the Bondholder Security.

Withholding Taxes under the Bond

All payments in respect of the Bond will be made free and clear of, and without withholding or deduction for, any present or future Taxes (including Taxes imposed by Korea or Japan), unless such withholding or deduction is required by law. In that event, the Bond Issuer is obliged to gross up and otherwise compensate the Bondholder for the lesser amounts that the Bondholder will receive as a result of the imposition of such Taxes. Income derived from the Investor Beneficial Interest will be the Bond Issuer's only source of funds. No assurance can be given that such funds will be sufficient to enable the Bond Issuer to make such gross-up or compensation payments in full or at all.

Forward-looking statements are mere reflections of current expectations and are not meant to be guarantees

Included in this Offering Circular are various forward-looking statements, including statements regarding the Bond Issuer's, the Note Issuer's and the Trustor's expectations and projections for future operating performance and business prospects. The words "believe", "expect", "anticipate", "estimate", "project" and similar words identify forward-looking statements. In addition, all statements other than statements of historical facts included in this Offering Circular are forward-looking statements. These statements are forward-looking and reflect current expectations of the relevant party. Although such parties believe that the expectations reflected in the forward-looking statements are reasonable, they can give no assurance that such expectations will prove to be correct. They are subject to a number of risks and uncertainties, including changes in the economic and political environments in Korea. In light of the many risks and uncertainties surrounding Korea, investors should keep in mind that such parties cannot guarantee that the forward-looking statements described in this Offering Circular will prove to be correct. All subsequent written and oral forward-looking statements attributable to such companies or persons acting on behalf of such companies are expressly qualified in their entirety by the reference to these risks.

Regulatory initiatives may result in increased regulatory capital requirements and/or decreased liquidity in respect of the Notes

Korean Air will retain for the life of the Transaction a material net economic interest of not less than 5 per cent. in the Transaction in accordance with Article 405 of the CRR, Article 51 of the AIFMR and Article 254 of the Solvency II Implementing Regulation. As of the Closing Date, such interest will, in accordance with Article 405 paragraph 1, subsection (b) of the CRR, be comprised of a revolving interest in the assets of the Japanese Trust, through the Seller Beneficial Certificate, equivalent to no less than 5 per cent. of the nominal amount of the securitised exposures. After the Closing Date, the Servicer will prepare monthly investor reports wherein relevant information with regard to the Receivables will be disclosed publicly together with an overview of the retention of the material net economic interest by the Trustor. The outstanding balance of the retained exposures may be reduced over time by, amongst other things, amortisation, allocation of losses or defaults on the underlying Receivables.

Each prospective investor which is an EEA regulated credit institution, is required to independently assess and determine the sufficiency of the information described in the preceding two paragraphs for the purposes of complying with Article 405 *et seq*. of the CRR, Article 51 *et seq*. of the AIFMR and Article 254 *et seq*. of the Solvency II Implementing Regulation. None of the Note Issuer, Korean Air (in its capacity as the Trustor and the Servicer), the Joint Arrangers and Joint Lead Managers nor any other party to the Transaction Documents makes any representation that the information described above is sufficient in all circumstances for such purposes. In addition, each prospective investor should ensure that they comply with Articles 405 to 409 of the CRR and the related regulatory technical standards set out Commission Delegated Regulation (EU) No 625/214 as well as Article 51 *et seq*. of the AIFMR and Article 254 *et seq*. of the Solvency II Implementing Regulation in their relevant jurisdiction. Investors who are uncertain as to the requirements which apply to them in respect of their relevant jurisdiction should seek guidance from their regulator and/or independent legal advice on the issue.

The foregoing provisions of the CRR, AIFMR and Solvency II Implementing Regulation, and any other changes to the regulation or regulatory treatment of the Notes for some or all investors, may negatively impact the regulatory position of individual investors and, in addition, have a negative impact on the price and liquidity of the Notes in the secondary market.

Implementation of Basel II Framework may affect the risk-weighting of the Notes for investors

The regulatory capital framework published by the Basel Committee on Banking Supervision (the "**Basel Committee**") in 2006 (the "**Basel II framework**") has not been fully implemented in all participating countries. The implementation of the framework in relevant jurisdictions may affect the risk-weighting of the Notes for investors who are or may become subject to capital adequacy requirements that follow the framework.

The Basel Committee has approved significant changes to the Basel II framework (such changes being commonly referred to as "**Basel III**"), including new capital and liquidity requirements intended to reinforce capital standards and to establish minimum liquidity standards for credit institutions. In particular, the changes refer to, amongst other things, new requirements for the capital base, measures to strengthen the capital requirements for counterparty credit exposures arising from certain transactions and the introduction of a leverage ratio as well as short-term and longer-term standards for funding liquidity (referred to as the "**Liquidity Coverage Ratio**" and the "**Net Stable Funding Ratio**"). The European authorities have introduced the Basel III framework into European law through Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC (Capital Requirements Directive – "**CRD**") and the Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 (Capital Requirements Regulation – "**CRR**") known as "**CRD IV-Package**" which has entered into force in the EU on 1 January 2014. Particularly the CRR has immediate and direct effect, as it does not require to be implemented into national law.

Based on Article 460 of the CRR, on 17 January 2015 the Commission Delegated Regulation (EU) 2015/61 of 10 October 2014 to supplement Regulation (EU) 575/2013 of the European Parliament and the Council with regard to liquidity coverage requirement for Credit Institutions (the "**LCR Regulation**") was published in the Official Journal of the European Union. It sets out assumed inflow and outflow rates to better reflect actual experience in times of stress. It further defines specific criteria for assets to qualify as high quality liquid assets, the market value of which shall be used by credit institutions for calculating their Liquidity Coverage Ratio for the purposes of the CRR. It should be noted that the LCR Regulation and, accordingly, the criteria for asset-backed securities to qualify as Level 2B assets are not entirely consistent with recent market standards. Accordingly, with respect to the Notes, there can be no assurance that such requirements will be met at all times or will be accepted by the competent authorities to have been fulfilled for the purposes set forth in the LCR Regulation and, accordingly, investors are required to independently assess and determine the suitability of their investment in the Notes for their respective purposes.

In general, investors should consult their own advisers as to the regulatory capital requirements in respect of the Notes and as to the consequences for, and effect on, them of any changes to the Basel II framework (including the Basel III changes described above) and by the CRD IV Package in particular and the relevant implementing measures. No predictions can be made as to the precise effects of such matters on any investor or otherwise.

Article 405 of the CRR places an obligation on a credit institution that is subject to the CRD which assumes exposure to the credit risk of a securitisation (as defined in Article 242 of the CRR) to ensure that the originator, sponsor or original lender has explicitly disclosed that it will retain a material net economic interest of not less than 5 per cent. in the securitisation, and has a thorough understanding of all structural features of a securitisation transaction that would materially impact the performance of their exposures to the transaction. Furthermore, Article 405 of the CRR restricts an EU regulated credit institution from investing in asset-backed securities unless the originator, sponsor or original lender in respect of the relevant securitisation has explicitly disclosed to the EU regulated credit institution that it will retain, on an ongoing basis, a net economic interest of not less than 5 per cent. in respect of certain specified credit risk tranches or asset exposures as contemplated by Article 405 of the CRR. Failure to comply with one or more of the requirements set out in Article 405 of the CRR will result in the imposition of a penal capital charge on the notes acquired by the relevant investor.

Investors should therefore make themselves aware of the requirements of Articles 405 to 410 of the CRR as well as the respective national implementation legislation, where applicable to them, in addition to any other regulatory requirements applicable to them with respect to their investment in the Notes.

It should be noted that there is no certainty that references to the retention obligations of the Trustor in this Offering Circular will constitute explicit disclosure (on the part of the Trustor) or adequate due diligence (on the part of the Noteholders) for the purposes of Article 406 of the CRR or for the purpose of Section 5 (as defined below).

Where the relevant retention requirements are not complied with in any material respect and there is negligence or omission in the fulfilment of the due diligence obligations on the part of a credit institution that is investing in the Notes, a proportionate additional risk weight of no less than 250 per cent. of the risk weight (with the total risk weight capped at 1,250 per cent.) which would otherwise apply to the relevant securitisation position will be imposed on such credit institution, progressively increasing with each subsequent infringement of the due diligence provisions. Noteholders should make themselves aware of the provisions of the CRD IV Package and make their own investigation and analysis as to the impact of the CRD IV Package on any holding of Notes.

Relevant investors are required to independently assess and determine the sufficiency of the information described above for the purposes of complying with CRD IV Package or Section 5 (as applicable) and none of the Note Issuer, the Trustor, the Joint Lead Managers nor the Joint Arrangers makes any representation that the information described above is sufficient in all circumstances for such purposes.

Article 405 of the CRR came into force as of 1 January 2014. On 3 July 2014, the Delegated Regulation supplementing the CRR by way of Regulatory Technical Standards and specifying the requirements for investor, sponsor, original lenders and originator institutions relating to exposures to transferred credit risk came into effect. Regulatory Technical Standards set out in the Delegated Regulation replace the previous guidelines published by the Committee of European Banking Supervisors ("**CEBS**") in the context of Article 122a of the CRD. Investors should take their own advice and/or seek guidance from their regulator on compliance with, and the application of, the provisions of the CRD IV Package and Article 405 of the CRR in particular.

Investors should also be aware of Article 17 of the Alternative Investment Fund Managers Directive 2011/61/EU of the European Parliament and the Council of 22 July 2013 on alternative investment fund managers (the "**AIFMD**") and Section 5 of Chapter III of the of the Commission Delegated Regulation (EU) No 231/2013 implementing the EU Alternative Investment Fund Managers Directive (2011/61/EC) ("**Section 5**"), the provisions of which section introduced risk retention and due diligence requirements (which took effect from 22 July 2013 in general) in respect of alternative investment fund managers that are required to become authorised under the EU Alternative Investment Fund Managers Directive and which assume exposure to the credit risk of a securitisation on behalf of one or more alternative investment funds. While the requirements under Section 5 are similar to those which apply under Article 405 of the CRR *et seq*. (including in relation to the requirement to disclose to alternative investment fund managers that the originator, sponsor or original lender will retain, on an ongoing basis, a net economic interest of not less than 5 per cent. in respect of certain specified credit risk tranches or asset exposures), they are not identical and, in particular, additional due diligence obligations apply to relevant alternative investment fund managers. The undertaking by the Trustor in the Transaction Documents to retain a net economic interest of 5 per cent. in the transaction does not address compliance with Section 5. Investors should undertake their own due diligence, take their own legal advice and/or seek guidance from their relevant national regulator in relation to compliance with Section 5.

Furthermore, Article 135 of the EU directive on the taking up and pursuit of the business of insurance and reinsurance (2009/138/EC) ("**Solvency II**"), as amended by Directive 2014/51/EU ("**Omnibus II**"), will require the imposition of similar requirements on insurers and reinsurers authorised in the EU. Certain provisions of Solvency II had to be implemented by the member states until 31 March 2015 (and apply as from 1 January 2016 onwards, or a later date). On 10 October 2014, the European Commission adopted a Delegated Act containing implementing rules for Solvency II which was published in the Official Journal on 17 January 2015, as Commission Delegated Regulation 2015/35 (the "**Solvency II Implementing Regulation**"), and entered into force the following day. Chapter VIII of the Solvency II Implementing Regulation introduced risk retention and due diligence requirements which are similar (but not identical) to those which apply under Article 405 of the CRR *et seq*. Although the retention and disclosure requirements may be similar to those which apply under Article 405 of the CRR *et seq*., the requirements under the other Risk Retention Rules need not be identical, and in particular, but without limitation, additional due diligence obligations may apply.

There can be no guarantee that the regulatory capital treatment of the Notes for investors will not be affected by any future implementation of and changes to the CRD IV Package or other regulatory or accounting changes.

USE OF PROCEEDS

The gross proceeds of the issue of the Notes (which, for the avoidance of doubt, shall be equal to the net proceeds), amounting to ¥15,000,000,000, will be applied by the Note Issuer on the Closing Date in subscribing for the Bond from the Bond Issuer. All fees, commissions and expenses of the Joint Arrangers and Joint Lead Managers and all other initial transaction costs will be deducted from the proceeds of issuance of the Notes.

RATING OF THE NOTES

The Entrusted Assets and the arrangements for the protection of the Noteholders in the light of the risks involved have been reviewed by the Rating Agency. It is a condition of their issuance that the Senior Notes are assigned a rating of not less than "A-" and the Subordinated Notes are assigned a rating of not less than "BBB" by the Rating Agency.

A rating is not a recommendation to buy, sell or hold securities, does not address the likelihood or timing of prepayment, if any, or the receipt of default interest and may be subject to revision, qualification or withdrawal at any time by the assigning rating organisation.

TERMS AND CONDITIONS OF THE NOTES

The ¥10,000,000,000 Secured Fixed Rate Senior Notes due 2019 (the "**Senior Notes**") and the ¥5,000,000,000 Secured Fixed Rate Subordinated Notes due 2019 (the "**Subordinated Notes**" and together with the Senior Notes, the "**Notes**") of KAL Japan ABS 20 Cayman Limited (the "**Note Issuer**" and the "**Bondholder**") are issued pursuant to resolutions of the board of directors of the Note Issuer passed on 29 November 2016 and 15 December 2016. The Notes are constituted by a trust deed (the "**Note Trust Deed**") dated 29 December 2016 (the "**Closing Date**") between, *inter alios*, the Note Issuer and DB Trustees (Hong Kong) Limited (the "**Note Trustee**") and are secured by the security described below. The following terms and conditions of the Notes are subject to the detailed provisions of the Note Trust Deed and the Note Agency Agreement (as defined below).

The holders of the Notes (the "**Noteholders**" or "**Holders**") are entitled to the benefit of and deemed to have notice of the provisions of: (a) the Note Trust Deed; (b) the note agency agreement dated on or about the Closing Date between, *inter alios*, Deutsche Bank AG, Hong Kong Branch (the "**Principal Paying Agent**" and the "**Principal Transfer Agent**"), Deutsche Bank AG, Hong Kong Branch (the "**Note Registrar**"), the Note Issuer and the Note Trustee (the "**Note Agency Agreement**"); (c) the Note Trust Deed; (d) the administrator agreement dated on or about the Closing Date between, *inter alios*, Walkers Fiduciary Limited (the "**Cayman Administrator**") and the Note Issuer (the "**Cayman Administrator Agreement**"); (e) the bank agreement dated on or about the Closing Date between, *inter alios*, Deutsche Bank AG, Hong Kong Branch (an "**Account Bank**"), the Note Issuer and the Note Trustee (the "**Bondholder Account Bank Agreement**"); (f) a fee letter dated on or about the Closing Date signed by, *inter alios*, the Note Trustee and the Note Issuer (the "**DB Fee Letter**") (together, the "**Note Transaction Documents**") and (g) the master schedule of definitions, interpretation and construction clauses dated 13 December 2016 signed by, *inter alios*, the Transaction Administrator, the Note Trustee and the Note Issuer (the "**Master Definitions Schedule**"). Copies of the Note Transaction Documents and the Master Definitions Schedule will be available for inspection at the Specified Office of the Principal Paying Agent and at the registered office of the Note Issuer.

Capitalised terms used in these terms and conditions of the Notes (the "**Note Conditions**") and not otherwise defined herein bear the meaning ascribed to them in the Master Definitions Schedule.

The holders shown in the records of Euroclear and Clearstream of book-entry interests in the Notes are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Note Trust Deed, the Note Agency Agreement and other Transaction Documents applicable to them.

1. FORM, DENOMINATION AND TITLE

(a) ***Form***: The Notes are in fully registered form and will be evidenced by either certificates in global form ("**Global Note Certificates**") or certificates in definitive form ("**Definitive Note Certificates**") (each a "**Note Certificate**") in substantially the forms contained in the Note Trust Deed. Notwithstanding any other provision herein contained, so long as any of the Notes are evidenced by Global Note Certificates, each holder of a beneficial interest in such Notes will be bound by, and will be deemed to have agreed to, the rules and procedures of the clearing system through which transfers of, and payments of principal of, interest on or other payments (if any) in respect of, such Notes are made.

(b) ***Title***: Title to the Notes will pass by registration of the interest of the transferee in the register (the "**Note Register**") which the Note Issuer will procure to be kept by the Note Registrar in respect of the Senior Notes and the Subordinated Notes. In these Note Conditions, the "**Holder**" of a Note means the person in whose name such Note is for the time being registered in the Note Register (or, in the case of a joint holding, the first named thereof) and "**Noteholder**" will be construed accordingly. Whilst the Notes are held in global form, the registered owner of the Notes shall be the common depositary for Euroclear and Clearstream (the "**Common Depositary**") and the Holder of such Note shall be the person in whose name such Note is for the time being registered in the Note Register. The Holder of each Note will (except as otherwise required by law) be treated as the absolute owner of such Note for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing on the Note Certificate relating thereto (other than the endorsed form of transfer) or any notice of any previous loss or theft of such Note Certificate) and no person will be liable for so treating such Holder.

(c) ***Denominations***: The denomination of the Notes is ¥20,000,000 and integral multiples of ¥10,000,000 thereafter.

(d) ***Transfers***: Transfers of interests in the Notes may only be made in accordance with the legend set forth on the face of the relevant Note Certificate. Subject to paragraph (g) below, a Note may be transferred upon surrender of the relevant Note Certificate, with the form of transfer endorsed on it duly completed and executed, at the Specified Office of the Note Registrar or any Transfer Agent, together with such evidence as the Note Registrar or (as the case may be) such Transfer Agent may reasonably require to prove the title of the transferor and the authority of the individuals who have executed the form of transfer. The Note Registrar will register the transfer in question and a new Note Certificate will be issued to the transferee. In the case of a transfer of part only of the Notes evidenced by a Note Certificate, the original principal amount of both the part transferred and the balance not transferred must be of authorised denominations, and a new Note Certificate in respect of the balance not transferred will be issued to the transferor. Notwithstanding the foregoing, so long as any Notes are evidenced by Global Note Certificates, transfers of beneficial interests therein will be made in accordance with the rules of the relevant clearing system as from time to time in effect. All transfers of Notes and entries on the Note Register are subject to the detailed regulations concerning the transfer of Notes scheduled to the Note Agency Agreement. The Note Issuer may amend such regulations with the approval of the Paying Agents, the Transfer Agents, the Note Registrar and the Note Trustee. No transfer of Notes will be effective unless and until entered on the Note Register.

(e) ***Delivery of Note Certificates***: Each new Note Certificate to be issued upon a transfer of Notes will, within seven business days of receipt by the Note Registrar of the form of transfer, be mailed by uninsured mail at the risk of the Holder entitled to the Notes to the address specified in the form of transfer. Where only some of the Notes in respect of which a Note Certificate is issued are to be transferred or redeemed, a new Note Certificate in respect of the Notes not so transferred or redeemed will, within seven business days of deposit or surrender of the original Note Certificate with or to the Note Registrar, be mailed by uninsured mail at the risk of the Holder of the Notes not so transferred or redeemed to the address of such Holder appearing on the Note Register. For the purposes of this Note Condition 1(e), "**business day**" means any day on which banks are open for business in the place of the Specified Office of the Note Registrar.

(f) ***Registration of Note Certificates***: Registration of a transfer of Notes will be effected without charge by or on behalf of the Note Issuer or the Note Registrar, but upon payment (or the giving of such indemnity as the Note Issuer or the Note Registrar may reasonably require) in respect of any tax or other governmental charges which may be imposed in relation to it.

(g) ***Closed Period***: No Noteholder may require the transfer of a Note to be registered during the period of 15 days ending on the due date for any payment of any amount on the Notes.

(h) ***Regulations Concerning Transfers and Registration***: All transfers of Notes and entries on the Note Register will be made in accordance with the provisions of the Note Agency Agreement.

(i) ***Charges on New Note Certificates***: The issue of new Note Certificates on transfer will be effected without charge by the Note Issuer, the Note Registrar or the Transfer Agents but otherwise at the cost of the transferees who will pay (or give such indemnity as the Note Registrar or relevant Transfer Agent may require in connection with such transfers) any tax or other duty or whatever nature which may be levied or imposed in connection with such transfers.

2. STATUS AND SECURITY

(a) ***Status***: The Notes constitute direct, general, limited recourse and unconditional obligations of the Note Issuer, secured in accordance with the provisions of the Note Trust Deed, as described in paragraph (b) below. Payments of principal in respect of the Subordinated Notes will rank junior in terms of payment and priority to payments of principal in respect of the Senior Notes, and payments of interest on the Subordinated Notes will rank junior in terms of payment and priority to payments of interest on the Senior Notes. Subject to the priority of payments set out in Clause 8 of the Note Trust Deed, (i) the Senior Notes will at all times rank *pari passu* among themselves, (ii) the Subordinated Notes will at all times rank *pari passu* among themselves and (iii) the Notes will at all times rank at least *pari passu* with all other present and future, direct, general, unsubordinated and unsecured obligations of the Note Issuer, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.

(b) ***Security***: The obligations of the Note Issuer to, *inter alios*, the Noteholders under the Notes are secured by the Bondholder Security (as defined below) pursuant to the provisions of the Note Trust Deed. Under the Note Trust Deed, the Note Issuer has granted in favour of the Note Trustee for the benefit of the Bondholder Secured Parties (as defined below):

(i) an absolute assignment by way of first fixed security of all its rights, title, interest and benefit (present and future, actual and contingent) in, to and under each Transaction Document to which it is a party, including in each case, without limitation, all its rights to receive payment of any amounts which may become payable to the Note Issuer thereunder, its security interest in the Bond Secured Property and all payments received by the Note Issuer thereunder, all rights to serve notices and/or make demands thereunder and/or to take such action as is required to cause payments to become due and payable thereunder, all rights of action in respect of any breach thereof, and all rights to claim and receive damages or obtain other relief in respect thereof;

(ii) a charge by way of first fixed charge of all its rights, title, interest and benefit (present and future, actual and contingent) in, to and under all sums of money which may now be or hereafter are from time to time standing to the credit of the Bondholder Account and any other bank account (other than the bank account referred to in paragraph (iv) below) in which the Note Issuer may at any time acquire any right, title or interest or benefit, together with all interest accruing from time to time thereon and the debts represented thereby;

(iii) an absolute assignment by way of first fixed security of all its rights, title, interest and benefit (present and future, actual and contingent) in, to and under the Bond and all other contracts, deeds and documents, present and future, to which the Note Issuer is or may become a party;

(iv) a charge by way of first fixed charge of all its rights, title, interest and benefit (present and future, actual and contingent) in and to all other assets and property that it has acquired or may acquire (other than the proceeds of the Note Issuer's share capital, its transaction fees and the bank account where such amounts are deposited); and

(v) a charge by way of first floating charge of the whole of its undertaking and all of its property and assets, whatsoever and wheresoever situate, present and future (other than the proceeds of the Note Issuer's share capital, its transaction fees and the bank account where such amounts are deposited) to the extent not otherwise effectively charged by way of fixed charge or otherwise effectively assigned as security under this Note Condition 2(b).

The Note Trustee (in its capacity as trustee for the benefit of the Bondholder Secured Parties and in its individual capacity), the Noteholders, the Note Agents, the Cayman Administrator, the Common Depositary and the Bondholder Account Bank (together, the "**Bondholder Secured Parties**") have, through the Note Trustee, the benefit of the above described security interests (the "**Bondholder Security**") to secure sums due to each of them pursuant to the Notes and the Transaction Documents to which they are a party.

(c) ***Assumption***: The Note Trustee will be entitled to assume (without enquiry), for the purpose of exercising any power, trust, authority, duty or discretion under or in relation to these Note Conditions or any of the Transaction Documents, that such exercise will not be materially prejudicial to the interests of the Noteholders if the Rating Agency has confirmed that its then current rating of the Notes would not be adversely affected by such exercise.

(d) ***Interests of Noteholders***: The Notes are constituted by the Note Trust Deed and are secured by the Bondholder Security. The Note Trust Deed contains provisions requiring the Note Trustee to have regard to the interests of the holders of the Senior Notes and the holders of the Subordinated Notes each as a single class as regards all powers, trusts, authorities, duties and discretions of the Note Trustee (except where expressly provided otherwise) and not to have regard to the interests of the other Bondholder Secured Parties. If, in the opinion of the Note Trustee, there is a conflict between the interests of the holders of the Senior Notes and the holders of the Subordinated Notes, the Note Trustee shall have regard only to the interests of the holders of the Senior Notes.

(e) ***Issuance of Additional Notes***: Pursuant to Clause 2 of the Note Trust Deed, the Note Issuer may, at any time before the Note Maturity Date and subject to the provisions of the Note Trust Deed and the conditions set out below, without the consent of the Noteholders or any other Bondholder Secured Party, create and issue:

(i) additional senior notes (the "**Additional Senior Notes**") which will have the same terms and conditions (except in relation to the issue date, the first Interest Period, the first Payment Date and the amount to be paid in respect of the first payment of interest thereon) as, and so that they shall be consolidated and form a single series and rank pari passu with, the Senior Notes then outstanding; and/or

(ii) additional subordinated notes (the "**Additional Subordinated Notes**", and together with the Additional Senior Notes, the "**Additional Notes**") which will have the same terms and conditions (except in relation to the issue date, the first Interest Period, the first Payment Date and the amount to be paid in respect of the first payment of interest thereon) as, and so that they shall be consolidated and form a single series and rank *pari passu* with, the Subordinated Notes then outstanding.

Upon satisfaction of all of the following conditions to issuance (the "**Additional Issuance Conditions**"), the Note Trustee shall, without the consent of the Instructing Noteholders, enter into such documents, and any supplements or amendments to the Transaction Documents, as may be required to effect the issuance of Additional Notes, the acquisition of additional bonds (secured by the Receivables) to secure such Additional Notes, and the Note Trustee shall be entitled to assume that the issuance of such Additional Notes on the terms set out therein is not materially prejudicial to the interests of the holders of the Notes then outstanding:

(i) no Event of Default, Early Amortisation Event or Mandatory Redemption Event has occurred and is continuing in respect of the Notes then outstanding or will occur as a result of the issuance of the Additional Notes;

(ii) the Debt Service Coverage Ratio, calculated on the basis that the Additional Notes have been issued and were outstanding for the period of calculation of such ratio, is equal to or greater than 3:1;

(iii) upon the issuance of the Additional Notes, the Trustor has entrusted to the Japanese Trustee such amount in Yen as is required to ensure that the Required Trust Reserve Balance (calculated to take into account the issuance of the Additional Notes on such date) is on deposit in the Trust Reserve Account;

(iv) the Rating Agency has confirmed that the then current rating of the Notes will not be negatively affected by the issuance of the Additional Notes; and

(v) all necessary filings and registrations (including, but not limited to, the registration of the amendment to the Securitisation Plan by the Bond Issuer and the registration of any additional securitisation plan in connection with any newly established bond issuer in relation to the issuance of additional bonds, respectively, to be filed with the FSC) shall have been made with the relevant Governmental Entities in accordance with all Applicable Laws and (where necessary under Applicable Law) shall have been accepted by such Governmental Entities.

3. INTEREST

(a) ***Accrual of Interest and Priority***: The Notes will bear interest from and including the Closing Date to (but excluding) the earlier to occur of (i) the Note Maturity Date and (ii) the date on which the Principal Amount Outstanding of the Notes is zero in accordance with Note Condition 4. Interest will cease to accrue on each Note from the due date for redemption thereof unless, upon due presentation of such Note, payment of principal is improperly withheld or refused or default is otherwise made in payment thereof. In such event, interest will continue to accrue in accordance with this Note Condition 3 (as well after as before judgment) up to, but excluding, the date on which, upon further presentation thereof, payment in full of the relevant amount is made or (if earlier) the seventh day after the date upon which notice is duly given to the Holder of such Note (in accordance with Note Condition 15) that, upon further presentation thereof being duly made, such payment will be made; *provided that* such payment is in fact made. Payments of interest on the Senior Notes will rank senior in terms of payment and priority to payments of interest on the Subordinated Notes.

(b) ***Payment Dates and Interest Periods***: Interest will be payable on the Notes monthly in arrear on the 27th day of each month (each, a "**Payment Date**") commencing in February 2017 or, as the case may be, on the Mandatory Redemption Payment Date in respect of the Notes. If a payment is due on a day which is not a Business Day, such payment will be made on the next day which is a Business Day in such locations unless that day falls in the next calendar month, in which case the first preceding day which is a Business Day. Interest on the Notes will be payable by reference to successive interest periods (each, an "**Interest Period**"). The initial Interest Period will commence on (and include) the Closing Date and end on (but exclude) the initial Payment Date. Each successive Interest Period will commence on and include a Payment Date and end on (but exclude) the immediately succeeding Payment Date or, as the case may be, the Mandatory Redemption Payment Date in respect of the Notes. A "**Business Day**" means a day (other than a Saturday or Sunday) on which commercial banks are open for general business in Hong Kong, London, Seoul and Tokyo or, if otherwise specified, in any one or more of such locations.

(c) ***Note Rate of Interest***: The rate of interest applicable to the Senior Notes in respect of an Interest Period will be 1.839 per cent. per annum (the "**Senior Note Rate of Interest**"). The rate of interest applicable to the Subordinated Notes in respect of an Interest Period will be 2.339 per cent. per annum (the "**Subordinated Note Rate of Interest**"). The "**Note Rate of Interest**" means, as the context may require, in respect of the Senior Notes, the Senior Note Rate of Interest or, in the case of the Subordinated Notes, the Subordinated Note Rate of Interest.

(d) ***Determination of Interest Amounts***: The Principal Paying Agent will, as soon as practicable after the second London Business Day preceding the first day of each Interest Period or, in the case of the first Interest Period, the Closing Date (the "**Interest Determination Date**") in relation to each Interest Period, calculate the amount of interest (the "**Note Interest Amount**") payable in respect of each Note for such Interest Period. The Note Interest Amount will be calculated by applying the applicable Note Rate of Interest for such Interest Period to the Principal Amount Outstanding of such Note as at the first day of such Interest Period (after giving effect to any payment of principal of such Note made on such day), multiplying the product by the number of days elapsed in such Interest Period (calculated on the basis of a year of 360 days with twelve 30-day months) divided by 360 and rounding the resulting figure downward, if necessary, to the nearest Yen.

(e) ***Publication***: The Principal Paying Agent will cause each Note Rate of Interest and Note Interest Amount determined by it, together with the relevant Payment Date, to be notified to the Note Issuer, the other Paying Agents, the Note Trustee, the Security Agent, the Japanese Trustee, the Transaction Administrator and the Rating Agency as soon as practicable after such determination but in any event not later than two Business Days after the relevant Interest Determination Date. Notice thereof will also promptly be given to the relevant Noteholders in accordance with Note Condition 15. The Principal Paying Agent will be entitled to recalculate any Note Interest Amount (on the basis of the foregoing provisions) without notice in the event of an extension or shortening of the relevant Interest Period.

(f) ***Certificates to be Final***: All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Note Condition 3 by the Principal Paying Agent will (in the absence of manifest error) be binding on the Note Issuer, the other Note Agents, the Note Trustee and the Noteholders and (subject as aforesaid) no liability to any such person will attach to the Principal Paying Agent or (in the circumstances referred to in paragraph (g) below) the Note Trustee in connection with the exercise or non-exercise by it of its powers, duties and discretions for such purposes.

(g) ***Failure of Principal Paying Agent***: If the Principal Paying Agent fails at any time to calculate a Note Interest Amount as aforesaid, the Note Trustee may determine the relevant Note Rate of Interest in its sole discretion considers fair and reasonable in the circumstances (having such regard as it thinks fit to paragraph (c) above) or (as the case may be) calculate such Note Interest Amount in accordance with paragraph (d) above, and such determinations and/or calculations made by the Note Trustee will be deemed to have been made by the Principal Paying Agent.

(h) ***Limited Recourse***: The Note Issuer's liability to make payments in respect of interest on the Notes may only be satisfied in accordance with Note Condition 17.

4. AMORTISATION AND REDEMPTION

(a) ***Redemption on Maturity***: Unless previously redeemed in full, the Note Issuer will redeem the Notes, to the extent of funds available therefor in accordance with the priority of payments set forth in the Note Trust Deed in full on the Payment Date falling in December 2019 (the "**Note Maturity Date**") at the relevant Note Redemption Amount as at such date. The "**Note Redemption Amount**" means, on any date, an amount equal to the relevant Principal Amount Outstanding of the relevant Notes as at such date plus accrued and unpaid interest thereon to, but excluding, such date. Payments of the Note Redemption Amount in respect of the Senior Notes will rank senior in terms of payment and priority to payments of the Note Redemption Amount in respect of the Subordinated Notes.

(b) ***Controlled Amortisation Period***: On each Payment Date following a Trust Distribution Date that falls in the Controlled Amortisation Period, principal in respect of the Notes will be paid in the following scheduled instalments (each, a "**Scheduled Amortisation Amount**") with the principal payment in respect of each Note being rounded down to the nearest Yen. Payments of Scheduled Amortisation Amounts on the Senior Notes will rank senior in terms of payment and priority to payments of Scheduled Amortisation Amounts on the Subordinated Notes.

Table 1
Scheduled Amortisation Amounts

Payment Date falling in:	Scheduled Amortisation Amount – Senior Notes	Scheduled Amortisation Amount – Subordinated Notes
	(¥)	(¥)
February 2017	266,526,943	130,317,215
March 2017	279,947,102	139,091,502
April 2017	280,325,322	139,337,375
May 2017	280,704,053	139,583,683
June 2017	281,083,296	139,830,426
July 2017	281,463,051	140,077,605
August 2017	281,843,320	140,325,222
September 2017	282,224,102	140,573,276
October 2017	282,605,398	140,821,768
November 2017	282,987,210	141,070,700
December 2017	283,369,537	141,320,072
January 2018	283,752,381	141,569,885
February 2018	284,135,743	141,820,139
March 2018	284,519,622	142,070,836
April 2018	284,904,020	142,321,975
May 2018	285,288,937	142,573,559
June 2018	285,674,374	142,825,588
July 2018	286,060,332	143,078,062
August 2018	286,446,812	143,330,982
September 2018	286,833,813	143,584,349
October 2018	287,221,338	143,838,164
November 2018	287,609,386	144,092,428
December 2018	287,997,958	144,347,142
January 2019	288,387,055	144,602,305
February 2019	288,776,678	144,857,920
March 2019	289,166,827	145,113,987
April 2019	289,557,504	145,370,506
May 2019	289,948,708	145,627,479
June 2019	290,340,441	145,884,905
July 2019	290,732,703	146,142,787
August 2019	291,125,495	146,401,125
September 2019	291,518,818	146,659,920
October 2019	291,912,672	146,919,172
November 2019	292,307,058	147,178,882
December 2019	292,701,991	147,439,059
Total	**10,000,000,000**	**5,000,000,000**

(c) ***Early Amortisation Period***: On each Payment Date following a Trust Distribution Date that falls in the Early Amortisation Period or the Enforcement Period, principal in respect of the Notes will be repaid, to the extent of funds available therefor in accordance with the priority of payments set forth in the Note Trust Deed and after payment of the relevant Scheduled Amortisation Amount that would have been due on such Payment Date if the Controlled Amortisation Period were continuing, in the inverse order of the relevant amortisation schedule set out in Table 1 above, in an aggregate principal amount equal to the Principal Amount Outstanding of the Notes as at such date, until the Notes have been redeemed in full at the relevant Note Redemption Amount. Payments of principal in respect of the Senior Notes will rank senior in terms of payment and priority to payments of principal in respect of the Subordinated Notes.

(d) ***Mandatory Redemption***: Following the declaration by the Note Trustee of a Mandatory Redemption Event and receipt of notice thereof from the Note Trustee pursuant to the Note Trust Deed, the Note Issuer will, on the instructions of Note Trustee, redeem the Notes on the date which is five Business Days following the date on which the Bond is redeemed following such Mandatory Redemption Event, in whole at the relevant Note Redemption Amount on such date, to the extent of funds available therefor in accordance with the priority of payments set forth in the Note Trust Deed on such date. Payments of the Note Redemption Amount in respect of the Senior Notes will rank senior in terms of payment and priority to payments of the Note Redemption Amount in respect of the Subordinated Notes.

(e) ***No Purchase by Note Issuer***: The Note Issuer will not be permitted to purchase any of the Notes.

(f) ***Cancellation***: All Notes redeemed in full will be cancelled by the Paying Agents or the Note Registrar to whom such Notes are presented for redemption or surrender, and may not be resold or reissued.

5. PAYMENTS

(a) ***Payments***: Payments of principal and interest on the Notes will be made to the person in whose name the Note is registered in the Note Register (or to the first-named of joint holders) by electronic funds transfer to the registered account of each Noteholder or by cheque; *provided that* the Principal Paying Agent will have received the required funds in full from the Note Issuer in accordance with the terms of the Note Agency Agreement. If Definitive Note Certificates have been issued, payments of the final amount due in respect of principal will only be made upon evidence of delivery of the Definitive Note Certificates to a Paying Agent. So long as any Notes are evidenced by Global Note Certificates, payments of principal and interest in respect thereof will be made in accordance with the rules and procedures of the Principal Paying Agent, or the relevant clearing system, as the case may be, from time to time in effect.

(b) ***Registered Account and Registered Address***: For the purposes of this Note Condition 5, a Noteholder's "**registered account**" means the Japanese Yen account maintained by or on behalf of it with a bank in Tokyo details of which appear on the Note Register on the close of business on the record date which is the Clearing System Business Day immediately prior to the due date for payment, where "**Clearing System Business Day**" means Monday to Friday (inclusive) in each week except 25th December and 1st January, and a Noteholder's "**registered address**" means its address appearing on the Note Register at that time.

(c) ***Payments Subject to Fiscal Laws***: All payments in respect of the Notes are subject in all cases to any applicable fiscal or other laws and regulations.

(d) ***Payments on Business Day***: Where payment is to be made by electronic funds transfer to a Noteholder's registered account, payment instructions (for value on the due date or, if that date is not a Business Day, for value on the next Business Day) will be initiated and, where payment is to be made by cheque, the cheque will be mailed on the due date for payment (or if that date is not a Business Day, on the next Business Day) or, in the case of a payment of the final amount due in respect of principal on the relevant Note, on the Business Day on which the relevant Definitive Note Certificate is surrendered at the Specified Offices of the Paying Agents or the Note Registrar.

(e) ***No Payment for Delay***: Noteholders will not be entitled to any interest or other payment for any delay after the due date in receiving the amount:

(i) if the Noteholder is late in surrendering its Definitive Note Certificate (if required to do so);

(ii) if a cheque mailed in accordance with paragraph (d) above arrives after the due date for payment; or

(iii) if the due date is not a Tokyo Business Day.

(f) ***Unpaid Amount***: If the amount of principal or interest, if any, which is due on the Notes is not paid in full, the Note Registrar will annotate the Note Register with a record of the amount of principal or interest, if any, in fact paid.

(g) ***Specified Offices of Paying Agents and Note Registrar***: The initial Paying Agents and the initial Note Registrar and their respective initial Specified Offices are set out at the end of each Note Certificate. The Note Issuer may, subject to the provisions of the Note Transaction Documents, vary or terminate the appointment of any of the Paying Agents or of any other Note Agent and appoint additional or other Note Agents. Notice of any such termination or appointment and of any changes in their Specified Offices will be given to the Noteholders in accordance with Note Condition 15.

(h) ***Partial Payments***: If a Paying Agent makes a partial payment in respect of any Note, the Note Issuer will procure that the amount and date of such payment are noted on the Note Register and, in the case of partial payment upon presentation of a Note Certificate, that a statement indicating the amount and the date of such payment is endorsed on the relevant Note Certificate.

6. COVENANTS

The Note Issuer will covenant in the Note Trust Deed that other than as set out in the Note Transaction Documents or with the consent in writing of the Note Trustee at the relevant time, and until the Release Date, it will, *inter alia*:

(a) not engage in any business or activity or do anything whatsoever except:

(i) enter into and perform its obligations under the Transaction Documents, the Notes and any agreements contemplated by any of the foregoing;

(ii) enforce any of its rights, whether under any of the documents referred to in sub-paragraph (i) above or otherwise;

(iii) at all times comply with any direction given by the Note Trustee; and

(iv) perform any act incidental to or necessary in connection with the above sub-paragraphs;

(b) not create any Liens (including, without limitation, rights of set-off or counterclaim), except those security interests contemplated in the Note Trust Deed;

(c) not have any subsidiaries (other than in connection with the substitution of the principal debtor under the Notes as described in the Note Trust Deed);

(d) not, subject to paragraphs (a), (b) and (c) above, dispose of or otherwise deal with any of its property or other assets or any part thereof or interest therein (including without limitation its rights in respect of the agreements referred to in Clauses 5.2(a)(i) and (iii) of the Note Trust Deed);

(e) not pay any dividend or make any other distribution to its shareholders;

(f) not issue any shares (other than such equity as is already in issue on the Closing Date) or any right, security or instrument convertible into, or exercisable or exchangeable for, any shares;

(g) not purchase, own, lease or otherwise acquire any real property (including office premises or like facilities) and/or movable property (including obligations or securities);

(h) not consent to any variation of, or exercise any powers of termination, consent or waiver pursuant to, the Notes, the Transaction Documents, or any other agreement relating to the issue of the Notes or any related transactions;

(i) not consolidate or merge with any other legal entity or convey or transfer its properties or assets substantially as an entirety to any person or legal entity or commingle assets with those of any other entity;

(j) not amend or alter its constitutive documents;

(k) not exercise any voting rights in respect of any Notes held or beneficially owned by it;

(l) not take any action permitting the Bondholder Security not to constitute a valid first priority security interest over the Bondholder Secured Property;

(m) not open or have an interest in any account whatsoever with any bank or other financial institution (other than the Bondholder Account and any account referred to in Clause 5.2(a)(iv) of the Note Trust Deed); and

(n) not have any employees.

7. TAXATION

All payments of principal and interest in respect of the Notes by the Note Issuer will be made without withholding or deduction for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of any authority in any applicable jurisdiction having power to tax, unless such withholding or deduction is required by law. If any such withholding or deduction is required by law, the Note Issuer or the Paying Agents (as the case may be) will make such payments in accordance with Note Condition 5 after such withholding or deduction has been made and will account to the relevant authorities for the amount so required to be withheld or deducted. Neither the Note Issuer nor any of the Paying Agents will be obliged to make any additional payments to the holders of the Notes in respect of such withholding or deduction; *provided that* no such additional amounts shall be payable with respect to:

(a) any tax payable by a holder of a Note by reason of its having some connection with a relevant jurisdiction other than the mere holding of such Note; or

(b) any such deduction or withholding in connection with FATCA.

8. NOTE EVENTS OF DEFAULT

The Note Trustee will, if so requested in writing by the Instructing Noteholders, (subject to being indemnified and/or secured to its satisfaction) promptly give notice (a "**Security Enforcement Notice**") to the Note Issuer at any time on or after the occurrence of any of the following events (each, a "**Note Event of Default**") declaring the Notes to be immediately due and repayable at their Note Redemption Amount whereupon the Notes will accordingly immediately become due and repayable at their Note Redemption Amount without any further action or formality:

(a) (i) at any time any Senior Note is outstanding, default is made in the repayment of any principal amount of any of the Senior Notes or in the payment of any interest in respect of any of the Senior Notes; or

(ii) at any time when there are no Senior Notes outstanding, default is made in the repayment of any principal amount of any of the Subordinated Notes or in the payment of any interest in respect of any of the Subordinated Notes;

(b) default is made by the Note Issuer in the performance or observance of any obligation, condition or provision binding on it under the Transaction Documents to which it is a party (other than any obligation for the payment of any principal or interest on the Notes) and, except where in the opinion of the Note Trustee (acting on the instructions of the Instructing Noteholders) such default is not capable of remedy, such default continues for 30 days after written notice delivered by the Note Trustee (acting on the written instructions of the Instructing Noteholders);

(c) an order is made by any competent court or an effective resolution is passed for the winding-up or dissolution of the Note Issuer;

(d) (i) the Note Issuer stops payment of its debts (within the meaning of any applicable bankruptcy law), or is unable to pay its debts as and when they fall due; or

(ii) the Note Issuer ceases or, through an official action of the board of directors, or meeting of the shareholders, of the Note Issuer, threatens to cease, to carry on all or any substantial part of its business;

(e) one or more final judgments from which no further appeal or judicial review is permissible under applicable law are awarded against the Note Issuer in an aggregate amount in excess of U.S.$10,000;

(f) proceedings are initiated against the Note Issuer under any applicable liquidation, insolvency, composition, re-organisation or other similar laws including, for the avoidance of doubt, presentation to the court of an application for an administration order, or an administrative receiver or other receiver, administrator or other similar official is appointed in relation to the Note Issuer or in relation to the whole or any substantial part of the undertaking or assets of the Note Issuer or an encumbrancer takes possession of the whole or any substantial part of the undertaking or assets of the Note Issuer or a distress, execution, attachment, sequestration, diligence or other process is levied, enforced upon, sued out or put in force against the whole or any substantial part of the undertaking or assets of the Note Issuer and, in any of the foregoing cases, it will not be discharged, annulled or withdrawn within 14 days or earlier if the relevant court has accepted the applications or petitions for such proceedings;

(g) any decree, resolution, authorisation, approval, consent, filing, registration or exemption necessary for the execution and delivery of the Notes on behalf of the Note Issuer and the performance of the Note Issuer's Obligations under the Notes or any of the Transaction Documents is withdrawn or modified or otherwise ceases to be in full force and effect, or it is unlawful for the Note Issuer to comply with, or the Note Issuer contests the validity or enforceability of or repudiates, any of its obligations under the Notes, the Note Trust Deed or any of the other Transaction Documents;

(h) the Note Issuer initiates or consents to judicial proceedings relating to itself under any applicable liquidation, insolvency, composition, reorganisation or other similar laws or makes a conveyance or assignment for the benefit of its creditors generally (or any class of its creditors) or enters into an arrangement or composition with its creditors generally (or any class of its creditors); or

(i) any representation or warranty made by the Note Issuer in any of the Transaction Documents proves to be incorrect or misleading in any material respect when made.

The Note Issuer will provide written confirmation to the Note Trustee on each anniversary of the Closing Date that, as far as it is aware, no Event of Default or other matter which is required to be brought to the attention of the Note Trustee has occurred.

9. ENFORCEMENT

(a) ***Enforcement Proceedings***: The Bondholder Security will become enforceable upon delivery by the Note Trustee (acting on the instructions of the Instructing Noteholders) to the Note Issuer of a Security Enforcement Notice under the Note Trust Deed. The Note Trustee:

(i) may, at any time at its discretion and without notice, take such proceedings and/or other action as it may think fit against the Note Issuer or any other person to enforce its obligations under the Notes and the other Transaction Documents and, after the Bondholder Security has become enforceable, take such action as it may think fit to enforce the Bondholder Security; and

(ii) will not be bound to take any such proceedings or action or give any such directions as are referred to in sub-paragraph (i) above, unless so directed in writing by the Instructing Noteholders (as defined below) (provided in each case that the Note Trustee is indemnified and/or secured to its satisfaction).

"**Instructing Noteholders**" means (i) the holders of the Senior Notes or (ii) if no Senior Note remains outstanding, the holders of the Subordinated Notes.

(b) ***Limitation on Noteholders***: Enforcement of the Bondholder Security will be the only remedy against the Note Issuer available to the Note Trustee for the repayment of any sums due in respect of the Notes. No Noteholder will be entitled to proceed directly against the Note Issuer or enforce the Bondholder Security unless the Note Trustee, having become bound so to enforce the Bondholder Security, fails to do so within a reasonable period and such failure will be continuing.

(c) ***Following Security Enforcement Notice***: Following the service of a Security Enforcement Notice, all amounts received by the Note Trustee under the Note Trust Deed will be applied in accordance with Clause 8 of the Note Trust Deed.

(d) ***Recoveries***: If any Noteholder recovers any amount from the Bondholder other than in accordance with Clause 8 of the Note Trust Deed, such Noteholder will be required to notify the details of such recovery to the Note Trustee and hold such amount so received on trust for the Note Trustee (to the extent possible under applicable law) and will forthwith pay such amount to the Note Trustee.

10. INDEMNIFICATION OF THE NOTE TRUSTEE

(a) ***Indemnity***: Subject to the provisions of the Transaction Documents, the Note Trustee is entitled to be indemnified by the Note Issuer and relieved from responsibility and from taking enforcement proceedings or enforcing or directing enforcement of the Bondholder Security unless indemnified to its satisfaction (subject to the provisions of the Note Trust Deed).

(b) ***Business Transactions***: The Note Trustee is entitled to enter into business transactions with any of the Bondholder Secured Parties or any other person without accounting to the Bondholder Secured Parties for any profit resulting therefrom.

(c) ***Note Trustee not Responsible for Loss***: The Note Trustee will not be responsible for any loss, expense or liability which may be suffered as a result of, *inter alia*, the Note Trust Deed or any deeds or documents relating thereto or to the Notes being held by any banker, banking company or any company whose business includes undertaking the safe custody of deeds or documents or with any lawyer or firm of lawyers on behalf of the Note Trustee.

(d) ***Note Agents not agents of Noteholders***: In acting under the Note Agency Agreement and in connection with the Notes, the Note Agents act solely as agents of the Note Issuer and (to the extent provided therein) the Note Trustee and do not assume any obligations towards or relationships of agency or trust with or for any of the Noteholders.

11. MEETINGS OF NOTEHOLDERS

(a) ***Convening Meetings***: The Note Trust Deed contains provisions for convening meetings of the holders of the Senior Notes and the holders of the Subordinated Notes to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of these Note Conditions or the provisions of any of the Note Transaction Documents. Subject as provided in the Note Trust Deed, the Note Issuer is entitled to receive notice of and to attend meetings of the Noteholders. An "**Extraordinary Resolution**" means a resolution presented for consideration or passed (as the case may be) at a meeting of the relevant Noteholders duly convened and held in accordance with the provisions contained in the Note Trust Deed by a majority consisting of not less than 66.66 per cent. of the persons voting at such meeting upon a show of hands or if a poll is duly demanded, by a majority consisting of not less than two-thirds of the votes given on such poll (unless otherwise provided herein).

(b) ***Quorum***: The quorum at any meeting of Noteholders for passing an Extraordinary Resolution will be one or more persons being or representing relevant Noteholders holding at least 50 per cent. of the then Principal Amount Outstanding of the relevant Notes or, at any adjourned meeting, one or more persons being or representing Noteholders whatever the aggregate Principal Amount Outstanding of the relevant Notes so held or represented by such persons(s), except that, at any meeting the business of which relates to a Basic Terms Modification, the necessary quorum for passing an Extraordinary Resolution will be one or more persons being or representing relevant Noteholders holding at least 75 per cent. or, at any such adjourned meeting, 25 per cent., of the then Principal Amount Outstanding of the relevant Notes for the time being.

(c) ***Basic Terms Modification***: A "**Basic Terms Modification**" means any modification to any Note Transaction Document or other Transaction Document which would:

(i) change any date fixed for payment of principal or interest in respect of the relevant Notes, to reduce the amount of principal or interest payable on any date in respect of the relevant Notes or to alter the method of calculating the amount of any payment in respect of the relevant Notes on redemption or maturity or the date for any such payment;

(ii) effect the exchange or sale of the relevant Notes for or the conversion of the relevant Notes into or the cancellation of the relevant Notes in consideration of shares, stock, notes, bonds and/or other obligations and/or securities of the Note Issuer or any other company formed or to be formed, or for or into or in consideration of cash, or partly for or into or in consideration of such shares, stock, notes, bonds and/or other obligations and/or securities as aforesaid and partly for or into or in consideration of cash;

(iii) change the currency in which amounts due in respect of the relevant Notes are payable;

(iv) change the quorum required at any meeting of the relevant Noteholders or the majority required to pass an Extraordinary Resolution;

(v) amend paragraph 5.2 of Schedule 3 to the Note Trust Deed or the provisos to paragraph 6 of Schedule 3 to the Note Trust Deed, Clause 8 of the Note Trust Deed or this Note Condition 11;

(vi) alter the priority of the Bondholder Security or the priority of the application of any proceeds of enforcement of the Bondholder Security under the Note Trust Deed; or

(vii) modify the provisions of paragraphs (b) or (c) of Note Condition 9 or any other provision which has the effect of restricting or limiting the rights of the Note Trustee to take any action under or in connection with these Note Conditions or any Transaction Document or to give any notice, consent or approval for the purposes of these Note Conditions or any Transaction Document, unless in any such case, in the opinion of the Note Trustee, such modification would not be materially prejudicial to the interests of the relevant Noteholders; *provided that*, no such modification will have any effect unless made with the consent of the Note Trustee.

(d) ***Binding on Noteholders***:

(i) An Extraordinary Resolution to approve any matter other than a Basic Terms Modification passed at any meeting of the holders of the Senior Notes shall be binding on all holders of the Subordinated Notes irrespective of the effect upon them.

(ii) No Extraordinary Resolution involving a Basic Terms Modification that is passed by the holders of the Subordinated Notes shall be effective unless it is sanctioned by an Extraordinary Resolution of the holders of the Senior Notes (to the extent that there are Senior Notes outstanding).

(iii) No Extraordinary Resolution passed by the holders of the Subordinated Notes to approve any matter other than a Basic Terms Modification which affects the Subordinated Notes shall be effective, and the Note Trustee shall not act upon any instructions issued to it by the holders of the Subordinated Notes, unless:

(A) the Note Trustee is of the opinion that such resolution or instruction will not be materially prejudicial to the interests of the Senior Noteholders (to the extent that the Senior Notes are outstanding); and

(B) (to the extent that the Note Trustee is not of that opinion) it is sanctioned by an Extraordinary Resolution of the Senior Noteholders (to the extent that any Senior Note is outstanding).

(iv) A resolution passed at any meeting of any class of Notes will be binding on all Noteholders of such class whether or not they are present at the meeting.

(e) ***Instructing Noteholders***: Pursuant to the Note Trust Deed, certain matters relating to the enforcement of the Bondholder Security and the exercise of other rights of the Bondholder Secured Parties will require the approval of the Instructing Noteholders.

12. MODIFICATION AND WAIVERS

(a) ***Note Trustee's Power to Modify and Waive***: Subject to the conditions and qualifications set forth in the Note Trust Deed, the Note Trustee may (but shall not be obliged to) without the consent of the Noteholders, with prior notice to the Rating Agency, concur with the Note Issuer or any other relevant parties in making:

(i) any modification of these Note Conditions or any of the Note Transaction Documents (other than a Basic Terms Modification) which in the sole opinion of the Note Trustee it may be proper to make; *provided that* the Note Trustee is of the opinion that such modification will not be materially prejudicial to the interests of the Noteholders;

(ii) any modification of these Note Conditions or any of the Note Transaction Documents which, in the sole opinion of the Note Trustee, is to correct a manifest error or is of a formal, minor or technical nature; or

(iii) any waiver or authorisation of any breach or proposed breach of these Note Conditions or any of the Note Transaction Documents if, in the sole opinion of the Note Trustee, such modification, waiver or authorisation is not materially prejudicial to the interests of the Noteholders.

Any such modification, waiver or authorisation will be binding on all Noteholders and each other Bond Secured Party and, if the Note Trustee so requires, notice thereof will be given by the Note Issuer to the Noteholders in accordance with Note Condition 15 as soon as practicable thereafter.

(b) ***Note Trustee not Liable for Consequences***: Where the Note Trustee is required in connection with the exercise of its powers, trusts, authorities, duties and discretions to have regard to the interests of the Noteholders, it will have regard to the interests of the holders of the Senior Notes and the holders of the Subordinated Notes each as a separate class and, in particular but without prejudice to the generality of the foregoing, the Note Trustee will not have regard to, or be in any way liable for, the consequences of such exercise for individual Noteholders resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory. In connection with any such exercise, the Note Trustee will not be entitled to require, and no Noteholder will be entitled to claim, from the Note Issuer or any other person any indemnification or payment in respect of any tax consequences of any such exercise upon individual Noteholders.

13. REPLACEMENT OF NOTE CERTIFICATES

If any Note Certificate is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the Specified Offices of the Note Registrar and the Transfer Agent (together, the "**Replacement Agents**") upon payment by the claimant of the expenses incurred in connection therewith and on such terms as to evidence and indemnity as the Note Issuer and/or the Replacement Agent may reasonably require. Mutilated or defaced Note Certificates must be surrendered to the Note Registrar before replacements will be issued.

14. SUBSTITUTION OF PRINCIPAL DEBTOR

The Note Trustee may agree, without the consent of the Noteholders, to the substitution of any person in place of the Note Issuer as principal debtor under the Note Transaction Documents and the Notes; *provided that* written notification has been given to the Rating Agency and any such substitution will be binding on the Noteholders. Such substitution will be subject to the relevant provisions of the Note Trust Deed and to such amendments thereof as the Note Trustee may deem appropriate.

15. NOTICES

(a) ***Valid Notices***: Any notice to Noteholders will be deemed to have been duly given if such notice is published in a leading English language daily newspaper having general circulation in London (which is expected to be the *Financial Times*) and, in addition, for so long as any Notes are listed on the SGX-ST and the rules of the SGX-ST so require, such notice will be given in a manner which complies with such rules. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the first date on which publication is made in the manner referred to above. A copy of each notice given in accordance with this Note Condition 15 will be provided to the Rating Agency.

(b) ***Notices while in Global Form***: For so long as the Notes are represented by a Global Note and such Global Note is held on behalf of Euroclear and/or Clearstream, notices to Noteholders may be given by delivery of the relevant notice to Euroclear and/or Clearstream (as the case may be) for communication to the relevant accountholders rather than by publication as required by paragraph (a) above. Any notice delivered to Euroclear and/or Clearstream shall be deemed to have been given to Noteholders on the seventh day after the day on which such notice was delivered to Euroclear and/or Clearstream (as the case may be).

(c) ***Other methods of notice***: The Note Trustee shall be at liberty to approve an alternative method of giving notice to Noteholders if, in its opinion, such alternative method is reasonable having regard to market practice then prevailing and provided that notice of such other method is given to the Noteholders in such manner as the Note Trustee shall require.

16. PRESCRIPTION

Claims for payment of principal and interest will not be enforceable unless a Note is presented for payment within a period of ten years in respect of principal, or five years in respect of interest, from the payment dates relating thereto.

17. LIMITED RECOURSE AND NO PETITION

(a) ***Limited Recourse***: The Noteholders agree that, notwithstanding the covenant in Clause 3.1 of the Note Trust Deed in respect of payment of the Secured Obligations, any other provision of the Note Trust Deed or any other Note Transaction Document which imposes on the Note Issuer an obligation at any time to make any payment to any Noteholder, the rights of recourse of the Noteholders against the Note Issuer, and the liability of the Note Issuer, will be limited to the amounts from time to time available in accordance with, and in the order of priorities set out in, the Note Trust Deed. Accordingly, no Noteholder will have any claim or recourse against the Note Issuer in respect of any amount which is or remains, or will remain, unsatisfied when no further amounts are receivable or recoverable in respect of the Bondholder Secured Property and all funds comprising the Bondholder Secured Property and/or representing the proceeds of realisation thereof have been applied in accordance with the provisions of the Note Trust Deed, and any unsatisfied amounts will be waived and extinguished; *provided that*, for the avoidance of doubt, such extinguishment will not in any way affect the other obligations of the Note Issuer to the Noteholders pursuant to any other Note Transaction Documents. Additionally, the Noteholders acknowledge the limited recourse provisions relating to the Bond Issuer contained in the Transaction Documents and the Note Issuer's agreement and acceptance of such limited recourse provisions.

(b) ***No Petition***: Each Noteholder further undertakes to the Note Issuer that it will not petition a court for, or take any other action or commence any proceedings for, the liquidation, winding-up or reorganisation of the Note Issuer, or for the appointment of a receiver, administrator, administrative receiver, trustee, liquidator, sequestrator or similar officer of the Note Issuer or of all or any of the Note Issuer's revenues and assets, until one year and one day after the unconditional and irrevocable payment and discharge in full of all sums outstanding and owing in respect of the Notes and all other Secured Obligations; *provided that*, nothing in this paragraph (b) will:

(i) prevent the Note Trustee from initiating any such action as aforesaid for the purpose of enforcing the Secured Obligations or from obtaining a declaratory judgment as to the obligations of the Note Issuer under the Note Transaction Documents owed to any Noteholder (provided that no action is taken to enforce or implement such judgment); or

(ii) prevent any Noteholder to the Note Transaction Documents from lodging a claim in any action as aforesaid which is initiated by any Person (other than the Note Trustee).

18. CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999

No person will have any right to enforce any term or condition of any Note under the Contracts (Rights of Third Parties) Act 1999.

19. GOVERNING LAW

These Note Conditions, the Notes and the Note Transaction Documents (other than the Cayman Administrator Agreement) and any non-contractual obligations arising out of or in connection with these Note Conditions, the Notes and the Note Transaction Documents (other than the Cayman Administrator Agreement) are each governed by, and will be construed in accordance with, English law. The Note Issuer has irrevocably submitted to the jurisdiction of the English courts for all purposes in connection with such documents and has designated a person in England to accept service of any process on its behalf. The Cayman Administrator Agreement is governed by and will be construed in accordance with Cayman Islands law.

THE BSP RECEIVABLES

OVERVIEW

The BSP Receivables (as defined below) consist of certain Japanese Yen denominated amounts owed to Korean Air Lines Co., Ltd. ("**Korean Air**" or the "**Company**") following the sale to customers in Japan of airline tickets issued in the name of Korean Air for air transport on flight routes (the "**Routes**") from Japan onwards to other international destinations and domestic destinations in Korea or on flight routes commencing outside Japan ("**KAL Tickets**"). See Table 1 below for a summary of the Routes as of September 2016.

Korean Air currently sells airline tickets in Japan through two distribution channels:

- a network of approximately 325 International Air Transport Authority ("**IATA**") accredited travel agents in Japan ("**IATA Agents**"); and
- a network of 12 regional Korean Air sales branches (including an on-line ticketing sales branch) and 11 airport sales counters (together, the "**KAL Sales Offices**").

The receivables which are to be entrusted by Korean Air to the Japanese Trust are generated from indirect sales of KAL Tickets by IATA Agents (the "**BSP Receivables**") using a standard ticketing, reporting and remittance system (the "**Billing and Settlement Plan**" or the "**BSP**"). Receivables generated through the sale of KAL Tickets at KAL Sales Offices are not included in this transaction.

THE ROUTES

The receivables generated from the flight routes from Japan form the core part of the BSP Receivables. Korean Air operates 273 scheduled flights per week from Japan on the Routes as of 30 September 2016 and approximately 10.9 million passengers have travelled from Japan on the Routes with Korean Air between 1 January 2013 and 30 September 2016.

Table 1 below shows the weekly frequency of scheduled flights operated by Korean Air from Japan to Korea.

Table 1
Destination and Frequency of Flights (as of 30 September 2016)

Destination	**Weekly Frequency (roundtrip)**
Tokyo Narita-Incheon	34
Tokyo Narita-Jeju	4
Tokyo Narita-Pusan	28
Tokyo Haneda-Gimpo	42
Tokyo Haneda-Incheon	7
Osaka-Incheon	21
Osaka-Gimpo	14
Osaka-Pusan	14
Osaka-Jeju	3
Nagoya-Incheon	21
Nagoya-Pusan	7
Fukuoka-Incheon	21
Fukuoka-Pusan	14
Okayama-Incheon	5
Kagoshima-Incheon	3
Sapporo-Incheon	14
Sapporo-Pusan	3
Aomori-Incheon	3
Komatsu-Incheon	3
Niigata-Incheon	5
Okinawa-Incheon	7
Total	273

Source: Information provided by Korean Air.

Table 2 below provides information on Korean Air's passenger service statistics for the Routes.

Table 2
Passenger Route Statistics

	2011	2012	2013	2014	2015	Jan – Sep 2016
RPKs[1]	4,663.4	5,094.9	5,488.8	4,888.5	5,004.3	4,064.5
Yield (USD¢)........	19.6	18.2	14.2	14.0	12.2	12.8
Revenue (USD in millions)	914.2	927.8	774.1	682.8	610.9	518.5

1 Revenue passenger-kilometres in millions of kilometres.

Source: Information provided by Korean Air.

THE RECEIVABLES

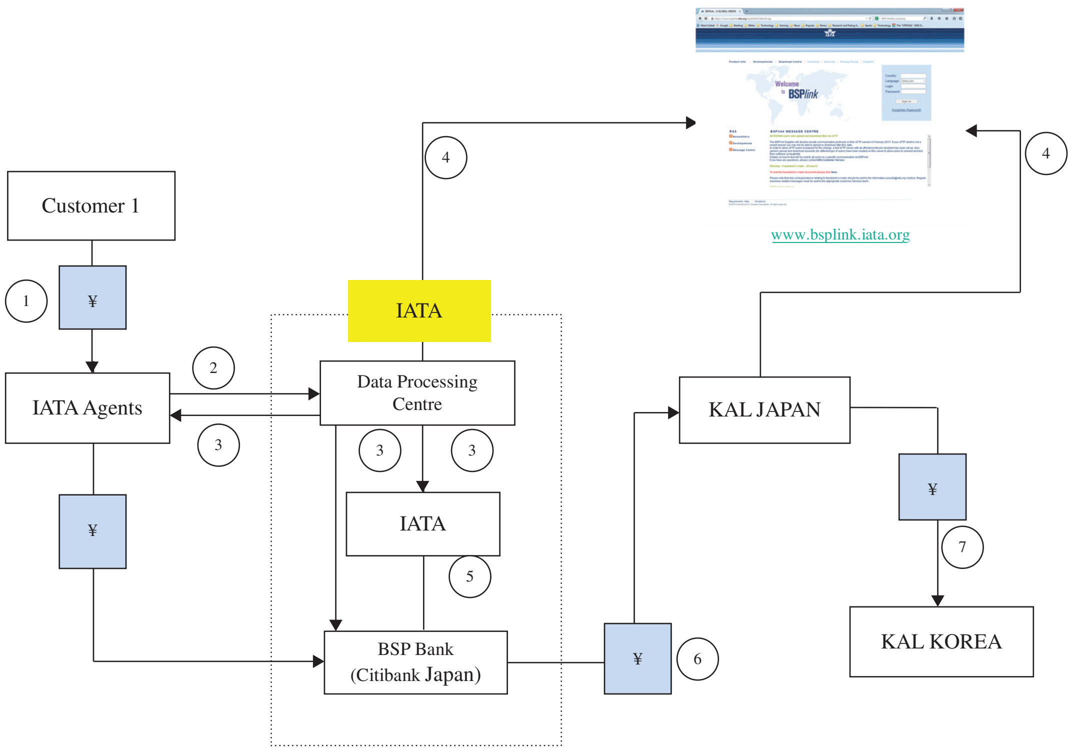
Generation of BSP Receivables

The Billing and Settlement Plan in Japan ("**BSP Japan**") is controlled by IATA's Singapore office. BSP Japan provides standard, generic tickets to be issued by IATA Agents on behalf of IATA's member airlines in a process that is intended to simplify the ticketing, reporting and remittance procedures between the IATA Agents and the member airlines. BSP Japan is operated through an electronic data processing centre (the "**Data Processing Centre**"), a processing facility appointed by IATA to process BSP data globally.

BSP Sales through KAL Japan

Figure 1 below describes the process by which monies are remitted to Korean Air's head office in Seoul ("**KAL Seoul**") through the generation of BSP Receivables.

Figure 1
Indirect Sales through BSP Agents



Source: Information provided by Korean Air.

Step 1

KAL Tickets are purchased from IATA Agents by customers paying in cash or by credit card.

Step 2

Monthly sales of KAL Tickets by IATA Agents are divided into four ticketing periods per month in accordance with the annual calendar published by IATA (the "**BSP Japan Calendar**"). The Data Processing Centre receives ticketing data daily through global distribution and computer reservation system companies appointed by IATA to provide ticketing functions to the IATA Agents.

Step 3

The Data Processing Centre confirms the amount of BSP Receivables in relation to the previous ticketing period to IATA and Citibank Japan Ltd. (the "**BSP Bank**") within two days of the end of such ticketing period and, on the same day, the BSP Bank will issue a ticketing invoice to each IATA Agent.

Step 4

The Data Processing Centre makes a sales report available to Korean Air (and other airlines) by uploading the relevant billing data to IATA's BSP-Link website (http://www.bsplink.iata.org) (the "**BSP-Link**"). If there are any discrepancies in the sales report, Korean Air will issue an agent debit memo to the relevant IATA Agent(s) through the BSP-Link and the IATA Agent(s) will settle any outstanding amounts in the following ticketing period.

Step 5

IATA Agents are required to settle ticketing invoices by remitting the relevant amounts to the BSP Bank on the date specified in the BSP Japan Calendar, which is generally within four to six Tokyo business days after receipt by them of a ticketing invoice from the BSP Bank.

Step 6

The BSP Bank remits the monies due to Korean Air immediately upon receipt from the IATA Agents to an account of Korean Air, Japan Branch ("**KAL Japan**") held with Citibank Japan Ltd. (the "**KAL Japan Account**").

Step 7

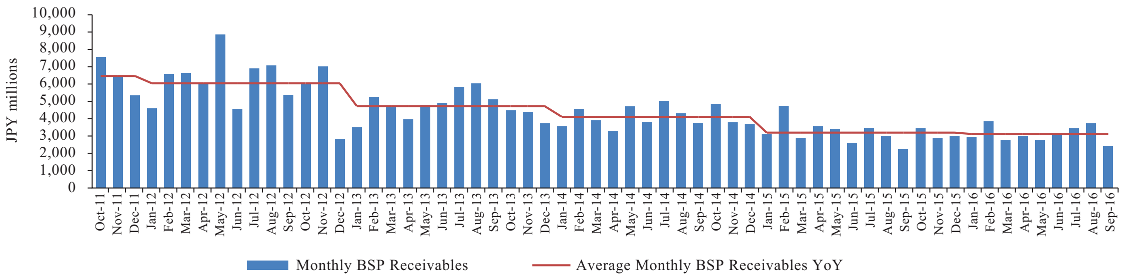
KAL Japan remits monies to an account of KAL Seoul held with Korea Exchange Bank (the "**KAL Seoul Account**") weekly on the instructions of KAL Seoul depending on KAL Seoul's cash flow plan and on the outstanding balance of the KAL Japan Account.

Following the entrustment of the BSP Receivables to the Japanese Trustee on the Closing Date and pursuant to the terms of the IATA Notice of Assignment, IATA will instruct the BSP Bank and the BSP Bank will, from the Closing Date until the Trust Termination Date, remit all monies received in respect of the BSP Receivables directly to the Collection Account and not to the KAL Japan Account.

Historical Generation of BSP Receivables

Table 3 below represents BSP Receivables generated by Korean Air on a monthly basis between October 2011 and September 2016.

Table 3
Monthly BSP Receivables

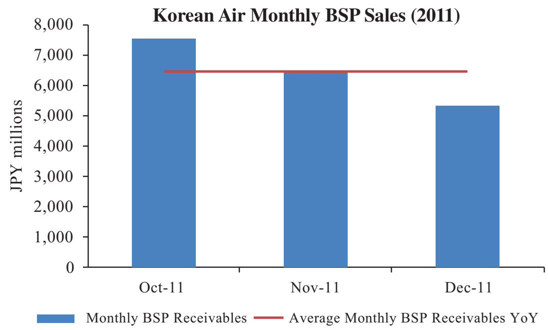


Source: Information provided by Korean Air.

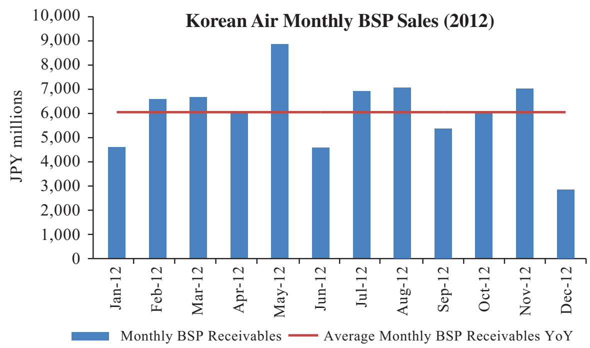
Table 4 below reflects historical monthly sales volumes for BSP Receivables between October 2011 and September 2016.

Table 4
Historical Monthly Sales Volume (2011 – 2016)
(JPY millions)

Month	Year	Date	Monthly BSP Receivables	Monthly Average	Annual BSP Receivables[1]
Oct	2011	Oct-11	7,557	6,465	
Nov		Nov-11	6,499	6,465	
Dec		Dec-11	5,340	6,465	19,396[2]

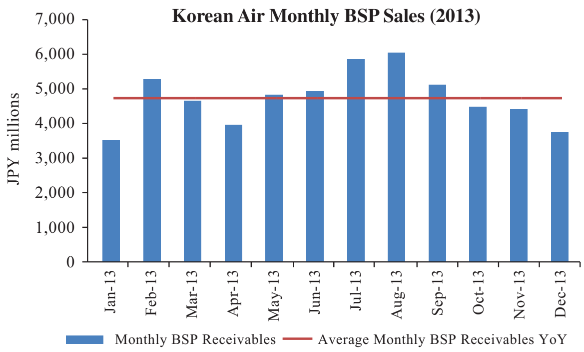


Jan	2012	Jan-12	4,585	6,040	
Feb		Feb-12	6,579	6,040	
Mar		Mar-12	6,655	6,040	
Apr		Apr-12	6,060	6,040	
May		May-12	8,854	6,040	
Jun		Jun-12	4,572	6,040	
Jul		Jul-12	6,905	6,040	
Aug		Aug-12	7,062	6,040	
Sep		Sep-12	5,364	6,040	
Oct		Oct-12	5,992	6,040	
Nov		Nov-12	7,009	6,040	
Dec		Dec-12	2,841	6,040	72,478

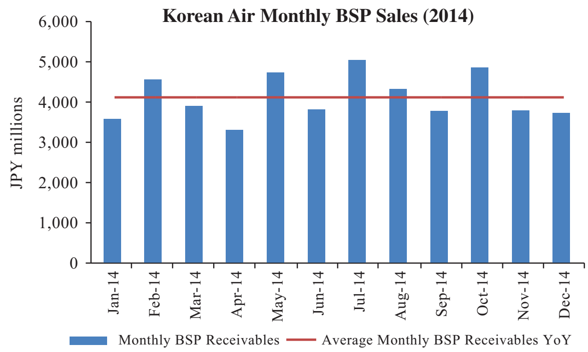


1 All figures rounded to the nearest one million Yen
2 Sum of BSP Receivables for October, November and December 2011

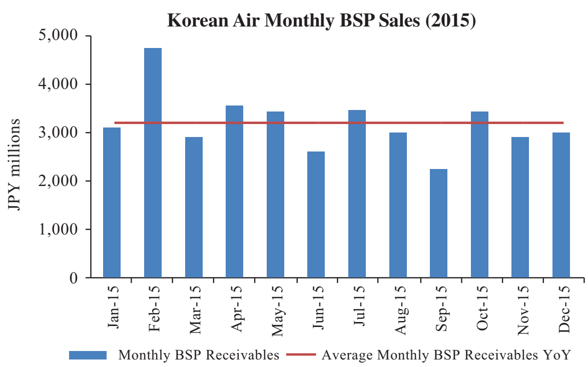
Jan	2013	Jan-13	3,503	4,721	
Feb		Feb-13	5,266	4,721	
Mar		Mar-13	4,641	4,721	
Apr		Apr-13	3,952	4,721	
May		May-13	4,810	4,721	
Jun		Jun-13	4,915	4,721	
Jul		Jul-13	5,843	4,721	
Aug		Aug-13	6,032	4,721	
Sep		Sep-13	5,100	4,721	
Oct		Oct-13	4,469	4,721	
Nov		Nov-13	4,399	4,721	
Dec		Dec-13	3,723	4,721	56,652



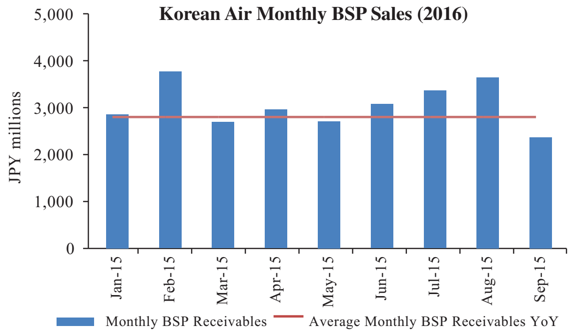
Jan	2014	Jan-14	3,570	4,108	
Feb		Feb-14	4,554	4,108	
Mar		Mar-14	3,891	4,108	
Apr		Apr-14	3,298	4,108	
May		May-14	4,719	4,108	
Jun		Jun-14	3,810	4,108	
Jul		Jul-14	5,034	4,108	
Aug		Aug-14	4,312	4,108	
Sep		Sep-14	3,774	4,108	
Oct		Oct-14	4,843	4,108	
Nov		Nov-14	3,775	4,108	
Dec		Dec-14	3,713	4,108	49,294



Jan	2015	Jan-15	3,098	3,195	
Feb		Feb-15	4,741	3,195	
Mar		Mar-15	2,897	3,195	
Apr		Apr-15	3,556	3,195	
May		May-15	3,426	3,195	
Jun		Jun-15	2,602	3,195	
Jul		Jul-15	3,460	3,195	
Aug		Aug-15	3,000	3,195	
Sep		Sep-15	2,238	3,195	
Oct		Oct-15	3,430	3,195	
Nov		Nov-15	2,898	3,195	
Dec		Dec-15	2,997	3,195	38,343



Jan	2016	Jan-16	2,921	3,115	
Feb		Feb-16	3,852	3,115	
Mar		Mar-16	2,750	3,115	
Apr		Apr-16	3,022	3,115	
May		May-16	2,766	3,115	
Jun		Jun-16	3,141	3,115	
Jul		Jul-16	3,436	3,115	
Aug		Aug-16	3,728	3,115	
Sep		Sep-16	2,417	3,115	28,033[3]



3 Sum of BSP Receivables for nine months ended September 2016

Source: Information provided by Korean Air.

Market Share

For the nine months ending 30 September 2016, Korean Air had a 26.2 per cent. market share for air travel between Japan and Korea based on number of seats supplied according to statistics provided by the Korea Airports Corporation. Asiana had a 21.3 per cent. of market share and non-Korean airlines recorded a 14.1 per cent. market share as of 30 September 2016.

To meet the increased passenger demand in relation to the Routes, Korean Air constantly reassesses passenger requirements to add new routes or alter the time and frequency of flights, as well as increasing the number of onward flights to other international destinations.

The Routes accounted for 10.4 per cent. of total passenger revenue for Korean Air in 2015 remaining relatively stable from 2014 at 10.3 per cent. Revenue from the Routes has decreased by U.S.$71.9 million to U.S.$610.9 million in 2015 from U.S.$682.8 million in 2014 due to the adverse effects of the MERS between June and September 2015, as well as a decrease in fuel surcharges payable by customers in 2015.

Discount Fees, Commissions and Refunds

Approximately 33 per cent. of all KAL Tickets are sold at a discount to the full published fare price.

All payments by IATA Agents to the BSP Bank are made net of any fees, commissions or refunds. Refunds are processed through BSP Japan and deducted from payments to BSP Japan by the relevant IATA Agent(s). Korean Air may, in the future, pay volume incentives to IATA Agents directly, and such amounts will not be processed through BSP Japan.

Factors affecting BSP Receivables Generation

Owing to the seasonal nature of the airline industry, the generation of BSP Receivables fluctuates monthly. Korean Air customarily experiences peak periods of operation on the Routes during August and December and during Korean and/or Japanese public holidays. As tickets for flights during these peak periods are often purchased in advance of the month of travel, increases in levels of BSP Receivables generated will not necessarily coincide with periods of increased travel.

IATA

IATA is a non-profit trade association originally established in Havana, Cuba in 1945 and later incorporated in Montreal, Canada by Special Act of Parliament. It is the successor to the International Air Traffic Association founded in the Hague in 1919. Its purpose is to promote and facilitate inter-airline cooperation in air services. As of 31 October 2016, it had approximately 265 participating airline members.

There are currently approximately 236 IATA Agents operating in Japan. In order to qualify as an IATA Agent, a prospective agent must have ¥10 million capital, net assets valued at ¥44 million and a capital adequacy ratio of less than 10 per cent. The prospective agent is required to submit a bank guarantee corresponding to 17 days of sales revenue in a 365 day year on a remittance amount basis or at least ¥5 million, as well as application documentation to IATA. An IATA manager will undertake a financial and physical inspection of the finances and premises of the prospective agent. IATA makes annual inspections of the finances and physical premises of all IATA Agents.

In addition to IATA's monitoring procedures, individual airline members of IATA have the right to request that IATA does not permit any IATA Agents to issue its airline tickets in the event the member airline is not satisfied with the performance of that particular IATA Agent. IATA operates a strict policy of cancelling the membership of IATA Agents that default in their payment obligations under the BSP.

THE TRUSTOR AND SERVICER

GENERAL

Korean Air Lines Co., Ltd ("**Korean Air**" or the "**Company**") was incorporated by the Government on 19 June 1962 under the name Korean National Airline Corporation with registration number 11011-0108484. Korean Air was listed on the Korean Stock Exchange through an initial public offering of 400,000 shares on 18 March 1966 before being sold to the Hanjin Group (the "**Group**"), whose core business is transportation. In August 2013, the Company's investment business was spun-off into a new holding company within the Group, Hanjin KAL Co., Ltd. ("**Hanjin KAL**"). Korean Air is the largest company within the Group measured in terms of assets. Excluding guarantees arising from previous financing transactions, Korean Air and the other Group companies have each managed their financial affairs independently since the Asian financial crisis of 1997. Korean Air is listed on the Korean Stock Exchange and its most recent annual reports are available on its internet website: www.koreanair.com. Investors in Korean Air include domestic and foreign individuals as well as institutions.

As of 30 June 2016, Korean Air had a fleet of 161 aircraft, with passenger and cargo routes to 118 cities in 45 countries. According to IATA, Korean Air was one of the world's top 19 international airlines in terms of revenue passenger-kilometres on scheduled flights and the third largest international cargo airline in terms of scheduled freight tonne-kilometres in 2014 and 2015. Korean Air generates revenues primarily through passenger business and cargo business, which together constituted approximately 88.3 per cent. of its total sales volume between 1 January 2015 and 31 December 2015. Korean Air's other businesses include aerospace business, catering business, hotel/limousines business, and in-flight sales.

Korean Air's headquarters and registered office are at 260 Haneul-gil, Gangseo-gu, Seoul 07505, Korea and its telephone number is +822-2656-3942. Korean Air does not currently have an international credit rating.

GROUP ORGANISATION

History of the Group

The Group was set up by Mr. Choong Hoon Cho in 1945. The Group's core business is land, sea and air transportation and currently consists of 37 domestically incorporated companies, of which five are publicly listed on the Korea Stock Exchange. The Group also has significant overseas operations and as of 31 May 2016 had a total of 44 overseas subsidiaries.

Hanjin Group reorganised its entities and completed the separation of its non logistics business from the Group in 2005. As a result, Hanjin Group consists of two major business units: air transportation and shipping. Financial services and the shipbuilding and construction businesses (i.e. Hanjin Heavy Industries and Construction, Meritz Securities and Oriental Fire & Marine Insurance) became independent from the Group with no significant cross shareholding or interests although some companies still bear the name of Hanjin. Korean Air is a core entity of Hanjin Group, representing 31 per cent. of revenue for the year ended 31 December 2015.

Hanjin KAL

In August 2013, a new holding company, Hanjin KAL, was established within the Hanjin Group, and the Company transferred its investment business, including all of its ownership in its LCC subsidiary Jin Air, to Hanjin KAL. As of 30 June 2016, Hanjin KAL was the largest shareholder of the Company and owned 31.46 per cent of the Company's outstanding common shares and 0.86 per cent of the Company's preferred shares. Mr. Yang-Ho Cho who serves as Chairman of Hanjin KAL also serves as Chairman of the Company.

Hanjin Shipping

In recent years, the global shipping industry has experienced a severe downturn, primarily due to adverse conditions in the global economy and the resulting slowdown in global trade, coupled with an oversupply of capacity and the resulting decline in freight rates. As part of the restructuring within Hanjin Group and in order to harness greater synergies between Korean Air's air cargo and shipping businesses, in June 2014, Korean Air acquired 33.2 per cent. of the outstanding shares of Hanjin Shipping, Korea's biggest container shipping line and a member of the Hanjin Group listed on the Korea Exchange, through a capital injection of Won 400 billion and became the largest shareholder of Hanjin Shipping. Hanjin Shipping's financial position continued to deteriorate and, in May 2016, Hanjin Shipping submitted itself to joint management with its creditors in an effort to revive itself following financial difficulties. In August 2016, the creditors of Hanjin Shipping rejected its last funding plan, and, in September 2016, Hanjin Shipping entered into rehabilitation proceedings under the Debtor Rehabilitation and Bankruptcy Act of Korea. See "*Risk Factors–Hanjin Shipping's rehabilitation proceedings and potential bankruptcy could have a material adverse impact on Korean Air*" and "*– Korean Air's liabilities in respect of its investments in Hanjin Shipping and to creditors of Hanjin Shipping may result in further losses to Korean Air*".

MANAGEMENT AND SHAREHOLDERS

At present, Korean Air has 10 registered directors, of whom 6 are external directors. Table 4 below sets out the names, office and business experience of each director.

Table 4
Korean Air's Registered Directors

Name and Position	Term of Office and Business Experience
Yang-Ho Cho Chairman	Chairman of Korean Air since February 1992. President & CEO (February 1992 to May 1999). Senior Vice President of General Affairs & Personnel and Planning/Purchasing/System (February 1984 – January 1989). Managing Vice President of Purchase and Maintenance (February 1980 – January 1984). Director since August 1979. Named Chairman of Hanjin Group in February 2003. Vice-Chairman of The Federation of Korean Industries (FKI) since 1996. Honorary consulate-general to Ireland in Korea since 1995. Board of Trustees of the University of Southern California since 1997. Chairman of the Korea-French High Level Businessmen's Club since 2000. IATA Board of Governors.
Chang-Hoon Chi Chief Operating Officer and President	President and COO since March 2010. Regional Manager of the Passenger Sales office in Seoul (January 2004 to December 2004). Vice President of Regional Headquarters in China (January 2005). Managing Vice President of Cargo Business Division (January 2008). Managing Vice President of Cargo Business Division & NAVOI Project (June 2008). Executive Vice President of Cargo Business Division & NAVOI Project (July 2009).
Won-Tae Cho Vice President	Director since March 2016. Senior Vice President Corporate Strategy & Planning Division.
Sang-Kyun Lee Vice President	Vice President since March 2014.
Seok-Woo Lee External Director	External Director since March 2007. Partner at Doore Law firm.

Name and Position	Term of Office and Business Experience
Yun-Woo Lee External Director	External Director since March 2009. Chairman of FLC. Chairman of Geoje Big Island Asset Management.
Seung-Yu Kim External Director......	External Director since March 2012. Chairman of Hana Financial Group. Chairman of the board of directors of Hana Academy.
Yong-Seok Ahn External Director	External Director since March 2014. Officer of the International Bar Association Antitrust Committee. Partner at Lee & Ko.
Jang-Shik Ban External Director......	External Director since March 2015. Dean of Sogang University Graduate School of Management of Technology.
Jae-Il Kim External Director...........	External Director since March 2016 and between 2002 to 2011. Professor of Seoul National University College of Business Administration.

Source: Information provided by Korean Air.

The principal shareholders of Korean Air's common stock are listed in Table 5 below as at 30 June 2016.

Table 5
Korean Air's Principal Shareholders

Principal shareholders(1)	Number of common shares held	Percentage of total common shares outstanding
Hanjin KAL Corp.(2)	22,927,239	31.1%
National Pension Service(3)	3,702,832	5.0%
Total..	26,630,071	36.1%

Notes:

(1) Other than as set forth herein, no other person or entity known to the Company to be acting in concert, directly or indirectly, jointly or severally, owned more than 5% or more of its outstanding common shares or exercised control or could exercise control over the Company as of the date hereof.

(2) Mr. Yang-Ho Cho, Chairman of the Company, is the largest shareholder of Hanjin KAL Corp. with an equity interest of 17.7% as of 30 June 2016.

(3) Based on information publicly disclosed by the National Pension Service, Korea.

Source: Information provided by Korean Air.

EMPLOYEES AND LABOUR RELATIONS

As at 30 June 2016, Korean Air had approximately 16,919 employees, including pilots and flight attendants.

Korean Air has three labour unions: two flight crew unions, Korean Air Pilot Union ("**KPU**") and New Korean Air Pilot Union ("**KAPU**") and one union for non-flight crew staff, Korean Air Labour Union ("**KALU**"). Among the current employees of Korean Air, approximately 50 per cent. are KALU members and approximately 46 per cent. and 33 per cent. of total Korean flight crew members are KPU and KAPU members, respectively. KALU and the flight crew union which holds the majority of the members as of 1 April each year has the right to negotiate salary and employee welfare related matters with the management. The salary agreements between the unions and Korean Air generally last for one year, with effect from 1 April each year, and the collective agreements, which generally cover other welfare matters of the employees such as working hours and working environment, usually last for two years.

KPU has had disagreements with Korean Air management over flight allowances, working hours and conditions and called a four-day strike in December 2005. No further KPU strikes have been held since that date. Shortly after the last KPU strike in 2005, Korean law was revised in order to protect public interest and reduce inconvenience to the public. The Trade Union and Labour Relations Adjustment Act restricts pilots from striking, even if the relevant union votes in favour of a walkout. Any such walkout may only occur with the agreement of Korean Air or the Labour Relations Committee, a Korean government agency. In 2010, the Labour Relations Committee agreed to permit pilots on international routes to take strike action in respect of up to 20 per cent. of their duties. If any such strike were to occur by pilots on international routes, Korean Air is permitted to engage temporary pilots (capped at 50 per cent. of the number of strike participants) to ensure that the operation of its Routes are unaffected.

Table 6 below shows changes in wages and benefits for staff since 2009.

Table 6
Changes in Wages and Benefits

Year	Percentage Change in Wages	Benefits
2016	0.0%**	None
2015	1.9%**	None
2014	3.2%	None
2013	0.0%	Safety Incentive: 100%*
2012	4.0%	Safety Incentive: 100%*
2011	4.1%	None
2010	5.4%	Safety Incentive: 100%*
2009	0.0%	None

* As a percentage of monthly salary.
** As an effective percentage for KALU. In case of KPU and KAPU, there was no agreement in 2015 and 2016 is still under discussion.

Source: Information provided by Korean Air.

FUNDING AND LONG-TERM LIABILITIES

Korean Air funds its aircraft acquisition either through foreign export credit agencies (including the Export-Import Bank of the United States, COFACE of France, Hermes Kreditversicherung-AG of Germany, and Export Credit Guarantee Department of the United Kingdom) or other global and domestic financial institutions.

The Korea Development Bank ("**KDB**") is Korean Air's main creditor bank in respect of secured lending, including mortgages and aircraft leases. Operational funds have recently been, and Korean Air believes will continue to be in the foreseeable future, obtained through various funding sources including the issuance of Korean bonds, asset backed securities and commercial paper.

A substantial portion of Korean Air's property, aircraft and equipment has been pledged as collateral for long-term debt. In addition, a certain portion of long-term debt is guaranteed by Group affiliates.

As of 30 June 2016, Korean Air's aggregate outstanding amount of asset-backed securities was KRW2,548.2 billion.

GROUP GUARANTEES

As of 30 June 2016, Korean Air had provided financial guarantees in an aggregate amount of approximately KRW241,956 billion and U.S.$450,000 million to Group affiliates, compared with KRW263,384 billion and U.S.$400,000 million as of 31 December 2015.

Table 7 below shows financial guarantees provided by Korean Air to Group affiliates and unrelated companies.

Table 7
Korean Air's Exposure under Guarantees

Beneficiary	Currency	Amounts by Currency (as of 31 December 2014)	Amounts by Currency (as of 31 December 2015)	Amounts by Currency (as of 30 September 2016)
Hanjin Transportation Co., Ltd.	KRW million	15,110	10,075	2,081
Korea Airport Service Co., Ltd.	KRW million	18,652	12,241	4,931
Jungseok Enterprise Co., Ltd.	KRW million	10,132	6,752	2,785
Hanjin Heavy Industries & Construction Holdings Co., Ltd.	KRW million	6,472	4,316	2,159
Hanjin International Corporation	KRW million	230,000	230,000	230,000
	USD thousand	300,000	400,000	450,000
Grandstar Cargo International Airlines Co., Ltd.	USD thousand	20,417	0	0
	CNY thousand	2,986	0	0
Total	KRW million	280,366	263,384	241,956
	USD thousand	320,417	400,000	450,000
	CNY thousand	2,986	0	0

Source: Information provided by Korean Air.

GOVERNMENT SUPPORT

The Korean civil aviation industry is subject to a high degree of regulation by MOLIT and is governed by the Aviation Law of Korea. The aviation industry is also subject to the Convention on International Civil Aviation. Regulations issued or implemented by the MOLIT encompass virtually every aspect of airline operations, including the approval of the establishment of airlines, domestic and international route allocations, licensing of pilots, operational safety standards, aircraft acquisitions, aircraft airworthiness certification, aircraft registration standards, aircraft maintenance, air traffic control and standards for airport operations.

The main goal of the MOLIT is to prepare a foundation that will allow safe and convenient air travel and at the same time enhance Korea's aviation industry so as to become a leading aviation country of the 21st century. The MOLIT is planning to conclude strategic air services liberalisation agreements with major countries e.g. China and Japan and to continue route expansion to support expansion of the national carriers. It also aims to take on a greater role in the air transport community through active cooperation with International Civil Aviation Organisation as well as with other countries throughout the world. MOLIT concluded "open skies" agreements with Panama and Paraguay in 2012, with Argentina (in relation to cargo) in 2013, with Austria (in relation to passenger) in 2015 and with Portugal (in relation to cargo) in 2016.

DESCRIPTION OF FLEET

As of 31 August 2016, Korean Air had a total of 159 aircraft, of which 130 are passenger aircraft and 29 are cargo aircraft. The average age of Korean Air's fleet was nine years. Apart from using cargo aircraft, Korean Air also utilises the lower deck of its passenger aircraft in providing cargo transportation services. Korean Air plans to continue to modernise its fleet with a view toward future growth. Korean Air plans to phase out older aircraft, such as the Boeing 747-400s, and to build a core fleet with fuel-efficient and environmentally-friendly aircraft such as Boeing 777-300ERs, 787-9s, 747-8Is, 747-8Fs, 777-Fs and 737MAXs and Airbus 321NEOs. Based on this modernisation plan, a total of 67 new aircraft are to be delivered between 2016 and 2020 from

Boeing and Airbus. Currently, Korean Air is operating five types of aircraft, including the Airbus 380s, which are next generation eco-friendly aircraft that consume less fuel, with lower noise levels and exhaust gas emissions than other large aircraft. Besides the Airbus 380 aircraft, Korean Air is increasing the operational rates of its fleet by boosting the assignment of high-density aircraft such as the Boeing 747-8Is to long-haul routes. Korean Air was the first Asian airline to acquire Boeing's 747-8. The Boeing 747-8F cargo aircraft were introduced in 2012, and Boeing 747-8I passenger aircraft were introduced in 2015. By operating the Boeing 747-8Is and 777-300ERs and Airbus 380s on long-haul routes such as New York, Los Angeles, Atlanta and Paris, Korean Air has improved profitability and strengthened its competitiveness in those markets. Currently, Korean Air only operates three types of freighters, Boeing 747-400F/ERFs, 747-8Fs and 777-Fs, in its cargo fleet.

Table 8
Fleet Profile as of 30 September 2016

Aircraft Type	Owned	Leased	Total
Passenger aircraft:			
Airbus 380-800	2	8	10
Airbus 330-300	8	13	21
Airbus 330-200	3	5	8
Boeing 747-400	7	0	7
Boeing 747-8I	0	7	7
Boeing 777-200ER	8	6	14
Boeing 777-300/300ER	3	21	24
Boeing 737-900/900ER	11	11	22
Boeing 737-800	0	17	17
Total Passenger	42	88	130
Cargo aircraft:			
Boeing 747-400F/ERF	11	5	16
Boeing 747-8F	0	6	6
Boeing 777-F	0	8	8
Total Cargo	11	19	30
Total Fleet	53	107	160

Source: Information provided by Korean Air.

FLIGHT SAFETY

Korean Air completed its 16th consecutive fatal-accident-free year of operation in 2015. Safety has always been a top priority and core value in Korean Air and Korean Air will continuously strive to improve operational safety and to be known as one of the world's safest airlines.

In support of this, Korean Air established the integrated Safety Management IT System named "**SafeNet**" in October 2009. Through SafeNet, Korean Air established company-wide standardisation of safety data management by (a) encouraging active safety reporting by all employees, (b) identifying, analysing and correcting any safety hazard before it becomes an issue and (c) accumulating and utilising safety data. The Company's Corporate Safety, Security and Compliance Department supports the SafeNet system by (i) anticipating and identifying systemic trends, (ii) coordinating and suggesting appropriate, scientifically-based countermeasures targeted at mitigating human-induced error, (iii) eliminating human-induced error wherever possible and (iv) ensuring that management control exists over all critical safety processes, including a well-designed system of procedural controls.

In 2009, Korean Air also introduced the Human Factors Analysis & Classification System ("**HFACS**"), developed by U.S. experts in 2000, to efficiently manage human-incurred errors that cause 70 per cent. of flight safety issues. HFACS is a model which classifies human errors into four categories and Korean Air uses this model to find and analyse the fundamental reasons for non-conforming or safety issues for employees in quality control and safety and security related departments.

In January 2005, Korean Air became the first carrier in Korea and among the SkyTeam member airlines to obtain an IATA Operational Safety Audit ("**IOSA**") certificate which is known as an internationally recognised aviation safety certification authorised by IATA. In September 2006, Korean Air received a first renewal audit for the IOSA certification, which is effective for two years, and passed the comprehensive audit without a single adverse finding documented in 758 check items in eight operational disciplines. The eight areas of IOSA are Organization and Management System, Flight Operations, Operational Control and Flight Dispatch, Aircraft Engineering and Maintenance, Cabin Operations, Aircraft Ground Handling, Cargo Operations and Operational Security. In September 2008, Korean Air received the second renewal audit and passed without a single adverse finding documented in 914 check items in the eight operational disciplines described above. This audit was conducted through a documentation audit to verify whether or not the IOSA's criteria are reflected in Korean Air's policies, processes and procedures and through an implementation audit to check whether or not Korean Air has adhered to such policies, processes and procedures. The audit has been conducted based on the second edition of IOSA Standards Manual, which is more comprehensive and in-depth than the previous edition as a result of continual improvement and amendments by IOSA of its standards in a move to implement more rigorous guidelines for the airline industry. The latest renewal audit was completed in October 2016 and KAL passed all check items. As a result, the expiration date of KAL's IOSA Registry was extended to January 2019.

In addition to strengthening flight safety, Korean Air's Flight Operational Quality Assurance ("**FOQA**") animation programme has been up-graded and FOQA animation programme irregularities have been intensively controlled. This animation programme provides realistic displays by using high-resolution satellite airport photographs and topographical maps and enables realistic safety management. In October 2010, Korean Air introduced a new FOQA animation programme to prepare FOQA analysis capability for the new fleet of Airbus 380s and Boeing 787s, improve the flight data analysis process, enhance the FOQA risk management link with SafeNet and expand analysis capability for Maintenance Operational Quality Assurance and Fuel Management.

Korean Air's safety culture is enhanced through safety policy revisions, activation of safety reporting and the encouragement of employees' participation in safety education activities. Korean Air will continue to advance its safety culture by encouraging employees to report safety-related issues, investing in the training of employees and by identifying additional partnership opportunities with all divisions and departments of the Company. Korean Air will also continue to build trust and improve interfaces with multiple governmental agencies such as the Office of Civil Aviation, the Federal Aviation Administration, the European Aviation Safety Agency and the Department of Defence.

MAINTENANCE

As part of its policy on flight safety, Korean Air places great importance on aircraft maintenance. With over 40 years of experience, Korean Air continuously improves and modernises its aircraft maintenance technology. Its Maintenance & Engineering Division is dedicated to the maintenance of civil aircraft and engines and performs line and heavy maintenance for all types of aircraft operated by Korean Air. In addition, the Company performs its own engine overhaul maintenance for most engine types operated by the Company such as the GE90 (Boeing 777), PW4056 (Boeing 747-400), PW4090 (Boeing 777), CFM56-7B (Boeing 737) and PW4168/70 (Airbus 330). The Company's aircraft maintenance bases are located at the airports in Gimpo, Incheon and Gimhae and the Company's engine maintenance centre is located at Bucheon City near the Gimpo maintenance base at Seoul. The 2.5 bay hangars at each of the Gimpo and Incheon maintenance bases can conduct maintenance activities for aircraft types equivalent to two Boeing 747 and one Airbus 330 aircraft simultaneously. The maintenance base at Gimhae Airport has specialised facilities for Boeing 747 aircraft heavy maintenance. Also, aircraft painting work for all of the Company's aircraft is performed at a paint hangar at Gimhae Airport.

For its operational performance, Korean Air has received numerous awards from both Boeing and Airbus. In 2015, Korean Air was awarded the "Top Operational Excellence Award" from Airbus for the Airbus 330. The Company recorded on-time performance of 99.8 per cent. from September 2014 to August 2016.

In 2004, Korean Air commenced a "Maintenance, Repair and Overhaul" ("**MRO**") business for overseas commercial airlines. Korean Air performed aircraft heavy maintenance, including cabin upgrade modification and fuselage painting, for United Airlines from 2005 to 2010, and has performed engine heavy maintenance for United Airlines, Pratt & Whitney, GE and Thai Airways since 2004. In aircraft line maintenance, Korean Air is supporting more than 30 airlines, including American Airlines, Air France-KLM and China Eastern Airlines at major airports in Korea. Also, other MRO services, such as component repair, parts pooling and training, are provided for customers. In 2015, Korean Air recorded U.S.$90 million sales in the MRO business. Major customers for Korean Air's MRO business include Jin Air, GE and Pratt & Whitney, which together comprised 80 per cent. of the Company's total MRO sales in 2015. Other MRO customers include Uzbekistan Airways and other domestic customers.

STRATEGIC ALLIANCES

SkyTeam

In order to enhance its competitiveness against other airline alliances, Korean Air founded a global alliance ("**SkyTeam**") together with Delta Air Lines, Air France and AeroMexico on 22 June 2000. Today, SkyTeam has 20 member airlines and the member airlines in the alliance aim to develop a shared system for managing revenue and expenses, co-operate on frequent flyer schemes, share airport facilities and lounges, resources and information technology and provide a seamless service around the world.

SkyTeam is the world's second largest airline alliance in terms of number of passengers and number of member airlines, serving more than 1,000 destinations in approximately 177 countries with approximately 17,000 daily flights via a global network of hubs and destination cities. In 2012, SkyTeam Cargo is also the world's first global cargo alliance, providing more than 14,500 daily flights to over 175 countries. At present, SkyTeam is focusing on the development and enhancement of products such as mileage sharing and ticket redemption among members' frequent flyer programs as well as a global distribution system that prioritises the display of alliance members' flight schedules on the systems of alliance members' agents. SkyTeam had approximately 220 million frequent flyer members in 2015.

Korean Air views the SkyTeam alliance as an important revenue source through a wide range of code sharing and networks. The SkyTeam alliance received the Airline Alliance of the Year award at the Air Transport News Awards for two consecutive years in 2015 and 2016. The overall revenue benefit from this source is estimated by Korean Air to be approximately U.S.$218 million in 2015 from code share flights, lounge sharing and mileage sharing and a cost saving benefit of approximately U.S.$3.8 million in 2015 from areas such as joint cargo operations and joint purchase of spare parts.

Other Alliances

In addition to SkyTeam, Korean Air maintains cooperative relationships with other airlines. As summarised in Table 9 below, most of Korean Air's Codeshare Agreements are Free Flow Codeshare, where the marketing carrier sells seats on the operating carrier's flights from the operating carrier's inventory but takes no inventory risk.

Table 9
Korean Air Passenger Alliances as of 31 October 2016

Route	Airline	Type of Alliance
Americas	Delta Air Lines	"Free Flow" codeshare
	Aeromexico	"Free Flow" codeshare
	Hawaiian Airlines	"Free Flow" codeshare
	Alaska Airlines	"Free Flow" codeshare
	LAN Airlines	"Free Flow" codeshare
	WestJet	"Free Flow" codeshare

Route	Airline	Type of Alliance
Europe	Air France	"Seat Swap"/"Free Flow" codeshare
	Alitalia	"Block Seat" codeshare
	KLM Royal Dutch Airlines	"Seat Swap"/"Free Flow" codeshare
	Czech Airlines	"Block Seat"/"Free Flow" codeshare
	Rossiya Airlines	"Block Seat" codeshare
	Aeroflot	"Free Flow" codeshare
	Uzbekistan Airways	"Free Flow" codeshare
Middle East	Emirates Airlines	"Block Seat" codeshare
	Etihad Airways	"Free Flow" codeshare
	Saudia Airlines	"Free Flow" codeshare
Africa....................	Kenya Airways	"Free Flow" codeshare
Japan.....................	Japan Airlines	"Free Flow" codeshare
China	China Eastern	"Free Flow" codeshare
	China Southern	"Free Flow" codeshare
	MIAT Mongolian	"Free Flow" codeshare
	Xiamen Airlines	"Free Flow" codeshare
	Shanghai Airlines	"Free Flow" codeshare
	China Airlines	"Seat Swap" codeshare
	Hainan Airlines	"Free Flow" codeshare
Southeast Asia	Garuda Indonesia	"Block Seat" codeshare
	Malaysian Airlines	"Free Flow" codeshare
	Vietnam Airlines	"Free Flow" codeshare
	Myanmar Airways International	"Block Seat" codeshare
Oceania	Air Calédonie International	"Free Flow" codeshare

"Seat Swap" Codeshare: A specific number of seats (space) are mutually exchanged between the partners at the same value, and each partner makes sales under its own code.

"Block Seat" Codeshare: The operating carrier allocates a block to the marketing carrier and sales are made from that allocated block.

Source: Information provided by Korean Air.

CODE SHARING AND BILATERAL AGREEMENTS

Korean Air has a number of code sharing agreements with other airlines in which each airline agrees to freely sell and/or swap seats with the other using the same code. Accordingly, Korean Air can sell a Korean Air ticket using a Korean Air code for a flight which is operated by a Delta Air Lines flight crew on a Delta Air Lines aircraft.

The Government has actively negotiated for increased bilateral agreements with governments of other countries including China and Japan, in order to create the legal framework for the establishment of air links between Korea and other countries to enable Korea's airlines to diversify their markets. Each bilateral air services agreement that the Government enters into sets out the number of flights each country has permitted for each of its airlines between certain destinations on a weekly or monthly basis. As of 30 June 2016, Korea is a party to air services agreements with 94 countries.

As of 30 June 2016, Korean Air has bilateral code-sharing agreements with 35 airlines, including 17 members of the SkyTeam alliance and 18 airlines outside of the SkyTeam alliance.

Korean Air acquired a 44 per cent. interest in Czech Airlines in April 2013 and remains the largest shareholder of Czech Airlines as of 30 June 2016. Korean Air maintains a strategic partnership with Czech Airlines through codeshare arrangements on 30 routes, including between Incheon and Prague, which strengthens Korean Air's European network and offers customers more convenient travel schedules.

PASSENGER SERVICES

Korean Air's passenger services currently extend to 111 cities (13 domestic and 98 international) in 38 countries as of 30 September 2016. In 2015, passenger services experienced a decrease in sales driven by the spread of MERS and the decline in the amount of air fuel surcharge. Total revenues from passenger services decreased by 4.6 per cent. and amounted to KRW6.6 trillion in 2015 from KRW6.9 trillion in 2014 constituting 60 per cent. of Korean Air's total revenues for that year. International and domestic passenger services comprised approximately 54.7 per cent. and 4.2 per cent., respectively, of Korean Air's total revenues in 2015.

Table 10 shows Korean Air's passenger route structure.

Table 10
Passenger Routes as of 31 October 2016

Route	Number of Cities	Cities
Domestic	13	Seoul, Incheon, Pusan, Jeju, Gwangju, Daegu, Yeosu, Ulsan, Pohang, Jinju, Gunsan, Cheongju, Wonju
Japan.....................	11	Tokyo, Osaka, Nagoya, Fukuoka, Kagoshima, Niigata, Sapporo, Okayama, Aomori, Komatsu, Okinawa
China	25	Beijing, Changsha, Dalian, Guangzhou, Guiyang, Hangzhou, Hefei, Jinan, Kunming, Mudanjiang, Nanjing, Nanning, Qingdao, Shanghai, Shenyang, Shenzhen, Tianjin, Tunxi, Urumqi, Weihai, Wuhan, Xian, Xiamen, Yanji, Zhengzhou
Greater China	3	Hong Kong, Taipei, Ulaanbaatar
Southeast Asia..	22	Bangkok, Bali, Cebu, Chiangmai, Colombo, Da Nang, Hanoi, Ho Chi Minh City, Jakarta, Kathmandu, Kota Kinabalu, Kuala Lumpur, Malé, Manila, Mumbai, Nha Trang, Palau, Phnom Penh, Phuket, Siem Reap, Singapore, Yangon
Oceania.	4	Sydney, Brisbane, Auckland, Nadi
Americas	13	L.A., New York, Chicago, Atlanta, Dallas, San Francisco, Seattle, Washington D.C., Honolulu, Las Vegas, Houston, Vancouver, Toronto
Europe/Middle East/CIS/Africa....	20	Paris, Frankfurt, London, Zurich, Amsterdam, Rome, Milan, Madrid, Prague, Vienna, Istanbul, Tel Aviv, Dubai, Jeddah, Riyadh, Moscow, Vladivostok, St. Petersburg, Irkutsk, Tashkent
Total.....................	111	

Source: Information provided by Korean Air.

Table 11 shows Korean Air's passenger revenue breakdown by route.

Table 11
Passenger Revenue Composition by Route

Passenger	2011	2012	2013	2014	2015
Domestic	7.7%	7.2%	7.2%	7.2%	7.2%
International	92.3%	92.8%	92.8%	92.8%	92.8%
Japan	14.7%	13.7%	10.5%	10.3%	10.4%
China	11%	11.2%	12.3%	13.6%	13.2%
Southeast Asia	15%	15.7%	17.6%	17.3%	18.1%
Oceania	4.5%	4.5%	4.2%	4.1%	4.2%
North America	32.7%	32.6%	32.3%	30.7%	29.7%
Europe/Middle East/CIS/Africa	14.4%	15.1%	15.9%	16.7%	17.1%

Source: Information provided by Korean Air.

As at 31 October 2016, Korean Air operates scheduled flights to 11 cities in Japan ("**Japan Routes**"). The Japan Routes recorded KRW718.8 billion and KRW691.2 billion in revenue, which constituted 10.3 per cent. and 10.4 per cent. of total passenger revenue, in 2014 and 2015, respectively.

In China, Korean Air provides scheduled flights to 28 cities set out in Table 8 (the "**China Routes**"). The China Routes recorded KRW945.2 billion and KRW876.7 billion in revenue, which constituted 13.6 per cent. and 13.2 per cent. of total passenger revenue, in 2014 and 2015, respectively.

Korean Air operates scheduled flights to 22 cities in Southeast Asia including Thailand, Singapore, the Philippines, Indonesia, Malaysia, India, Vietnam, Nepal, Myanmar, Sri Lanka, Maldives and Cambodia (the "**Southeast Asia Routes**") and recorded KRW1,203.2 billion and KRW1,199.0 billion in revenue, which constituted 17.3 per cent. and 18.1 per cent. of total passenger revenue, in 2014 and 2015, respectively.

Korean Air also operates scheduled flights to 13 cities in the United States and Canada (the "**Americas Routes**"). The Americas Routes recorded KRW2,132.2 billion and KRW1,967.1 billion in revenue, which constituted 30.7 per cent. and 29.7 per cent. of total passenger revenue, in 2014 and 2015, respectively.

Korean Air operates scheduled flights to 20 cities in Europe, the Middle East, the Commonwealth of Independent States and Africa (the "**Europe/Africa Routes**"). The Europe/Africa Routes recorded KRW1,154.0 billion and KRW1,135.7 billion in revenue, which constituted 16.7 per cent. and 17.1 per cent. of total passenger revenue, in 2014 and 2015, respectively.

Korean Air operates scheduled flights to Sydney, Brisbane, Auckland and Nadi (the "**Oceania Routes**"). The Oceania Routes recorded KRW288.1 billion and KRW277.8 billion in revenue, which constituted 4.1 per cent. and 4.2 per cent. of total passenger revenue, in 2014 and 2015, respectively.

The key statistics for Korean Air's international passenger services are compiled by standards commonly used in the airline industry: revenues, available-seat-kilometres ("**ASKs**"), revenue-passenger-kilometres ("**RPKs**"), load factor and yield.

ASKs are a measure of the number of seats made available for sale multiplied by the distance flown in kilometres on a route. RPKs are a measure of the number of revenue-paying passengers multiplied by the distance flown in kilometres on a route. Load factor is a measure of the rate of utilisation of Korean Air's capacity and is calculated by dividing RPKs by ASKs. Yield is a measure of the revenue from each RPK and is measured by dividing revenues by RPKs.

Table 12 below shows Korean Air's international passenger service statistics in 2014 and 2015 measured by revenues, ASKs, RPKs, load factor and yield.

Table 12
International Passenger Service Statistics as of 31 December 2015

Description (KRW)	2015	2014	Year-on-Year
			(%)
Revenues (billion)	6,147.5	6,441.6	-4.6%
ASKs (million)	89,477	87,482	+2.3%
RPKs (million)	68,948	65,536	+5.2%
Load Factor.	77.1%	74.9%	+2.1%
Yield (KRW/KM)	89.2	98.3	-9.3%
Yield (USD¢)	7.9[1]	9.3[2]	-15.6%

Source: Information provided by Korean Air.

1 Rate used to convert in 2015 U.S.$ to KRW is U.S.$1 = KRW1,052.7.
2 Rate used to convert in 2014 U.S.$ to KRW is U.S.$1 = KRW1,131.4.

RISK MANAGEMENT

In order to create a more stable business environment by minimising or eliminating the risk associated with volatility of fuel prices, foreign exchange rates and interest rates, Korean Air has focused on risk management since 2001 and will continue to actively manage risks. Their risk management is divided into two hedges: natural hedging and active hedging. Korean Air's risk management strategy is to minimise market risk factors using both natural hedging and active hedging.

Jet Fuel Price: Korean Air's fuel hedging strategy is the use of a mix of basic hedge and additional hedge. It intends to hedge regularly 30 per cent. of its fuel consumption regardless of market condition ("**Basic Hedge**"). Currently Korean Air has hedged 15 per cent. of its fuel consumption. In addition to the Basic Hedge, Korean Air may enter into an additional hedge of up to 50 per cent. of its fuel consumption if market conditions are favourable compared to a historical price level ("**Additional Hedge**").

Currency: Over the last few years, Korean Air has tried to eliminate some of its currency risk via natural hedging of the balance sheet. In other words, Korean Air has increased its Won, Chinese Renminbi and Yen denominated borrowings instead of dollar denominated financing to match its currency cash balances. Korean Air actively hedges up to 50 per cent. of its currency exposure.

Interest Rate: In recent years, Korean Air hedged its interest rate risk by increasing fixed rate financing. Korean Air's strategy is to keep its fixed interest rate debt portion at around 50 per cent. for its overall debts. However, fixed and floating ratios differ by currencies: more than 50 per cent. of USD denominated debts are floating rate whereas the majority of Won denominated debts are at a fixed rate.

In summary, as of 31 December 2015, 67.7 per cent. of USD debts, 22.4 per cent. of Won debts and 5.1 per cent. of JPY debts were on a fixed rate basis.

INSURANCE

Korean Air currently has an insurance policy arranged by AON in respect of its 161 aircraft (the "**Insurance Policy**"). The insurance coverage is provided by a syndicate of insurers in the international market. The maximum coverage for hull insurance under the Insurance Policy is U.S.$400 million per aircraft and an aggregate maximum coverage for liability under any one accident is U.S.$2.25 billion per aircraft. The deductible amount for each claim in respect of a Boeing 747, Boeing 777, Airbus A300, Airbus A380 or Airbus A330 aircraft is U.S.$1 million and is U.S.$750,000 in respect of Boeing 737 aircraft. In addition to hull insurance and third party war liability, the Insurance Policy insures Korean Air for liabilities connected with employees, passengers and cargo on board each aircraft and general third party liability.

IMPACT OF EXTERNAL FACTORS ON KOREAN AIR'S BUSINESS

2013 marked the start of a renewed upturn of the air transport industry cycle, after having seen a slowdown from the 2010 peak during the previous two years. Demand for passenger and cargo services continued to grow in 2014 and 2015. According to IATA, in 2015, world scheduled passenger traffic, measured in RPKs, increased by 6.5 per cent. compared to 2014. This was the strongest result since the post-global financial crisis in 2010 and was mainly attributable to the drop in oil prices and lower airfares in 2015. International markets had an increment of 6.5 per cent. while domestic markets also increased by 6.3 per cent. IATA estimates that world scheduled cargo traffic, measured as FTKs increased by 2.2 per cent. in 2015 compared to 2014. International freight traffic increased by 2.5 per cent., while domestic freight traffic increased by 0.1 per cent. The growth in FTKs in 2015 is a slower pace of growth than the 5.0 per cent. growth in 2014. The weakness reflects sluggish trade growth in Europe and Asia-Pacific. In 2015, Korean Air transported 24,968,143 passengers and 2,026,598 tons of cargo transportation. Korean Air is ranked 17th in international traffic in terms of RPKs and third in terms of FTKs.

In recent years, the emergence of low cost carriers ("**LCCs**") has increased competition in the airline industry. Although the low fares offered by the LCCs is believed to have resulted in an increase in aggregate demand for air travel, competition from LCCs has had a significant impact on the Korean air travel service market, on both domestic and short-haul international routes. According to statistics released by the MOLIT, the number of domestic passengers on the two full service airlines in Korea increased 5.0 per cent. from 2013 to 2014 and 4.4 per cent. from 2014 to 2015, while the number of domestic passengers on the five Korean LCCs increased 15.9 per cent. from 2013 to 2014 and 22.4 per cent. from 2014 to 2015. Over the same periods, the number of international passengers on the two full service airlines in Korea increased 2.4 per cent. from 2013 to 2014 and 4.9 per cent. from 2014 to 2015, while the number of international passengers on the five Korean LCCs increased 32.8 per cent. from 2013 to 2014 and 37.6 per cent. from 2014 to 2015. While the Company will continue to focus on product differentiation, productivity improvements and cost management measures in order to maintain its competitiveness, there can be no assurance that these measures will mitigate the impact of intensified competition from the LCCs.

The Company's hub location in Incheon, Korea, enjoys geographical advantages in linking traffic between regions. Incheon International Airport ("**Incheon Airport**") faces competition from the development and growth of other hub airports in the Asia-Pacific and/or the Middle East that may draw traffic away or allow traffic to by-pass Incheon Airport. A decline in traffic may be experienced by the Company should international air traffic patterns shift to other airports and by-pass Incheon Airport.

The airline industry is exposed to various risks and events that occur throughout the world that could lead to significant decreases in passenger traffic and revenues, as well as to significant increases in costs. Over the past decade, the airline industry has suffered numerous such events that have caused significant disruptions, including the following:

- The terrorist attacks of 11 September 2001 and subsequent terrorist attacks have had a negative impact on the airline industry. The primary effects experienced by the airline industry have included increased security and insurance costs, increased concerns about future terrorist attacks, airport shutdowns, flight cancellations and delays due to security breaches and perceived safety threats and, especially in the period immediately thereafter, significantly reduced passenger traffic and yields due to a significant decrease in demand for air travel globally.

- The aviation industry has experienced disruption by the outbreaks of health epidemics such as the highly pathogenic H5N1 strain of the avian influenza virus in birds since late 2003; severe acute respiratory syndrome, or SARS, in 2003; the H1N1 strain of a new influenza, which is commonly known as "swine flu", in 2009; and MERS, in 2015.

- In March 2011, Japan experienced a powerful earthquake, triggering a violent tsunami and seriously damaging a nuclear power plant in Fukushima.

Beside economic factors, environmental responsibility has been highlighted in the global airline industry. From 2012, airlines flying in and out of Europe have been subject to the regulations for limiting CO_2 emissions. Airlines are required to purchase credits for their CO_2 emissions in excess of regulatory standards through the emissions trading scheme. Korean Airlines has developed a comprehensive internal procedure that encompasses monitoring, reporting and verification. Korean Air's IT systems are consistently updated to maintain accurate and consistent control of its CO_2 emissions.

MARKETING AND ADVERTISING

In addition to safety considerations, customer service is a key area of focus for Korean Air. Korean Air actively advertises its flight services in Korea, Japan and the United States on television channels, on the internet, in newspapers and magazines.

Since 2011, Korean Air has received the awards shown in Table 13 below.

Table 13
Awards

Date	Award
2016	Best airline service provider – 2015 Global Customer Satisfaction Competency Index (GCSI) organised by Korea Economic Daily – 2015 Best Social Contribution Company – the Environment, Disaster Relief Section
2015	A330 Award for Top Operational Excellence Award
June 2015	Best airline service provider – 2015 Global Customer Satisfaction Competency Index (GCSI) organised by Japan Management Association Consulting (JMAC)
December 2014	Global Times: Top 3 International Airline Most Preferred by Chinese Global Traveler
November 2014	A380 Award for Top Operational Excellence 2013-2014
December 2013	World Travel Awards 2013 World's Most Innovative Airline
December 2012	World Travel Awards 2012 World's Most Innovative Airline and World's Excellence in Service
September 2011	World Travel Awards 2011 Asia-Australia Region – Asia's Leading Airline First Class Voyage Travel Annual Award 2011 – Best Asian Airline
June 2011	National Geographic Traveler 2011 Golden List Award – Best Northeast Asian Airline
May 2011	World Travel Awards 2011 – Best In-Flight Meal

Date	Award
April 2011	Economist Customer-Loving Brand Award – Best in Airline Industry
March 2011	Korea Advertisers Association Customer-Selected Good Commercial Award – Good Commercial Awards in Magazine Section & Internet Section
January 2011	Global Traveller Magazine Tested Awards – Best First Class Seat Design, Best Airport Service Travel & Leisure Magazine – Most Eco-Friendly Airline

Source: Information provided by Korean Air.

Korean Air's frequent flyer programme, SKYPASS, was introduced in 1984 as the first frequent flyer programme in Asia. SKYPASS is designed to retain and enhance customer loyalty by offering awards and services to frequent travellers for their continued patronage. SKYPASS members can earn mileage by flying on Korean Air, members of SkyTeam and other airlines that participate in the programme. Mileage can also be earned by using services of other participants in the programme, such as credit card companies, hotels and car rental companies. SKYPASS mileage can be redeemed for free or upgraded travel on Korean Air or other participating airlines and for other non travel-awards. SKYPASS members are also eligible to receive the status benefits accorded to premium customers, including privileges such as priority check-in and the use of designated airport lounges. As of 30 June 2016, SKYPASS had approximately 24 million members.

LEGAL PROCEEDINGS

As of 30 June 2016, various claims, lawsuits and complaints arising from airline service operations are pending against Korean Air. Korean Air's management believes that the Company has adequate insurance coverage against these claims and that the ultimate outcome of these cases will not have any material adverse effect on the financial performance and position of Korean Air.

In connection with the investigation by the U.S. Department of Justice since February 2006 alleging an antitrust law violation relating to the Company and other air carriers colluding on price fixing, the Company agreed in 2007 to plead guilty and pay fines totalling U.S.$300 million in instalments. As of 30 June 2016, the Company has paid a total of U.S.$250 million, and U.S.$50 million remains payable by the end of 2016 and is included in other payables in its financial statements.

In 2006 and 2007, civil class action lawsuits were filed in the United States against the Company and certain foreign air carriers, alleging that the defendants violated U.S. antitrust laws by illegally conspiring to set prices and surcharges on cargo and passenger transportation, respectively. In the passenger class action, in 2013, the Company reached a settlement with the plaintiffs to pay U.S.$39 million in cash and U.S.$26 million in travel coupons for future travel, which was approved by the court. The Company paid the plaintiffs U.S.$39 million in 2013, and the remaining U.S.$26 million has been recognised as provision for passenger flight ticket coupon in its financial statements. In the cargo class action, in 2013, the Company reached a settlement with the plaintiffs to pay U.S.$115 million in instalments, which was approved by the court in 2015. As of 30 June 2016, the Company had paid the settlement amount in full.

In Canada, cargo and passenger antitrust civil class action suits were filed against the Company from 2006 through 2007. With respect to the cargo class actions, in 2015, the Company reached a settlement with the plaintiffs to pay CAD$4.1 million in instalments, which was approved by the courts in Canada. As of 30 June 2016, the Company had paid the settlement amount in full. With respect to the passenger class actions, complaints were filed in Ontario in 2007, but no notable developments have been made as the class actions are yet to be certified.

In January 2011, the KFTC penalised the Company KRW 25.0 billion for its role in conspiracies to fix cargo transportation fuel surcharges. The Company paid the entire penalty in February 2011.

In November 2013, four companies in the LG Group, including LG Electronics Inc., commenced a civil lawsuit against 12 airline companies including the Company, alleging that the defendants fixed the fuel surcharges of outbound air freight cargo from Korea during a period beginning February 2003 and ending July 2006. The plaintiffs claim approximately U.S.$0.4 million in damages from the defendants, but as the case is still ongoing, the Company is unable to predict the outcome of the lawsuit or estimate the effect of a potential unfavourable verdict.

In November 2013, British Airways, which is the only defendant in a civil litigation by plaintiffs claiming damages of GBP 1 billion, filed a contribution claim with the English High Court alleging that 15 other airline companies, including the Company, had participated in price-fixing with respect to certain fuel surcharges in England. As the proceedings are still at a preliminary stage, the outcome or impact of such litigation to the Company cannot be predicted.

In June 2015, five airline companies including Lufthansa which are named as defendants in a civil damage litigation, filed third-party proceedings against twelve airline companies, including the Company, in the Netherlands, alleging that the defendants had fixed certain fuel surcharges. As the proceedings are still at a preliminary stage, the outcome or impact of the litigation to the Company cannot be predicted.

Other than as mentioned above, the Company is not currently involved in, nor is its management aware of any threat of, any litigation, administrative proceeding or arbitration, the outcome of which would, in the reasonable judgment of its management, have a material adverse effect on its financial condition or results of operations.

THE NOTE ISSUER

GENERAL

KAL Japan ABS 20 Cayman Limited (the "**Note Issuer**" and the "**Bondholder**") was incorporated as an exempted company with company number WC-316283 in the Cayman Islands on 22 October 2016 pursuant to the Companies Law (2016 Revision) of the Cayman Islands. The registered office of the Note Issuer is at the offices of Walkers Fiduciary Limited, Cayman Corporate Centre, 27 Hospital Road, George Town, Grand Cayman KY1-9008, Cayman Islands and its telephone number is +1-345-814-7600.

The Note Issuer is a special purpose vehicle and has no prior operating experience. The Note Issuer has no subsidiaries.

PRINCIPAL ACTIVITIES

The Note Issuer has not engaged, since its incorporation, in any activities other than those incidental to its incorporation, the authorisation, execution and issue of the Notes, the documents and matters referred to or contemplated in this Offering Circular to which it is or will be a party and matters which are incidental or ancillary to the foregoing.

The objects of the Note Issuer are set out in Clause 3 of its Memorandum and Articles of Association. As an exempted company, the Note Issuer may not trade in the Cayman Islands with any person except in furtherance of the business of the Note Issuer carried on outside the Cayman Islands. The Note Issuer will covenant to observe certain restrictions on its activities which are described in Note Condition 6.

Board of Directors and Secretary

The directors of the Note Issuer (together, the "**Board of Directors of the Note Issuer**") and their other principal activities and business addresses are:

Name	Other Principal Activities	Business Address
Dianne Farjallah..........	Business person	c/o Walkers Fiduciary Limited Cayman Corporate Centre 27 Hospital Road, George Town Grand Cayman KY1-9008 Cayman Islands
Gennie Bigord	Business person	c/o Walkers Fiduciary Limited Cayman Corporate Centre 27 Hospital Road, George Town Grand Cayman KY1-9008 Cayman Islands

The secretary of the Note Issuer is Walkers Fiduciary Limited. The Note Issuer has no employees.

Certain of the affairs of the Note Issuer (including various corporate, secretarial and administrative services) are managed by Walkers Fiduciary Limited of Cayman Corporate Centre, 27 Hospital Road, George Town, Grand Cayman KY1-9008, Cayman Islands, as Cayman Administrator (the "**Cayman Administrator**") pursuant to the Cayman Administrator Agreement. The Cayman Administrator will, *inter alia*, provide the services of two directors and a secretary to the Note Issuer and will be responsible for the day to day administration of the Note Issuer.

The Cayman Administrator may retire at any time by giving at least three months' notice in writing to the Note Issuer and the Note Trustee; *provided that* the Cayman Administrator may not retire until, *inter alia*, a replacement Cayman Administrator has been appointed on terms substantially the same as those set out in the Cayman Administrator Agreement. Pursuant to the Cayman Administrator Agreement, the Note Issuer may terminate the appointment of the Cayman Administrator by giving at least one month's notice in writing, or at any time without notice if (a) an Insolvency Event occurs in respect of the Cayman Administrator; (b) the Note Issuer is fraudulent or negligent or there has been wilful misconduct on the part of the Cayman Administrator, in each case in its dealings with the Note Issuer; or (c) the Cayman Administrator commits any breach of its obligations under the Cayman Administrator Agreement.

SHARE CAPITAL

The authorised share capital of the Note Issuer consists of U.S.$50,000 divided into 50,000 ordinary shares of U.S.$1 par value each. 250 ordinary shares have been issued at par, are fully-paid and are held by Walkers Fiduciary Limited under the terms of a declaration of trust on trust for charitable purposes.

CAPITALISATION AND INDEBTEDNESS

The capitalisation and indebtedness of the Note Issuer, as at the date of this Offering Circular, adjusted for the Notes to be issued on the Closing Date, is as follows:

Capitalisation and Indebtedness Statement of the Note Issuer

	As at 22 December 2016
	(U.S.$)
Share Capital	
250 ordinary shares issued and fully paid	250
Total Share Capital	250
Loan Capital	
The Senior Notes and Subordinated Notes (¥15,000,000,000)	127,302,045[1]
Total Loan Capital	127,302,045
Total Capitalisation	127,302,545

1 Rate used to convert ¥ to U.S.$ is U.S.$1 = ¥117.83

Note: Other than as described above, there has been no material change in the capitalisation of the Note Issuer as at the date hereof.

Save as disclosed elsewhere in this Offering Circular, at the date of this Offering Circular, the Note Issuer has no borrowings or indebtedness in the nature of borrowings (including loan capital issued or created but unused), term loans, liabilities under acceptances or acceptance credits, mortgages, charges or guarantees or other contingent liabilities.

There are no other outstanding loans or subscriptions, allotments or options in respect of the Note Issuer.

There has been no material adverse change in the financial position of the Note Issuer since the date of its incorporation.

FINANCIAL YEAR

The financial year of the Note Issuer runs from 1 January to 31 December. There has been no material change in the activities of the Note Issuer since its incorporation.

The Note Issuer is not required under Cayman Islands law to prepare annual financial statements or have its financial statements audited.

ANNUAL NOTICE TO NOTE TRUSTEE

The Note Issuer is required to provide written confirmation to the Note Trustee on an annual basis in accordance with Note Condition 8 that, as far as it is aware, no Note Event of Default or other matter which is required to be brought to the attention of the Note Trustee, has occurred.

THE BOND ISSUER

GENERAL

KAL 20 Asset Securitization Specialty Company (the "**Bond Issuer**") was incorporated and registered in Korea (under registration number 110114-0191433) as a Korean securitisation specialty company (a limited liability company (*yuhanhoesa*) under the ABS Act and the Korean Commercial Code) on 27 October 2016. The registered office of the Bond Issuer is at 260 Haneul-gil (Gonghang-dong), Gangseo-gu, Seoul 07505, Korea and its telephone number is +822-724-4593.

The Bond Issuer is a special purpose vehicle and has no prior operating experience. The Bond Issuer does not have any subsidiaries or any employees.

PRINCIPAL ACTIVITIES

The principal objects of the Bond Issuer are set out in Clause 2 of its Articles of Incorporation and are, amongst other things, to carry out activities pursuant to the ABS Act and will include entering into agreements necessary for the performance of the obligations under the transaction specified in the securitisation plan filed with the FSC.

The Bond Issuer has not engaged, since its incorporation, in any material activities other than those incidental to its incorporation, the authorisation, execution and issue of the Bond, the purchase of the Investor Beneficial Interest and the matters contemplated in this Offering Circular and the Transaction Documents and the authorisation, execution, delivery and performance of the Transaction Documents to which it is a party and matters which are incidental or ancillary to the foregoing.

DIRECTOR

The sole director of the Bond Issuer is Seokjoo Lee of Cheongpa-ro 43 Na-gil 11 (Cheongpa-dong 3 Ga), Yongsan-gu, Seoul 04313, Korea. There are no conflicts of interest between Seokjoo Lee's private interests and other duties and his duties to the Bond Issuer.

EQUITY CAPITAL

The authorised equity capital of the Bond Issuer consists of KRW20,000 divided into 200 units of a nominal or par value of KRW100 par value each. 200 units have been issued at par, are fully-paid with 1 unit being held by the Trustor and 199 units by Seokjoo Lee.

CAPITALISATION AND INDEBTEDNESS

The capitalisation of the Bond Issuer as at the date of this Offering Circular, adjusted for the Bond to be issued on the Closing Date, is as follows:

	As at 22 December 2016
	(KRW)
Equity Capital	
200 units of KRW100 issued and fully paid	20,000
Total Share Capital	20,000
Loan Capital	
Bond (¥15,000,000,000)	151,959,000,000[1]
Total Loan Capital	151,959,000,000
Total Capitalisation	151,959,020,000

1 Rate used to convert Japanese Yen to KRW is ¥100 = KRW1,013.06, which was the market average exchange rate, as announced by the Seoul Money Brokerage Services Ltd., on 20 December 2016

Note: Other than as described above, there has been no material change in the capitalisation of the Bond Issuer as at the date hereof.

As of the Closing Date, the Bond will be held by the Note Issuer.

Save as disclosed elsewhere in this Offering Circular, at the date of this Offering Circular the Bond Issuer has no borrowings or indebtedness in the nature of borrowings (including loan capital issued, or created but unused), term loans, liabilities under acceptances or acceptance credits, mortgages, charges or guarantees or other contingent liabilities.

There are no other outstanding loans or subscriptions, allotments or options in respect of the Bond Issuer.

There has been no material adverse change in the financial position of the Bond Issuer since the date of its incorporation.

FINANCIAL YEAR

The financial year of the Bond Issuer runs from 1 January to 31 December. The first financial year of the Bond Issuer will end on 31 December 2016. There has been no material change in the activities of the Bond Issuer since its incorporation and no financial statements have been made up as at the date of the registration document.

THE JAPANESE TRUST AND THE JAPANESE TRUSTEE

The Japanese Trust has been formed in accordance with the laws of Japan and the provisions of the Trust Agreement by and between, *inter alios*, the Trustor and the Japanese Trustee.

The Japanese Trust is governed by the Trust Agreement. Pursuant to, and in accordance with, the Trust Agreement, the Japanese Trustee will hold, administer and manage the Entrusted Assets, issue the Beneficial Interests, make periodic payments on the Beneficial Interests and enter into agreements necessary for the performance of its obligations under the transaction.

The Japanese Trust will terminate upon the earlier to occur of (a) 31 December 2021 and (b) the date on which all amounts due under the Notes have been paid in full.

The Japanese Trustee is Deutsche Trust Company Limited Japan, a trust company with a trust business licence incorporated in Japan and a wholly owned subsidiary of Deutsche Bank AG.

If at any time the Japanese Trustee will be legally unable to act, has a bankruptcy petition filed against it or consents to the filing of a bankruptcy petition on its behalf, or is adjudged bankrupt or insolvent, or a receiver of the Japanese Trustee or of its property will be appointed, or any public officer takes charge or control of the Japanese Trustee or of its property or affairs for the purpose of rehabilitation, conservation or liquidation, then the Investor Beneficiary shall remove the Japanese Trustee and appoint a successor trustee.

KOREAN FOREIGN EXCHANGE CONTROLS AND SECURITIES REGULATIONS

GENERAL

In the past, the Foreign Exchange Management Act (Law No. 4447, 27 December 1991), as amended, and the Presidential decree and regulations thereunder (collectively the "**Foreign Exchange Management Laws**") regulated investment in Korean securities by non-residents and issuance of securities outside Korea by Korean companies. With effect from 1 April 1999, the Foreign Exchange Management Laws were abolished and the Foreign Exchange Transaction Act (Law No. 5550, 16 September 1998), as amended, and the Presidential decree and regulations thereunder (collectively, the "**FETL**") were enacted. Under the FETL, many restrictions on foreign exchange transactions have been reduced and many currency and capital transactions have been liberalised. Although non-residents may invest in Korean securities only to the extent specifically allowed by such laws or otherwise permitted by the Ministry of Strategy and Finance (the "**MOSF**"), many approval requirements have been relaxed. The FSC has also adopted, pursuant to its authority under the Financial Investment Services and Capital Markets Act, regulations that restrict investment by foreigners (as defined therein) in Korean securities. However, Korean law does not limit the right of non-residents to hold securities issued pursuant to the FETL outside Korea.

With effect from 1 January 2006, the FETL was amended to further liberalise foreign exchange transactions. In accordance therewith, certain transactions that previously required approval from the Bank of Korea or MOSF now require only a report to the Bank of Korea or MOSF, although such report will have to be accepted by the Bank of Korea or MOSF, as applicable.

Under the FETL, if the Government deems that (a) it is necessary in the event of natural disasters or the outbreak of any wars or conflict of arms or the occurrence of grave and sudden changes in domestic/foreign economic circumstances or other situations equivalent thereto, the MOSF may temporarily suspend payments, or the receipt of payments, on the whole or part of transactions to which the FETL applies or imposes an obligation on the transaction parties to safekeep or deposit with or sell to, the Bank of Korea, certain Korean governmental agencies, the Foreign Exchange Equalization Fund or financial institutions, the means of payment of the transaction (including any precious metal), or (b) the international balance of payments and international finance are confronted or are likely to be confronted with serious difficulty or the movement of capital between Korea and foreign jurisdictions causes or is likely to cause a serious obstruction to the conduct of currency policies, exchange rate policies and other macroeconomic policies, the MOSF may take action to require any person who intends to perform capital transactions (which include, among other things, the generation, alteration or extinction of claims from contracts of deposit, trust, the lending of money, the acquisition of securities, etc.) to obtain permission or to require any person who performs capital transactions to deposit a portion of the means of the payment acquired in such transactions with the Bank of Korea, the Foreign Exchange Equalization Fund or financial institutions, in each case subject to certain limitations thereunder.

GOVERNMENT REVIEW OF THE ISSUANCE OF THE BOND AND AUTHORISATION FOR PAYMENTS ON THE BOND

In order for the Bond Issuer to issue the Bond to a non-resident, the Bond Issuer is required to file a prior report of the issuance to the MOSF through Deutsche Bank AG, Seoul Branch in its capacity as the Bond Issuer's foreign exchange bank (the "**Bond Issuer FX Bank**"). There are certain other regulatory reports that are required under the FETL in connection with the execution, delivery and performance of the Transaction Documents by the parties thereto.

Under the FSC's Regulations on Issuance, Public Disclosure, etc. of Securities, the transfer of the Bond to a Korean Resident is prohibited during the first year of its issuance except as otherwise permitted by applicable Korean law and regulations.

CERTAIN LEGAL CONSIDERATIONS

The following is a summary of certain Korean and Cayman Islands legal issues relevant to Noteholders. The following summary is not intended to be exhaustive. Prospective investors should consider the nature of an investment in notes of this type and the political and legal environment of Korea and the Cayman Islands and should make such further investigations as they, in their sole discretion, deem appropriate.

KOREAN LEGAL CONSIDERATIONS

Enforcement of English or Japanese Judgments in Korea

A monetary judgment duly obtained in the courts of England or Japan will be recognised by Korean courts without a re-examination of the merits of the case if:

(a) such judgment was finally and conclusively given by a court having valid jurisdiction in accordance with the international jurisdiction principles under Korean law and applicable treaties;

(b) the Bond Issuer, the Trustor, either Equityholder or any other Korean party, as the case may be, received service of process, other than by publication or similar means, in sufficient time to enable such party to prepare its defence in conformity with English laws or the laws of Japan, as applicable (or in conformance with the laws of Korea if it were made to the Trustor, an Equityholder or the Bond Issuer, as the case may be, in Korea), or responded to the action without being served with process;

(c) recognition of such judgment is not contrary to the public policy of Korea; and

(d) (i) judgments of the courts of Korea are accorded reciprocal treatment under the laws of England or Japan, as the case may be, and (ii) judgments of the courts of Korea in England or Japan are not treated in a manner which is considerably prejudicial to their recognition and their treatment is substantially the same as treatment by the courts of Korea of the judgments obtained in England or Japan in material respects.

The ABS Act

The Investor Beneficial Certificate will be sold by KAL Seoul to the Bond Issuer pursuant to the Investor Beneficial Interest Sale and Purchase Agreement and in accordance with the ABS Act. Under the ABS Act, the Bond Issuer is required to register a plan of asset securitisation and KAL Seoul is required to register the sale of the Investor Beneficial Certificate, respectively, with the FSC.

Under the ABS Act, the sale of the Investor Beneficial Certificate will be perfected against third parties on the date of registration of such sale with the FSC.

Korean counsel to the Joint Arrangers, subject to certain assumptions, has advised that (i) the sale by the Trustor to the Bond Issuer pursuant to the Investor Beneficial Interest Sale and Purchase Agreement of the Investor Beneficial Certificate on the Closing Date is a legal, valid and binding sale of the Investor Beneficial Certificate by the Trustor to the Bond Issuer on the Closing Date and (ii) the sale of the Investor Beneficial Certificate to the Bond Issuer on the Closing Date will be perfected against third parties upon registration of such sale with the FSC in accordance with the ABS Act.

Insolvency Laws in Korea

Debtor Rehabilitation and Bankruptcy Act of Korea

On 2 March 2005, the National Assembly of Korea passed the Debtor Rehabilitation and Bankruptcy Act (the "**Debtor Rehabilitation and Bankruptcy Act of Korea**") which combines and amends the Bankruptcy Act, the Act on Individual Debtor Rehabilitation, the Corporate Reorganisation Act and the Composition Act. The Debtor Rehabilitation and Bankruptcy Act of Korea became effective from 1 April 2006, and contains, among others, the following:

(a) provisions applicable to rehabilitation pursuant to Chapter 2 Proceedings, which are based on the Corporate Reorganisation Act and expand the scope of eligible applicants for Chapter 2 Proceedings to all types of legal entities, including corporations, and unincorporated foundations or associations, as well as individuals;

(b) provisions applicable to bankruptcy proceedings, which are based on the Bankruptcy Act;

(c) provisions applicable to individual rehabilitation pursuant to Chapter 4 Proceedings, which are based on the Act on Individual Debtor Rehabilitation and are applicable only to certain individual debtors who earn wages or business income with debts of no more than a certain specified amount; and

(d) provisions applicable to international insolvency proceedings, which have been newly introduced.

Under the Debtor Rehabilitation and Bankruptcy Act of Korea, the petitioner must specify which procedure it wishes to use.

For a debtor that has filed for a bankruptcy proceeding under the Debtor Rehabilitation and Bankruptcy Act of Korea, after the court issues an order preserving the debtor's assets, a receiver will be appointed to liquidate the assets of the debtor and to distribute the proceeds to its unsecured creditors on a pro rata basis. Secured creditors remain free to exercise their interests under the bankruptcy proceedings.

On the other hand, the goal of Chapter 2 Proceedings and Chapter 4 Proceedings is to rehabilitate insolvent companies or, as the case may be, individuals. Whilst in a Chapter 2 Proceeding secured creditors will not be able to enforce their security outside such Chapter 2 Proceeding, secured creditors in a Chapter 4 Proceeding will be able to enforce their security interests notwithstanding such Chapter 4 Proceeding (a) unless the court issues an order to suspend or prohibit such exercise during the period after the filing of the petition for the Chapter 4 Proceeding but before the court decides to commence the Chapter 4 Proceeding, or (b) once the court decides to commence the Chapter 4 Proceeding, only after the earlier of (i) the court's approval of the repayment plan or (ii) the final decision by the court to discontinue such Chapter 4 Proceeding.

The Debtor Rehabilitation and Bankruptcy Act of Korea makes it easier for the court to avoid the debtor's transactions with certain shareholders or equityholders of the debtor ("**specially related persons**"), by presuming that the specially related persons acted knowingly in such transactions. In addition, under the previous law, transactions made by debtors for, or relating to, the grant of security or the extinguishment of obligations within 60 days before the suspension of payment, without the obligation to do so, may be avoided. However, the Debtor Rehabilitation and Bankruptcy Act of Korea extends this 60 day period to one year in the case of transactions with specially related persons. Further, under the current law, gratuitous or equivalent acts performed by the debtor within six months before the suspension of payment, etc. may be avoided, and the Debtor Rehabilitation and Bankruptcy Act of Korea also extends this six-month period to one year with regard to transactions with specially related persons.

Chapter 2 Proceedings

A Chapter 2 Proceeding (a "**Chapter 2 Proceeding**") (i.e., the rehabilitation proceedings) is designed for use by an insolvent debtor which wishes to rehabilitate itself. This proceeding is tightly controlled by the court so that most of the material actions or decisions of the debtor may be taken or made only with the approval of the court.

One of the most significant changes effected through the Debtor Rehabilitation and Bankruptcy Act of Korea with respect to Chapter 2 Proceedings in comparison with corporate reorganisation proceedings under the Corporate Reorganisation Act is that all types of legal entities, including joint stock companies, limited liability companies and unincorporated foundations or associations, as well as individuals, can rehabilitate pursuant to Chapter 2 Proceedings, whereas under the Corporate Reorganisation Act, only joint stock companies were subject to reorganisation proceedings. Although individual debtors can rehabilitate pursuant to Chapter 2 Proceedings, since this is a new feature of the Debtor Rehabilitation and Bankruptcy Act of Korea, it is not clear how frequently and on what criteria the court will apply such procedures to individual debtors. In addition, although under the Corporate Reorganisation Act, a limited liability company such as the Bond Issuer has not been subject to corporate reorganisation proceedings because it is not a joint stock company, it will be subject to Chapter 2 Proceedings under the Debtor Rehabilitation and Bankruptcy Act of Korea due to the expansion of eligible debtors as described above.

Another significant change is that, although the Debtor Rehabilitation and Bankruptcy Act of Korea maintains the previous system of appointing a permanent receiver in Chapter 2 Proceedings, it provides that, in principle, the debtor itself or, in cases where the debtor is a company, its own representative, and not a third party, should be elected as the receiver with certain exceptions whereas the Corporate Reorganisation Act used to replace the incumbent management with the receiver appointed by the court. Further, the Debtor Rehabilitation and Bankruptcy Act of Korea, unlike the Corporate Reorganisation Act, permits a legal entity to be appointed as the receiver of the rehabilitation proceeding, in which case this legal entity shall designate one of its directors to exercise the rights and powers conferred to it as the receiver and shall report such designation to the court.

Under the Debtor Rehabilitation and Bankruptcy Act of Korea, the debtor may file a petition to the court for Chapter 2 Proceedings in the case where (a) debts cannot be repaid without causing material damage to the continuance of the debtor's business or (b) any events leading to bankruptcy of the debtor may arise. If the debtor is a joint stock company or a limited liability company, (i) a creditor who has claims in an amount of not less than 10 per cent. of the debtor's paid-in capital or (ii) a shareholder or equityholder who holds shares or equity interests of not less than 10 per cent. of the debtor's paid-in capital may also apply for the Chapter 2 Proceedings. If the debtor is not a joint stock company or a limited liability company, a creditor who has claims in the amount of not less than KRW50 million or an equityholder who holds equity interests of not less than 10 per cent. of the debtor's equity interest can apply for Chapter 2 Proceedings.

When a debtor itself or its creditor or equityholder satisfying the above requirements applies for a Chapter 2 Proceeding, the court may, upon request from interested parties or in its sole discretion, but after hearing the opinion of the management committee, issue a preservation order against individual assets of the debtor, and may issue an injunction against bankruptcy proceedings or enforcement proceedings initiated by its secured or unsecured creditors. Further, if the court determines that the object of the Chapter 2 Proceedings may not be achieved through individual asset preservation orders, it may issue a comprehensive injunction against enforcement proceedings initiated by creditors against the assets of the debtor. If a comprehensive injunction is issued, enforcement proceedings that are already in progress will be suspended, and the court may cancel such enforcement proceedings upon the request of the debtor or, as the case may be, the receiver, if deemed necessary for the continuance of the debtor's business. However, if the court determines that a creditor may sustain unjust damages as a result of such comprehensive injunction, the court may revoke the injunction for that particular creditor upon the request of such creditor.

When a petition for a Chapter 2 Proceeding is filed, the court is required within one month of the date of petition to determine whether to commence a Chapter 2 Proceeding. Once the commencement of the Chapter 2 Proceeding is declared, most claims against the debtor that arose prior to such commencement date are automatically stayed, while claims arising after such commencement date are generally not subject to the Chapter 2 Proceeding. Also, the court will appoint a permanent receiver, who has the power to conduct all of the debtor's business and manage all of the debtor's properties, subject to court supervision.

The Debtor Rehabilitation and Bankruptcy Act of Korea strengthens the role of the committee of creditors by mandating its composition, unless the debtor is a small-or medium-sized enterprise or an individual, and granting the committee the right to nominate an auditor and to request investigation of the debtor company's business status after the approval of the rehabilitation plan.

As a general rule, any creditor whose claim against the debtor arose prior to the commencement of a Chapter 2 Proceeding, whether secured or unsecured, may not enforce such claims other than as provided for in the rehabilitation plan adopted at the meeting of interested parties and approved by the court. The rehabilitation plan may alter or modify the rights of creditors or shareholders. Accordingly, there can be no assurance that the rights of the creditors, whether secured or unsecured, will not be adversely affected by a Chapter 2 Proceeding. Further, a creditor who intends to participate in the rehabilitation plan must file its claim with the court within the period fixed by the court.

Under a Chapter 2 Proceeding, creditors are classified into three basic categories: (i) creditors with unsecured rehabilitation claims, (ii) creditors with secured rehabilitation claims and (iii) creditors with claims for common benefits. The former two categories of creditors are subject to Chapter 2 Proceedings and generally may not receive payment or repayment for their respective claims other than as provided in the rehabilitation plan. Creditors with claims for common benefits are not subject to the rehabilitation plan, and include, among others, those creditors whose claims either arose after the commencement of a Chapter 2 Proceeding (subject to certain exceptions) or those creditors whose claims were approved by the court during the preservation period.

In order to encourage mergers and/or acquisitions of insolvent companies, the Debtor Rehabilitation and Bankruptcy Act of Korea relaxes the requirements for approval of rehabilitation plans contemplating liquidation (including, without limitation, business transfer), by requiring the approval of the creditors representing four-fifths of the outstanding amount of secured claims, whereas the Corporate Reorganisation Act required unanimous consent of all secured creditors. However, in case of rehabilitation plans contemplating the continuance of the debtor's business including, without limitation, merger, spin-off or business transfer, the consent of the creditors representing not less than three-fourths of the amount of secured rehabilitation claims and of the creditors representing not less than two-thirds of the unsecured rehabilitation claims is required. For approval of all types of rehabilitation plans, the consent of the shareholders having not less than half of the voting rights is also required.

If the debtor fails to perform its payment obligations in accordance with the rehabilitation plan, affected creditors are not permitted to initiate lawsuits or enforce their security interests. Instead, they (or the receiver of the company) may only request the court to amend the rehabilitation plan. However, if such amendment could have an adverse effect on creditors with rehabilitation claims or shareholders of the company, the court may amend the rehabilitation plan only by obtaining an affirmative vote at a meeting of interested parties. If it becomes apparent, either before or after the court approves the rehabilitation plan, that the debtor cannot be rehabilitated, the court may, at its sole discretion or upon request by the receiver or a creditor with a rehabilitation claim, issue an order to discontinue the Chapter 2 Proceeding.

Once a Chapter 2 Proceeding is discontinued and if the court determines the debtor is insolvent, the court must declare the debtor bankrupt and must initiate the bankruptcy proceeding against the debtor. The compulsory declaration of bankruptcy in Chapter 2 Proceedings will be limited to those cases where a final decision has been made to terminate the Chapter 2 Proceedings after the approval of the rehabilitation plan.

A declaration of bankruptcy is optional in cases of:

(i) the dismissal of a petition for the commencement of Chapter 2 Proceedings;

(ii) the non-approval of a rehabilitation plan; and

(iii) an order to terminate Chapter 2 Proceedings before the approval of the rehabilitation plan.

If the bankruptcy proceedings are initiated, unsecured rehabilitation claims are characterised as general liquidation claims, and creditors with unsecured rehabilitation claims will be paid pursuant to the bankruptcy proceedings. Creditors with secured rehabilitation claims, on the other hand, may immediately enforce their security interest once the rehabilitation proceeding is discontinued, provided, however, that if the terms of the secured claim is amended by the rehabilitation plan, such claim may only be enforced in accordance with such amendment and the original terms shall not be revived.

Bankruptcy Proceedings

The bankruptcy proceeding is a court administered process designed to liquidate an insolvent debtor's assets and formally begins upon an adjudication by the court that the debtor is indeed "bankrupt". The court will make its determination as to whether grounds for bankruptcy exist based on the written pleadings and oral argument of the petitioner. The adjudication of bankruptcy also has the effect of automatically staying all unsecured creditors from executing their claims against the bankruptcy estate.

The receiver appointed by the court will be vested with the exclusive right to manage and dispose of the bankruptcy estate, and to conduct an investigation and assessment of the bankruptcy estate. The Debtor Rehabilitation and Bankruptcy Act of Korea, unlike the Bankruptcy Act, permits a legal entity to be appointed the receiver of the bankruptcy proceeding. If a legal entity is appointed the receiver, it shall designate one of its directors to exercise the right and power conferred to it as receiver and shall report such designation to the court. After reviewing the reports prepared by the receiver, the creditors will have a meeting and vote on a resolution deciding whether to continue or discontinue the debtor business and the manner of safeguarding the bankruptcy estate.

Subject to certain statutory limitations and approval by the inspection commissioners, the receiver has the power to liquidate the bankruptcy estate, and to determine the manner and timing of such liquidation. The receiver distributes the proceeds from the liquidation of the bankruptcy estate to the creditors in proportion to their claims. The distribution proceeds in several stages. Claims entitled to distribution are differentiated according to the priority of claims. Bankruptcy creditors are classified as follows, in accordance with their priorities: (i) secured creditors, who have the right to proceed against their securities on the same terms as would be available if the debtor were not in bankruptcy; (ii) creditors with estate claims, which include costs of judicial proceeding, tax claims, wages and payment of severance, management expenses incurred in connection with management, liquidation and distribution of the bankruptcy estate, and other claims arising from administration of the bankruptcy estate; (iii) creditors with other statutorily preferred claims (including policyholders' claims against an insurance company to the extent of the amount equal to the relevant reserves); (iv) general claims; and (v) less preferred claims.

Chapter 4 Proceedings

A Chapter 4 Proceeding (i.e., the individual rehabilitation proceeding) is available to persons (a) who are unable, or are likely to become unable, to repay debts when they become due, (b) who are considered to have the ability to earn consistent wage income or business income in the future and (c) whose debt amount is no more than (i) KRW1 billion in case of debts secured by mortgage, pledge, *chonsei-kwon* and certain other preferential rights, and (ii) KRW500 million in case of any other debts. Only debtors, and not creditors, will be able to apply for Chapter 4 Proceedings. When a debtor files a petition for a Chapter 4 Proceeding, the court may suspend or prohibit bankruptcy proceedings, compulsory execution, provisional attachment, establishment or enforcement of security or the repayment of claims until the court decides whether to commence the Chapter 4 Proceeding. The court must make such decision within a month after the filing of the petition.

After the commencement order is issued by the court, any bankruptcy proceedings, Chapter 2 Proceeding or actions mentioned above are automatically suspended or prohibited. In addition, after the commencement order is issued by the court, the establishment or enforcement of security interests is automatically suspended or prohibited until the earlier of the date (a) when the repayment plan is approved or (b) when the approved Chapter 4 Proceeding is later finally determined to be discontinued. Subject to the automatic suspension or prohibition as described above, secured creditors have the right to enforce their security interest on the same terms as would be available if the debtor was not in Chapter 4 Proceedings. In principle, the debtor retains management and disposal rights over his/her assets even after the issuance of a commencement order for the Chapter 4 Proceedings. The debtor must submit a list of creditors at the time of application, and any claim that is not disputed by the relevant creditor will be settled as indicated on the list of creditors. Claims that are disputed by creditors will be settled through a court decision. The debtor must, in principle, submit a repayment plan within 14 days of the application, and the rehabilitation period must not exceed five years from the commencement of repayment. The Debtor Rehabilitation and Bankruptcy Act of Korea shortens such repayment period to a maximum of five years as the maximum repayment period of eight years under the Act on Individual Debtor Rehabilitation was considered too severe.

The repayment plan must be approved by the court and the court may order its amendment. One important requirement for approval is that the total amount of repayment must not be less than the amount that creditors would have received in a bankruptcy proceeding, unless creditors consent to the court's approval despite the failure of the individual debtor's repayment plan to meet such requirement. The Debtor Rehabilitation and Bankruptcy Act of Korea sets out a list of claims that have priority in payment to the claims listed in the list of creditors (such as expenses for the Chapter 4 Proceedings, certain taxes, salaries for the debtor's employees, etc) in the same manner as set out in the Act on Individual Debtor Rehabilitation. Once the debtor completes repayment in accordance with the repayment plan, the court will issue an acquittal order for the debtor.

International Insolvency Proceedings

The representative in a foreign insolvency proceeding (i.e. a person or entity recognised by the applicable court as the receiver or representative in the foreign insolvency proceeding) may file with the Korean court for approval of such foreign insolvency proceeding. Once the foreign insolvency proceeding is approved by the Korean court, the representative in such proceeding may apply for insolvency proceedings in Korea or participate in the insolvency proceeding that is already in progress in Korea. On the other hand, the receiver or bankruptcy trustee in the insolvency proceeding in Korea may, for purposes of such proceeding, take actions in foreign jurisdictions to the extent permitted by the applicable laws.

Corporate Restructuring Promotion Act

The old Corporate Restructuring Promotion Act (Act No. 12155) was enacted on 1 January 2014 and expired on 31 December 2015. The National Assembly of Korea has passed the new CRPA (Act No. 14075) (the "**CRPA**") on 3 March 2016 and the CRPA is effective onward from 18 March 2016 and will expire on 30 June 2018.

The CRPA restricts certain financial creditors' ability to enforce security interests provided by a company which may not be able to repay its borrowings without external financial support or additional borrowings (other than borrowings in the ordinary course of business) (a "**Failing Company**"), and is intended, among other things, to promote the corporate restructuring of Korean companies by market mechanisms. The CRPA is now applicable to "Financial Creditors" who have extended a credit against a Failing Company and encompasses the Creditor Financial Institutions as specifically listed under the old CRPA regime. Regardless of whether a financial creditor is a Creditor Financial Institution or not under the CRPA, those who have extended a credit to a Failing Company are now all recognised as "Financial Creditors" under the amended CRPA.

The following is a summary of the relevant provisions under the CRPA applicable to all "**Financial Creditors**".

Under the CRPA, the main creditor bank specified in the CRPA (the "**Main Creditor Bank**") of a Failing Company is required to notify the Failing Company if it determines that such company is a Failing Company. Upon receipt of such notice from the Main Creditor Bank, the Failing Company may petition the Main Creditor Bank for the commencement of one of the following actions, attaching a business plan:

(a) assumption of joint management of the Failing Company by a committee of the Financial Creditor (a "**Creditor Committee**"); and

(b) assumption of management of the Failing Company by the Main Creditor Bank.

The Main Creditor Bank is then required to convene a Creditor Committee (except where the assumption of management of the Failing Company by the Main Creditor Bank has been petitioned) to determine whether it will commence the actions or not, within 14 days of receipt of the petition. Even if one of the above actions has been commenced, the Failing Company or Financial Creditor may petition for rehabilitation proceedings under the Debtor Rehabilitation and Bankruptcy Act of Korea. If the court issues a commencement order for rehabilitation of the Failing Company, the above actions shall be deemed to have been ceased.

Under the CRPA, in the event that the Main Creditor Bank of the Failing Company calls for a meeting of the Creditor Committee, the Main Creditor Bank is required to notify the Financial Creditors Conciliation Committee and the Governor of the Financial Supervisory Service. Upon effecting such notice, the Main Creditor Bank may require the Financial Creditor to grant a moratorium on the enforcement of claims (including the enforcement of security interest) until the end of the first meeting of the Creditor Committee. In addition, during the first meeting of the Creditor Committee, Financial Creditors whose outstanding credit aggregates at least 3/4 of the outstanding credit to the Failing Company may declare a moratorium a period of for up to three months if an investigation of the Failing Company's financial status is necessary or up to a period of one month if such investigation is not necessary (which may be extended by an additional month by resolutions of the Creditor Committee). However, in the event that the amount of credit extended by a single Financial Creditor constitutes 3/4 or more of the total credit amount of the entire Creditor Committee, the resolution will be adopted by an affirmative vote of at least 2/5 of the total number of Creditor Committee members, including the said Financial Creditor.

If the plan for corporate restructuring which sets out the adjustment of debts, extension of new credit or plans otherwise necessary for the restructuring of the Failing Company is not approved by the date the moratorium period ends, the Creditor Committee's management of the Failing Company shall be deemed to have been terminated. A Financial Creditor may reschedule the debt owed by the Failing Company with the resolution of the Creditor Committee adopted by (a) Financial Creditors representing not less than 3/4 of the outstanding secured claims, and (b) Financial Creditors whose outstanding credit aggregates not less than 3/4 of all outstanding credit extended by the Finance Creditors composing the Credit Committee (in case of (b), if the amount of credit held by a single Financial Creditor constitutes 3/4 or more of the total credit amount of the entire Creditor Committee, not less than 2/5 of the total number of Creditor Committee members, including the said Financial Creditor). A Financial Creditor may extend a new credit to the Failing Company with the resolution of the Creditor Committee adopted by Financial Creditors whose outstanding credit aggregates not less than 3/4 of all outstanding credit extended by the Finance Creditors composing the Credit Committee (if the amount of credit held by a single Financial Creditor constitutes 3/4 or more of the total credit amount of the entire Creditor Committee, not less than 2/5 of the total number of Creditor Committee members, including the said Financial Creditor.)

A Financial Creditor which has opposed the resolutions of the Creditor Committee by written notice in respect of the commencement of the management of the Failing Company by the Creditor Committee (the "**Opposing Creditor(s)**"), the rescheduling of debt or extension of new credit may, within seven days of such resolution, request the Main Creditor Bank to purchase all of its financial claims against the Failing Company. Financial Creditors that have approved the relevant resolutions (the "**Affirmative Creditor(s)**") shall purchase such claims jointly with other Affirmative Creditors within six months from the date falling seven days after such resolution; provided that if an Affirmative Creditor reaches an agreement with such Opposing Creditor, the Affirmative Creditors may procure that the Failing Company or a third party purchase such claims. Such purchase of claims by any of the Failing Company or a third party shall require the consent of the Opposing Creditor.

The purchase price and terms of the purchase shall be determined by negotiation among the Affirmative Creditors (or the Creditor Committee to whom the Affirmative Creditors have delegated all such acts in respect of such negotiation) and the Opposing Creditor. If no such agreement is reached, then such matters shall be determined by the coordination committee established under the CRPA.

CAYMAN ISLANDS LEGAL CONSIDERATIONS

The Note Issuer has been advised by its Cayman Islands counsel, Walkers, that, although there is no statutory enforcement in the Cayman Islands of judgments obtained in England or Japan, a judgment obtained in a foreign court (other than certain judgments of a superior court of any state of the Commonwealth of Australia) will be recognised and enforced in the courts of the Cayman Islands without any re-examination of the merits at common law, where the judgment (a) is final and conclusive, (b) is one in respect of which the foreign court had jurisdiction over the defendant according to Cayman Islands conflict of law rules, (c) is either for a liquidated sum not in respect of penalties or taxes or a fine or similar fiscal or revenue obligations or, in certain circumstances, for *in personam* non-money relief, and (d) was neither obtained in a manner, nor is of a kind enforcement of which is contrary to natural justice or the public policy of the Cayman Islands. Such judgment would be recognised and enforced in the courts of the Cayman Islands by an action commenced on the foreign judgment in the Grand Court of the Cayman Islands.

A Cayman Islands' court may stay proceedings if concurrent proceedings are being brought elsewhere.

TAXATION

The following summary is a general description of certain Korean, Japanese, Cayman Islands and European Union tax considerations relating to the purchase, ownership and disposition of the Notes is based upon laws, regulations, rulings and decisions in effect as at the date of this Offering Circular, all of which are subject to change (possibly with retroactive effect). The summary does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to purchase, own or dispose of the Notes and does not purport to deal with the consequences applicable to all categories of investors, some of which may be subject to special rules. Persons considering the purchase of the Notes should consult their own tax advisor concerning the application of Korean, Japanese, Cayman Islands and European Union tax laws to their particular situations as well as any consequences of the purchase, ownership and disposition of the Notes arising under the laws of any other taxing jurisdiction.

KOREAN TAXATION

The information provided below does not purport to be a complete summary of Korean tax law and practice currently applicable. Prospective investors should consult with their professional advisors.

The taxation of a non-Korean corporation such as the Note Issuer depends on whether the non-Korean corporation has a "**permanent establishment**" (as defined under Korean law) in Korea to which the relevant Korean source income is attributable or with which the relevant Korean source income is effectively connected. Non-Korean corporations without a permanent establishment in Korea are taxed in the manner described below. Non-Korean corporations with a permanent establishment in Korea are taxed in accordance with different rules.

Tax on Interest

In principle, interest on the Bond paid to a non-Korean corporation such as the Note Issuer by a Korean company is subject to withholding of Korean corporate income tax at the rate of 14 per cent. unless exempted or reduced by relevant laws or tax treaties. In addition, local corporate income tax should be withheld at the rate of 10 per cent. of the corporate income tax (raising the total tax rate to 15.4 per cent.) under the Local Tax Law of Korea (the "**LTL**"). Tax rates may be reduced or exempted by applicable tax treaties, conventions or agreements between Korea and the jurisdiction of the recipient who is the beneficial owner of the interest income.

The Special Tax Treatment Control Law of Korea (the "**STTCL**") exempts interest on bonds denominated in a foreign currency (excluding payments to a Korean corporation or resident or a permanent establishment of a non-Korean corporation) issued by a Korean company from Korean corporate income tax; provided that the offering of such bonds shall be an overseas issuance under the STTCL. Although interest on the Bond paid to a non-Korean corporation such as the Note Issuer by a Korean company is not exempted from local corporate income tax under the Special Local Tax Treatment Control Law of Korea (the "**SLTTCL**"), it is likely that such interest income would not be subject to withholding of the local corporate income tax, because such local corporate income tax is required to be withheld at the rate of 10 per cent. of the withheld corporate income tax under the LTL and there would be no withholding of corporate income tax on such interest income under the STTCL.

Tax on Capital Gains

The Corporate Tax Law of Korea excludes from Korean corporate income tax gains made by a non-Korean corporation without a permanent establishment in Korea from the sale of bonds to a non-resident or non-Korean corporation (unless the sale is to the permanent establishment in Korea of the non-resident or non-Korean corporation). The local corporate income tax is also eliminated under the LTL.

In addition, capital gains earned by a non-Korean corporation from the transfer of foreign currency denominated bonds taking place outside of Korea are exempt from Korean corporate income tax by virtue of the STTCL; *provided that* the issuance of such bonds shall be an overseas issuance under the STTCL. Although such capital gains are not exempt from local corporate income tax under the SLTTCL, it is likely that such capital gains would not be subject to withholding of the local corporate income tax, because such local corporate income tax is required to be withheld at the rate of 10 per cent. of the withheld corporate income tax under the LTL and there would be no withholding of corporate income tax under the STTCL.

If a sale of bonds issued by a Korean company where the seller is a non-Korean corporation is not exempted under Korean tax laws or applicable tax treaties, gains made on such sale are subject to Korean taxation at the lesser of 11 per cent. (including local corporate income tax) of the gross realisation proceeds or (subject to the production of satisfactory evidence of the acquisition costs and certain transaction costs) 22 per cent. (including local corporate income tax) of the gain made.

Unless the seller can claim the benefit of an exemption of tax under an applicable treaty or in the absence of the seller producing satisfactory evidence of its acquisition cost and certain direct transaction costs in relation to the securities being sold, the purchaser or any other designated withholding agents of the bonds, as applicable, must withhold an amount equal to 11 per cent. of the gross realisation proceeds.

Stamp Tax and Securities Transaction Tax

No stamp, registration, or similar taxes are payable in Korea on the Transaction Documents; provided that such documents are executed outside of Korea. If certain Transaction Documents are executed in Korea, a stamp duty ranging from KRW100 to KRW350,000 would be imposed on each original document. No securities transaction tax will be imposed on the transfer of the Bond.

Tax Treaties

At the date of this Offering Circular, Korea does not have a tax treaty with the Cayman Islands.

UNITED STATES TAXATION

U.S. Foreign Account Tax Compliance Withholding

Under provisions of U.S. law commonly referred to as "**FATCA**", the Note Issuer may be subject to a 30 per cent. withholding tax on its income from U.S. sources and, beginning 1 January 2019, on the gross proceeds from the sale, maturity, or other disposition of certain of its assets that generate U.S.-source income. However, the Cayman Islands have entered into the US IGA with the United States and have entered into the UK IGA with the United Kingdom. The Note Issuer will be required to comply with the Cayman Islands Tax Information Authority Law (2014 Revision) (as amended) together with regulations and guidance notes made pursuant to such Law that give effect to the IGAs. To the extent the Note Issuer is a "Reporting Cayman Islands Financial Institution" (as defined in the IGAs), the Note Issuer will be required to undertake due diligence procedures that generally provide for the identification of certain direct and indirect US and UK investors and reporting to the TIA certain information with respect to such investors. The Cayman Islands Tax Information Authority will exchange such information with the IRS or HMRC, as the case may be, under the terms of the relevant IGA. Provided the Note Issuer complies with its obligations under the IGAs and the Cayman Islands implementing authorities, the Note Issuer generally will not be subject to withholding under FATCA, either on payments it makes or receives. The Note Issuer will endeavour to comply with these requirements and expects it will be able to do so.

On 29 October 2014, the Cayman Islands along with 50 other jurisdictions signed the Multilateral Agreement to demonstrate its commitment to implement the CRS. The Tax Information Authority (International Tax Compliance) (Common Reporting Standard) Regulations, 2015, which require extensive due diligence to be undertaken on new and pre-existing accounts, were enacted on 16 October 2015 with a view to commencing reporting on such accounts during 2017. With more than 80 countries having since agreed to implement the CRS, which will impose similar reporting and other obligations as the IGAs with respect to the Noteholders who are tax resident in other signatory jurisdictions, the scope of the Note Issuer's reporting obligations to the TIA will significantly increase in 2017, as will the level of dissemination of account information by the Cayman Islands Tax Information Authority to tax authorities around the globe. The Cayman Islands government may also enter into additional agreements with other countries in the future, and additional countries may adopt CRS, which will likely further increase the reporting and/or withholding obligations of the Note Issuer.

The Cayman Islands implementation process is not yet complete, and it is not certain that the Note Issuer will be able to comply with all of these requirements. Moreover, the US IGA provides that the United States and the Cayman Islands will develop an alternative approach to address "foreign passthru payments". It is unclear what approach will be taken, and it is possible, for example, that entities such as the Note Issuer will be required to withhold on payments that are treated as foreign passthru payments as early as 1 January 2019.

Whilst the Notes are in global form and held within Euroclear Bank or Clearstream (together, the "**ICSDs**"), it is expected that FATCA will not affect the amount of any payments made under, or in respect of, the Notes by the Note Issuer, any paying agent and the common depositary, given that each of the entities in the payment chain from (but excluding) the Note Issuer to (but including) the ICSDs is a major financial institution whose business is dependent on compliance with FATCA and that any alternative approach introduced under an IGA will be unlikely to affect the Notes.

If an amount in respect of U.S. withholding tax were to be deducted or withheld from interest, principal or other payments on the Notes as a result of FATCA, none of the Note Issuer, any paying agent or any other person would, pursuant to the terms and conditions of the Notes be required to pay additional amounts as a result of the deduction or withholding. As a result, investors may receive less interest or principal than expected.

FATCA and similar reporting regimes are particularly complex and their application is uncertain at this time. The above description is based in part on regulations, official guidance and intergovernmental agreements, all of which are subject to change or may be implemented in a materially different form. Prospective investors should consult their own tax advisers to obtain a more detailed explanation of FATCA and how FATCA may affect them.

JAPANESE TAXATION

Investors should consult their own tax advisers prior to the purchase of the Notes.

CAYMAN ISLANDS TAXATION

The following is a general discussion of certain Cayman Islands tax considerations for prospective investors in the Notes. The discussion is based upon present law and interpretations of present law, both of which are subject to prospective and retroactive changes. The discussion does not consider any investor's particular circumstances and it is not intended as tax advice. Each prospective investor is urged to consult its tax adviser about the tax consequences of an investment in the Notes under the laws of the Cayman Islands, Japan, Korea, jurisdictions from which the Note Issuer may derive its income or conduct its activities, and jurisdictions where the investor is subject to taxation.

Withholding Tax

No withholding tax is payable in the Cayman Islands in respect of payments of principal and interest on the Notes.

Stamp Duty

No stamp duties or similar taxes or charges are payable under the laws of the Cayman Islands in respect of the execution and issue of the Notes unless they are executed in or brought within (for example, for the purposes of enforcement) the jurisdiction of the Cayman Islands, in which case stamp duty of 0.25 per cent. of the face amount thereof may be payable on each Note (up to a maximum of 250 Cayman Islands dollars ("**CI$**") (U.S.$305) unless stamp duty of CI$500 (U.S.$610) has been paid in respect of the entire issue of Notes. The above conversions of Cayman Islands dollars to U.S. dollars have been made on the basis of U.S.$1.22 to CI$1.00. The holder of any Notes (or the legal personal representative of such holder) whose Notes are brought into the Cayman Islands may in certain circumstances be liable to pay stamp duty imposed under the laws of the Cayman Islands in respect of such Notes. Certificates evidencing registered Notes, to which title is not transferable by delivery, will not attract Cayman Islands stamp duty. However, an instrument transferring title to a registered Note, if brought to or executed in the Cayman Islands, would be subject to nominal Cayman Islands stamp duty.

Income Tax; Capital Gains Tax; Estate Duty

The Cayman Islands currently have no income, corporation or capital gains tax and no estate duty, inheritance tax or gift tax.

Tax Status of the Note Issuer

The Note Issuer has been incorporated under the laws of the Cayman Islands as an exempted company and, as such, has applied for and expects to receive an undertaking from the Governor in Cabinet of the Cayman Islands in the following form:

"CAYMAN ISLANDS GOVERNMENT

The Tax Concessions Law

(2011 Revision)

Undertaking as to Tax Concessions

In accordance with Section 6 of the Tax Concessions Law (2011 Revision) the Governor in Cabinet undertakes with:

KAL JAPAN ABS 20 CAYMAN LIMITED (the "**Company**")

(a) that no Law which is hereafter enacted in the Islands imposing any tax to be levied on profits, income, gains or appreciations shall apply to the Company or its operations; and

(b) in addition, that no tax to be levied on profits, income, gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable:

  (i) on or in respect of the shares debentures or other obligations of the Company; or

  (ii) by way of the withholding in whole or in part of any relevant payment as defined in Section 6(3) of the Tax Concessions Law (2011 Revision).

These concessions shall be for a period of TWENTY years from the 8th day of November 2016."

European Union Taxation

The Proposed Financial Transactions Tax ("FTT")

On 14 February 2013, the European Commission published a proposal (the "**Commission's Proposal**") for a directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the "**participating Member States**"). However, Estonia has since stated that it will not participate.

The Commission's Proposal has a very broad scope and could, if introduced, apply to certain dealings in the Notes (including secondary market transactions) in certain circumstances. The issuance and subscription of the Notes should, however, be exempt.

Under the Commission's Proposal, the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in the Notes where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

However, the FTT proposal remains subject to negotiation between the participating Member States. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional Member States of the European Union may decide to participate.

Prospective holders of the Notes are advised to seek their own professional advice in relation to the FTT.

CLEARING AND SETTLEMENT ARRANGEMENTS

*The information set out below is subject to any change in or reinterpretation of the rules, regulations and procedures of Euroclear or Clearstream (together, the "**Clearing Systems**") currently in effect. The information in this section concerning the Clearing Systems has been obtained from sources that the Note Issuer believes to be reliable, but none of the Note Issuer, the Joint Arrangers and the Joint Lead Managers take any responsibility for the accuracy of this section. 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 Note Issuer and any other party to the Transaction Documents 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.*

CLEARING SYSTEMS

Euroclear and Clearstream

Euroclear and Clearstream each hold securities for their customers and facilitate 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 depositary 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 worldwide 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.

REGISTRATION AND FORM

Book-entry interests in the Notes held through Euroclear and Clearstream will be evidenced by the Global Certificate, registered in the name of a nominee of the common depositary of Euroclear and Clearstream. The Global Certificate will be held by a common depositary for Euroclear and Clearstream. Beneficial ownership in the Notes will be held through financial institutions as direct and indirect participants in Euroclear and Clearstream.

The aggregate holdings of book-entry interests in the Notes in Euroclear and Clearstream will be reflected in the book-entry accounts of each such institution. Euroclear and Clearstream, as the case may be, and every other intermediate holder in the chain to the beneficial owner of book-entry interests in the Notes, will be responsible for establishing and maintaining accounts for their participants and customers having interests in the book-entry interest in the Notes. The Principal Paying Agent will be responsible for ensuring that payments received by it from the Note Issuer for holders of interests in the Notes holding through Euroclear and Clearstream are credited to Euroclear or Clearstream, as the case may be.

The Note Issuer will not impose any fees in respect of holding the Notes; however, holders of book-entry interests in the Notes may incur fees normally payable in respect of the maintenance and operation of accounts in Euroclear and Clearstream.

CLEARING AND SETTLEMENT PROCEDURES

Initial Settlement

Interests in the Notes will be in uncertificated book-entry form. Noteholders electing to hold book-entry interests in the Notes through Euroclear and Clearstream accounts will follow the settlement procedures applicable to conventional eurobonds. Book-entry interests in the Notes will be credited to Euroclear and Clearstream participants' securities clearance accounts on the business day following the Closing Date against payment (for value on the Closing Date).

Secondary Market Trading

Secondary market sales of book-entry interests in the Notes held through Euroclear or Clearstream to purchasers of book-entry interests in the Notes through Euroclear or Clearstream will be conducted in accordance with the normal rules and operating procedures of Euroclear and Clearstream and will be settled using the procedures applicable to conventional participants.

GENERAL

Neither Euroclear nor Clearstream is under any obligation to perform or continue to perform the procedures referred to above, and such procedures may be discontinued at any time.

None of the Note Issuer or any of its agents will have any responsibility for the performance by Euroclear or Clearstream or their respective participants of their respective obligations under the rules and procedures governing their operations or the arrangements referred to above.

SUBSCRIPTION AND SALE

GENERAL

Pursuant to a note subscription agreement dated 22 December 2016 (as amended from time to time), among the Joint Arrangers, the Joint Lead Managers, the Initial Purchasers, the Trustor, the Note Issuer and the Bond Issuer (the "**Note Subscription Agreement**"), the Note Issuer has agreed to issue and sell to BNP Paribas of 10 Harewood Avenue, London NW1 6AA, United Kingdom and The Korea Development Bank of 14 Eunhaeng-ro, Yeongdeungpo-gu, Seoul 07242, Korea as initial purchasers of the Senior Notes and the Subordinated Notes (the "**Initial Purchasers**"), at 100 per cent. of their principal amount less underwriting commission. The Note Subscription Agreement provides that the Initial Purchasers are obligated to purchase all of Notes.

The Initial Purchasers propose to offer the Notes initially at the issue price on the cover page of this Offering Circular.

The Note Subscription Agreement provides, *inter alia*, that the Initial Purchasers may, by notice to the Note Issuer given at any time prior to payment of the subscription monies for the Notes to the Note Issuer, terminate the Note Subscription Agreement under certain circumstances, if any of the conditions specified in the Note Subscription Agreement has not been satisfied, or has not been waived by the Initial Purchasers. Such conditions include, but are not limited to the following: (a) the execution and delivery of certain documents; and (b) there having not been on the Closing Date (i) the occurrence of any event making any of the Note Issuer's representations and warranties under the Note Subscription Agreement untrue and incorrect in any material respect on the Closing Date as though they had been given and made on such date with reference to the facts and circumstances then subsisting, nor (ii) the occurrence of any material breach of the Note Issuer's undertakings under the Note Subscription Agreement, nor (iii) the occurrence of a Note Event of Default.

The Note Issuer, the Bond Issuer and the Trustor have given certain representations and warranties to the Joint Lead Managers in the Note Subscription Agreement, and have agreed to indemnify the Joint Lead Managers against certain liabilities in connection with the offer and sale of the Notes.

Each purchaser of Notes must comply with all applicable laws and regulations in force in any jurisdiction in which it offers or sells Notes or possesses or distributes this Offering Circular or any part of it and must obtain any consent, approval or permission required by it for the purchase, offer or sale 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 or sales and none of the Note Issuer, the Joint Arrangers nor the Joint Lead Managers will have any responsibility therefor.

Each of the Joint Arrangers, the Joint Lead Managers, the Initial Purchasers and the Note Issuer has agreed to comply with all applicable laws and regulations in each country or jurisdiction in which it purchases, offers, sells or delivers Notes or has in its possession or distributes such offering material, in all cases at its own expense.

No action has been taken by the Note Issuer, the Joint Arrangers, the Joint Lead Managers or the Initial Purchasers that would, or is intended to, permit a public offer of the Notes in any country or jurisdiction where any such action for that purpose is required. Accordingly, each of the Joint Arrangers, the Joint Lead Managers, the Initial Purchasers and the Note Issuer has undertaken that it will not, directly or indirectly, offer or sell any Notes or distribute or publish any prospectus, form of application, advertisement or other document or information in any country or jurisdiction except under circumstances that will, to the best of its knowledge and belief, result in compliance with any applicable laws and regulations and all offers and sales of Notes by it will be made on the same terms.

Without prejudice to the foregoing, the Note Issuer will have no responsibility for, and each of the Joint Arrangers, the Joint Lead Managers and the Initial Purchasers will obtain any consent, approval or permission required by it for the subscription, offer or sale by it of the Notes or possession or distribution by it of this Offering Circular or any other offering material under the laws and regulations in force in any jurisdiction to which it is subject to or in or from which it makes any subscription, offer or sale in relation to the Notes.

In the ordinary course of their businesses, the Joint Lead Managers, the Joint Arrangers and the Initial Purchasers and their affiliates have engaged, and in the future may engage, in investment banking and commercial banking business with Korean Air and its affiliates, including the extension of credit facilities ("**Other Business**"). The Initial Purchasers and/or their affiliates may also be investors in the Notes on the Closing Date and/or from time to time in the future subject to certain transfer restrictions under applicable Korean laws and regulations. Notwithstanding the Initial Purchasers' obligations under the Note Subscription Agreement, the Initial Purchasers (and their affiliates) will be entitled to act with respect to such Other Business in the same manner as if it had not entered into the Note Subscription Agreement and regardless of the effect of such actions on the Notes.

UNITED STATES

The Notes have not been, and will not be, registered under the United States Securities Act of 1933, as amended (the "**U.S. Securities Act**") or the state securities law of any state of the United States. Each of the Joint Arrangers, the Joint Lead Managers and the Note Issuer agrees that they will not offer or sell the Notes within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the U.S. Securities Act), except in accordance with Regulation S or pursuant to an exemption from, or in a transaction not subject to the registration requirements of the U.S. Securities Act.

Each of the Joint Arrangers, the Joint Lead Managers, the Initial Purchasers and the Note Issuer, severally and not jointly, has represented and agreed that, except as permitted by the preceding paragraph, it will not offer, sell or deliver the Notes (i) as part of their distribution at any time or (ii) otherwise, until 40 days after the later of the commencement of the offering and the Closing Date, within the United States or to, or for the account or benefit of, U.S. persons and it will have sent to each distributor, dealer or other person receiving a selling concession or similar fee to which it sells the Notes in reliance on Regulation S during such distribution compliance period, a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons. In addition, until 40 days after the later of the commencement of the offering and the Closing Date, any offer or sale of the Notes within the United States by any broker/dealer/distributor (whether or not it is participating in this offering), may violate the registration requirement of the Securities Act. Terms used in the preceding paragraph and in this paragraph have the meanings given to them by Regulation S under the U.S. Securities Act.

Each holder of the Notes will be deemed to have represented that such holder is aware that the sale of such Notes to it is being made in reliance on the exemption from registration provided by Regulation S and understands that the Global Note Certificates, the Definitive Note Certificates and the Coupons will bear the following legend:

THIS NOTE HAS NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT") OR THE STATE SECURITIES LAW, OR WITH ANY SECURITIES REGULATORY AUTHORITY, OF ANY STATE OF THE UNITED STATES, AND, ACCORDINGLY, MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES EXCEPT AS SET FORTH IN THE FOLLOWING SENTENCE. BY ITS ACQUISITION HEREOF, THE HOLDER (1) REPRESENTS THAT IT IS ACQUIRING THE NOTES REPRESENTED HEREBY IN AN OFFSHORE TRANSACTION IN COMPLIANCE WITH REGULATION S UNDER THE SECURITIES ACT, (2) AGREES THAT, PRIOR TO THE DATE THAT IS 40 DAYS AFTER THE LATER OF THE COMMENCEMENT OF THE OFFERING AND THE CLOSING DATE, IT WILL NOT RESELL OR OTHERWISE TRANSFER THE NOTES REPRESENTED

HEREBY EXCEPT (A) OUTSIDE THE UNITED STATES IN AN OFFSHORE TRANSACTION IN COMPLIANCE WITH RULE 904 UNDER THE SECURITIES ACT OR (B) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT AND (3) AGREES THAT IT WILL DELIVER TO EACH PERSON TO WHOM THE NOTES REPRESENTED HEREBY ARE TRANSFERRED A NOTICE SUBSTANTIALLY TO THE EFFECT OF THIS LEGEND. AS USED HEREIN, THE TERMS "OFFSHORE TRANSACTION", AND "UNITED STATES" HAVE THE MEANINGS GIVEN TO THEM BY REGULATION S UNDER THE SECURITIES ACT.

UNITED KINGDOM

Each of the Joint Arrangers, the Joint Lead Managers and the Initial Purchasers has represented and agreed that:

(a) 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 Financial Services and Markets Act 2000 (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 Note Issuer; and

(b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

PUBLIC OFFER SELLING RESTRICTION UNDER THE PROSPECTUS DIRECTIVE

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "**Relevant Member State**"), each of the Joint Arrangers, the Joint Lead Managers and the Initial Purchasers has represented and agreed that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "**Relevant Implementation Date**") it has not made and will not make an offer of Notes which are the subject of the offering contemplated by this Offering Circular to the public in that Relevant Member State except that it may, with effect from and including the Relevant Implementation Date, make an offer of such Notes to the public in that Relevant Member State:

(a) at any time to any legal entity which is a qualified investor as defined in the Prospectus Directive;

(b) at any time 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 Note Issuer for any such offer; or

(c) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Notes referred to in (a) to (c) above shall require the Note Issuer or the Joint Arrangers, the Joint Lead Managers or the Initial Purchasers to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a 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 the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and 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.

KOREA

Each of the Joint Arrangers, the Joint Lead Managers and the Initial Purchasers has represented and agreed that Notes subscribed by it will be subscribed by it as principal, and that it will not directly or indirectly offer, sell or deliver any Notes in Korea or to any resident of Korea, or to others for re-offering or re-sale directly or indirectly in Korea or to any resident of Korea (as defined in the Foreign Exchange Transaction Act and the regulations thereunder), except as otherwise permitted by applicable Korean laws and regulations. Each of the Joint Arrangers, the Joint Lead Managers and the Initial Purchasers has undertaken that it will ensure that any securities dealer to whom it sells Notes will agree that he is purchasing such Notes as principal and that he will not re-offer or re-sell any Notes directly or indirectly in Korea or to any resident of Korea, except as aforesaid.

JAPAN

Each of the Joint Arrangers, the Joint Lead Managers and the Initial Purchasers has, severally and not jointly, represented and agreed that none of the Notes have been nor will be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25, 13 April 1948), as amended (the "**FIEA**"). Each of the Joint Arrangers, the Joint Lead Managers and the Initial Purchasers has, severally and not jointly, further agreed that it will not offer or sell any Notes, directly or indirectly, in Japan to, or for the benefit of, any resident of Japan (which term as used herein means any persons resident in Japan, including any corporation or other entity organised under the laws of Japan) or to others for re-offering or resale, directly or indirectly, in Japan or to a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEA and any other applicable laws, regulations and ministerial guidelines of Japan.

CAYMAN ISLANDS

Each of the Joint Arrangers, the Joint Lead Managers and the Initial Purchasers has, severally and not jointly, represented, warranted and agreed that the public in the Cayman Islands have not and will not be invited to subscribe for the Notes.

SINGAPORE

Each of Joint Arrangers, the Joint Lead Managers and the Initial Purchasers has, severally and not jointly, acknowledged that this Offering Circular has not been, and will not be, registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each of Joint Arrangers, the Joint Lead Managers and the Initial Purchasers has, severally and not jointly, represented, warranted and agreed that it has not offered or sold any Notes or caused such Notes to be made the subject of an invitation for subscription or purchase and will not offer or sell such Notes or cause such 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 Circular or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of such Notes, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the "**SFA**"), (ii) to a relevant person pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, 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.

Note:

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:

  (i) to an institutional investor or to a relevant person 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;

  (ii) where no consideration is or will be given for the transfer;

  (iii) where the transfer is by operation of law;

  (iv) as specified in Section 276(7) of the SFA; or

  (v) as specified in Regulation 32 of the Securities and Futures (Offers of Investments) (Shares and Debentures) Regulations 2005 of Singapore.

HONG KONG

Each of the Joint Arrangers, the Joint Lead Managers and the Initial Purchasers has, severally and not jointly, represented 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 other than (i) to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong (the "**SFO**") and any rules made under the SFO, 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 the SFO.

Any person who may be in doubt as to the restrictions set out in the laws, regulations and directives in each jurisdiction in which it subscribes for, purchases, offers, sells or delivers the Notes or any interest therein or rights in respect thereof and the consequences arising from a contravention thereof should consult his own professional advisers and should make his own inquiries as to the laws, regulations and directives in force or applicable in any particular jurisdiction at any relevant time.

(a) The issue of the Notes has been duly authorised by resolutions of the Board of Directors of the Note Issuer passed on 29 November 2016 and 15 December 2016. The issue of the Bond has been authorised by a resolution of the Equityholders of the Bond Issuer passed on 17 November 2016.

(b) The Notes have been accepted for clearance through Clearstream and Euroclear with the following Common Code and ISIN number:

COMMON CODE AND ISIN NUMBER OF THE NOTES

	Senior Notes	Subordinated Notes
Common Code:	151649882	151650503
ISIN:	XS1516498828	XS1516505036

(c) Since their respective dates of incorporation, there are no governmental, litigation or arbitration proceedings against or affecting the Note Issuer, the Bond Issuer or any of their assets or revenues, nor is the Note Issuer or the Bond Issuer aware of any pending or threatened proceedings of such kind, which may have, or have had, in the recent past, a significant effect on the Note Issuer's or the Bond Issuer's financial position or profitability.

(d) Save as disclosed in this Offering Circular, since its date of incorporation, there has been (i) no material adverse change in the prospects of the Note Issuer and (ii) no significant change in the financial or trading position of the Note Issuer.

(e) Save as disclosed in this Offering Circular, since its date of incorporation, there has been (i) no material adverse change in the prospects of the Bond Issuer and (ii) no significant change in the financial or trading position of the Bond Issuer.

(f) Since 31 December 2015, there has been (i) no material adverse change in the prospects of the Trustor and (ii) no significant change in the financial or trading position of the Trustor.

(g) Korean Air is not, and has not been, involved in any litigation, arbitration or governmental proceedings which, if adversely decided, may have, or has had during the twelve months preceding the date of this Offering Circular, a significant effect on its financial position or profitability nor is aware that any such proceedings are pending or threatened.

(h) The business address of each director of the Trustor is the registered office of Korean Air. As at the date of this Offering Circular, the Note Issuer is not aware of any potential conflicts of interest between the duties of the directors to the Trustor, and their private interests and/or other duties.

(i) Neither the Note Issuer nor the Bond Issuer has commenced operations or published any audited financial statements to date. The Note Issuer is not required under Cayman Islands law to prepare annual financial statements or have its financial statements audited. The Bond Issuer is not required under Korean law to prepare annual financial statements or have its financial statements audited. However, if published, such financial statements will be available free of charge during usual business hours at the registered office of the Bond Issuer. The Bond Issuer will not publish any interim financial statements.

(j) As at the date of this Offering Circular, Korean Air's external independent auditor is Deloitte Anjin LLC located at 9/F, One IFC, 23 Yoido-dong, Youngdeungpo-gu, Seoul 07326, Korea. Deloitte Anjin LLC is a member of The Korean Institute of Certified Public Accountants. The separate financial statements of Korean Air for the year ended 31 December 2015, and the consolidated financial statements of Korean Air for the year ended 31 December 2015, referred to in this Offering Circular have been audited by KPMG Samjong Accounting Corp., located at 10th Floor, Gangnam Finance Center, 737 Yeoksam-dong, Gangnam-gu, Seoul, Korea. KPMG Samjong Accounting Corp. is a member of The Korean Institute of Certified Public Accountants. The separate financial statements of Korean Air for the three and nine months ended 30 September 2016, and the consolidated financial statements of Korean Air for the three and nine months ended 30 September 2016, referred to in this Offering Circular, are unaudited.

(k) Any references to websites and website addresses do not form part of this Offering Circular.

(l) After the Closing Date, so long as the Notes are outstanding, the Note Trustee will be provided with monthly reports by the Servicer and the Transaction Administrator in accordance with the Servicing Agreement and the Transaction Administration Agreement respectively. These reports will provide information in respect of the relevant reporting period on, among other things, the amount of BSP Receivables collected during the relevant period and whether or not an Early Amortisation Event, a Servicer Termination Event, an Event of Default, a Potential Event of Default or a Mandatory Redemption Event has occurred. Information will also be provided with respect to payments due on the Bond Payment Dates and the Payment Dates.

(m) Korean Air will retain a material net economic interest of at least 5 per cent. in the securitisation in accordance with Article 405 of the CRR, Article 51 of the AIFM Regulation and Article 254 of the Solvency II Implementing Regulation. As at the Closing Date, such interest will be comprised of an interest in the Seller Beneficial Certificate which, in aggregate, is not less than 5 per cent. of the beneficial interest in the Japanese Trust. Any change to this manner in which this interest is held will be notified to Noteholders.

(n) Each prospective investor is required to independently assess and determine the sufficiency of the information described above and in this Offering Circular generally for the purposes of complying with Article 405 of the CRR, Article 51 of the AIFMR and Article 254 of the Solvency II Implementing Regulation and none of the Note Issuer, the Joint Arrangers or the Joint Lead Managers or the other parties to the Transaction Documents make any representation that the information described above or in this Offering Circular is sufficient in all circumstances for such purposes. In addition, each prospective Noteholder should ensure that it complies with the implementing provisions in respect of Article 405 of the CRR, Article 51 of the AIFMR and Article 254 of the Solvency II Implementing Regulation in their relevant jurisdiction. Investors who are uncertain as to the requirements which apply to them in respect of their relevant jurisdiction, should seek guidance from their regulator.

(o) Approval-in-principle has been received from the SGX-ST for the Notes to be listed and quoted on the Official List of the SGX-ST. The SGX-ST assumes no responsibility for the correctness of any of the statements made or opinions or reports contained in this Offering Circular. Approval-in-principle from the SGX-ST, admission of the Notes to the Official List of the SGX-ST and quotation of any Notes on the SGX-ST are not to be taken as an indication of the merits of this offering, the Note Issuer, the Bond Issuer, the Initial Purchasers, their respective subsidiaries (if any), their respective associated companies (if any), their respective joint venture companies (if any) or the Notes. The Notes will be traded on the SGX-ST in a minimum board lot size of ¥20,000,000 for so long as the Notes are listed on the SGX-ST and the rules of the SGX-ST so require. For so long as the Notes are listed on the SGX-ST and the rules of the SGX-ST so require, the Note Issuer will appoint and maintain a paying agent in Singapore, where the Notes may be presented or surrendered for payment or redemption, in the event that a global certificate is exchanged for definitive certificates. In addition, in the event that a global certificate is exchanged for definitive certificates, an announcement of such exchange shall be made by or on behalf of the Note Issuer through the SGX-ST and such announcement will include all material information with respect to the delivery of the definitive certificates, including details of the paying agent in Singapore.

GLOSSARY

APPENDIX I

AUDITED SEPARATE FINANCIAL STATEMENTS OF KOREAN AIR LINES CO., LTD. AS OF 31 DECEMBER 2015

Independent Auditors' Report

Based on a report originally issued in Korean

The Board of Directors and Stockholders
Korean Air Lines Co., Ltd.:

We have audited the accompanying separate financial statements of Korean Air Lines Co., Ltd. (the "Company"), which comprise the separate statements of financial position as at December 31, 2015 and 2014, the separate statements of income and comprehensive income, changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Separate Financial Statements
Management is responsible for the preparation and fair presentation of these separate financial statements in accordance with Korean International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of separate financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility
Our responsibility is to express an opinion on these separate financial statements based on our audits. We conducted our audits in accordance with the Korean Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the separate financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the separate financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the separate financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the separate 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 separate 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 separate financial statements present fairly, in all material respects, the separate financial position of the Company as at December 31, 2015 and 2014 and its separate financial performance and its separate cash flows for the years then ended in accordance with Korean International Financial Reporting Standards.

Emphasis of Matter

The following matters may be helpful to the readers in their understanding of the separate financial statements.

(1) Financial Restatements

As discussed in Note 51 of the financial statements, the Company has corrected an accounting error regarding oil-price derivatives contract, and has restated its financial statements of the year ended December 31, 2014. As a result of these restatements, unappropriated retained earnings of the year ended December 31, 2014 has decreased by ₩155,099 million, and the net loss for the year ended December 31, 2014 has increased by ₩155,099 million.

(2) Material Uncertainty

As of December 31, 2015, the Company's current liabilities exceed its current assets by ₩5,554,551 million which, combined with matters explained in Note 47, indicates the existence of a material uncertainty with respect to the Company's business results.

Other Matter

The separate statement of financial position of the Company as of December 31, 2014, and the related separate statements of comprehensive income (loss), changes in equity and cash flows for the year then ended, which are not accompanying this report, were audited by other auditors in accordance with Korean Standards on Auditing, whose report thereon dated March 19, 2015, expressed an unqualified opinion. The restatements detailed in Note 51 are not reflected on the financial statements audited by previous auditors, whereas the accompanying separate financial statements of the Company as of and for the year ended December 31, 2014, presented for comparative purposes, has such restatements reflected.

KPMG Samjong Accounting Corp.

Seoul, Korea
March 10, 2016

This report is effective as of March 10, 2016, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying separate financial statements and notes thereto. Accordingly, the readers of the audit report should understand that the above audit report has not been updated to reflect the impact of such subsequent events or circumstances, if any.

KOREAN AIR LINES CO., LTD.
Separate Statements of Financial Position

As of December 31, 2015 and 2014

(In millions of won and in thousands of US dollars)

	Note		2015	2014		2015
Assets						**(Note 4)**
Cash and cash equivalents	5,6	₩	698,947	410,108	$	596,372
Short-term financial instruments	6		20,263	9,168		17,290
Current portion of finance lease receivables	11		7,474	13,014		6,377
Trade and other receivables	7,44		917,455	938,812		782,811
Account receivables due from customers for contracts in progress	48		158,239	130,209		135,016
Current portion of held-to-maturity investments	6,9		39	1		33
Inventories	10		475,678	416,669		405,869
Income tax receivables			5,929	5,389		5,058
Other current assets	20,23		543,996	469,522		464,160
Assets held for sale	50		45,543	-		38,859
Total current assets			2,873,563	2,392,892		2,451,845
Long-term financial instruments	6		106,493	55,327		90,864
Available-for-sale financial assets	6,8,43		149,558	188,449		127,609
Held-to-maturity investments	6,9		813	848		693
Finance lease receivables	11		26,365	72,341		22,496
Investments in associates	13,18,23,44		444,829	444,829		379,547
Investments in subsidiaries	12,18,44		691,339	1,347,658		589,880
Property, aircraft and equipment, net	14,16,18		16,803,447	15,120,652		14,337,414
Investment property, net	15,18		73,537	59,186		62,745
Intangible assets, net	17,18		284,841	320,607		243,038
Financial derivative assets	28,43		-	5,736		-
Other financial assets	19,23		328,492	254,105		280,283
Deferred income tax assets	39		938,168	813,739		800,484
Other non-current assets	20,23		327,495	344,078		279,433
Total non-current assets			20,175,377	19,027,555		17,214,486
Total assets		₩	23,048,940	21,420,447	$	19,666,331

See accompanying notes to the separate financial statements.

KOREAN AIR LINES CO., LTD.
Separate Statements of Financial Position, Continued

As of December 31, 2015 and 2014

(In millions of won and in thousands of US dollars)

	Note		2015	2014		2015
Liabilities						**(Note 4)**
Trade and other payables	21,44,47	₩	868,964	699,169	$	741,437
Short-term borrowings	18,22		862,438	563,315		735,869
Current portion of long-term liabilities	6,18,19, 20,23,44		3,919,169	2,748,857		3,344,001
Current portion of finance lease obligations	18,24		1,234,471	957,218		1,053,303
Current portion of financial derivative liabilities	28,43		35,729	205,204		30,485
Current portion of financial guarantee liabilities	29,42,44		10,234	7,618		8,732
Current portion of provisions	26		16,795	-		14,330
Deferred revenue due to customers for contracts in progress	48		94,297	148,134		80,458
Other current liabilities	27,30		1,386,017	1,021,178		1,182,609
Total current liabilities			8,428,114	6,350,693		7,191,224
Long-term trade and other payables	21,44,47		41,103	120,130		35,071
Long-term borrowings	18,23		898,969	1,518,032		767,038
Debentures	23		95,228	1,854,847		81,252
Asset-backed securitization loans	19,20,23,44		1,181,066	1,388,447		1,007,736
Guaranteed loans	6,18,23,44		9,025	17,221		7,700
Finance lease obligations	18,24		7,155,363	5,547,251		6,105,259
Defined benefit obligations	25		996,500	820,532		850,256
Provisions	26,45,47		164,683	136,434		140,515
Deferred revenue	27		1,701,781	1,633,782		1,452,031
Financial derivative liabilities	28,43		18,293	476		15,608
Financial guarantee liabilities	29,42,44		8,806	15,672		7,514
Other non-current liabilities	30		53,715	37,218		45,832
Total non-current liabilities			12,324,532	13,090,042		10,515,812
Total liabilities			20,752,646	19,440,735		17,707,036
Equity						
Capital stock	1,31		369,753	298,931		315,489
Other capital surplus	32		776,179	11,248		662,269
Other capital components	16,33		332,917	361,993		284,059
Retained earnings	34		817,445	1,307,540		697,478
Total equity			2,296,294	1,979,712		1,959,295
Total liabilities and equity		₩	23,048,940	21,420,447	$	19,666,331

See accompanying notes to the separate financial statements.

KOREAN AIR LINES CO., LTD.
Separate Statements of Comprehensive Income (Loss)

For the years ended December 31, 2015 and 2014

(In millions of won and in thousands of US dollars, except loss per share)

	Note		2015	2014		2015 (Note 4)
Revenue	35,44,49	₩	11,308,423	11,680,398	$	9,648,825
Cost of sales	40,44		9,286,479	10,171,068		7,923,617
Gross profit			2,021,944	1,509,330		1,725,208
Selling, general and administrative expenses	36,40,44		1,162,726	1,136,822		992,087
Operating income			859,218	372,508		733,121
Finance income	37		68,253	54,003		58,237
Finance costs	37		497,476	627,520		424,467
Other non-operating income	38		377,138	443,000		321,790
Other non-operating expenses	38		1,306,113	784,080		1,114,432
Loss before income tax			(498,980)	(542,089)		(425,751)
Income tax expense (benefit)	39		(91,298)	(181,513)		(77,899)
Loss for the period			(407,682)	(360,576)		(347,852)
Other comprehensive income (loss)						
Items that will never be reclassified to profit or loss						
Defined benefit plan actuarial losses	25,34		(69,122)	89,101		(58,978)
Revaluation surplus	16,33		(1,056)	(3)		(901)
Items that are or may be reclassified to profit or loss						
Change in fair value of available-for-sale financial assets	33		(28,021)	(4,075)		-
Effective portion of changes in fair value of cash flow hedges	28,33		-	(2,156)		(23,908)
Other comprehensive loss for the period, net of income tax			(98,199)	82,867		(83,787)
Total comprehensive loss for the period		₩	(505,881)	(277,709)	$	(431,639)
Basic loss per share in won and US dollars						
Attributable to common stock	41	₩	(5,749)	(6,032)	$	(4.91)
Attributable to preferred stock	41		(5,699)	(5,982)		(4.86)

See accompanying notes to the separate financial statements.

KOREAN AIR LINES CO., LTD.
Separate Statements of Changes in Equity

For the years ended December 31, 2015 and 2014

(In millions of won and in thousands of US dollars)

		Capital stock	Other Capital Surplus: Additional paid-in capital	Other Capital Surplus: Treasury stock	Other Capital Surplus: Loss from capital reduction	Other Capital Surplus: Hybrid securities	Other capital components	Retained earnings	Total
Balance at January 1, 2014	₩	298,931	179,474	-	(377,086)	208,860	368,227	1,592,157	2,270,563
Total comprehensive income (loss) for the period									
Profit for the period		-	-	-	-	-	-	(360,576)	(360,576)
Defined benefit plan actuarial loss		-	-	-	-	-	-	89,101	89,101
Change in fair value of available-for-sale financial assets		-	-	-	-	-	(4,075)	-	(4,075)
Effective portion of changes in fair value of cash flow hedges		-	-	-	-	-	(2,156)	-	(2,156)
Revaluation surplus		-	-	-	-	-	(3)	-	(3)
Transactions with owners of the Company, recognized directly in equity									
Dividends attributable to hybrid securities		-	-	-	-	-	-	(13,476)	(13,476)
Others		-	-	-	-	-	-	334	334
Balance at December 31, 2014	₩	298,931	179,474	-	(377,086)	208,860	361,993	1,307,540	1,979,712
Balance at January 1, 2015	₩	298,931	179,474	-	(377,086)	208,860	361,993	1,307,540	1,979,712
Total comprehensive income for the period									
Profit for the period		-	-	-	-	-	-	(407,682)	(407,682)
Defined benefit plan actuarial loss		-	-	-	-	-	-	(69,122)	(69,122)
Change in fair value of available-for-sale financial assets		-	-	-	-	-	(28,020)	-	(28,020)
Revaluation surplus		-	-	-	-	-	(1,056)	-	(1,056)
Transactions with owners of the Company, recognized directly in equity									
Increase in paid-in capital		70,822	423,380	-	-	-	-	-	494,202
Issuance of hybrid securities		-	-	-	-	341,551	-	-	341,551
Dividends attributable to hybrid securities		-	-	-	-	-	-	(14,347)	(14,347)
Odd-lot stock purchase		-	-	-	-	-	-	-	-
Others		-	-	-	-	-	-	1,056	1,056
Balance at December 31, 2015	₩	369,753	602,854	-	(377,086)	550,411	332,917	817,445	2,296,294
(Note 4)	$	315,489	514,381	-	(321,746)	469,634	284,059	697,478	1,959,295

See accompanying notes to the separate financial statements.

KOREAN AIR LINES CO., LTD.
Separate Statements of Cash Flows

For the years ended December 31, 2015 and 2014

(In millions of won and in thousands of US dollars)

		2015	2014		2015
Cash flows from operating activities					**(Note 4)**
Loss for the period	₩	(407,682)	(360,576)	$	(347,852)
Adjustments for:					
Maintenance material cost		5,962	4,659		5,087
Provision for leased aircraft maintenance		27,980	1,248		23,873
Provision for construction losses		15,479	-		13,207
Provision for construction warranties		2,039	-		1,740
Post-employment benefits		147,030	140,104		125,452
Depreciation		1,592,296	1,542,124		1,358,614
Amortization		39,745	35,024		33,912
Interest expense		367,086	410,006		313,213
Loss on valuation of derivatives		57,187	205,431		48,794
Other bad debt expenses		42,705	325		36,438
Loss on foreign currency translation		608,501	402,836		519,199
Loss on foreign currency transaction		99,082	-		84,541
Loss on disposal of property, aircraft and equipment		172,974	112,754		147,589
Loss on disposal of available-for-sale assets		5,234	-		4,466
Loss on disposal of intangible assets		124	23		106
Impairment loss on property, aircraft and equipment		72,364	-		61,744
Greenhouse gases emission cost		1,316	-		1,122
Loss on disposal of available-for-sale financial assets		-	105		-
Impairment loss on available-for-sale financial assets		149	2,794		127
Impairment loss on investments in associates		-	3,905		-
Long-term employee benefits		3,340	9,932		2,850
Interest income		(38,756)	(37,099)		(33,069)
Dividend income		(7,711)	(3,417)		(6,579)
Gain on valuation of derivatives		-	(5,736)		-
Gain on foreign currency translation		(112,900)	(168,734)		(96,331)
Reversal of allowance for doubtful accounts		(402)	(494)		(343)
Reversal of allowance for other doubtful accounts		(6)	-		(5)
Gain on disposal of property, aircraft and equipment		(4,980)	(3,163)		(4,249)
Gain on disposal of intangible assets		(2)	-		(2)
Gain on disposal of investments in associates		-	(15,012)		-
Gain on disposal of investment in subsidiaries		(277)	-		(236)
Reversal of provision for financial guarantee		(9,777)	(3,590)		(8,342)
Reversal of impairment loss on investments in associates		-	(13,065)		-
Gain on disposal of available-for-sale financial assets		(176)	(10)		(150)
Income tax benefit		(91,298)	(181,513)		(77,899)

See accompanying notes to the separate financial statements.

KOREAN AIR LINES CO., LTD.
Separate Statements of Cash Flows, Continued

For the years ended December 31, 2015 and 2014

(In millions of won and in thousands of US dollars)

		2015	2014		2015 (Note 4)
Changes in:					
Trade receivables	₩	43,422	31,831	$	37,050
Non-trade receivables		(49,942)	(4,343)		(42,613)
Accrued revenues		(10,135)	(8,996)		(8,648)
Account receivables due from customers for contracts in progress		(28,029)	15,535		(23,916)
Inventories		(57,874)	36,394		(49,381)
Financial derivative assets		5,736	4,234		4,894
Advanced payments		(35,739)	(136,261)		(30,494)
Prepaid expenses		(5,204)	(9,637)		(4,440)
Other current assets		(3,014)	5,104		(2,571)
Other non-current assets		17	388		15
Trade payables		8,827	(83,051)		7,532
Non-trade payables		(89,147)	(94,389)		(76,064)
Accrued expenses		163,791	(80,031)		139,753
Advances		72,309	(50,281)		61,697
Deferred revenue due to customers for contracts in progress		(53,837)	23,659		(45,936)
Financial derivative liabilities		(208,846)	(29,412)		(178,196)
Other current liabilities		266,337	73,541		227,250
Plan assets		12,844	11,477		10,959
Payment of retirement benefits		(76,610)	(63,570)		(65,367)
Succession of defined benefit obligation		517	496		441
Provisions		(1,770)	-		(1,510)
Deferred revenue		67,998	74,995		58,019
Other non-current liabilities		14,731	7,015		12,570
Cash generated from operations		2,623,008	1,803,559		2,238,061
Interest received		38,090	37,496		32,500
Dividend received		7,487	3,177		6,388
Income taxes paid		(2,121)	(3,445)		(1,809)
Net cash provided by operating activities		2,666,464	1,840,787		2,275,140

See accompanying notes to the separate financial statements.

KOREAN AIR LINES CO., LTD.
Separate Statements of Cash Flows, Continued

For the years ended December 31, 2015 and 2014

(In millions of won and in thousands of US dollars)

		2015	2014		2015
Cash flows from investing activities					**(Note 4)**
Decrease in short-term financial instruments	₩	-	30,000	$	-
Decrease in short-term financial instruments		55,748	13,134		47,566
Recovery of finance lease receivables		13,750	12,887		11,732
Decrease in current portion of held-to-maturity investments		1	9,356		1
Decrease in current portion of available-for-sale financial assets		-	3,000		-
Proceeds from disposal of available-for-sale financial assets		5,175	451		4,416
Capital reduction of subsidiaries		866,329	-		739,188
Proceeds from disposal of investment in associates		-	21,654		-
Proceeds from disposal of property, aircraft and equipment		318,141	381,042		271,452
Proceeds from sale of available-for-sale assets		10,003	-		8,535
Proceeds from disposal of intangible assets		297	51		253
Decrease in guarantee deposits		37,790	122,106		32,244
Decrease in other non-current assets		2	1		2
Increase in short-term financial instruments		(66,704)	(11,833)		(56,913)
Increase in long-term financial instruments		(47,084)	(52,465)		(40,174)
Acquisition of available-for-sale financial assets		(3,000)	(5,000)		(2,560)
Acquisition of held-to-maturity investments		(3)	(3)		(3)
Acquisition of investments in associates		-	(400,000)		-
Acquisition of investments in subsidiaries		(6,267)	-		(5,347)
Acquisition of property, aircraft and equipment		(1,258,699)	(806,569)		(1,073,976)
Increase in guarantee deposits		(96,664)	(117,435)		(82,478)
Net cash used in investing activities		(171,185)	(799,623)		(146,062)

See accompanying notes to the separate financial statements.

KOREAN AIR LINES CO., LTD.
Separate Statements of Cash Flows, Continued

For the years ended December 31, 2015 and 2014

(In millions of won and in thousands of US dollars)

		2015	2014		2015
Cash flows from financing activities					
Proceeds from short-term borrowings	₩	1,555,576	968,142	$	1,327,284
Proceeds from issuance of bonds		288,999	449,751		246,586
Proceeds from long-term borrowings		456,946	1,679,185		389,885
Proceeds from issuance of asset-backed securitization loans		600,000	1,271,866		511,945
Proceeds from disposal of investments in subsidiaries		313	-		267
Increase in paid-in capital		494,202	-		421,674
Issuance of hybrid securities		341,551	-		291,426
Repayment of short-term borrowings		(1,285,756)	(1,200,070)		(1,097,061)
Repayment of current portion of long-term liabilities		(2,985,336)	(3,176,779)		(2,547,215)
Repayment of current portion of finance leases obligations		(1,093,376)	(984,903)		(932,915)
Acquisition of investments in subsidiaries		(196,260)	(206,604)		(167,457)
Payment of dividends attributable to hybrid securities		(13,440)	(13,440)		(11,468)
Interest paid		(375,201)	(416,654)		(320,137)
Net cash used in financing activities		(2,211,782)	(1,629,506)		(1,887,186)
Net increase (decrease) in cash and cash equivalents		283,497	(588,342)		241,892
Cash and cash equivalents at January 1		410,108	1,002,505		349,922
Effect of exchange rate fluctuations on cash held		5,342	(4,055)		4,557
Cash and cash equivalents at December 31	₩	698,947	410,108	$	596,371

See accompanying notes to the separate financial statements.

December 31, 2015 and 2014

1. General Description of the Company

Korean Air Lines Co., Ltd. (the "Company") was established on June 19, 1962 under the Investment Promotion Law of the Republic of Korea and is engaged in the business of domestic and international airline services, manufacture of aircraft parts, maintenance of aircraft and catering of in-flight meals.

The Company has been a publicly traded company upon listing its common stock on the Korea Exchange since 1966. Total capital stock of the Company as of December 31, 2015 amounts to ₩ 369,753 million in par value (including ₩ 5,554 million of preferred stock). The principal shareholders of the Company's common stocks are Hanjin KAL Co., Ltd. (31.46%) and its affiliates (4.14%).

2. Basis of Preparation

The separate financial statements have been prepared in accordance with Korean International Financial Reporting Standards ("K-IFRS"), as prescribed in the Act on External Audit of Corporations in the Republic of Korea. These financial statements are separate financial statements prepared in accordance with K-IFRS No.1027 Separate Financial Statements presented by a parent, an investor in an associate or a joint venture, in which the investments are accounted for on the basis of the direct equity interest rather than on the basis of the reported results and net assets of the investees.

The Company's accounting policies (Note 3) applied for the accompanying separate financial statements are the same as the policies applied for the preparation of separate financial statements for the year ended December 31, 2014, except for the effects from the introduction of new and revised accounting standards of interpretation described in Note 3.

The accompanying separate financial statements have been prepared on the historical cost basis except for certain non-current assets and financial instruments that are measured at revalued amounts or fair values. Historical cost is generally based on the fair value of the consideration given.

(a) Basis of measurement

The separate financial statements have been prepared on the historical cost basis, except for the following material items in the separate statements of financial position:

- Derivative financial instruments are measured at fair value
- Financial instruments at fair value through profit or loss are measured at fair value
- Available-for-sale financial assets are measured at fair value
- Property, aircraft and equipment, and investment property measured at fair value
- Liabilities for defined benefit plans are recognized at the net of total present value of defined benefit obligations less the fair value of plan assets

(b) Functional and presentation currency

The separate financial statements are presented in Korean won, which is the Company's functional currency and the currency of the primary economic environment in which the Company operates.

(c) Use of estimates and judgments

The preparation of the separate financial statements in conformity with K-IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized prospectively.

In the application of the Company accounting policies, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.
The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

1) Critical judgments in applying accounting policies
The followings are the critical judgments, apart from those involving estimations, that the management has made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognized in the separate financial statements.

Management has reviewed the Company's held-to-maturity financial assets in the light of its capital maintenance and liquidity requirements and has confirmed the Company's positive intention and ability to hold those assets to maturity. The carrying amount of the held-to-maturity financial assets is ₩ 852 million ($726 thousand). Details of these assets are set out in Note 9.

2) Key sources of estimation uncertainty
The followings are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

A. Defined benefit plan
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. At the end of this year, net defined benefit obligation of the plan is ₩ 996,500 million ($850,256 thousand) (prior year ₩ 820,532 million), as detailed in Note 25.

B. Valuation of financial instruments
As described in Notes 42 and 43, 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. Notes 42 and 43 provide detailed information about key assumptions used in the determination of the fair value of financial instruments, as well as the detailed sensitivity analysis for these assumptions. The management believes that the chosen valuation techniques and assumptions used are appropriate in determining the fair value of financial instruments.

C. Probability on the realization of unused deferred tax assets
In consideration of operating performance of the Company and estimate of the future operating performance, the Company recognizes deferred tax asset in relation to unused tax loss carryforward.

3. Significant Accounting Policies

(a) Investments in subsidiaries, jointly controlled entities and associates

The Company's financial statements are separate financial statements prepared in accordance with the requirements of K-IFRS 1027, Separate Financial Statements, in which a parent, or an investor with joint control of, or significant influence over, an investee accounts for the investments on the basis of the direct equity interest rather than on the basis of the underlying results and net assets of the investees. Meanwhile, previous GAAP carrying amounts of investments in subsidiaries, jointly controlled entities and associates are treated as deemed cost at a transition date of January 1, 2010, in accordance with K-IFRS 1101, First-time Adoption of International Reporting Standards. Dividends obtained from subsidiaries, jointly controlled entities and associates are recognized in profit or loss when the right to receive dividends is confirmed.

(b) Interests in joint operations

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 the Company 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 Company accounts for the assets, liabilities, revenues and expenses relating to its interest in a joint operation in accordance with the K-IFRSs applicable to the particular assets, liabilities, revenues and expenses.

When the Company transacts with a joint operation in which the Company is a joint operator (such as a sale or contribution of assets), the Company is considered to be conducting the transaction with the other parties to the joint operation, and gains and losses resulting from the transactions are recognized in the Company's separate financial statements only to the extent of other parties' interests in the joint operation.

When the Company transacts with a joint operation in which the Company is a joint operator (such as a purchase of assets), the Company does not recognize its share of the gains and losses until it resells those assets to a third party.

(c) Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the non-current asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Company is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Company will retain a non-controlling interest in its former subsidiary after the sale.

When the Company is committed to a sale plan involving disposal of an investment, or a portion of an investment, in an associate or joint venture, the investment or the portion of the investment that will be disposed of is classified as held for sale when the criteria described above are met, and the Company discontinues the use of the equity method in relation to the portion that is classified a held for sale. Any retained portion of an investment in an associate or a joint venture that has not been classified as held for sale continues to be accounted for using the equity method. The Company discontinues the use of the equity method at the time of disposal when the disposal results in the Company losing significant influence over the associate or joint venture.

After the disposal takes place, the Company accounts for any retained interest in the associate or joint venture in accordance with K-IFRS 1039, Financial Instruments: Recognition and Measurement, unless the retained interest continues to be an associate or a joint venture, in which case the Company uses the equity method.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value, less costs to sell. A non-current asset that is classified as held for sale or part of a disposal group classified as held for sale is not depreciated or amortized.

(d) 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 is recognized when persuasive evidence exists that the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably.

2) Rendering of Services

Revenue from airline services is recognized upon completion of the services and revenue from a contract to provide other services is recognized by reference to 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.

Rendering of services that result in award credits for customers, under the Company's Maxi-Points Scheme, are accounted for as multiple element revenue transactions and the fair value of the consideration received or receivable is allocated between the goods supplied and the award credits granted. The consideration allocated to the award credits is measured by reference to their fair value – the amount for which the award credits could be sold separately.

Such consideration is not recognized as revenue at the time of the initial sale transaction – but is deferred and recognized as revenue when the award credits are redeemed and the Company's obligations have been fulfilled.

3) Dividend and interest income
Dividend income from investments is recognized when the Company's right to receive payment has been established.

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 3.(f).

5) Customer Loyalty Program
The Company operates customer loyalty program to provide customers with incentives to buy their goods or services. If a customer buys goods or services, the Company grants the customer award credits. The customer can redeem the award credits for awards, such as free or discounted goods or services. The award credits are accounted separately as identifiable component of the sales transaction(s) in which they are granted (the 'initial sales'). The fair value of the consideration received or receivable in respect of the initial sale shall be allocated between the award credits and the other components of the sale.

If the Company supplies the awards itself, it shall recognize the consideration allocated to award credits as revenue when award credits are redeemed and it fulfills its obligation to supply awards. The amount of revenue recognized shall be based on the number of award credits that have been redeemed in exchange for awards, related to the total number expected to be redeemed.

If the third party supplies the awards, the Company shall assess whether it is collecting the consideration allocated to the award credits on its own account (as the principal in the transaction) or on behalf of the third party (as agent for the third party). The amount of revenue recognized shall be net amount retained on its own account.

(e) Construction contracts
Where the outcome of a construction contract can be estimated reliably, revenue and costs are recognized by reference to the stage of completion of the contract activity at the end of the reporting period, measured based on the proportion of contract costs incurred for work performed to date relative to the estimated total contract costs, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that the amount can be measured reliably and its receipt is considered probable.

Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognized to the extent of contract costs incurred that it is probable will be recoverable. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognized as an expense immediately.

When contract costs incurred to date plus recognized profits less recognized losses exceed progress billing, the surplus is shown as amounts due from customers for contract work. For contracts where progress billings exceed contract costs incurred to date plus recognized profits less recognized losses, the surplus is shown as the amounts due to customers for contract work. Amounts received before the related work is performed are included in the separate statements of financial position, as a liability, as advances received. Amounts billed for work performed, but not yet paid by the customer are included in the separate statements of financial position under trade and other receivables.

(f) 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 statements 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 (Note 3. (h)). 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.

(g) Foreign currencies

The Company's separate financial statements are presented in the currency of the primary economic environment in which the Company operates (its functional currency). For the purpose of the separate financial statements, the results and financial position of the Company are expressed in Korean won, which are the functional currency of the Company and the presentation currency for the separate financial statements.

In preparing the Company's separate financial statements, transactions in currencies other than the Company'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 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 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.

For the purpose of presenting separate financial statements, the assets and liabilities of the Company's foreign operations are expressed in Korean won using exchange rates prevailing at the end of the reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognized in other comprehensive income and accumulated in equity.

On the disposal of a foreign operation (i.e., a disposal of the Company's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or partial disposal of an interest in a joint arrangement or an associate that includes a foreign operation of which the retained interest becomes a financial asset), all of the accumulated exchange differences in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate. Exchange differences arising are recognized in other comprehensive income.

(h) 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.

(i) Government grants

Government grants are not recognized until there is reasonable assurance that the Company will comply with the conditions attaching to them and that the grants will be received.

The benefit of a government loan at a below-market rate of interest is treated as a government grant, measured as the difference between proceeds received and the fair value of the loan based on prevailing market interest rates.

Government grants related to assets are presented in the statements of financial position by deducting the grant from the carrying amount of the asset. The related grant is recognized in profit or loss over the life of a depreciable asset as a reduced depreciation expense.

Government grants related to income are deducted from the related expenses. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Company with no future related costs are recognized in profit or loss in the period in which they become receivable.

(i) Employee benefits

1) Short-term employee benefits

Short-term employee benefits are employee benefits that are due to be settled within 12 months after the end of the period in which the employees render the related service. When an employee has rendered service to the Company during an accounting period, the Company recognizes the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service.

2) Other long-term employee benefits

Other long-term employee benefits include employee benefits that are settled beyond 12 months after the end of the period in which the employees render the related service, and are calculated at the present value of the amount of future benefit that employees have earned in return for their service in the current and prior periods. Any actuarial gains and losses are recognized in profit or loss in the period in which they arise.

3) Retirement benefit costs

For defined benefit retirement benefit plans, the cost of providing benefits is determined by an independent actuarial company 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 statements 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, past service cost, as well as gains and losses on curtailments and settlements), net interest expense (income) and re-measurement.

The Company presents the service cost and net interest expense (income) components in profit or loss, and the re-measurement component in other comprehensive income. Curtailment gains and losses are accounted for as past service costs.

The retirement benefit obligation recognized in the separate statements 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.

(j) Income taxes

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

1) Current tax

The tax is the expected tax payable or receivable on taxable profit or loss for the year. Taxable profit differs from profit as reported in the separate statement of profit or loss and 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 separate 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 that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets are not recognized if the temporary difference arises 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 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 to the period when the asset is realized or the liability is settled, based on tax laws that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and deferred tax 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 which 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. Therefore, as long as the presumption is not rebutted, measurement of deferred tax asset or liability reflects the tax effect of sale of investment property at its book value.

3) Current and deferred tax for the year
Current and deferred tax 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 tax 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.

(k) Property, aircraft and equipment
Property, aircraft and equipment except land are stated at cost less subsequent accumulated depreciation and accumulated impairment losses. Land shall be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated impairment losses. Revaluation shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

The cost of an item of property, aircraft and equipment is directly attributable to its purchase or construction, which includes 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. It also includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

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.

The Company does not depreciate land and leased land. Depreciation expense is computed using the straight-line method based on the estimated useful lives of the assets as follows:

		Useful lives (years)
Buildings, structures		40
Machinery		8 ~ 15
Aircraft, leased aircraft	Fuselage, etc.	6 ~ 15
	Overhaul	3.6 ~ 12
Engines, leased engines	Engine	15
	Overhaul	3.3 ~ 8.8
Aircraft parts		15
Vehicle		6
Others, other leased assets		6
Leasehold improvements		6.8~ 11

If each part of an item of property, aircraft and equipment has a cost that is significant in relation to the total cost of the item, it is depreciated separately.

The Company reviews the depreciation method, the estimated useful lives and residual values of property, plant and equipment at the end of each annual reporting period. If expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate.

An item of property, aircraft 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. The revaluation surplus included in equity in respect of an item of property, aircraft and equipment may be transferred directly to retained earnings when the asset is derecognized.

(l) Investment properties

Investment properties are properties held to earn rentals or for capital appreciation. 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 40 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 change being treated as change in the accounting estimate.

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.

(m) 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 change being treated as change in the accounting estimate.

Intangible assets with indefinite useful lives that are acquired separately are carried at cost, less accumulated impairment losses.

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 as 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.

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.

4) Derecognition of intangible assets
An intangible asset is derecognized on disposal, or when no future economic benefits are expected from its use or disposal. 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, is recognized in profit or loss when the asset is derecognized.

Intangible assets with finite useful lives are amortized based on the estimated useful lives of the assets as follows:

	Estimated useful lives (years)
Facility usage rights	19 ~ 30
Development costs	2.2 ~ 15.3
Other intangible assets	5 ~ 20

Among the Company's intangible assets, useful life of a membership is estimated to be infinite since the usable period is not limited in accordance with the terms of the contract and the economic benefits are expected to be continuously generated from the asset during the holding period.

(n) Impairment of non-financial assets other than goodwill
At the end of each reporting period, the Company reviews the carrying amounts of its non-financial 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 annually whether there is an indication of impairment.

Recoverable amount is the higher of fair value, less costs to sell and 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 lesser of 1) revised estimate of its recoverable amount, or the carrying amount that would have been had no impairment loss been recognized. A reversal of an impairment loss is recognized immediately in profit or loss.

(o) Inventories

Inventories are stated at the lower of cost and net realizable value. The cost of inventories is measured by the following evaluation method:

		Evaluation method
Merchandise		First-in-first-out method
Raw materials	Aerospace	Moving average method
	In-flight meals	First-in-first-out method
Supplies	Air transport, Aerospace	Moving average method
	In-flight meals	First-in-first-out method
Materials in transit		Specific identification method

Cost of inventories consists of the purchase price, cost of conversion and other costs incurred in bringing the inventories to ready for use state. 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.

(p) Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company 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 borrowing cost.

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.

(q) Financial Instruments
Financial assets are recognized when the Company becomes a party to the contractual provisions of the instruments. Financial assets are initially measured at fair value. Transaction costs that are directly attributable to the acquisition of financial assets are added to or deducted from the fair value of the financial assets, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets at fair value through profit or loss (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 either held for trading or it is designated as at FVTPL. Financial assets acquired for short-term holding are classified as held for trading, and all derivative financial instruments except for those that are effective and designated as hedging instrument are measured in fair value, with the associated change in fair value being recognized as gain or loss in the reporting period

A financial asset is classified as held for trading if:
• it has been acquired principally for the purpose of selling it 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 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 'Other non-operating income and expense' line item in the statements 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 gain (loss) on AFS financial assets, net). 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 due 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, 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.

Carrying amount of impaired financial assets classified as loans or trade receivables is reduced through the use of an allowance account; when a trade receivable is considered uncollectible, it is also 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 recognizes a collateralized borrowing for the proceeds received.

On derecognition of financial assets in its entirety, the difference between the assets' 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 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 a 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.

(r) 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 at the proceeds 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) 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 costs that are directly attributable to the issue of financial liabilities are 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.

4) Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as FVTPL.

A financial liability is classified as held for trading if:
• it has been acquired principally for the purpose of repurchasing it 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

A financial liability other than a financial liability held for trading 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; or
• 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.

5) 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.

6) 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, Provisions, Contingent Liabilities and Contingent Assets, and
• the amount initially recognized, less cumulative amortization recognized in accordance with the K-IFRS 1018 Revenue.

7) Derecognition of financial liabilities
The Company derecognize financial liabilities when the Company’s obligation are discharged, canceled or they expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

(s) Derivative financial instruments
The Company enters into a variety of derivative financial instruments to manage its exposure to interest rate and oil price risk, including oil price option and interest rate 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 such case, the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

All derivative financial instruments except for those that are effective and designated as hedging instrument are measured in fair value; associated change in fair value is recognized as gain or loss in the reporting period.

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.

(t) 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 separate financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of K-IFRS 1102, Share-Based Payment, 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 Levels 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 entity 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.

(u) Greenhouse gases emission right
The Company accounts for greenhouse gases emission right and the relevant liability pursuant to the Act on Allocation and Trading of Greenhouse Gas Emission which became effective in 2015. Emission liability is recognized when it is probable that outflows of resources will be required to settle the obligation and the costs required to perform the obligation are reliably estimable. Emission liability is an amount of estimated obligations for emission rights to be submitted to the government for the performing period. The emission liability is measured based on the expected quantity of emission for

the performing period in excess of emission allowance in possession and the unit price for such emission rights in the market at the end of the reporting period. The Company derecognizes an emission right liability when the emission allowance is submitted to government.

(v) Approval of separate financial statements

The accompanying separate financial statements were approved by the board of directors on February 24, 2016, and it will be finally approved by the general meeting of shareholders on March 18, 2016.

(w) New standards and interpretations not yet adopted

The following new standards, interpretations and amendments to existing standards have been published and are mandatory for the Company for annual periods beginning after January 1, 2015, and the Company has not early adopted them. Management believes the impact of the amendments on the Company's financial statements is not significant.

(i) K-IFRS No. 1115, Revenue from Contracts with Customers

K-IFRS 1115, published in January 2016, establishes a single new revenue recognition standard for contracts with customers and introduces a five-step model for determining whether, how much and when revenue is recognized. It replaces risk-and-reward based model with control-based model. K-IFRS 1115 is effective for annual reporting periods beginning on or after January 1, 2018, with early adoption permitted.

(ii) K-IFRS No. 1027 Separate Financial Statements

Amendments to K-IFRS No. 1027 introduced equity accounting as a third option in the entity's separate financial statements, in addition to the existing cost and fair value options. This amendment is effective for annual periods beginning on or after January 1, 2016, with early adoption permitted.

4. Convenience Translation of Financial Statements

The separate financial statements as of December 31, 2015 and for the years ended December 31, 2015 are expressed in Korean won and have been translated into US dollars at the rate of ₩1,172 to $1, the basic exchange rate on December 31, 2015 posted by Seoul Money Brokerage Services, solely for the convenience of the reader. These translations do not comply with K-IFRS and also should not be construed as a representation that any or all of the amounts shown could be converted into US dollars at this or any other rate.

December 31, 2015 and 2014

5. Cash and Cash Equivalents

Cash and cash equivalents as of December 31, 2015 and 2014 are summarized as follows:

(In millions of won and in thousands of US dollars)

		2015	2014		2015 (Note 4)
Cash on hand	₩	145	300	$	125
Bank deposits		698,802	409,808		596,247
	₩	698,947	410,108	$	596,372

6. Restricted Deposits and Pledged Financial Instruments

Restricted deposits and pledged financial instruments as of December 31, 2015 and 2014 are summarized as follows:

(In millions of won and in thousands of US dollars)

	Currency	2015	2014	Remark
Cash and cash equivalents	KRW	-	1,800	Pledged for Hanjin Shipping Co., Ltd.'s guaranteed loans
	KRW	-	7,547	Pledged for Grandstar Cargo International Airlines Co., Ltd.'s borrowings
	KRW	-	5,130	Performance guarantee deposit on the mail delivery contract with Korea Post
Short-term financial instruments	KRW	4,000	-	Collateral on the joint security with Export-Import Bank of Korea
	KRW	2,400	-	Government project deposits
	KRW	5,450	-	Performance guarantee deposit on the mail delivery contract with Korea Post, etc.
Held-to-maturity investments	KRW	809	808	Pledged for HIC's loans
Available-for-sale financial assets	KRW	78,772	106,182	
Long-term financial instruments	USD	50,000	50,000	
	KRW	8	8	Bank account deposit
	KRW	-	130	Performance guarantee deposit for the U.S. Air Force delivery service
	KRW	1,800	-	Pledged for Hanjin Shipping Co., Ltd.'s guaranteed loans
	USD	35,000	-	Pledged for hybrid securities
	USD	371	327	Guarantee deposit on newly opened North America L/C
	KRW	4,630	-	Performance guarantee deposit on the mail delivery contract with Korea Post

7. Trade and Other Receivables

(a) Trade and other receivables as of December 31, 2015 and 2014 are summarized as follows:

(In millions of won and in thousands of US dollars)

		2015	2014		2015
Trade receivables:					(Note 4)
Trade receivables	₩	545,991	589,498	$	465,863
Allowance for doubtful accounts		(5,140)	(5,762)		(4,386)
		540,851	583,736		461,477
Other receivables:					
Non-trade receivables		137,754	84,398		117,538
Allowance for doubtful accounts		(43,153)	(769)		(36,821)
Short-term loans (*)		220,000	220,000		187,713
Accrued income		62,629	51,967		53,438
Allowance for doubtful accounts		(626)	(520)		(534)
		376,604	355,076		321,334
	₩	917,455	938,812	$	782,811

(*) Short term loans consist of ₩220,000 million of loans provided to Hanjin Shipping Co., Ltd. as of December 31, 2015 and 2014.

(b) Credit risk and details of allowance for doubtful accounts as of December 31, 2015 and 2014 are as follows:

The trade and other receivables classified as 'loans and receivables' are measured at amortized cost. The Company estimates the allowance for doubtful accounts based on the each receivable analysis because the credit offering period for the sales of the Company varies with the sales' categories and customers.

(i) Aging analysis of the trade receivables that are overdue, but are not impaired, as of December 31, 2015 and 2014 are as follows:

(In millions of won and in thousands of US dollars)

		Within 6 months	6–12 months	1–3 years	More than 3 years	Total		Total
								(Note 4)
December 31, 2015								
Trade receivables	₩	26,427	182	534	678	27,821	$	23,738
Allowance for doubtful accounts		(249)	(2)	(5)	(6)	(262)		(223)
	₩	26,178	180	529	672	27,559	$	23,515

7. Trade and Other Receivables, Continued

(In millions of won)

		Within 6 months	6–12 months	1–3 years	More than 3 years	Total
December 31, 2014						
Trade receivables	₩	1,497	758	588	305	3,148
Allowance for doubtful accounts		(15)	(7)	(6)	(3)	(31)
	₩	1,482	751	582	302	3,117

(ii) Trade receivables are not impaired as of December 31, 2015 and 2014.

(iii) Changes in allowance for major trade and other receivables for the years ended December 31, 2015 and 2014 are as follows:

(In millions of won and in thousands of US dollars)

		Beginning balance	Recognition (Reversal) of allowance for doubtful accounts	Write-off	Decrease due to contribution in kind	Ending balance		Ending balance (Note 4)
December 31, 2015								
Trade receivables	₩	5,762	(402)	(219)	(1)	5,140	$	4,386
Non-trade Receivables		769	42,593	(207)	(2)	43,153		36,820
Accrued income		520	111	-	(5)	626		534

(In millions of won)

		Beginning balance	Recognition (Reversal) of allowance for doubtful accounts	Ending balance
December 31, 2014				
Trade receivables	₩	6,177	(415)	5,762
Non-trade Receivables		608	161	769
Accrued income		436	84	520

The Company has judged the recoverability of the trade receivables by considering the changes in credit rating from the beginning date of credit offering to the end of the reporting period. The concentration of credit risk is limited because there are lots of customers and no interconnection between them.

December 31, 2015 and 2014

8. Available-for-Sale Financial Assets

Available-for-sale financial assets as of December 31, 2015 and 2014 are summarized as follows:

(In millions of won and in thousands of US dollars)

		2015	2014		2015
					(Note 4)
Marketable securities recorded at fair value	₩	95,110	124,218	$	81,152
Non-marketable securities		43,150	51,157		36,817
Beneficiary certificate		-	5,000		-
Investments in other equity securities		11,298	8,074		9,640
	₩	149,558	188,449	$	127,609

The impairment loss recognized from available-for-sale financial assets as of December 31, 2015 and 2014 were ₩ 149 million and ₩ 2,794 million respectively, with all loss being recognized from unlisted stocks.

There were no reversal of impairment loss recognized on available-for-sale financial assets as of December 31, 2015 and 2014.

9. Held-to-Maturity Investments

Held-to-maturity investments as of December 31, 2015 and 2014 are summarized as follows:

(In millions of won and in thousands of US dollars)

		2015	2014		2015
					(Note 4)
Current	₩	39	1	$	33
Non-current		813	848		693
	₩	852	849	$	726

Held-to-maturity investments are neither overdue nor impaired as of December 31, 2015 and 2014.

10. Inventories

Inventories as of December 31, 2015 and 2014 are summarized as follows:

(In millions of won and in thousands of US dollars)

		2015	2014		2015 (Note 4)
Merchandises	₩	19,082	20,415	$	16,281
Raw materials		88,934	74,197		75,882
Supplies		324,695	306,716		277,044
Materials-in-transit		42,967	15,341		36,662
	₩	475,678	416,669	$	405,869

11. Finance Lease Receivables

The Company has provided finance leases on aircrafts. The minimum lease payment and present value of the finance leases as of December 31, 2015 and 2014 are summarized as follows:

(In millions of won and in thousands of US dollars)

		2015	2014		2015 (Note 4)
Less than one year	₩	10,479	22,879	$	8,941
One year to five years		28,996	82,418		24,740
		39,475	105,297		33,681
Present value discounts		(5,636)	(19,942)		(4,808)
		33,839	85,355		28,873
Less: current portion of finance lease receivables		(7,474)	(13,014)		(6,377)
	₩	26,365	72,341	$	22,496

Finance lease receivables were not impaired as of December 31, 2015 and 2014.

December 31, 2015 and 2014

12. Investments in Subsidiaries

(a) Investments in subsidiaries as of December 31, 2015 and 2014 are summarized as follows:

(In millions of won and in thousands of US dollars)

Company	Location	Percentage of ownership		2015	2014		2015 (Note 4)
Korean Airport Service Co., Ltd.	Korea	59.54%	₩	145,352	145,352	$	124,020
Hanjin Information Systems & Telecommunication Co., Ltd.	Korea	99.35%		30,077	30,077		25,663
Air Total Service Co., Ltd.(*1)	Korea	100.00%		10,136	3,816		8,648
Hanjin Energy Co., Ltd.(*2,3)	Korea	-		-	866,329		-
Hanjin International Corp.(*4)	USA	100.00%		330,466	151,231		281,968
Hanjin Central Asia MChJ.	Uzbekistan	100.00%		14,459	14,459		12,337
Incheon Aviation Tech Co., Ltd.(*5)	Korea	90.00%		70,200	55,350		59,898
Wangsan Leisure Development Co., Ltd.	Korea	100.00%		80,000	80,000		68,259
Korea Global Logistics System Co., Ltd.(*6)	Korea	95.00%		4,024	650		3,434
Hanjin Int'l Japan Co., Ltd. (*7)	Japan	50.00%		358	394		306
Cyber Sky Co., Ltd.(*8)	Korea	100.00%		6,267	-		5,347
KAL 4 Asset Securitization Specialty Company(*3,9)	Korea	-		-	-		-
KAL 7 Asset Securitization Specialty Company(*9)	Korea	0.50%		-	-		-
KAL 8 Asset Securitization Specialty Company(*3,9)	Korea	-		-	-		-
KAL 9 Asset Securitization Specialty Company(*9)	Korea	0.50%		-	-		-
KAL 10 Asset Securitization Specialty Company(*9)	Korea	0.50%		-	-		-
KAL 11 Asset Securitization Specialty Company(*9)	Korea	0.50%		-	-		-
KAL 11B Asset Securitization Specialty Company(*9)	Korea	0.50%		-	-		-
KAL 11C Asset Securitization Specialty Company(*9)	Korea	0.50%		-	-		-
KAL 12 Asset Securitization Specialty Company(*9)	Korea	0.50%		-	-		-
KAL 13 Asset Securitization Specialty Company(*9)	Korea	0.50%		-	-		-
KAL 14 Asset Securitization Specialty Company(*9)	Korea	0.50%		-	-		-
KAL 15 Asset Securitization Specialty Company(*9)	Korea	0.50%		-	-		-
KAL 16 Asset Securitization Specialty Company(*9)	Korea	0.50%		-	-		-
			₩	691,339	1,347,658	$	589,880

12. Investment in Subsidiaries, Continued

(a) Investments in subsidiaries as of December 31, 2015 and 2014 are summarized as follows, continued:

(*1) During the year ended December 31, 2015, the Company transferred assets and liabilities of its limousine business division as part of the contribution in-kind, in return for acquisition of new shares (1,473,765 shares) of Air Total Service Co., Ltd..

(*2) The Company participated in Hanjin Energy Co., Ltd.'s capital reduction for the year ended December 31, 2015. As a result, investment was reduced by ₩865,145 million and 33,915 shares of 34,000 shares were discarded. Investment of ₩1,184 million was further reduced from liquidation following the capital reduction.

(*3) The Company liquidated its shares of Hanjin Energy Co., Ltd. for the year ended December 31, 2015 and excluded it from the investment in subsidiaries.

(*4) The Company participated in the subsidiary's paid-in capital increase and recognized additional liability from financial guarantee, thereby increasing its amount of investment by ₩179,235 million.

(*5) The Company participated in Incheon Aviation Tech Co., Ltd.'s paid-in capital increase for the year ended December 31, 2015. As a result, the amount of investment increased by ₩14,850 million.

(*6) The Company acquired 60,000 additional shares of Korea Global Logistics System Co., Ltd. for the year ended December 31, 2015.

(*7) The Company sold 100 shares of Hanjin Int'l Japan for the year ended December 31, 2015.

(*8) The Company acquired 100% of the shares of Cyber Sky Co., Ltd. and included it as the Company's subsidiary for the year ended December 31, 2015.

(*9) The Company classified KAL Asset Securitization Specialty Companies as investments in subsidiaries because the Company controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

12. Investment in Subsidiaries, Continued

(b) Changes in investments in subsidiaries for the year ended December 31, 2015 are as follows:

(In millions of won and in thousands of US dollars)

		Balance at Jan.1, 2015	Increase	Decrease	Others (*)	Balance at Dec.31, 2015		Balance at Dec. 31, 2015 (Note 4)
Korean Airport Service Co., Ltd.	₩	145,352	-	-	-	145,352	$	124,020
Hanjin Information Systems & Telecommunication Co., Ltd.		30,077	-	-	-	30,077		25,663
Air Total Service Co., Ltd.		3,816	6,320	-	-	10,136		8,648
Hanjin Energy Co., Ltd.		866,329	-	(866,329)	-	-		-
Hanjin International Corp.		151,231	174,750	-	4,485	330,466		281,968
Hanjin Central Asia MChJ.		14,459	-	-	-	14,459		12,337
Incheon Aviation Tech Co., Ltd.		55,350	14,850	-	-	70,200		59,898
Wangsan Leisure Development Co., Ltd.		80,000	-	-	-	80,000		68,259
Korea Global Logistics System Co., Ltd.		650	3,374	-	-	4,024		3,434
Hanjin Int'l Japan		394	-	(36)	-	358		306
Cyber Sky Co., Ltd.		-	6,267	-	-	6,267		5,347
KAL 4 Asset Securitization Specialty Company		-	-	-	-	-		-
KAL 7 Asset Securitization Specialty Company		-	-	-	-	-		-
KAL 8 Asset Securitization Specialty Company		-	-	-	-	-		-
KAL 9 Asset Securitization Specialty Company		-	-	-	-	-		-
KAL 10 Asset Securitization Specialty Company		-	-	-	-	-		-
KAL 11 Asset Securitization Specialty Company		-	-	-	-	-		-
KAL 11B Asset Securitization Specialty Company		-	-	-	-	-		-
KAL 11C Asset Securitization Specialty Company		-	-	-	-	-		-
KAL 12 Asset Securitization Specialty Company		-	-	-	-	-		-
KAL 13 Asset Securitization Specialty Company		-	-	-	-	-		-
KAL 14 Asset Securitization Specialty Company		-	-	-	-	-		-
KAL 15 Asset Securitization Specialty Company		-	-	-	-	-		-
KAL 16 Asset Securitization Specialty Company		-	-	-	-	-		-
	₩	1,347,658	205,561	(866,365)	4,485	691,339	$	589,880

(*) Other changes are due recognition of financial guarantee liability associated with Hanjin Int'l Corp.

12. Investment in Subsidiaries, Continued

(c) Changes in investments in subsidiaries for the year ended December 31, 2014 are as follows:

(In millions of won)

		Balance at Jan. 1, 2014	Increase	Decrease	others (*)	Balance at Dec. 31, 2014
Korean Airport Service Co., Ltd.	₩	145,352	-	-	-	145,352
Hanjin Information Systems & Telecommunication Co., Ltd.		30,077	-	-	-	30,077
Air Total Service Co., Ltd.		3,816	-	-	-	3,816
Hanjin Energy Co., Ltd.		866,329	-	-	-	866,329
Hanjin International Corp.		-	137,404	-	13,827	151,231
Hanjin Central Asia MChJ.		14,459	-	-	-	14,459
Incheon Aviation Tech Co., Ltd.		30,150	25,200	-	-	55,350
Wangsan Leisure Development Co., Ltd.		36,000	44,000	-	-	80,000
Korea Global Logistics System Co., Ltd.		650	-	-	-	650
Hanjin Int'l Japan		394	-	-	-	394
KAL 4 Asset Securitization Specialty Company		-	-	-	-	-
KAL 5 Asset Securitization Specialty Company		-	-	-	-	-
KAL 6 Asset Securitization Specialty Company		-	-	-	-	-
KAL 7 Asset Securitization Specialty Company		-	-	-	-	-
KAL 8 Asset Securitization Specialty Company		-	-	-	-	-
KAL 9 Asset Securitization Specialty Company		-	-	-	-	-
KAL 10 Asset Securitization Specialty Company		-	-	-	-	-
KAL 11 Asset Securitization Specialty Company		-	-	-	-	-
KAL 11B Asset Securitization Specialty Company		-	-	-	-	-
KAL 11C Asset Securitization Specialty Company		-	-	-	-	-
KAL 12 Asset Securitization Specialty Company		-	-	-	-	-
KAL 13 Asset Securitization Specialty Company		-	-	-	-	-
KAL 14 Asset Securitization Specialty Company		-	-	-	-	-
KAL 15 Asset Securitization Specialty Company		-	-	-	-	-
KAL 16 Asset Securitization Specialty Company		-	-	-	-	-
	₩	1,127,227	206,604	-	13,827	1,347,658

(*) Other changes are due recognition of financial guarantee liability associated with Hanjin Int'l Corp.

13. Investments in Associates

(a) Investments in associates as of December 31, 2015 and 2014 are summarized as follows:

(In millions of won and in thousands of US dollars)

Company	Loca-tion	Percentage of ownership		2015	2014		2015
							(Note 4)
Grandstar Cargo International Airlines Co., Ltd.(*1)	China	-	₩	-	-	$	-
Hanjin Shipping Co., Ltd.(*2)	Korea	33.23%		444,829	444,829		379,547
EIGHTCITY Co., Ltd.(*3)	Korea	23.81%		-	-		-
Czech Airlines j.s.c.(*3)	Czech	44.00%		-	-		-
			₩	444,829	444,829	$	379,547

(*1) Investment in Grandstar Cargo Int'l Airlines Co., Ltd. was fully impaired prior to 2014. The investment was disposed in May 2015.

(*2) Investments in Hanjin Shipping Co., Ltd. are pledged as collateral for Hanjin Int'l Corp's guaranteed loans. (Note 18)

(*3) Investments in EIGHTCITY Co., Ltd. and Czech Airlines j.s.c. were fully impaired prior to 2014.

(b) Fair values of the marketable securities under investments in associates as of December 31, 2015 and 2014 are as follows:

(In millions of won and in thousands of US dollars)

		2015	2014		2015
					(Note 4)
Hanjin Shipping Co., Ltd. (*1)	₩	296,239	490,607	$	252,763

(*1) The Company performed evaluation of the estimated recoverable amount of the investment in Hanjin Shipping Co., Ltd due to existing indication of impairment as of December 31, 2015. However, impairment loss was not recognized because the recoverable amount exceeded the carrying value of the investment.

(c) Changes in investments in associates for the years ended December 31, 2015 are as follows:

(In millions of won and in thousands of US dollars)

		Balance at Jan. 1, 2015	Increase	Decrease	Others	Balance at Dec.31, 2015		Balance at Dec. 31, 2015
								(Note 4)
Hanjin Shipping Co., Ltd.	₩	444,829	-	-	-	444,829	$	379,547

13. Investments in Associates, Continued

(d) Changes in investments in associates for the years ended December 31, 2014 are as follows:

(In millions of won)

		Balance at Jan. 1, 2014	Increase	Decrease	Others	Balance at Dec. 31, 2014
Eusu Holdings Co., Ltd. (formerly, Hanjin ShipSping Holdings Co., Ltd.)(*1,2)	₩	38,406	-	(17,808)	(20,598)	-
Czech Airlines j.s.c.(*3)		3,905	-	-	(3,905)	-
Hanjin Shipping Co., Ltd.		-	400,000	-	44,829	444,829
	₩	42,311	400,000	(17,808)	20,326	444,829

(*1) Hanjin Shipping Co., Ltd. merged trademark management segment and shipping holdings segment of Eusu Holdings Co., Ltd. (formerly, Hanjin Shipping Holdings Co., Ltd.) that was spun off for the year ended December 31, 2014. As a result, 5,140,274 shares of Eusu Holdings Co., Ltd. have been replaced with 7,422,095 shares of Hanjin Shipping Co., Ltd.

(*2) The Company reversed ₩13,065 million of impairment loss on investment in Eusu Holdings Co., Ltd. (formerly, Hanjin Shipping Holdings Co., Ltd.) during the year ended December 31, 2014.

(*3) The Company recognized ₩ 3,905 million of impairment loss on investment in Czech Airlines j.s.c.

14. Interests in Joint Operations

The Company owns a building for joint investment purpose pursuant to a joint arrangement. Under the joint arrangement, the Company has 50% ownership of the building, INHA International Medical Center, which is located at Jung-gu, Incheon, and invested in the building for the purpose of leasing. The Company has the right to rental income and the obligation to incurred expenses in proportion to its ownership interest.

15. Investment Property

(a) Investment property as of December 31, 2015 and 2014 are summarized as follows:

(In millions of won)

		Acquisition cost	Accumulated depreciation	Book value
December 31, 2015				
Land	₩	56,559	-	56,559
Buildings		29,963	(12,985)	16,978
	₩	86,522	(12,985)	73,537
December 31, 2014				
Land	₩	45,176	-	45,176
Buildings		24,935	(10,925)	14,010
	₩	70,111	(10,925)	59,186

(b) Changes in the carrying amount of investment property for the year ended December 31, 2015 are summarized as follows:

(In millions of won and in thousands of US dollars)

		Balance at Jan. 1, 2015	Depreciation	Others(*)	Balance at Dec. 31, 2015		Balance at Dec. 31, 2015
							(Note 4)
Land	₩	45,176	-	11,383	56,559	$	48,259
Building		14,010	(800)	3,768	16,978		14,486
	₩	59,186	(800)	15,151	73,537	$	62,745

(*) Other increases or decreases were due to the transfer of property, aircraft and equipment to investment properties.

(c) Changes in the carrying amount of investment property for the year ended December 31, 2014 are summarized as follows:

(In millions of won)

		Balance at Jan. 1, 2014	Depreciation	Others(*)	Balance at Dec. 31, 2014
Land	₩	44,406	-	770	45,176
Buildings		14,516	(670)	164	14,010
	₩	58,922	(670)	934	59,186

(*) Other increases or decreases were due to the transfer of property, aircraft and equipment to investment properties.

December 31, 2015 and 2014

15. Investment Property, Continued

(d) Revenue and cost related to investment property for the years ended December 31, 2015 and 2014 are summarized as follows:

(In millions of won and in thousands of US dollars)

		2015	2014		2015 (Note 4)
Rental income	₩	1,589	1,495	$	1,356
Cost (depreciation)		800	670		682

(e) Fair values of investment properties as of December 31, 2015 are as follows:

(In millions of won)

		Book value	Fair value
Land	₩	56,559	56,587
Buildings		16,978	31,777
	₩	73,537	88,364

As of June 30, 2013, the Company appraised land through an independent and professional appraiser, Hana Appraisal & Consulting Co., Ltd.

(f) Fair value measurements of investment properties by fair value hierarchy levels as of December 31, 2015 are as follows:

(In millions of won and in thousands of US dollars)

		Level 1	Level 2	Level 3	Total		Total
Land	₩	-	56,587	-	56,587	$	48,282
Buildings		-	31,777	-	31,777		27,114
	₩	-	88,364	-	88,364	$	75,396

16. Property, Aircraft and Equipment

(a) Property, aircraft and equipment as of December 31, 2015 and 2014 are summarized as follows:

(In millions of won)

		Acquisition cost	Accumulated depreciation	Accumulated impairment	Book value
December 31, 2015					
Land(*)	₩	1,816,856	-	-	1,816,856
Leased land(*)		21,460	-	-	21,460
Buildings		783,885	(304,722)	-	479,163
Structures		118,679	(54,498)	-	64,181
Machinery		326,010	(252,446)	-	73,564
Aircraft		6,232,727	(4,036,440)	(9,300)	2,186,987
Engines		1,975,212	(1,153,325)	-	821,887
Leased aircraft		10,075,358	(2,267,859)	-	7,807,499
Leased engines		2,824,991	(863,621)	-	1,961,370
Aircraft parts		251,100	(131,847)	-	119,253
Vehicle		33,658	(30,678)	-	2,980
Others		265,255	(221,215)	-	44,040
Other leased assets		50	(50)	-	-
Leasehold improvements		10,689	(2,991)	-	7,698
Construction-in-progress		1,396,509	-	-	1,396,509
	₩	26,132,439	(9,319,692)	(9,300)	16,803,447
December 31, 2014					
Land(*)	₩	1,828,373	-	-	1,828,373
Leased land(*)		21,460	-	-	21,460
Buildings		755,165	(286,160)	-	469,005
Structures		118,673	(51,657)	-	67,016
Machinery		322,564	(237,935)	-	84,629
Aircraft		6,614,868	(4,313,487)	-	2,301,381
Engines		2,071,035	(1,222,543)	-	848,492
Leased aircraft		8,817,585	(2,181,010)	-	6,636,575
Leased engines		2,371,227	(791,659)	-	1,579,568
Aircraft parts		233,871	(125,329)	-	108,542
Vehicle		43,574	(35,641)	-	7,933
Others		258,957	(215,746)	-	43,211
Other leased assets		50	(50)	-	-
Leasehold improvements		9,770	(1,824)	-	7,946
Construction-in-progress		1,116,521	-	-	1,116,521
	₩	24,583,693	(9,463,041)	-	15,120,652

(*) Acquisition cost as of December 31, 2015 includes the increase of ₩ 328,742 million from land revaluation before 2014

16. Property, Aircraft and Equipment, Continued

(b) Changes in the carrying amount of property, aircraft and equipment for the year ended December 31, 2015 are as follows:

(In millions of won and in thousands of US dollars)

		Balance at Jan. 1, 2015	Acquisition	Disposal	Depreciation	Others (*)	Balance at Dec. 31, 2015		Balance at Dec. 31, 2015
									(Note 4)
Land	₩	1,828,373	-	-	-	(11,517)	1,816,856	$	1,550,219
Leased land		21,460	-	-	-	-	21,460		18,311
Buildings		469,006	2,339	-	(19,823)	27,641	479,163		408,842
Structures		67,016	78	-	(2,866)	(47)	64,181		54,762
Machinery		84,629	4,013	(17)	(15,029)	(32)	73,564		62,768
Aircraft		2,301,382	67,157	(283,783)	(326,153)	428,384	2,186,987		1,866,030
Engines		848,492	5,357	(188,132)	(251,008)	407,178	821,887		701,269
Leased aircraft		6,636,575	219,124	-	(610,458)	1,562,258	7,807,499		6,661,689
Leased engines		1,579,568	134,209	-	(335,216)	582,809	1,961,370		1,673,524
Aircraft parts		108,542	29,819	(770)	(12,376)	(5,962)	119,253		101,751
Vehicle		7,933	760	-	(1,391)	(4,322)	2,980		2,543
Others		43,209	17,012	(161)	(16,009)	(11)	44,040		37,577
Leasehold improvements		7,946	-	-	(1,167)	919	7,698		6,568
Construction-in-progress		1,116,521	3,371,860	-	-	(3,091,872)	1,396,509		1,191,561
	₩	15,120,652	3,851,728	(472,863)	(1,591,496)	(104,574)	16,803,447	$	14,337,414

(*) Other changes were mainly due to the transfer of construction-in-progress to property, aircraft and equipment, reclassification of aircraft and engines to assets held for sale (worth ₩ 60,729 million), and tangible assets to investment properties, impairment loss, and occurrence of contribution-in-kind. (Note 50)

16. Property, Aircraft and Equipment, Continued

(c) Changes in the carrying amount of property, aircraft and equipment for the year ended December 31, 2014 are as follows:

(In millions of won)

		Balance at Jan. 1, 2014	Acquisition	Disposal	Depreciation	Others(*)	Balance at Dec. 31, 2014
Land	₩	1,828,777	-	(70)	-	(334)	1,828,373
Leased land		21,460	-	-	-	-	21,460
Buildings		488,518	-	-	(19,349)	(163)	469,006
Structures		68,927	21	-	(2,850)	918	67,016
Machinery		92,472	7,379	(4)	(15,218)	-	84,629
Aircraft		1,992,461	30,227	(240,821)	(317,573)	837,088	2,301,382
Engines		991,934	9,108	(356,015)	(253,554)	457,019	848,492
Leased aircraft		6,753,921	128,737	(11,733)	(581,092)	346,742	6,636,575
Leased engines		1,502,652	219,207	(9,531)	(318,444)	185,684	1,579,568
Aircraft parts		105,426	20,946	(10)	(12,141)	(5,679)	108,542
Vehicle		10,211	308	-	(2,586)	-	7,933
Others		47,347	12,422	(21)	(16,539)	-	43,209
Leasehold improvements		1,642	-	-	(2,108)	8,412	7,946
Construction-in-progress		1,144,095	1,815,798	-	-	(1,843,372)	1,116,521
	₩	15,049,843	2,244,153	(618,205)	(1,541,454)	(13,685)	15,120,652

(*) Other changes were due to the transfer of construction-in-progress to property, aircraft and equipment, and reclassification of tangible assets to investment properties.

(d) The Company capitalized borrowing costs of ₩15,372 million as construction-in-progress for the year ended December 31, 2015. The weighted average capitalization rates for specific loans and general loans are 4.18% and 4.17% respectively.

16. Property, Aircraft and Equipment, Continued

(e) The Company accounts for land and leased land using the revaluation model. As of June 30, 2013, the Company revaluated land through an independent and professional appraiser, Hana Appraisal & Consulting Co., Ltd. Land was revaluated based on land-basis method, which uses price of land nearby and similar of utility value, and further applies the effect of land price change rate from the date of public land value announcement, producer price index, location, shape, environment, usage, and other factors. The book value of land using revaluation model and cost model as of December 31, 2015 are as follows:

(In millions of won and in thousands of US dollars)

		Revaluation model	Cost model		Revaluation model	Cost model
					(Note 4)	
Land	₩	1,816,856	1,496,189	$	1,550,219	1,276,612
Leased land		21,460	13,385		18,311	11,421
	₩	1,838,316	1,509,574	$	1,568,530	1,288,033

The Company recognized revaluation surplus of ₩ 378,069 million (before income tax), which is credited to equity as other comprehensive income and recognized accumulated revaluation loss of ₩ 49,327 million as of December 31, 2015.

(f) Fair value measurements of land and leased land by fair value hierarchy levels as of December 31, 2015 are as follows:

(In millions of won and in thousands of US dollars)

		Level 1	Level 2	Level 3	Total		Total
							(Note 4)
Land	₩	-	1,816,856	-	1,816,856	$	1,550,219
Leased land		-	21,460	-	21,460		18,311
	₩	-	1,838,316	-	1,838,316	$	1,568,530

There was no movement between Level 1 and Level 2 for the year ended December 31, 2015.

17. Intangible Assets

(a) Intangible assets as of December 31, 2015 and 2014 are summarized as follows:

(In millions of won)

		Acquisition cost	Accumulated amortization	Book value
December 31, 2015				
Facility usage rights	₩	228,894	(134,436)	94,458
Development costs		136,109	(68,768)	67,341
Other intangible assets		174,601	(51,559)	123,042
	₩	539,604	(254,763)	284,841
December 31, 2014				
Facility usage rights	₩	228,894	(124,394)	104,500
Development costs		131,777	(47,388)	84,389
Other intangible assets		174,953	(43,235)	131,718
	₩	535,624	(215,017)	320,607

(b) Changes in the carrying amount of intangible assets for the year ended December 31, 2015 are as follows:

(In millions of won and in thousands of US dollars)

	Balance at Jan. 1, 2015	Acquisition	Disposal	Amortization	Others (*)	Balance at Dec. 31, 2015	Balance at Dec. 31, 2015 (Note 4)
Facility usage rights	₩ 104,500	-	-	(10,042)	-	94,458	$ 80,596
Development costs	84,389	-	-	(21,380)	4,332	67,341	57,457
Other intangible assets	131,718	-	(419)	(8,323)	66	123,042	104,985
	₩ 320,607	-	(419)	(39,745)	4,398	284,841	$ 243,038

(*) Other increases or decreases were due to the transfers from construction-in-progress.

17. Intangible Assets, Continued

(c) Changes in the carrying amount of intangible assets for the year ended December 31, 2014 are as follows:

(In millions of won)

		Balance at Jan. 1, 2014	Acqui-sition	Disposal	Amorti-zation	Others (*)	Balance at Dec. 31, 2014
Facility usage rights	₩	114,573	-	-	(10,073)	-	104,500
Development costs		87,545	-	-	(16,638)	13,482	84,389
Other intangible assets		140,105	-	(74)	(8,313)	-	131,718
	₩	342,223	-	(74)	(35,024)	13,482	320,607

(*) Other increases or decreases were due to the transfers from construction-in-progress.

18. Pledged Assets (Non-financial Assets)

Pledged assets provided as collateral and guarantees as of December 31, 2015 are summarized as follows:

(In millions of won, except share data)

Pledged assets		Book value	Collateralized amount (*3) /shares	Provided to	In relation to
Land and buildings(*1)	₩	1,880,233	1,875,954	Korea Development Bank and others	Short-term and long-term borrowings and borrowings of Hanjin International Corp., etc.
Aircraft and engines(*2)		2,645,422	3,619,460		
Machinery		15,567	12,930`		
Facility usage rights		72,244	212,774		
Investment in associates - Hanjin Shipping Co., Ltd		444,829	81,496,169 shares	The Export-Import Bank of Korea and others	Long-term borrowings and borrowings of Hanjin International Corp., etc.
Investment in subsidiaries - Hanjin Int'l Corp.		330,466	54,140,000 shares	Industrial Bank of Korea and others	Borrowings of Hanjin International Corp., etc.

(*1) The land and buildings provided as collateral consist of property and investment property.

(*2) The aircrafts and engines provided as collateral are composed of tangible assets and assets held for sale.

(*3) The collateralized amounts of the pledged assets provided as collateral and guarantees in foreign currency are translated into Korean won at the exchange rate on December 31, 2015.

In addition, the Company has provided leased aircraft, engines and land as collateral to the lessors for finance lease obligation.

December 31, 2015 and 2014

19. Other Financial Assets

Other financial assets as of December 31, 2015 and 2014 are summarized as follows:

(In millions of won and in thousands of US dollars)

		2015	2014		2015
					(Note 4)
Guarantee deposits	₩	328,492	254,105	$	280,283

The Company provided JPY 7,722,972 thousand, $20,833 thousand and HKD 44,158 thousand as guarantee deposits for ABS loans (Note 23). Other financial assets are not impaired or overdue as of December 31, 2015 and 2014.

20. Other Assets

Other assets as of December 31, 2015 and 2014 are summarized as follows:

(In millions of won and in thousands of US dollars)

		2015	2014		2015
					(Note 4)
Other current assets:					
Advanced payments(*)	₩	381,366	344,152	$	325,397
Prepaid expenses		154,594	120,346		131,906
Others		8,036	5,024		6,857
		543,996	469,522		464,160
Other non-current assets:					
Advanced payments(*)		58	75		49
Prepaid expenses		324,276	340,841		276,686
Others		3,161	3,162		2,698
		327,495	344,078		279,433
	₩	871,491	813,600	$	743,593

(*) The Company provided ₩ 104,530,549 thousand, JPY 1,527,309 thousand, $13,244 thousand and HKD 22,134 thousand as advanced payments for ABS loans (Note 23).

December 31, 2015 and 2014

21. Trade and Other Payables

Trade and other payables as of December 31, 2015 and 2014 are summarized as follows:

(In millions of won and in thousands of US dollars)

		2015	2014		2015
Current trade and other payables					(Note 4)
Trade payables	₩	150,168	140,978	$	128,130
Non-trade payables		176,744	178,072		150,805
Accrued expenses		541,070	380,043		461,664
Dividends payable		982	76		838
		868,964	699,169		741,437
Non-current trade and other payables					
Non-trade payables		28,803	110,148		24,576
Accrued expense		12,300	9,982		10,495
		41,103	120,130		35,071
	₩	910,067	819,299	$	776,508

22. Short-term Borrowings

Short-term borrowings as of December 31, 2015 and 2014 are summarized as follows:

(In millions of won and in thousands of US dollars)

	Annual interest rate		2015	2014		2015
						(Note 4)
Korea Development Bank	-	₩	-	130,000	$	-
Hana Bank	3M CD rate + 1.50%		30,000	-		25,597
NongHyup Bank	3M CD rate + 1.70%, 3.10%		220,000	170,000		187,714
Hongkong & Shanghai Banking Corp.	3M CD + 1.00%		20,000	-		17,065
Woori Bank	3M LIBOR + 2.33%		58,600	54,960		50,000
Hana Bank (formerly Korea Exchange Bank)	3M LIBOR + 2.80%		35,160	-		30,000
Hana Bank	3M LIBOR + 1.90% ~ 2.50%		90,991	66,558		77,637
Kookmin Bank	3M LIBOR + 1.95%~3.60%		136,297	61,555		116,294
NongHyup Bank	3M LIBOR + 1.98%		56,073	25,282		47,844
Korea Development Bank	3M LIBOR + 1.85%		57,641	-		49,182
Shinhan Bank	1.64%		40,476	-		34,536
Korea Development Bank - Singapore	3M LIBOR + 2.10%		58,600	54,960		50,000
Bank of China	3M LIBOR + 2.80%		58,600	-		50,000
		₩	862,438	563,315	$	735,869

December 31, 2015 and 2014

23. Long-term Debt

(a) Debentures

Debentures issued and outstanding as of December 31, 2015 and 2014 are summarized as follows:

(In millions of won and in thousands of US dollars)

Series	Issue date	Maturity	Annual interest rate		2015	2014	2015 (Note 4)
38-2nd	10.02.04	15.02.04	-	₩	-	200,000 $	-
43-2nd	11.08.08	16.08.08	5.03%		300,000	300,000	255,973
44-1st	12.02.08	15.02.08	-		-	200,000	-
44-2nd	12.02.08	16.02.08	4.52%		150,000	150,000	127,986
44-3rd	12.02.08	15.02.08	-		-	92,014	-
45th	12.02.27	15.02.27	-		-	92,014	-
46-1st	12.07.19	15.07.19	-		-	150,000	-
46-2nd	12.07.19	17.07.19	3.98%		250,000	250,000	213,311
47-2nd	12.10.08	19.10.18	4.16%		250,000	250,000	213,311
49-3rd	12.12.13	19.12.13	4.36%		170,000	170,000	145,051
50 th(*1)	13.02.25	16.02.25	6M JPY LIBOR + 1.55%		82,621	78,212	70,496
51th	13.02.26	16.02.26	6M JPY LIBOR + 2.35%		97,201	92,014	82,936
52th	13.03.11	15.09.11	-		-	92,014	-
53th	13.03.13	15.12.21	-		-	78,212	-
54th(*2)	13.03.19	16.03.19	3M LIBOR + 1.35%		117,200	109,920	100,000
55th	14.06.30	16.06.30	3M LIBOR + 2.90%		117,200	109,920	100,000
56-1st	14.09.16	16.03.16	3.90%		100,000	100,000	85,324
56-2nd	14.09.16	16.09.16	4.10%		100,000	100,000	85,324
57-1st	14.11.20	16.05.20	3.90%		80,000	80,000	68,259
57-2nd	14.11.20	16.11.20	4.10%		70,000	70,000	59,727
58th(*3)	15.02.27	18.02.27	3M JPY LIBOR + 2.00%		97,201	-	82,936
59th(*4)	15.08.31	18.08.31	4.75%		200,000	-	170,648
					2,181,423	2,764,320	1,861,282
Present value discounts					(4,797)	(5,600)	(4,093)
					2,176,626	2,758,720	1,857,189
Less current portion of debentures, net of present value discounts					(2,081,398)	(903,873)	(1,775,937)
				₩	95,228	1,854,847	81,252

(*1) Kookmin Bank has provided payment guarantee of up to JPY 8,969,623 thousand for the 50th guaranteed debenture.

(*2) Shinhan Bank has provided payment guarantee of up to $100,000 thousand for the 54th guaranteed debenture.

(*3) Kookmin Bank has provided payment guarantee of up to JPY 10,639,117 thousand for the 58th guaranteed debenture.

(*4) The book value of the debentures were reclassified to current liability during the year ended December 31, 2015 because the Company exceeded the required debt ratio of 1,000% per the debentures contract terms. (As of December 31, 2015, the Company has debt ratio below 1,000% in compliance with the contract requirement.)

23. Long-term Debt, Continued

(b) Long-term borrowings

Long-term borrowings as of December 31, 2015 and 2014 are summarized as follows:

(In millions of won and in thousands of US dollars)

	Annual interest rate		2015	2014		2015 (Note 4)
Korea Development Bank	Fiscal financing special account rate + 0.75%	₩	600	2,800	$	512
	-		-	130,000		-
	4.15%		7,700	8,800		6,570
Industrial Bank of Korea	4.35%		3,200	3,600		2,730
Kookmin Bank	2.50%		8,442	10,517		7,203
Hana Bank	-		-	4,580		-
Tongyang Life Insurance Co., Ltd.	-		-	34,000		-
Standard Chartered Bank Korea Limited	-		-	34,000		-
Korea Development Bank	3M LIBOR + 0.57%~3.05%		813,617	632,996		694,213
	3M JPY LIBOR + 2.00%		72,901	133,420		62,202
The Export-Import Bank of Korea	3M LIBOR + 1.35%~2.51%		200,263	668,774		170,873
NongHyup Bank	3M LIBOR + 0.60%~3.25%		9,962	30,584		8,500
Hana Bank	3M LIBOR + 0.60%~2.75%		109,854	212,496		93,732
Woori Bank	1.50%		148,223	48,984		126,470
National Federation of Fisheries Cooperatives	3M LIBOR + 2.85%		58,600	54,960		50,000
Hana Bank (formerly Korea Exchange Bank)	3M LIBOR + 2.90%		26,370	70,139		22,500
Bank of Communication	3M LIBOR + 2.70%		245,502	325,915		209,473
DVB BANK	3M LIBOR + 2.20%~2.40%		175,214	239,259		149,500
KDB Capital Corporation	3M LIBOR + 4.00%		5,977	-		5,100
			1,886,425	2,645,824		1,609,578
Less current portion of long-term borrowings			(987,456)	(1,127,792)		(842,540)
		₩	898,969	1,518,032	$	767,038

23. Long-term Debt, Continued

(c) Asset-backed securitization loans

The Company's asset-backed securitization ("ABS") loans are obtained from various special purpose entities, and entails the sales of rights to receive certain amount of cash flows from the future receivables of the Company to several financial institutions. Details of the ABS loans as of December 31, 2015 and December 31, 2014 are summarized as follows:

(In millions of won and in thousands of US dollars)

Series	**Maturity**	**Annual interest rate**		**2015**	**2014**		**2015**
							(Note 4)
KAL-7th ABS	16.11.08	4.75%	₩	110,000	230,000	$	93,857
KAL-9th ABS	18.04.25	3.15%		300,000	420,000		255,973
KAL-10th ABS	16.11.28	0.84%		123,717	243,727		105,561
KAL-11th ABS	19.02.14	5.11%		350,000	470,000		298,636
KAL-12th ABS	19.05.07	4.74%		105,000	136,000		89,590
KAL-13th ABS	17.07.20	0.69%		63,375	97,903		54,074
KAL-14th ABS	18.08.27	1M LIBOR + 3.50%		99,799	113,360		85,152
KAL-15th ABS	17.11.20	1M LIBOR + 0.65%		269,560	384,720		230,000
KAL-16th ABS	20.01.28	3.98%		600,000	-		511,945
				2,021,451	2,095,710		1,724,788
Less current portion of ABS loans				(840,385)	(707,263)		(717,052)
			₩	1,181,066	1,388,447	$	1,007,736

In association with above ABS loans, the Company provides guarantee deposit of JPY 7,722,972 thousand, $20,833 thousand and HKD 44,158 thousand. The Company also provides advanced payments of ₩ 104,530,549 thousand, JPY 1,527,309 thousand, $13,244 thousand and HKD 22,134 thousand. (Note 19, 20)

23. Long-term Debt, Continued

(d) The Company has agreed to assume certain guaranteed liabilities of Hanjin Shipping Co., Ltd., with Korea Exchange Bank and other financial institutions ("Guaranteed loans"), pursuant to the Government Guidelines for the Rationalization of the Marine Industry. The guaranteed loans accrue no interest and are payable in equal installments over 20 years. In accordance with the repayment schedule, the Company made its first installment payment in 2003 and the final installment will be due in 2017. Guaranteed loans as of December 31, 2015 and 2014 are summarized as follows:

(In millions of won and in thousands of US dollars)

		2015	2014		2015 (Note 4)
Korea Development Bank	₩	5,226	7,843	$	4,459
Woori Bank		3,433	5,146		2,929
Triumph II Investments (Ireland) Limited		221	331		188
Hanshin Mutual Savings & Finance Co., Ltd.		266	398		227
Kookmin Bank		201	299		171
Shinhan Bank		881	1,321		752
Daegu Bank		652	975		556
Hana Bank (formerly Korea Exchange Bank)		8,513	12,774		7,265
Tongyang Life Insurance Co., Ltd.		1,755	2,632		1,497
Lotte Insurance Co., Ltd.		179	270		153
		21,327	31,989		18,197
Present value discounts		(2,372)	(4,839)		(2,024)
		18,955	27,150		16,173
Less current portion of guaranteed loans, net of present value discounts		(9,930)	(9,929)		(8,473)
	₩	9,025	17,221	$	7,700

476,436 shares of Hanjin Shipping Co., Ltd. and ₩1,800,000 thousand of long-term financial instruments were provided as collateral for the guaranteed loans to Hana Bank (formerly Korea Exchange Bank) as of December 31, 2015.(Note 6, 18).

24. Finance Lease Obligations

(a) Finance lease obligations as of December 31, 2015 and 2014 are summarized as follows:

(In millions of won and in thousands of US dollars)

	Annual interest rate		2015	2014		2015 (Note 4)
Arirang Ltd.	5.55%	₩	36,147	46,567	$	30,842
AWMS (Celtic) Ltd.	3.88%		29,178	35,562		24,896
Begin Again Ltd.	3M LIBOR + 2.40%		40,238	-		34,333
Boeing Capital Leasing Ltd.	4.43%		17,846	37,768		15,227
Boeing Training Service Korea LLC	7.75%		12,171	12,171		10,385
Castle 2003-2 Ireland Ltd.	3.26%		8,627	10,481		7,361
CIT Aerospace International	3.68%~3.69%		66,633	69,180		56,854
Constitution Aircraft Leasing (Ireland) 4 Ltd.	3.53%		38,434	42,780		32,794
DOOLEY Aviation Ltd.	3M LIBOR + 2.22%		127,258	142,635		108,582
ECA-2014B Ltd.	3M EURIBOR + 0.32% 3M LIBOR + 2.85%		230,052	260,868		196,290
ECA-2014C Ltd.	3M LIBOR + 0.90%		140,232	144,421		119,652
ECA-2015A Ltd.	3M EURIBOR + 0.31% 3M LIBOR + 2.85%~3.00%		282,001	-		240,615
ECA-2015B Ltd.	3M JPY LIBOR + 0.30% 3M LIBOR + 3.00%		147,400	-		125,768
Export Leasing (2015) LLC	3M LIBOR + 0.52%		179,768	-		153,386
EXPORT LEASING (2015-B)	3M LIBOR + 0.77%		222,608	-		189,939
EXPORT LEASING (2015-A) LLC	3M LIBOR + 0.75%~0.76%		432,966	-		369,425
EXPORT LEASING (2015-B) LLC	3M LIBOR + 0.76%		217,394	-		185,490
EXPORT LEASING (2015-C)	3M LIBOR + 0.78%		224,132	-		191,239
Fly Aircraft Holdings Four Ltd.	5.73%		1,535	5,602		1,310
GECAS Technical Services Ltd.	3.78%~4.30%		81,068	91,740		69,171
GKL Aircraft Ireland One Ltd.	9.57%		14,044	15,774		11,983
Hanmaum / Aeguk	3M LIBOR + 1.95%		108,973	120,912		92,980
Ji Yoo Aviation Ltd.	3M LIBOR + 3.25%~3.50%		180,131	173,124		153,695
Jin An Ireland Company Ltd.	3M LIBOR + 2.70%		38,096	39,921		32,505
KALECA03 Aviation	3M JPY LIBOR + 0.15%		-	7,848		-
KALECA10 Aviation Ltd.	3M LIBOR + 0.59%		112,848	120,985		96,287
KALECA11 Aviation Ltd.	3M LIBOR + 0.96%~1.04%		667,751	722,849		569,753
KALECA11-2 Aviation Ltd.	3M LIBOR + 0.97%		170,118	182,951		145,152
KALECA12 Aviation Ltd.	3M JPY LIBOR + 0.71% 3M LIBOR + 2.80%		162,580	176,448		138,720
KALECA13 Aviation Ltd.	3M EURIBOR + 0.63% 3M LIBOR + 2.55%		207,031	238,989		176,647
KALEDC (2011) Ltd.	3M LIBOR + 1.12%		28,481	31,137		24,301

24. Finance Lease Obligations, Continued

(a) Finance lease obligations as of December 31, 2015 and 2014 are summarized as follows, continued:

(In millions of won and in thousands of US dollars)

	Annual interest rate		2015	2014		2015 (Note 4)
KE 2013B 739-A	3M LIBOR + 2.70%	₩	38,726	40,575	$	33,043
KE Atomos Ltd.	3M LIBOR + 1.50%		-	30,228		-
KE Augustus Ltd.	4.55%		25,782	36,924		21,999
KE Cayman Leasing (2012) Ltd.	3M JPY LIBOR + 2.90%		-	41,986		-
KE Export Leasing (2003) Ltd.	4.55%		4,065	50,672		3,469
KE Export Leasing (2009) Ltd.	3M LIBOR + 1.25%		170,387	186,426		145,381
KE Export Leasing (2010) Ltd.	3M LIBOR + 0.30%		296,700	325,301		253,157
KE Export Leasing (2011) Ltd.	3M LIBOR + 0.40%~0.43%		351,695	376,600		300,081
KE Export Leasing (2011-II) Ltd.	3M LIBOR + 0.48%~0.52%		251,054	267,117		214,210
KE Export Leasing (2012) Ltd.	3M LIBOR + 1.30%~1.31%		391,359	416,238		333,924
KE Export Leasing (2013-A)	3M LIBOR + 0.39%		143,332	149,038		122,297
KE Export Leasing (2013-B)	3M LIBOR + 0.38%		149,431	155,383		127,501
KE Export Leasing (2013-C)	3M LIBOR + 0.68%		160,598	166,455		137,029
KE Export Leasing (2013-D) LLC	3M LIBOR + 0.38%~0.68%		342,464	350,796		292,204
KE Export Leasing 2005-A	5.35%		26,572	38,149		22,672
KE Export Leasing 2005-B	4.99%~5.10%		75,699	102,471		64,590
KE Export Leasing 2014 LLC	3M LIBOR + 0.67%~1.08%		483,903	494,941		412,886
KE Jumbos V Ltd.	5.38%		38,204	49,009		32,598
KE Octavius Ltd.	4.76%		57,311	78,586		48,900
KE WINNER Leasing, Ltd.	3M LIBOR + 2.86%		86,189	91,050		73,540
KE WITH Leasing Ltd.	3M LIBOR + 2.60%		63,579	66,910		54,248
KE2013 B777	3M LIBOR + 2.64%		143,130	155,451		122,125
KEXPORT LEASING 2015	3M LIBOR + 1.23%~1.24%		380,323	-		324,507
KOSMO / SKYTEAM 2010 Ltd.	3M LIBOR + 2.20%		18,752	26,381		16,000
Kosmo Suites / Yun Aviation Limited	3M LIBOR + 1.95%		187,520	-		160,000
KUBAEK	3M LIBOR + 2.20%		68,668	77,069		58,590
Yian Limited	3M LIBOR + 2.14%		208,650	-		178,029
			8,389,834	6,504,469		7,158,562
Less current portion of finance lease obligations			(1,234,471)	(957,218)		(1,053,303)
		₩	7,155,363	5,547,251	$	6,105,259

24. Finance Lease Obligations, Continued

The Export-Import Bank of the United States and others have provided payment guarantees of $5,134 million for the above finance lease obligations as of December 31, 2015. Meanwhile, the Company has provided a payment guarantee of $148 million to Bank of China, the beneficiary of the financial lease obligations due to Yian Limited, as of December 31, 2015.

(b) Minimum lease payments and present values of long-term finance lease obligations as of December 31, 2015 are summarized as follows:

(In millions of won and in thousands of US dollars)

		2015		2015
				(Note 4)
Less than one year	₩	1,358,049	$	1,158,745
One year to five years		4,309,481		3,677,032
More than five years		3,182,421		2,715,376
		8,849,951		7,551,153
Present value discounts		(460,117)		(392,591)
	₩	8,389,834	$	7,158,562

25. Employee Benefits

(a) Details of defined benefit plan liabilities as of December 31, 2015 and 2014 are summarized as follows:

(In millions of won and in thousands of US dollars)

		2015	2014		2015
					(Note 4)
Present value of defined benefit obligations	₩	1,187,340	1,020,640	$	1,013,089
Fair value of plan assets		(190,840)	(200,108)		(162,833)
	₩	996,500	820,532	$	850,256

(b) Changes in the carrying amount of the defined benefit obligations for the years ended December 31, 2015 and 2014 are summarized as follows:

(In millions of won and in thousands of US dollars)

		2015	2014		2015
					(Note 4)
Beginning balance	₩	1,020,640	1,056,212	$	870,854
Current service costs		122,043	108,125		104,132
Interest expense		30,455	39,744		25,986
Remeasurement of the net defined benefit obligations		90,295	(120,367)		77,043
Benefits paid by the plan		(76,610)	(63,570)		(65,367)
Succession of defined benefit obligations		517	496		441
Ending balance	₩	1,187,340	1,020,640	$	1,013,089

(c) Changes in the carrying amount of the plan assets for the years ended December 31, 2015 and 2014 are summarized as follows:

(In millions of won and in thousands of US dollars)

		2015	2014		2015
					(Note 4)
Beginning balance	₩	200,108	206,639	$	170,740
Interest income		4,472	7,765		3,816
Re-measurement of the net defined benefit obligations		(896)	(2,819)		(764)
Benefits paid by the plan		(12,844)	(11,477)		(10,959)
Ending balance	₩	190,840	200,108	$	162,833

(d) The principal assumption used for actuarial valuation as of December 31, 2015 and 2014 is as follows:

	2015	2014
Discount rate (%)	2.50	2.99
Future salary growth (%)	1.80	1.60

25. Employee Benefits, Continued

(e) The fair values of plan assets as of December 31, 2015 and 2014 are as follows:

(In millions of won and in thousands of US dollars)

		2015	2014		2015 (Note 4)
Bank deposits and others	₩	53,235	42,622	$	45,422
Equity instruments		31,476	35,893		26,856
Debt instruments		69,128	82,383		58,984
others		37,001	39,210		31,571
	₩	190,840	200,108	$	162,833

Policy and investment strategy about plan assets pursue the balance between reducing risk and creating profit. Fundamentally, it is accomplished by diversified investment, partially matching strategy of assets and liabilities, and hedging strategy to minimize flexibility of assets related to liabilities. The Company extensively diversifies investment to broadly based assets to reduce overall flexibility of assets related to liabilities (risk adjustment), and achieve a target profit. It is similar to bonds and partially responds to a long maturity pension liability to allocation of assets for earning static profit.

The actual return of plan assets for the years ended December 31, 2015 and 2014 are ₩3,577 million ($3,052 thousand) and ₩4,946 million, respectively.

(f) The sensitivity analyses below have been determined based on reasonably possible changes of the respective assumptions occurring as of December 31, 2015 and 2014, while holding all other assumptions constant.

(In millions of won)

		2015		2014	
		Increase	Decrease	Increase	Decrease
Discount rate (1% movement)	₩	(101,735)	118,898	(86,953)	101,418
Future salary growth (1% movement)		118,589	(103,354)	101,886	(88,887)

Since there is correlation among actuarial assumptions, changes of assumptions will not occur in isolation and above sensitivity analyses will not show the actual change of defined benefit obligations. Also, in the above sensitivity analyses, present value of defined benefit obligations are measured by using the projected unit credit method that is applied to measure the amount of defined benefit obligations in the separate statements of financial position.

26. Provisions

(a) Provisions as of December 31, 2015 and 2014 are summarized as follows:

(In millions of won and in thousands of US dollars)

		2015	2014		2015 (Note 4)
Current portion of provisions					
Provision for construction loss (*1)	₩	15,479	-	$	13,208
Liabilities of greenhouse gas emissions(*2)		1,316	-		1,122
		16,795	-		14,330
Non-current portion of provisions					
Provision for leased aircraft maintenance (*3)		135,123	108,913		115,293
Provision for passenger flight ticket coupon (*4)		27,521	27,521		23,482
Provision for construction warranties(*5)		2,039	-		1,740
		164,683	136,434		140,515
	₩	181,478	136,434	$	154,845

(*1) The Company includes expected future construction loss of Aerospace segment as provision for construction loss. (Note 48)

(*2) The Company has recognized provisions for Greenhouse gases emission cost by measuring the expected quantity of emission for the performing period in excess of emission allowance in possession at the end of the reporting period.

(*3) The Company has maintenance obligations related to the operating leases. In order to fulfill the obligations, the Company has recognized a provision for leased aircraft maintenance by estimating future maintenance costs since it is probable that an outflow of resources embodying economic benefits will be required to settle the obligations (Note 45).

(*4) The Company has recognized $26,000 thousand as a provision for passenger flight tickets coupons agreed to be distributed to the plaintiff in relation to the United States court class action on airline ticket price collusion of flights to Americas. (Note 47).

(*5) The Company has recognized provisions for the maintenance expenses expected to incur from Aerospace segment's sales.

26. Provisions, continued

(b) Changes in the carrying amount of the provision for leased aircraft maintenance for the years ended December 31, 2015 and 2014 are as follows:

(In millions of won and in thousands of US dollars)

		2015	2014		2015 (Note 4)
Beginning balance	₩	108,913	107,666	$	92,930
Charged to profit or loss		27,980	22,772		23,873
Utilization		(1,770)	(21,525)		(1,510)
Ending balance	₩	135,123	108,913	$	115,293

27. Deferred Revenue

The Company manages "SKYPASS", a customer loyalty program, which provides incentives to frequent flyers through accrued mileage such as bonus flight tickets, seat class upgrades, and other benefits to customers of the Company and Company 's alliance companies. The Company allocates fair value of the consideration received from sales to award credits and service revenue. The award credit portion of sales price is measured at the fair value, but is not recognized as revenue until obligations are performed. The Company deferred income associated with the SKYPASS system in the separate statement of financial position as of December 31, 2015 amounts to ₩1,746,085 million, including ₩44,304 million of advance receipts from customers and ₩1,701,781 million of deferred revenue.

28. Derivative Instruments and Hedge Accounting

(a) As of December 31, 2015, the Company entered into a variety of derivative agreements with Korea Development Bank and 8 other financial institutions to manage its exposure to interest rate and oil price risk. Derivatives as of December 31, 2015 are summarized as follows:

Type of transactions	Accounting policy	Maturity	Contract amount
Oil price option	Trading	2016.12.31	BBL 4,700 thousand
Interest rate swaps	Trading	2016.09.01	KRW 15,000 million
Cross-currency interest rate swaps	Trading	2023.06.12	JPY 25,917,175 thousand
TRS(*)	Trading	2018.01.18	KRW 157,100 million

(*) As of December 31, 2015, the Company has entered into a TRS (Total Return Swap) agreement for the price differences of Hanjin shipping Co., Ltd.'s 30 years permanent exchangeable bond arising within the term of the agreement. The value of the agreement is calculated by discounting the difference between the settlement price and the value of the exchangeable bond to present value.

28. Derivative Instruments and Hedge Accounting, Continued

(b) Impact on the separate financial statements in relation to derivatives as of and for the year ended December 31, 2015 is summarized as follows:

(In millions of won)

		Separate statement of financial position			Separate statement of income (loss)			
Derivative instruments		**Financial derivative assets**	**Financial derivative liabilities**	**Other Capital components**	**Valuation gain**	**Valuation loss**	**Transaction gain**	**Transaction loss**
Oil price option	₩	-	35,476	-	-	35,476	11,619	72,989
Interest rate swaps		-	252	-	-	62	9	21
Cross-currency interest rate swaps		-	6,704	-	-	6,704	84	193
TRS		-	11,589	-	-	14,945	297	-
	₩	-	54,021	-	-	57,187	12,009	73,203

(Note 4)

(In thousands of US dollars)

		Separate statement of financial position			Separate statement of income (loss)			
Derivative instruments		**Financial derivative assets**	**Financial derivative liabilities**	**Other Capital components**	**Valuation gain**	**Valuation loss**	**Transaction gain**	**Transactio n loss**
Oil price option	$	-	30,270	-	-	30,270	9,915	62,277
Interest rate swaps		-	215	-	-	53	8	18
Cross-currency interest rate swaps		-	5,720	-	-	5,720	71	165
TRS		-	9,888	-	-	12,751	253	-
	$	-	46,093	-	-	48,794	10,247	62,460

December 31, 2015 and 2014

29. Financial Guarantee Liabilities

Financial guarantee liabilities as of December 31, 2015 and 2014 are summarized as follows:

(In millions of won and in thousands of US dollars)

		2015	2014		2015
					(Note 4)
Current	₩	10,234	7,618	$	8,732
Non-current		8,806	15,672		7,514
	₩	19,040	23,290	$	16,246

The Company offers collateral and payment guarantee for loans of the subsidiary company, Hanjin Int'l Corp. The fair value of payment guarantee is recognized as financial guarantee liabilities (Note 18).

30. Other Liabilities

Other liabilities as of December 31, 2015 and December 31, 2014 are summarized as follows:

(In millions of won and in thousands of US dollars)

		2015	2014		2015
Other current liabilities:					(Note 4)
Advances	₩	916,407	844,137	$	781,918
Withholdings		102,195	77,509		87,197
Unearned revenues		367,415	99,532		313,494
		1,386,017	1,021,178		1,182,609
Other non-current liabilities:					
Long-term withholdings		53,715	37,218		45,832
		53,715	37,218		45,832
	₩	1,439,732	1,058,396	$	1,228,441

December 31, 2015 and 2014

31. Capital Stock

(a) As of December 31, 2015, the number of shares authorized to issue, the number of shares issued, and the share par value of the Company are 250,000,000 shares, 73,950,538 shares (including 1,110,794 shares of preferred shares) and ₩5,000, respectively.

(b) Changes in the number of shares issued for the years ended December 31, 2015 and 2014 are summarized as follows:

(The number of shares)

	2015		2014	
	Common share	**Preferred share(*)**	**Common share**	**Preferred share(*)**
Beginning balance	58,675,438	1,110,794	58,675,438	1,110,794
Increase in paid-in capital	14,164,306	-	-	-
Ending balance	72,839,744	1,110,794	58,675,438	1,110,794

(*) In case the Company is not able to pay the agreed additional dividends (dividend rate for common share + 1%) on preferred share, the preferred shareholders are given voting rights from the date of the general shareholders' meeting which approves the suspension of dividends to preferred share, to the date of the general shareholders' meeting which approves the resumption of the dividends to preferred share.

32. Other Capital Surplus

(a) Other capital surplus as of December 31, 2015 and 2014 are summarized as follows:

(In millions of won and in thousands of US dollars)

		2015	2014		2015
					(Note 4)
Additional paid-in capital	₩	602,854	179,474	$	514,381
Treasury stock		-	-		-
Loss from capital reduction		(377,086)	(377,086)		(321,746)
Hybrid securities		550,411	208,860		469,634
	₩	776,179	11,248	$	662,269

32. Other Capital Surplus, continued

(b) Changes in additional paid-in capital for the years ended December 31, 2015 and 2014 are summarized as follows:

(In millions of won and in thousands of US dollars)

		2015	2014		2015
					(Note 4)
Beginning balance	₩	179,474	179,474	$	153,135
Increase in paid-in capital(*)		423,380	-		361,246
Ending balance	₩	602,854	179,474	$	514,381

(*) 14,164,306 common shares were issued for the year ended December 31, 2015.

(c) Changes in treasury stock for the years ended December 31, 2015 and 2014 are as follows.

(The number of shares, in thousands of won and in thousands of US dollars)

	Number of shares(*)		2015		2015
					(Note 4)
Beginning balance	2	₩	(73)	$	(62)
Increase (decrease)	11		(403)		(344)
Ending balance	13	₩	(476)	$	(406)

(The number of shares, in thousands of won)

	Number of shares(*)		2014
Beginning balance	2	₩	(73)
Increase (decrease)	-		-
Ending balance	2	₩	(73)

(*) The Company has 13 shares of common stock as of December 31, 2015.

(d) Changes in hybrid securities for the years ended December 31, 2015 and 2014 are as follows:

(In millions of won and in thousands of US dollars)

		2015	2014		2015
					(Note 4)
Beginning balance	₩	208,860	208,860	$	178,208
Increase (decrease)		341,551	-		291,426
Ending balance	₩	550,411	208,860	$	469,634

32. Other Capital Surplus, Continued

(e) Hybrid securities as of December 31, 2015 and 2014 are summarized as follows:

(In millions of won and in thousands of US dollars)

	Date of issue	Maturity	Interest rate		2015	2014	2015
							(Note 4)
Unsecured bearer debenture (*1)	2013. 6.28	2043. 6.28	6.40%	₩	208,860	208,860 $	178,208
Registered guaranteed debenture (*2)	2015.11.25	2045.11.25	2.50%		341,551	-	291,426
				₩	550,411	208,860 $	469,634

(*1) The interest rate of is 6.40% for five years after issuance, and the increased interest rate (6.40% + 3.50% + (benchmark yield after five years from the date of issue -3.32%)) is applied after the five years.

The Company can exercise the right of early repayment every year after five years of the hybrid securities' issuance. If notice of willingness to extend maturity is given one month prior to the maturity date, maturity can be extended for 30 years under the same condition. In addition, the Company can choose not to pay the interest on hybrid securities based on the decision to extend maturity. However, the Company cannot suspend payment of the interest if the decision on stock dividend, purchase and redemption of stocks, and profit retirement occurred in the last 12 months.

(*2) The interest rate of is 2.5% for three years after issuance, and 4.0% from three to five years after issuance. After the five years, the increased interest rate (6.5% + 3.0%) is applied.
The Company can exercise the right of early repayment every six months after three years of the securities' issuance. If notice of willingness to extend maturity is given one month prior to the maturity date, maturity can be extended for 30 years under the same condition. In addition, the Company can choose not to pay the interest on securities based on the decision to extend maturity.

However, the Company cannot suspend payment of the interest if the decision on stock dividend, purchase and redemption of stocks, and profit retirement occurred in the last 12 months.

December 31, 2015 and 2014

33. Other Capital Components

(a) Other capital components as of December 31, 2015 and 2014 are summarized as follows:

(In millions of won and in thousands of US dollars)

		2015	2014		2015 (Note 4)
Gain (loss) on valuation of available-for-sale financial assets, net	₩	46,341	74,361	$	39,540
Revaluation surplus		286,576	287,632		244,519
	₩	332,917	361,993	$	284,059

(b) Changes in gain (loss) on valuation of available-for-sale financial assets for the years ended December 31, 2015 and 2014 are summarized as follows:

(In millions of won and in thousands of US dollars)

		2015	2014		2015 (Note 4)
Beginning balance	₩	74,361	78,436	$	63,448
Gain (loss) on valuation of available-for-sale financial assets, net		(28,485)	(4,114)		(24,304)
Reclassified to income or loss on available-for-sale financial assets, net		465	39		396
Ending balance	₩	46,341	74,361	$	39,540

(c) Changes in gain (loss) on valuation of derivatives for the years ended December 31, 2015 and 2014 are summarized as follows:

(In millions of won and in thousands of US dollars)

		2015	2014		2015 (Note 4)
Beginning balance	₩	-	2,156	$	-
Reclassified to income or loss on cash flow hedge, net(*)		-	(2,156)		-
Ending balance	₩	-	-	$	-

(*) The amount reclassified to income or loss is included as cost of sales in comprehensive statements of income.

(d) Changes in revaluation surplus for the years ended December 31, 2015 and 2014 are summarized as follows:

(In millions of won and in thousands of US dollars)

		2015	2014		2015 (Note 4)
Beginning balance	₩	287,632	287,635	$	245,420
Gain (loss) on revaluation of assets		(1,056)	(3)		(901)
Ending balance	₩	286,576	287,632	$	244,519

34. Retained Earnings

(a) Details of retained earnings as of December 31, 2015 and 2014 are summarized as follows:

(In millions of won and in thousands of US dollars)

		2015	2014		2015
					(Note 4)
Legal reserve(*)	₩	3,452	3,452	$	2,945
Voluntary reserve		200,000	200,000		170,648
Unappropriated retained earnings		613,993	1,104,088		523,885
	₩	817,445	1,307,540	$	697,478

(*) The Korean Commercial Code requires the Company to appropriate as legal reserve an amount equal to at least 10% of cash dividends for each accounting period until the reserve equals 50% of stated capital. The legal reserve may be used to reduce a deficit or may be transferred to common shares in connection with a free issue of new shares.

(b) Changes in unappropriated retained earnings the for the years ended December 31, 2015 and 2014 are summarized as follows:

(In millions of won and in thousands of US dollars)

		2015	2014		2015
					(Note 4)
Beginning balance	₩	1,307,540	1,592,157	$	1,115,648
Profit (loss) for the period		(407,682)	(360,576)		(347,852)
Remeasurement of the net defined benefit liabilities		(69,122)	89,101		(58,979)
Dividend attributable to hybrid securities		(14,347)	(13,476)		(12,241)
Substitution of revaluation surplus		1,056	334		902
Ending balance	₩	817,445	1,307,540	$	697,478

34. Retained Earnings, continued

(c) Details of appropriations of retained earnings for the years ended December 31, 2015 and 2014 are as follows:

Date of appropriation for 2015: March 18, 2016
Date of appropriation for 2014: March 27, 2015

(In millions of won and in thousands of US dollars)

		2015	2014		2015 (Note 4)
Unappropriated retained earnings	₩	613,993	1,104,088	$	523,885
Balance at beginning of year		1,104,088	1,388,705		942,055
Remeasurement of the net defined benefit liabilities		(69,122)	89,101		(58,978)
Substitution of revaluation surplus		1,056	334		901
Dividend from hybrid securities		(14,347)	(13,476)		(12,241)
Profit (loss) for the year		(407,682)	(360,576)		(347,852)
Appropriation of retained earnings		-	-		-
Unappropriated retained earnings to be carried over to subsequent year		613,993	1,104,088		523,885

(d) There was no dividend payment (except for the dividend attributable to hybrid securities) for the years ended December 31, 2015 and 2014.

December 31, 2015 and 2014

35. Revenue

Revenue from the Company's continuing operations for the years ended December 31, 2015 and 2014 are summarized as follows:

(In millions of won and in thousands of US dollars)

		2015	2014		2015 (Note 4)
Air transport revenue	₩	10,301,095	10,792,941	$	8,789,330
Other revenue		1,007,328	887,457		859,495
	₩	11,308,423	11,680,398	$	9,648,825

The profit of limousine business division transferred to Air Total Service Co., Ltd.'s as part of the contribution in-kind was included as part of air transport revenue.

36. Selling, General and Administrative Expenses

Details of selling, general and administrative expenses for the years ended December 31, 2015 and 2014 are summarized as follows:

(In millions of won and in thousands of US dollars)

		2015	2014		2015 (Note 4)
Salary	₩	258,606	243,523	$	220,654
Retirement benefit costs		29,524	27,932		25,191
Depreciation		10,791	10,545		9,207
Amortization		25,350	20,651		21,630
Rental		20,720	20,377		17,679
Sales commission		298,034	304,172		254,295
Advertising		95,038	98,935		81,090
Welfare		65,288	58,001		55,707
Training		8,373	6,917		7,144
Communications		78,983	84,566		67,392
Taxes & dues		18,364	16,974		15,669
Facility maintenance		10,808	9,266		9,222
Service fees		167,537	162,837		142,950
Others		75,310	72,126		64,257
	₩	1,162,726	1,136,822	$	992,087

37. Finance Income and Costs

Finance income and costs for the years ended December 31, 2015 and 2014 are summarized as follows:

(In millions of won and in thousands of US dollars)

		2015	2014		2015
Finance income:					(Note 4)
Interest income	₩	38,756	37,099	$	33,069
Dividend income		7,711	3,417		6,579
Gain on valuation of derivatives		-	5,736		-
Gain on transactions of derivatives		12,009	4,161		10,247
Reversal of provision for financial guarantee		9,777	3,590		8,342
		68,253	54,003		58,237
Finance costs:					
Interest expense		367,086	410,006		313,213
Loss on valuation of derivatives		57,187	205,431		48,794
Loss on transactions of derivatives		73,203	12,083		62,460
		497,476	627,520		424,467
Net finance costs	₩	(429,223)	(573,517)	$	(366,230)

38. Other Non-operating Income and Expenses

Other non-operating income and expenses for the years ended December 31, 2015 and 2014 are summarized as follows:

(In millions of won and in thousands of US dollars)

		2015	2014		2015 (Note 4)
Other non-operating income:					
Gain on foreign currency transactions	₩	247,110	216,789	$	210,844
Gain on foreign currency translation		112,900	168,734		96,332
Reversal of allowance for doubtful accounts		6	80		5
Gain on disposal of investments in associates		176	10		150
Gain on disposal of investments in associates		-	15,012		-
Reversal of impairment loss on investments in associates		-	13,065		-
Gain on disposal of investments in subsidiaries		277	-		236
Gain on disposal of property, aircraft and equipment		4,980	3,163		4,249
Gain on disposal of available-for-sale financial assets		2	-		2
Miscellaneous gain		11,687	26,147		9,972
		377,138	443,000		321,790
Other non-operating expenses:					
Other bad debt expenses		42,705	325		36,438
Loss on foreign currency transactions		365,268	249,525		311,662
Loss on foreign currency translation		608,501	402,836		519,199
Impairment loss on available-for-sale financial assets		149	2,794		127
Impairment loss on investments in associates and jointly controlled entities		-	3,905		-
Loss on disposal of available-for-sale financial assets		-	105		-
Loss on disposal of property, aircraft and equipment		172,974	112,754		147,589
Loss on disposal of assets held for sale		5,234	-		4,466
Impairment loss on property, aircraft and equipment		72,364	-		61,744
Loss on disposal of intangible assets		124	23		106
Donations		14,713	9,883		12,554
Miscellaneous loss		24,081	1,930		20,547
		1,306,113	784,080		1,114,432
Net other non-operating expenses	₩	(928,975)	(341,080)	$	(792,642)

39. Income Tax Expense

(a) The components of the income tax expense (benefit) for the years ended December 31, 2015 and 2014 are summarized as follows:

(In millions of won and in thousands of US dollars)

		2015	2014		2015 (Note 4)
Current income tax expense	₩	2,117	1,475	$	1,806
Changes in temporary difference		(43,455)	(91,009)		(37,078)
Changes in deferred taxes related to tax loss carryforward		(80,974)	(64,828)		(69,089)
Income tax after corporate profit refund tax benefit		-	-		-
Items recorded directly in equity		31,014	(27,151)		26,462
Income tax benefit	₩	(91,298)	(181,513)	$	(77,899)

(b) The income tax expense (benefit) calculated by applying statutory tax rates to the Company's profit (loss) before income taxes differs from the actual tax expense (benefit) in the separate statements of comprehensive income (loss) for the years ended December 31, 2015 and 2014 for the following reasons:

(In millions of won and in thousands of US dollars)

		2015	2014		2015 (Note 4)
Loss before income taxes	₩	(498,980)	(542,089)	$	(425,751)
Income tax benefit computed at statutory rate		(120,291)	(130,724)		(102,638)
Adjustments:					
Non-deductible expense		(19,759)	32,988		(16,859)
Additional payment Tax (Tax credits)		17,365	(18,634)		14,817
Others		31,387	(65,143)		26,781
Income tax benefit	₩	(91,298)	(181,513)	$	(77,899)
Effective tax rate(*)		0.00%	0.00%		0.00%

(*) Effective tax rate has not been determined, because income tax expense is negative.

December 31, 2015 and 2014

39. Income Tax Expense, Continued

(c) Changes in temporary differences and deferred income tax assets (liabilities) as of and for the years ended December 31, 2015 are as follows:

(In millions of won and in thousands of US dollars)

		Balance at Jan. 1, 2015 (*)	Increase (decrease) (*)	Balance at Dec.31, 2015		Balance at Dec.31, 2015
Temporary differences:						(Note 4)
Defined benefit obligation	₩	711,358	222,874	934,232	$	797,126
Provision for leased aircraft maintenance		108,913	26,211	135,124		115,293
Depreciation and amortization		219,394	(101,210)	118,184		100,840
Deferred revenue		1,684,750	61,334	1,746,084		1,489,834
Gain from assets contributed		3,164	(8)	3,156		2,692
Gain (loss) on foreign currency translation		23,902	(16,117)	7,785		6,642
Accrued expenses		72,141	7,015	79,156		67,539
Guaranteed loans		(4,838)	2,466	(2,372)		(2,024)
Gain on valuation of available-for-sale financial assets		(98,102)	36,967	(61,135)		(52,163)
Gain on revaluation of land		(751,895)	54	(751,841)		(641,503)
Gain on valuation of derivatives		199,944	(145,923)	54,021		46,093
Gain (loss) on revaluation of assets		(97,333)	22	(97,311)		(83,030)
Others		187,853	73,510	261,363		223,007
		2,259,251	167,195	2,426,446		2,070,346
Tax loss carryforward		1,196,987	406,359	1,603,345		1,368,042
Additional payment Tax (Tax credits)		47,988	(280)	47,709		40,707
Deferred tax assets	₩	813,739	124,429	938,168	$	800,484

39. Income Tax Expense, Continued

(d) Changes in temporary differences and deferred income tax assets (liabilities) as of and for the years ended December 31, 2014 are as follows:

(In millions of won)

		Balance at Jan. 1, 2014 (*)	Increase (decrease) (*)	Balance at Dec.31, 2014
Temporary differences:				
Defined benefit obligation	₩	708,293	3,065	711,358
Provision for leased aircraft maintenance		107,666	1,247	108,913
Depreciation and amortization		89,464	129,930	219,394
Deferred revenue		1,604,346	80,404	1,684,750
Gain from assets contributed		3,184	(20)	3,164
Gain (loss) on foreign currency translation		58,222	(34,320)	23,902
Accrued expenses		67,990	4,151	72,141
Guaranteed loans		(8,053)	3,215	(4,838)
Gain on valuation of available-for-sale financial assets		(103,477)	5,375	(98,102)
Gain on revaluation of land		(813,504)	61,609	(751,895)
Gain on valuation of derivatives		23,146	176,798	199,944
Gain (loss) on revaluation of assets		(97,333)	-	(97,333)
Others		212,100	(24,247)	187,853
		1,852,044	407,207	2,259,251
Tax loss carryforward		1,006,101	190,886	1,196,987
Tax credits		32,849	15,139	47,988
Deferred tax assets	₩	657,902	155,837	813,739

(*) The Company reflected adjustments resulted from actual tax adjustments on beginning temporary differences in the change in temporary differences for the years ended December 31, 2015 and 2014.

December 31, 2015 and 2014

39. Income Tax Expense, Continued

(e) Deferred income tax expense directly adjusted to shareholders' equity as of December 31, 2015 is as follows:

(In millions of won and in thousands of US dollars)

		Profit before income taxes	Tax effects	Profit after Income taxes		Profit after Income taxes
						(Note 4)
Gain (loss) on valuation of available-for-sale financial assets	₩	61,135	(14,795)	46,340	$	52,163
Remeasurement of the net defined benefit liabilities		(150,357)	36,387	(113,970)		(128,290)
Revaluation surplus (retained earnings)		1,834	(444)	1,390		1,565
Revaluation surplus (other comprehensive income)		378,069	(91,493)	286,576		322,584
	₩	290,681	(70,345)	220,336	$	248,022

(f) Deferred income tax expense directly adjusted to shareholders' equity as of December 31, 2014 is as follows:

(In millions of won)

		Profit before income taxes	Tax effects	Profit after Income taxes
Gain (loss) on valuation of available-for-sale financial assets	₩	98,102	(23,741)	74,361
Remeasurement of the net defined benefit liabilities		(59,166)	14,318	(44,848)
Revaluation surplus (retained earnings)		439	(106)	333
Revaluation surplus (other comprehensive income)		379,462	(91,830)	287,632
	₩	418,837	(101,359)	317,478

(g) Deductible temporary differences, tax loss, and unused tax credits, not recognized as deferred tax assets as of December 31, 2015 and 2014 is as follows:

(In millions of won and in thousands of US dollars)

		2015	2014		2015
					(Note 4)
Investment in subsidiaries and associates and gains from assets contributed	₩	238,973	251,345	$	203,901
Unused tax credits		26,919	9,713		22,969
	₩	265,892	261,058	$	226,870

39. Income Tax Expense, Continued

(h) The expiration dates of unused tax credits not recognized as deferred tax assets as of December 31, 2015 and 2014 is as follows:

(In millions of won and in thousands of US dollars)

		2015	2014		2015
					(Note 4)
Within one year	₩	1,438	9,713	$	1,228
One - Three years		25,481	-		21,741
	₩	26,919	9,713	$	22,969

40. Classification of Expenses by Nature

Details of expenses by nature for the years ended December 31, 2015 and 2014 are summarized as follows:

(In millions of won and in thousands of US dollars)

		2015	2014		2015
					(Note 4)
Employee benefits	₩	1,526,978	1,438,760	$	1,302,882
Welfare		282,881	236,380		241,366
Depreciation and amortization		1,632,041	1,577,149		1,392,526
Rent		219,460	185,392		187,252
Fuel & oil charges(*)		2,680,773	4,031,415		2,287,349
Airport related costs		1,130,291	1,067,971		964,412
Sales commission		301,064	306,965		256,881
Others		2,675,717	2,463,858		2,283,036
	₩	10,449,205	11,307,890	$	8,915,704

(*)10% increase (decrease) of fuel & oil prices would have decreased (increased) operating income by ₩268,077 million and ₩403,142 million for the years ended December 31, 2015 and 2014, respectively (excluding the effect of operating income caused by fuel surcharge). Fluctuation of fuel & oil prices has significant impact on operating results and cash flows of the Company.

These expenses are the sum of cost of sales and selling, general and administrative expenses.

41. Loss per Share

(a) Basic loss per share attributable to common shares for the years ended December 31, 2015 and 2014 are summarized as follows:

(In millions of won and in thousands of US dollars, except share data and earnings (loss) per share)

		2015	2014		2015
					(Note 4)
Loss for the period	₩	(407,682)	(360,576)	$	(347,852)
Attributable to common shares		(401,352)	(353,931)		(342,450)
Weighted-average number of common shares Outstanding		69,812,851	58,675,438		69,812,851
Basic loss per share in won and US dollars	₩	(5,749)	(6,032)	$	(4.91)

As the Company does not have any outstanding potentially dilutive common shares, there is no effect from dilution and thus the basic loss per share and the diluted loss per share is equal.

(b) Basic loss per share attributable to preferred shares for the years ended December 31, 2015 and 2014 are summarized as follows:

(In millions of won and in thousands of US dollars, except share data and earnings (loss) per share)

		2015	2014		2015
					(Note 4)
Loss for the period	₩	(407,682)	(360,576)	$	(347,852)
Attributable to preferred shares		(6,330)	(6,645)		(5,401)
Weighted-average number of preferred shares outstanding		1,110,794	1,110,794		1,110,794
Basic loss per share in won and US dollars	₩	(5,699)	(5,982)	$	(4.86)

(c) The contents of weighted-average common and preferred shares for the years ended December 31, 2015 and 2014 are as follows:

(Number of shares)

	2015	2014
Cumulative number of weighted-average common shares	25,481,690,692	21,416,534,870
Cumulative number of weighted-average preferred shares	405,439,810	405,439,810
Number of days	365 days	365 days
Weighted-average number of common shares outstanding	69,812,851	58,675,438
Weighted-average number of preferred shares outstanding	1,110,794	1,110,794

42. Financial Instruments

(a) Capital risk management:

The Company manages its capital in order to maintain the ability to continuously provide profits to its shareholders and interest parties and optimum capital structure to reduce capital expenses. In order to maintain such optimum, the Company adjusts dividend payments, redeems paid-in capital to shareholders and issues stocks to reduce liabilities or sell assets.

Like other entities in the field in which the Company operates in, the Company manages its capital based on the ratio of net debt to total equity. Net debt refers to total borrowings (including obligation under finance leases as presented in the separate statement of financial position) less cash and cash equivalents and short-term financial assets, and total equity refers to capital presented in the statement of financial position, plus net debt.

The Company's net debt to total equity ratio as of December 31, 2015 and 2014 is as follows:

(In millions of won and in thousands of US dollars)

		2015	2014		2015 (Note 4)
Total borrowings	₩	15,355,729	14,595,186	$	13,102,158
Less: cash and cash equivalents and short-term financial instruments		719,210	419,276		613,660
Net debt		14,636,519	14,175,910		12,488,498
Capital		2,296,294	1,979,712		1,959,295
Total equity	₩	16,932,813	16,155,622	$	14,447,793
Net debt to total equity ratio		86.44%	87.75%		86.44%

(b) Significant accounting policies and methods (recognition criteria, measurement standards, including recognition criteria for revenue and expenses) adopted by the Company regarding financial assets, financial liabilities and shareholders' equity are disclosed in detail in Note 2 and 3.

42. Financial Instruments, continued

(c) The carrying amounts on category of the financial assets as of December 31, 2015 and 2014 are as follows:

(In millions of won and in thousands of US dollars)

		Loans and receivables	Held-to-maturity financial assets	Available-for-sale financial assets	Total		Total
December 31, 2015							(Note 4)
Cash and cash equivalents	₩	698,947	-	-	698,947	$	596,371
Short and long-term financial instruments		126,756	-	-	126,756		108,154
Held-to-maturity financial assets		-	852	-	852		727
Available-for-sale financial assets		-	-	149,558	149,558		127,609
Trade and other receivables		917,455	-	-	917,455		782,811
Finance lease receivables		33,839	-	-	33,839		28,873
Other financial assets		328,492	-	-	328,492		280,283
	₩	2,105,489	852	149,558	2,255,899	$	1,924,828

(In millions of won)

		Loans and receivables	Financial asset at fair value through profit or loss	Held-to-maturity financial assets	Available-for-sale financial assets	Total
December 31, 2014						
Cash and cash equivalents	₩	410,108	-	-	-	410,108
Short and long-term financial instruments		64,495	-	-	-	64,495
Held-to-maturity financial assets		-	-	849	-	849
Available-for-sale financial assets		-	-	-	188,449	188,449
Trade and other receivables		938,812	-	-	-	938,812
Financial derivative assets		-	5,736	-	-	5,736
Finance lease receivables		85,355	-	-	-	85,355
Other financial assets		254,106	-	-	-	254,106
	₩	1,752,876	5,736	849	188,449	1,947,910

42. Financial Instruments, Continued

(d) The carrying amounts on category of the financial liabilities as of December 31, 2015 and 2014 are as follows:

(In millions of won and in thousands of US dollars)

		Financial liability at fair value through profit or loss	Financial liabilities recognized at amortized cost	Total		Total
December 31, 2015						(Note 4)
Trade and other payables	₩	-	897,767	897,767	$	766,013
Borrowings		-	4,789,269	4,789,269		4,086,407
Debentures		-	2,176,625	2,176,625		1,857,189
Financial derivative liabilities		54,021	-	54,021		46,093
Finance lease obligations		-	8,389,835	8,389,835		7,158,562
Financial guarantee liabilities		-	19,040	19,040		16,246
	₩	54,021	16,272,536	16,326,557	$	13,930,510

(In millions of won)

		Financial liability at fair value through profit or loss	Financial liabilities recognized at amortized cost	Total
December 31, 2014				
Trade and other payables	₩	-	809,316	809,316
Borrowings		-	5,331,999	5,331,999
Debentures		-	2,758,720	2,758,720
Financial derivative liabilities		205,681	-	205,681
Finance lease obligations		-	6,504,468	6,504,468
Financial guarantee liabilities		-	23,290	23,290
	₩	205,681	15,427,793	15,633,474

42. Financial Instruments, Continued

(e) Income or loss (net income or loss from continuing operations before tax effect) by category of financial assets for the years ended December 31, 2015 and 2014 are as follows:

(In millions of won and in thousands of US dollars)

		Loans and receivables	Held-to-maturity financial assets	Available-for-sale financial assets	Total		Total
December 31, 2015							(Note 4)
Interest income	₩	38,737	19	-	38,756	$	33,069
Dividend income		-	-	3,439	3,439		2,935
Reversal of allowance for other doubtful accounts		6	-	-	6		5
Gain on foreign currency translation		34,398	-	-	34,398		29,350
Gain on disposal of available-for -sale financial assets		-	-	176	176		150
Impairment loss on available-for -sale financial assets		-	-	(149)	(149)		(127)
Loss on valuation of available-for -sale financial assets		-	-	(36,966)	(36,966)		(31,542)
	₩	73,141	19	(33,500)	39,660	$	33,840

(In millions of won)

		Loans and receivables	Financial asset at fair value through profit or loss	Held-to-maturity financial assets	Available-for-sale financial assets	Total
December 31, 2014						
Interest income	₩	37,038	-	61	-	37,099
Dividend income		-	-	-	2,124	2,124
Reversal of allowance for other doubtful accounts		169	-	-	-	169
Gain on foreign currency translation		15,608	-	-	-	15,608
Gain on valuation of financial derivatives		-	5,736	-	-	5,736
Loss on disposal of available-for-sale financial assets		-	-	-	(95)	(95)
Impairment loss on available-for-sale financial assets		-	-	-	(2,794)	(2,794)
Loss on valuation of available-for -sale financial assets		-	-	-	(5,376)	(5,376)
	₩	52,815	5,736	61	(6,141)	52,471

December 31, 2015 and 2014

42. Financial Instruments, Continued

(f) Income or loss (net income or loss from continuing operations before tax effect) by category of financial liabilities for the years ended December 31, 2015 and 2014 are as follows:

(In millions of won and in thousands of US dollars)

		Financial liabilities at fair value through profit or loss	Financial liabilities recognized at amortized cost	Total		Total
December 31, 2015						(Note 4)
Interest expense	₩	-	(367,086)	(367,086)	$	(313,213)
Gain on foreign currency translation		(743)	(532,767)	(533,510)		(455,213)
Loss on valuation of financial derivatives		(57,187)	-	(57,187)		(48,794)
Gain on transactions of financial derivatives		12,009	-	12,009		10,247
Loss on transactions of financial derivatives		(73,202)	-	(73,202)		(62,460)
Reversal of provision for financial guarantee		-	9,777	9,777		8,342
	₩	(119,123)	(890,076)	(1,009,199)	$	(861,091)

(In millions of won)

		Financial liabilities at fair value through profit or loss	Financial liabilities recognized at amortized cost	Total
December 31, 2014				
Interest expense	₩	-	(410,006)	(410,006)
Gain on foreign currency translation		(25)	(247,466)	(247,491)
Loss on valuation of financial derivatives		(205,431)	-	(205,431)
Loss on transactions of financial derivatives		(12,083)	-	(12,083)
Reversal of provision for financial guarantee		-	3,590	3,590
	₩	(217,539)	(653,882)	(871,421)

(g) Financial risk management

1) Financial risk
The financial sector manages the Company's business and organizes the approach to the domestic and international financial markets. Furthermore, it monitors and manages the financial risk related to the Company's business through internal risk reports, which analyze the scope and scale of each risk. These risks include the market risk (including currency risk, interest rate risk, including oil price fluctuation risk and price risk), credit risk, liquidity risk and cash flow interest rate risk.

42. Financial Instruments, Continued

The Company tries to minimize the impact of these risks by using derivative instruments for risk aversion. Use of derivatives is determined on the basis of the policy of the Company approved by the Board of Directors, but, by this, documented principles about foreign exchange risk, interest rate risk, credit risk, use of non-derivative financial instruments and derivative financial instruments, and the investment of excess liquidity is provided. Internal auditor reviews the compliance with the policy and limitations of risk consistently. The Company does not make and transact the financial instrument contract, including derivatives, for speculative purposes.
Finance sector is reporting on a quarterly basis to the Risk Management Committee, an independent organization to monitor the risk and policy in order to reduce the degree of risk.

2) Market Risk

The Company is mainly exposed to financial risks, such as foreign exchange rate risk, interest rate risk and oil price risk. Therefore, the Company made a contract for derivative instruments.

a) Foreign exchange risk management
The Company is exposed to various foreign currency risks since it makes transactions in foreign currencies. By using the currency option contracts, the Company manages the degree of risk exposure due to the changes in exchange rates within the limit decided in the policy that has been approved.

The carrying amounts of the Company's foreign currency denominated monetary assets and monetary liabilities as of December 31, 2015 and 2014 are as follows:

(In millions of won and in thousands of US dollars)

		2015	2014		2015 (Note 4)
Assets denominated in foreign currency:					
USD	₩	965,417	737,556	$	823,734
JPY		155,163	108,254		132,392
Others`		266,216	259,095		227,147
	₩	1,386,796	1,104,905	$	1,183,273
Liabilities denominated in foreign currency:					
USD	₩	10,810,963	9,622,790	$	9,224,371
JPY		809,684	1,202,374		690,857
Others		768,819	585,490		655,988
	₩	12,389,466	11,410,654	$	10,571,216

42. Financial Instruments, Continued

a-1) Foreign currency sensitivity analysis
The Company is mainly exposed to the risk on USD, JPY, and other currencies (EUR, CNY, and others).

The Company's sensitivity to a 10% increase or decrease and in KRW (functional currency of the Company) against the foreign currencies as of December 31, 2015 and 2014 is presented in the table below. The sensitivity rate used in reporting foreign currency risk internally to key management personnel is 10% and it represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period-end for a 10% change in foreign currency rates. A positive number below indicates an increase in income (loss) before income tax expense and other equity where the KRW is strengthening 10% against the relevant currency. For a 10% weakness of KRW against the relevant currency, there would be an equal and opposite impact on the income (loss) before income tax expense and other equity.

(In millions of won and in thousands of US dollars)

	Currency		2015	2014		2015
						(Note 4)
Profit (loss) before income tax(*)	USD	₩	984,555	888,523	$	840,064
	JPY		65,452	109,412		55,846
	Others		50,260	32,640		42,884

(*) Increase (decrease) is mainly due to exchange rate fluctuations of USD, JPY currency receivables and payables as of December 31, 2015 and 2014.

b) Interest risk management
The Company has borrowed funds in fixed and floating interest rate; therefore, the Company is exposed to interest rate risk. In order to manage interest rate risk, the Company maintains the proper balance between floating rate borrowings and fixed-rate borrowings, or the Company has entered into interest rate swap contracts. In order to appropriately adjust to situation of interest and the defined tendency of risk, the risk aversion activity is evaluated periodically, and optimal hedging strategy is applied.

The exposure degree of interest rate risk for financial assets and liabilities is described in more detail in the footnotes of liquidity risk management.

b-1) Interest rate sensitivity analysis
The sensitivity analyses above have been determined based on the exposure to interest rates for both derivatives and non-derivative instruments at the end of the reporting period. For floating rate financial assets and liabilities, the analysis is prepared assuming the amount of the financial assets and liabilities outstanding at the end of the reporting period was outstanding for whole year. A 50 basis point (bp) increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

The Company's sensitivity to a 50 bp change in interest rates on net income when all other variables are fixed, as of December 31, 2015 and 2014 is as follows:

- The Company's net loss will decrease (increase) to ₩53,579,028 thousand ($45,716 thousand) (prior year ₩46,992,024 thousand), and it is mainly due to the interest rate risk of floating rate borrowings.

42. Financial Instruments, Continued

The interest rate sensitivity of the Company has increased due to the increase of floating rate borrowings for the year ended December 31, 2015.

b-2) Interest rate swap contracts
On the basis of the interest rate swap agreement, the Company will exchange the balance that is calculated by applying the difference between fixed-rate and floating rate interest of the nominal principal that is determined in advance. These contracts will reduce the risk of changes in fair value of the fixed-rate liabilities and cash flows of floating rate liabilities with the Company attributable to changes in interest rates. The fair value of the interest rate swap is determined by discounting the future cash flows estimated using the credit risk that is inherent in the contract with the yield curve as of December 31, 2015 and it is disclosed in the following table. The average interest rate is determined based on the outstanding balance as of December 31, 2015.

The interest rate swap outstanding as of December 31, 2015 and 2014 is as follows:

(In millions of won and in thousands of Yen)

	Average contracted fixed rate		Contract amount	Fair value
December 31, 2015				
For trading				
Within one year	3.90%	₩	15,000	(252)
More than one year	2.70%		JPY 25,917,175	(6,704)
December 31, 2014				
For trading				
Within two years	3.90%	₩	15,000	(476)

c) Risk of changes in oil prices
Market prices of oil products, such as jet fuel, have fluctuated greatly due to various factors that affect to determine the supply and demand of crude oil in the world market. These factors will affect the cash flow and performance of air transportation business, which is the largest business segment of the Company.

The effect of 10% change in oil price on income (loss) for the years ended December 31, 2015 and 2014 is as follows:

(In millions of won)

		2015		2014	
		10% Up	10% Down	10% Up	10% Down
Operating income (loss)	₩	(268,077)	268,077	(403,142)	403,142

42. Financial Instruments, Continued

d) Other price risk
The Company is exposed to price risk arising from equity instruments. The Company held equity instruments for a strategic purpose and not for trading, and have not actively traded the investment assets.

d-1) Stock price sensitivity analysis
The following sensitivity analysis is based on the current stock price fluctuation risk as of December 31, 2015 and 2014.

The effect of 5% change in stock price is as follows:
- The Company's other comprehensive income will increase (decrease) to ₩ 4,755,522 thousand ($4,058 thousand) (prior year ₩ 6,208,328 thousand), and it is due to the change of the fair value of AFS financial assets.

3) Credit risk management
The credit risk refers to risk of financial losses to the Company when the counterpart defaults on the obligations of the contract. As a means to reduce the economic losses due to default, the Company trades with the customers whose credit ratings are above a certain level, and the Company has adopted a policy to receive adequate collateral.

The Company has traded only with companies that received a credit rating that is applicable to investment grade and above. This credit information is provided by independent credit-rating agencies. If the Company is not able to use information that credit rating agency provided, the Company uses the another financial information and trading performance, which officially announces for the purpose of the Company to determine the credit rating of major customers. The Company has reviewed the exposure of credit risk and credit rating of customers consistently, and transaction amounts are distributed to the approved customers. Credit risk is controlled by the approved transaction limits that are reviewed annually by the Risk Management Committee.

The trade receivables consist of many suppliers and distribute in various regions. The credit evaluation about the trade receivables has been carried out consistently. The maximum amount of exposure to credit risk as of December 31, 2015 and 2014 is as follows:

(In millions of won and in thousands of US dollars)

		2015	2014		2015 (Note 4)
Financial guarantee contract(*)	₩	918,544	633,096	$	783,741

(*) Amount of financial guarantee contract represents a limit of payment guarantee, which is the maximum amount payable by the Company in case the debtor claims for the full guaranteed amount. As of December 31, 2014, the Company recognizes ₩ 19,040,062 thousand ($16,246 thousand) in relation to the financial guarantee contracts as the financial liabilities on the separate statements of financial position (Note 29). The carrying amounts of the financial assets exposed to credit risk, which is not in the above table, are excluded from the above disclosure because the book value of financial assets represents the maximum amount of exposure to credit risk.

42. Financial Instruments, Continued

4) Liquidity risk management

The board of directors to formulate the basic policy for financing the Company's short-term and long-term funds and managing liquidity management regulations has ultimate responsibility for liquidity risk management. The Company manages liquidity risk by maintaining the sufficient reserves and borrowing limit, observing the predicted and actual cash flows, and matching the maturity structure of financial assets and financial liabilities.

(a) Details related to liquidity and interest rate risk
The following table shows the contractual maturity of the Company's non-derivative financial liabilities. The table is formed based on the earliest maturity date on which the Company has to pay on the basis of the cash flows of the financial liabilities that are not discounted, and the cash flows include both the principal and interest.
If the interest cash flows are based on a floating interest rate, cash flows that are not discounted have been derived based on the yield curve at the end of the reporting period. The maturity analysis is based on the earliest maturity date on which the Company can be required to pay.

(In millions of won and in thousands of US dollars)

		Within 1 year	1 ~ 5 years	Over 5 years	Total		Total (Note 4)
December 31, 2015							
Trade and other payables	₩	868,964	28,803	-	897,767	$	766,013
Obligation under finance leases		1,358,049	4,309,481	3,182,421	8,849,951		7,551,153
Borrowings		2,855,921	1,981,695	260,802	5,098,418		4,350,185
Debentures		2,169,569	104,807	-	2,274,376		1,940,594
Financial guarantee contract		918,544	-	-	918,544		783,741
	₩	8,171,047	6,424,786	3,443,223	18,039,056	$	15,391,686

(In millions of won)

		Within 1 year	1 ~ 5 years	Over 5 years	Total
December 31, 2014					
Trade and other payables	₩	699,169	110,147	-	809,316
Obligation under finance leases		1,063,083	3,327,933	2,502,326	6,893,342
Borrowings		2,570,826	2,846,539	232,597	5,649,962
Debentures		1,030,061	2,013,442	-	3,043,503
Financial guarantee contract		633,096	-	-	633,096
	₩	5,996,235	8,298,061	2,734,923	17,029,219

Amount of financial guarantee contract represents a limit of payment guarantee, which is the maximum amount payable by the Company in case the debtor claims for the full guaranteed amount. On the basis of the prediction as of December 31, 2015, the Company judges that the possibility not

42. Financial Instruments, Continued

to pay the guarantee amount is higher than the one to pay the guaranteed amount on the basis of financial guarantee contract. However, the above estimations might be changed because the probability that warrantee charges the payment to the Company can be changed based on guarantee contract by the credit losses on financial receivables warrantee owns.

The following table shows the expected maturity of the Company's non-derivative financial assets, and the table is formed based on the contractual maturity amount of the financial assets that are not discounted. In order to understand the liquidity risk management of the Company, the information about the non-derivative financial assets has to be included because the Company manages the liquidity based on the net assets and net liabilities.

(In millions of won and in thousands of US dollars)

		Within 1 year	1 ~ 5 years	Over 5 years	Total		Total
							(Note 4)
December 31, 2015							
Cash and cash equivalents	₩	698,947	-	-	698,947	$	596,371
Short and long-term financial instruments		20,263	106,050	443	126,756		108,154
Finance lease receivables		10,479	28,996	-	39,475		33,681
Trade and other receivables		917,455	-	-	917,455		782,811
Held-to-maturity financial assets		39	807	5	851		727
Other financial assets		-	106,162	222,330	328,492		280,283
	₩	1,647,183	242,015	222,778	2,111,976	$	1,802,027

(In millions of won)

		Within 1 year	1 ~ 5 years	Over 5 years	Total
December 31, 2014					
Cash and cash equivalents	₩	410,108	-	-	410,108
Short and long-term financial instruments		9,168	-	55,327	64,495
Finance lease receivables		22,879	82,418	-	105,297
Trade and other receivables		938,812	-	-	938,812
Held-to-maturity financial assets		1	842	7	850
Other financial assets		-	-	254,105	254,105
	₩	1,380,968	83,260	309,439	1,773,667

The amount of the floating rate instruments (non-derivative financial assets and liabilities) contained in the table above may be changed if the changes in floating interest rates are different from the determined estimate rate at the end of the reporting period.

42. Financial Instruments, Continued

The table below shows in detail the breakdown of the liquidity analysis of derivative financial instruments. The amount of the derivative instruments that are settled in net amounts is based on undiscounted net cash inflows and outflows in accordance with the terms of the contract, and that of the derivative instruments that are settled in gross amounts is based on undiscounted total cash inflows and outflows. In case the amounts to be received or paid are not settled, an interest rate estimated based on the yield curve at the end of the reporting period is used.

(In millions of won)

		Within 1 year	1 ~ 2 years	Over 2 years
December 31, 2015				
Net settlement:				
Oil price option	₩	(35,476)	-	-
TRS		-	-	(11,589)
Gross settlement:				
Cross-currency/Interest rate swaps				
Inflows		77,668	61,773	154,071
Outflows		(76,637)	(59,909)	(148,731)
	₩	(34,445)	1,864	(6,249)
December 31, 2014				
Net settlement:				
Oil price option	₩	(205,204)	-	-
TRS		-	-	5,736
Gross settlement:				
Interest rate swaps:				
Inflows		308	15,232	-
Outflows		(585)	(15,441)	-
	₩	(205,481)	(209)	5,736

(h) There are no financial assets that have been reclassified due to the change of use or their purpose for the year ended December 31, 2015.

43. Fair Value of Financial Instruments

(a) Fair value

The Company classifies fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy shall have the following levels:

	Significance of the inputs
Level 1	Quoted prices 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 or indirectly
Level 3	Inputs for the asset or liability that are not based on observable market data

Current levels of financial instruments measured at fair value as of December 31, 2015 are summarized as follows:

(In millions of won and in thousands of US dollars)

		Level 1	Level 2	Level 3	Total		Total (Note4)
December 31, 2015							
Listed securities	₩	95,110	-	-	95,110	$	81,152
Unlisted securities		-	-	19,067	19,067		16,269
Derivative instrument liabilities		-	54,021	-	54,021		46,093

Current levels of financial instruments measured at fair value as of December 31, 2014 are summarized as follows:

(In millions of won)

		Level 1	Level 2	Level 3	Total
December 31, 2014					
Listed securities	₩	124,218	-	-	124,218
Unlisted securities		-	-	19,067	19,067
Beneficiary certificates		-	5,000	-	5,000
Derivative instrument assets		-	5,736	-	5,736
Derivative instrument liabilities		-	205,681	-	205,681

There is no significant movement between the Level 1 and Level 2 for the year ended December 31, 2015 and, 2014.

(b) The management of the Company considers that the carrying amounts of financial assets and financial liabilities recognized at amortized cost in the separate financial statements approximate their fair values.

December 31, 2015 and 2014

43. Fair Value of Financial Instruments, continued

(c) The following table gives information about how the fair values of financial instruments categorized into Levels 2 and 3 are determined, in particular the valuation techniques and relationship of significant unobservable inputs to fair value.

(In millions of won)

		Fair value	Valuation techniques	Significant unobservable inputs	Description of relationships
Derivative instrument assets	₩	-		N/A	N/A
Derivative instrument liabilities		54,021			
Unlisted securities		18,534	Discounted Cash Flow	Sales growth rate Pretax operating income ratio Weighted-average cost of capital	Fair value of non-listed shares will increase if the weighted-average cost of capital is reduced along with the increase of pretax operating margin and sales growth rate
		533	Net Asset Valuation Method	N/A	N/A

(d) There is no change in financial instruments that are measured at fair value on a recurring basis and classified as Level 3 for the years ended December 31, 2015 and 2014.

(e) The Company recognizes transfers between levels of the fair value hierarchy at the time of the event or change in circumstances that caused the transfer. In addition, there is no change of the valuation techniques that have been used to measure the fair value of financial instruments classified as Level 2 and Level 3 for the year ended December 31, 2015.

(f) As of December 31, 2015 and 2014, available-for-sale financial assets that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are amount of ₩35,380 million and ₩40,163 million, respectively.

AFS financial assets are issued by non-listed companies in early stages of business. They are measured at cost because it is hard to obtain reliable financial information required for the measurement of fair value, or even if the financial information is obtained, the range of fair value measurements is significant and it is impossible to reliably evaluate the occurrence probability of various estimates.

44. Transactions and Balances with Related Parties

(a) Details of relationships as of December 31, 2015 are as follows:

Relationship	Related parties
Significant influence over the Company	Hanjin KAL Co., Ltd.(*1)
Subsidiaries	Korea Airport Service Co., Ltd., Hanjin Information Systems & Telecommunication Co., Ltd., Air Total Service Co., Ltd., Hanjin Energy Co., Ltd.(*2), Hanjin Int'l Corp., Hanjin Central Asia MChJ., Incheon Aviation Tech Co., Ltd., Cyber Sky Co., Ltd.(*3), Wangsan Leisure Development Co., Ltd., Hanjin Int'l Japan Co., Ltd., Korea Global Logistics System Co., Ltd., Air Korea Co., Ltd., TAS, KAL 4, 8 Asset Securitization Specialty Company(*2), KAL 7, 9-16 Asset Securitization Specialty Company
Associates	Grandstar Cargo International Airlines Co., Ltd.(*4), EIGHTCITY Co., Ltd., Czech Airlines j.s.c., Hanjin Shipping Co., Ltd. and etc.
Other related parties	Hanjin Transportation Co., Ltd., Topas Co., Ltd., KAL Hotel Network Co., Ltd., Hanjin Travel Service Co., Ltd., Jungseok Enterprise Co., Ltd., Jedong Leisure Co., Ltd., Jin Air Co., Ltd., Uniconverse Co., Ltd., Jungseok-Inha School's Foundation, Terminal One Management Inc., S-Oil Corp.(*5) and etc.

(*1) Hanjin KAL Co., Ltd. was classified as entities having significant influence over the Company during the year ended December 31, 2014.

(*2) Company's investments in Air Total Service Co., Ltd. and Hanjin Energy Co., Ltd. were liquidated during the year ended December 31, 2015.

(*3) Incheon Aviation Tech Co., Ltd. and Cyber Sky Co., Ltd. were reclassified from other related parties to the Company's subsidiary during the year ended December 31,2015.

(*4) Grandstar Cargo International Airlines Co., Ltd. was disposed and therefore excluded from the Company's list of associates during the year ended December 31, 2015.

(*5) S-Oil Corp. was classified as Hanjin Energy Co., Ltd.'s assets held for sale during the year ended December 31, 2014 and disposed during the year ended December 31, 2015.

December 31, 2015 and 2014

44. Transactions and Balances with Related Parties, Continued

(b) Significant transactions which occurred in the normal course of business with related parties for the year ended December 31, 2015 are summarized as follows:

(In millions of won and in thousands of US dollars)

		2015			2015	
		Sales and others	**Purchase and others**		**Sales and others**	**Purchase and others**
Significant influence over the company					(Note 4)	
Hanjin KAL Co., Ltd.	₩	203	29,700	$	173	25,341
Subsidiaries						
Korea Airport Service Co., Ltd.		1,150	289,542		981	247,049
Hanjin Information Systems & Telecommunication Co., Ltd.		1,164	67,540		993	57,628
Air Total Service Co., Ltd.		280	3,019		239	2,576
Korea Global Logistics System Co., Ltd.		33	2,076		28	1,771
Air Korea Co., Ltd.		5	26,587		5	22,685
Hanjin Int'l Japan		99	19,946		84	17,018
Others		342	7,340		291	6,262
Associates						
Czech Airlines j.s.c.		15,594	25,487		13,305	21,747
Others		326	45		278	38
Other related parties						
Jin Air Co., Ltd.		133,444	3,845		113,860	3,281
Topas Co., Ltd.		955	2,389		815	2,038
KAL Hotel Network Co., Ltd.		2,170	34,227		1,852	29,204
Hanjin Travel Service Co., Ltd.		439	6,030		375	5,145
Jungseok Enterprise Co., Ltd.		-	1,814		-	1,548
Hanjin Transportation Co., Ltd.		3,839	34,721		3,275	29,625
Cyber Sky Co., Ltd. (*2)		44	3,915		37	3,340
Jungseok-Inha School's Foundation		-	6,700		-	5,717
Uniconverse Co., Ltd.		106	19,370		90	16,528
S-Oil Corp. (*1)		-	14,758		-	12,592
Others		82	2,504		70	2,136

(*1) The Company's investment in S-Oil Corp. was disposed on January 19, 2015. The amount disclosed represents transaction amounts up to the disposal date.

(*2) Although Cyber Sky Co., Ltd. was reclassified to the Company's subsidiary during the year ended December 31, 2015, it was still included in the list of other related parties because transactions occurred between Cyber Sky Co., Ltd. and the Company during the current financial year.

44. Transactions and Balances with Related Parties, Continued

(c) Significant transactions which occurred in the normal course of business with related parties for the year ended December 31, 2014 are summarized as follows:

(In millions of won)		2014	
		Sales and others	**Purchase and others**
Other related parties			
Hanjin KAL Co., Ltd. (*)	₩	46	31,073
Subsidiaries			
Korea Airport Service Co., Ltd.		751	287,536
Hanjin Information Systems & Telecommunication Co., Ltd.		1,156	53,148
Air Total Service Co., Ltd.		20	12,334
Korea Global Logistics System Co., Ltd.		37	1,962
Hanjin Int'l Japan		108	21,140
Others		419	314
Associates			
S-Oil Corp.		-	554,283
Czech Airlines j.s.c.		19,163	21,401
Air Korea Co., Ltd.		-	18,702
Others		229	26
Other related parties			
Jin Air Co., Ltd.		86,732	1,067
Topas Co., Ltd.		18,475	23,362
KAL Hotel Network Co., Ltd.		4,797	30,182
Hanjin Travel Service Co., Ltd.		444	5,215
Jungseok Enterprise Co., Ltd.		-	1,865
Hanjin Transportation Co., Ltd.		3,189	37,969
Cyber Sky Co., Ltd.		102	3,559
Uniconverse Co., Ltd.		106	16,456
Jungseok-Inha School's Foundation		-	6,296
Others		9	2,813

(*) All transaction between Hanjin KAL Co., Ltd. and the Company was disclosed in the above table because Hanjin KAL Co., Ltd. has been reclassified from other related parties to an entity having significant influence over the Company.

44. Transactions and Balances with Related Parties, Continued

(d) Account balances with related parties as of December 31, 2015 are summarized as follows:

(In millions of won and in thousands of US dollars)

		2015			2015	
		Receivables	Payables		Receivables	Payables
Significant influence over the company					(Note 4)	
Hanjin KAL Co., Ltd.	₩	2,420	6,445	$	2,065	5,499
Subsidiaries						
Korea Airport Service Co., Ltd.		401	77,861		343	66,434
Hanjin Information Systems & Telecommunication Co., Ltd.		-	22,241		-	18,977
Air Total Service Co., Ltd.		26	629		22	537
Korea Global Logistics System Co., Ltd.		1	212		1	181
Hanjin Int'l Japan		-	4,137		-	3,530
Air Korea Co., Ltd.		6	3,409		5	2,909
Cyber Sky Co., Ltd.(*)		17	348		14	297
Others		95	63		81	54
Associates						
Czech Airlines j.s.c.		1,607	11,754		1,371	10,029
Others		16	-		13	-
Other related parties						
Jin Air Co., Ltd.		21,823	33,317		18,620	28,428
Topas Co., Ltd.		13	117		11	100
KAL Hotel Network Co., Ltd.		165	6,171		141	5,265
Hanjin Travel Service		7	1,535		6	1,310
Jungseok Enterprise Co., Ltd.		453	10		386	9
Hanjin Transportation Co., Ltd.		333	8,042		284	6,862
Uniconverse Co., Ltd.		10	1,709		8	1,458
Others		5	193		4	164

(*)Cyber Sky Co., Ltd. was reclassified to the Company's subsidiary as of December 31, 2015.

44. Transactions and Balances with Related Parties, Continued

(e) Account balances with related parties as of December 31, 2014 are summarized as follows:

(In millions of won)		2014	
		Receivables	**Payables**
Significant influence over the Company			
Hanjin KAL Co., Ltd.	₩	2,204	6,682
Subsidiaries			
Korea Airport Service Co., Ltd.		388	51,680
Hanjin Information Systems & Telecommunication Co., Ltd.		-	9,353
Air Total Service Co., Ltd.		-	2,456
Korea Global Logistics System Co., Ltd.		1	197
Hanjin Int'l Japan Co., Ltd.		-	3,641
Others		84	3,537
Associates			
S-Oil Corp.		-	32,020
Czech Airlines j.s.c.		848	7,298
Others		14	-
Other related parties			
Jin Air Co., Ltd.		18,948	17,235
Topas Co., Ltd.		1,218	3,125
KAL Hotel Network Co., Ltd.		141	2,935
Hanjin Travel Service Co., Ltd.		251	1,361
Jungseok Enterprise Co., Ltd.		341	9
Hanjin Transportation Co., Ltd.		159	6,004
Cyber Sky Co., Ltd.		7	322
Uniconverse Co., Ltd.		9	1,498
Others		4	213

44. Transactions and Balances with Related Parties, Continued

(f) Loan and borrowing transactions with related parties for the year ended December 31, 2015 are as follows:

(In millions of won and in thousands of US dollars)

	Account		Balance at Jan.1,2015	Increase	Decrease	Balance at Dec.31, 2015		Balance at Dec.31,2015 (Note 4)
Subsidiaries								
KAL 7–16 Asset Securitization Specialty Company(*1)	ABS	₩	2,095,710	600,000	(674,259)	2,021,451	$	1,724,788
Associates								
Hanjin Shipping Co.,Ltd. (*2)	Short-term loans		220,000	-	-	220,000		187,713

(*1) Interest expenses and transaction costs of ABS loans for December 31, 2015 are ₩76,904 million and ₩10,567 million, respectively, and the Company recognized ₩7,642 million as accrued expenses as of December 31, 2015.

(*2) The Company has received 13,800,000 treasury shares of Hanjin Shipping Co., Ltd., trademark held by Hanjin Shipping Co., Ltd., 526,316 shares of H-Line Co., Ltd. and overseas property (appraised value of ₩40 billion) as collateral as of December 31, 2015. In relation to the above short-term loans, the Company recognized interest income amounting to ₩13,212 million for the year ended December 31, 2015 and accrued income amounting to ₩2,291 million as of December 31, 2015. Meanwhile, on 24th of February, 2016 (past the reporting period), above loans were converted to unregistered unguaranteed debentures (hybrid securities) issued by Hanjin Shipping Co., Ltd. (Note 52).

44. Transactions and Balances with Related Parties, Continued

(g) Loan and borrowing transactions with related parties for the year ended December 31, 2014 are as follows:

(In millions of won)

	Account		Balance at Jan. 1, 2014	Increase	Decrease	Balance at Dec.31, 2014
Subsidiaries						
KAL 4–16 Asset Securitization Specialty Company(*1)	ABS	₩	1,482,469	1,276,775	(663,534)	2,095,710
Associates						
Hanjin Shipping Co., Ltd. (*2)	Short-term loans		-	250,000	(30,000)	220,000
Other related parties						
Eusu Holdings Co., Ltd. (formerly, Hanjin Shipping Holdings Co., Ltd.)(*2)	Short-term loans		250,000	-	(250,000)	-

(*1) Interest expenses and transaction costs of ABS loans for year ended December 31, 2014 are ₩62,678 million and ₩9,336 million respectively, and the Company recognized ₩4,877 million as accrued expenses as of December 31, 2014.

(*2) Hanjin Shipping Co., Ltd. merged trademark management segment and shipping holdings segment of Eusu Holdings Co., Ltd. (formerly, Hanjin Shipping Holdings Co., Ltd.), which was spun off for the year ended December 31, 2014. As a result, Hanjin Shipping Co., Ltd. took over borrowings of ₩250 billion that Eusu Holdings Co., Ltd. (formerly, Hanjin Shipping Holdings Co., Ltd.) had charged before the spin-off and the merger, and repaid ₩30 billion on December 16, 2014.

The Company has received 13,800,000 treasury shares of Hanjin Shipping Co., Ltd., four ships, 2,336,316 shares of H-Line Co., Ltd. and overseas property (appraised value of ₩40 billion) as collateral as of December 31, 2014. In relation to the above short-term loans, the Company recognized interest income amounting to ₩5,585 million from Eusu Holdings Co., Ltd. (formerly, Hanjin Shipping Holdings Co., Ltd.) and ₩8,091 million from Hanjin Shipping Co., Ltd. for the year ended December 31, 2014, respectively, and accrued income from Hanjin Shipping Co., Ltd. amounting to ₩2,242 million as of December 31, 2014.

44. Transactions and Balances with Related Parties, Continued

(h) Capital transactions with the related parties for the year ended December 31, 2015 are as follows

In millions of won and in thousands of US dollars)

	Transaction		2015		2015 (Note4)
Significant influence over the Company					
Hanjin KAL Co., Ltd.	Increase in paid-in capital	₩	128,588	$	109,717
Subsidiaries					
Air Total Service Co., Ltd.	Increase in paid-in capital		6,320		5,392
Incheon Aviation Tech Co., Ltd.	Increase in paid-in capital		14,850		12,671
Hanjin Int'l Corp.	Increase in paid-in capital, etc		174,750		149,104
Hanjin Information Systems & Telecommunication Co., Ltd.	Purchase of Korea Global Logistics System Co., Ltd. stocks		3,374		2,879
Hanjin Energy Co., Ltd.	Capital reduction		865,145		738,178
	Liquidation		1,184		1,010
	Dividends received		4,271		3,644
KAL 4 Asset Securitization Specialty Company	Liquidation		-		-
KAL 8 Asset Securitization Specialty Company	Liquidation		-		-
Other related parties					
Hanjin Transportation Co., Ltd.(*)	Disposal of Hanjin Int'l Japan stocks		36		31
Key management personnel	Purchase of Cyber Sky Co., Ltd. stocks		6,267		5,347

(*) The Company recognized ₩277 million as gain on sale of investment in subsidiary (Hanjin Int'l Japan).

(i) Capital transactions with the related parties for the year ended December 31, 2014 are as follows:

(In millions of won)

	Transaction		2014
Subsidiaries			
Hanjin Int'l Corp.	Increase in paid-in capital	₩	137,404
Incheon Aviation Tech Co., Ltd.,	Increase in paid-in capital		25,200
Wangsan Leisure Development Co., Ltd.	Increase in paid-in capital		44,000
Associates			
Hanjin Shipping Co., Ltd.	Increase in paid-in capital		400,000
	Increase due to merger division(*)		44,829
Other related parties			
Eusu Holdings Co., Ltd. (formerly, Hanjin Shipping Holdings Co., Ltd.)	Decrease due to merger division(*)		(33,664)

(*) Hanjin Shipping Co., Ltd. merged trademark management segment and shipping holdings segment of Eusu Holdings Co., Ltd. (formerly, Hanjin Shipping Holdings Co., Ltd.) that was spun off for the year ended December 31, 2014. As a result, 5,140,274 shares of Eusu Holdings Co., Ltd. (formerly, Hanjin Shipping Holdings Co., Ltd.) have been replaced with 7,422,095 shares of Hanjin Shipping Co., Ltd.

44. Transactions and Balances with Related Parties, Continued

(j) Key management personnel compensation in total for the years ended December 31, 2015 and 2014 are as follows:

(In millions of won and in thousands of US dollars)

		2015	2014		2015 (Note 4)
Short-term employee benefits	₩	4,122	4,385	$	3,517
Retirement benefit cost		19,137	2,605		16,328

(k) Details of guarantees which the Company has provided with related parties as of December 31, 2015 are as follows:

(In millions of won and in thousands of US dollars)

		Guaranteed amounts	Financial institutions
Korea Airport Service Co., Ltd.(*)	₩	12,241	Hana Bank (formerly Korea Exchange Bank) and others
Jungseok Enterprise Co., Ltd.(*)		6,752	
Hanjin Transportation Co., Ltd.(*)		10,075	
Hanjin Heavy Industries & Construction Holdings Co., Ltd. (*)		4,316	Korea Development Bank and others
Hanjin International Corp.		230,000	Other financial institutions
	$	400,000	

(*) Each company jointly provides a guarantee with the other companies.

(l) The Company made a commitment with Korea Development Bank to participate in paid-in-capital increase of Wangsan Leisure Development Co., Ltd. in case of Wangsan Leisure Development Co., Ltd. is short for financial resources to repay the borrowings provided by Korea Development Bank. The outstanding balance of borrowings is ₩79,900 million as of December 31, 2015.

As of December 31, 2015, preferred shares of Incheon Aviation Tech Co., Ltd. are cumulative and non-participative preferred shares and will be converted proportionately for one common stock per one preferred stock at the time after five years and six months (conversion date) from the date that Aviation Tech Co., Ltd. acquired land for its business purpose. For the period of last six months out of five years and six months, the Company has a call option to purchase the preferred shares held by United Technologies International Corporation-Asia Private Ltd., a preferred shareholder, while the preferred shareholder also has a put option to sell the preferred shares to the Company.

44. Transactions and Balances with Related Parties, Continued

(m) Details of guarantees which have been provided with the Company by related parties as of December 31, 2015 are summarized as follows:

(In millions of won)

		Guaranteed amounts	Financial institutions
Korea Airport Service Co., Ltd.	₩	6,794	Korea Development Bank
		11,068	Korea Exchange Bank
		8,998	Woori Bank and Others
Jungseok Enterprise Co., Ltd.		6,794	Korea Development Bank
		11,068	Korea Exchange Bank
		8,998	Woori Bank and Others
Hanjin Transportation Co., Ltd.		6,794	Korea Development Bank
		11,068	Korea Exchange Bank
		8,998	Woori Bank and Others
Hanjin Shipping Co., Ltd.(*)		6,794	Korea Development Bank
		11,068	Korea Exchange Bank
		9,178	Woori Bank and Others
Hanjin Heavy Industries & Construction holdings Co., Ltd.		6,794	Korea Development Bank
		11,068	Korea Exchange Bank
		8,998	Woori Bank and Others

(*) As Hanjin Shipping Co., Ltd. (the new company) was spun off from Eusu Holdings Co., Ltd. (formerly, Hanjin Shipping Holdings Co., Ltd.) (the surviving company) on December 1, 2009, Eusu Holdings Co., Ltd. (formerly, Hanjin Shipping Holdings Co., Ltd) jointly provides a guarantee for the long-term liabilities that were assumed by the companies above.

(n) As of December 31, 2015, the Company has an obligation to take over the outstanding balance related to Asset-Backed Loan / Asset-Backed Bond issued with an underlying asset (hybrid bond issued by Hanjin Shipping Co., Ltd.) three years and one month from the date of issue, and the Company and the investors are obliged to settle the differences between the transaction price of the underlying assets and the settlement basis price. The agreement is structured so that if the value of the exchangeable bond is higher than the settlement basis price, the differential gain is delivered to the Company, and if the value of the exchangeable bond is lower than the settlement basis price, the Company is obligated to compensate for the differential loss.

Terms	Details
Basic asset	Hanjin Shopping Co., Ltd.'s exchangeable bond
Interim settlement	When basic asset's sales price on interest payment date exceeds 120% of basic asset's face value
Final settlement	Three years and one month from the date of issuance
Settlement basis price	Face value of basic asset + interest at rate of 6.2% applied from the last interest payment date to settlement date
Settlement price	Sales price – Settlement basis price
Settlement terms	i) If settlement basis price is higher than the sales price: the difference is paid by the Company to the investors ii) If settlement basis price is lower than the sales price: In the case of interim settlement, the investors pay 20% of the difference to the Company; for the case of final settlement, the investors pay the difference in value to the company

45. Operating Lease

(a) As of December 31, 2015, the Company has entered into operating lease agreements to lease 25 aircraft and certain aircraft parts from International Lease Finance Corporation and other lessors. The Company has also entered into an operating lease agreement to use the cargo terminal at JFK International Airport located in the United States with the New York City Industrial Development Agency ("IDA").

The schedule of lease payments as of December 31, 2015 is summarized as follows:

(In millions of won and in thousands of US dollars)

		2015		2015 (Note 4)
2016. 1. 1 ~ 2016.12.31	₩	174,845	$	149,185
2017. 1. 1 ~ 2017.12.31		143,507		122,446
2018. 1. 1 ~ 2018.12.31		134,706		114,937
2019. 1. 1 ~ 2019.12.31		132,039		112,661
2020. 1. 1 ~ 2020.12.31		101,489		86,594
Thereafter		325,201		277,476
	₩	1,011,787	$	863,299

Korea Development Bank has provided a guarantee of $27 million for the aircraft operating lease agreements and Kookmin Bank has provided a guarantee up to $52 million for opening letters of credit in accordance with the IDA operating lease contract with the Company.

(b) The Company has entered into operating lease agreements to lease 16 aircraft and certain aircraft parts to Jin Air Co., Ltd. and others. The schedule of lease collection on this agreement is summarized as follows:

(In millions of won and in thousands of US dollars)

		2015		2015 (Note 4)
2016. 1. 1 ~ 2016.12.31	₩	81,557	$	69,588
2017. 1. 1 ~ 2017.12.31		49,409		42,158
2018. 1. 1 ~ 2018.12.31		41,742		35,616
2019. 1. 1 ~ 2019.12.31		39,979		34,112
2020. 1. 1 ~ 2020.12.31		31,757		27,096
Thereafter		65,126		55,569
	₩	309,570	$	264,139

46. Non-cash Transactions

Investing and financing activities of non-cash transactions for the years ended December 31, 2015 and 2014 are as follows:

(In millions of won and in thousands of US dollars)

		2015	2014		2015 (Note 4)
Transfer of long-term borrowings to current portion of long-term liabilities	₩	2,017,901	2,181,590	$	1,721,759
Transfer of debentures to current portion of long-term liabilities		2,081,779	704,529		1,776,262
Transfer of finance lease obligation to current portion of finance lease obligation		1,344,609	1,070,673		1,147,277
Transfer of construction-in-progress to property, aircraft and equipment, etc.		3,108,374	1,850,944		2,652,196
Increase in finance lease liabilities		2,593,028	1,388,034		2,212,482
Increase in investments in subsidiaries		3,034	-		2,589
Transfer of finance lease obligation to finance lease receivables		-	12,175		-
Transfer of property, aircraft and equipment, etc to non-trade payables		-	37,325		-

47. Commitments and Contingencies

(a) The guarantees provided as of December 31, 2015 are as follows:

(In millions of won)

Financial institution		2015	Details
Seoul Guarantee Insurance Co., Ltd.	₩	2,486	Bids, performance, maintenance guarantee and others
Korea Defense Industry Association		976,886	
HSBC Bank Australia Limited and others		16,013	

The Company provides a joint guarantee of ₩12,269 million in relation to the personal loan of flight training center trainees. The Company also provides a payment guarantee of $10,981 thousand to Bank of China for Grandstar Cargo International Airlines Co., Ltd.

(b) The credit line and details of credit agreements as of December 31, 2015 are as follows:

(In millions of won and in thousands of US dollars)

Description	Financial institutions	Currency	Limit
Credit line agreement	Hana Bank (formerly Korea Exchange Bank) and others	USD	80,000
		KRW	170,000
Letter of credit	Korea Development Bank and others	USD	78,623

47. Commitments and Contingencies, Continued

(c) As of December 31, 2015, the Company has one outstanding promissory note pledged as collateral to the Korea Defense Industry Association.

(d) With regard to the alleged antitrust violation relating to the Company and other parties colluding on price fixing of air cargo services, the Company made a plea to the United States Department of Justice on August, 2007 for the payment of fines totaling $300,000 thousand to be paid in annual installments. Accordingly, the Company made fine payments of $250,000 thousand since 2007 and the rest will be paid through 2016 under an agreement with the U.S. court. With regard to the remaining balance to be paid, $50,000 thousand is included in other payables as of December 31, 2015.

The Company settled with the plaintiff to pay $115,000 thousand in the class action lawsuit filed with the U.S. court. The Company made payments of $97,500 thousand since 2014 and the residual payment of $17,500 thousand is included in other payables. In addition, as the Company has agreed with the plaintiff to settle the lawsuit with compensation of $ 39,000 in cash and $ 26,000 in passenger flight ticket coupons, the Company recognizes the coupon of passenger flight tickets amounting to $26,000 thousand (₩27,521 million) in a provision for coupon for passenger flight ticket.

The Company settled with the plaintiff to pay CAD 4,100 thousand in the class action lawsuit on Canada cargo route price-fixing collusion. As a result, the Company disbursed CAD 3,000 thousand for the year ended December 31, 2015; CAD 1,100 thousand expected to be paid by the first half of 2016 is included in other payables.

As of December 31, 2015, various claims, lawsuits and complaints arising from airline service operations are pending against the Company and ultimate outcome of these cases is unpredictable. Management believes that the ultimate outcome of these cases will not have any material adverse effect on the financial performance and position of the Company.

(e) The Company has signed various contracts with manufacturers, such as the Boeing Company to purchase aircrafts. The amount of such contracts is $5,337 million as of December 31, 2015. The Company has also signed MOUs with Airbus S.A.S., the Boeing Company, and others regarding the purchase of aircrafts from 2019.

(f) The Company and three other airlines including Air France entered into a joint use agreement of the JFK Airport in New York and established Terminal One Group Association ("TOGA") to cooperate the Terminal One of JFK Airport. They have provided TOGA with a joint guarantee up to $238 million for each terminal usage fee.

(g) Material Uncertainty and Financial Structural Reform Agreement
i) Material Uncertainty
Profitability of airline industry is by nature sensitive to the changes in external conditions such as oil price, exchange rates, and global politics. Recently, competition has been worsened as low-cost carriers companies started expanding service areas to accommodate more customers. Such changes in the environmental and external factors can have a direct impact on the Company's sales and profitability.

47. Commitments and Contingencies, Continued

Hanjin Shipping Co., Ltd. is going under a banking structural reform to improve its financial structure, and the Company is holding Hanjin Shipping Co., Ltd.'s shares worth ₩444,829 million as investment in associate and ₩220,000 million of short term loans. In addition, the Company has entered into a TRS contract based on the future value of Hanjin Shipping Co., Ltd.'s exchangeable bond (Note 28, 44). Furthermore, 81,019,733 shares of Hanjin Shipping Co., Ltd. held by the Company is provided as a collateral for Hanjin Int'l Corp's long-term debt of ₩714,973 million (Note 18).

Finally, the Company has ₩5,554,551 million of current liability over its current assets, and the Company accordingly developed financing plans utilizing methods such as extension of existing loans and entering of new loans to manage liquidity issues.

Such details imply that a material uncertainty exists in the Company's business results or performance. The separate financial statements do not include any adjustments that might result from the outcome of this uncertainty.

ii) Financial Structural Reform Agreement:
The Company is part of a group of conglomerates selected by the Financial Supervisory Service for special supervision on its financial stability as the Company accounts for more than 0.1% of total credit provided by the financial sector. As the Company is under close supervision, it has signed an agreement with its main bank, the Korea Development Bank, to improve its financial structure by going under a financial structural reform on May 2009.

Per the agreement, the Company pronounced plans to liquidate the shares of S-OIL Corp. held by its subsidiary (Hanjin Energy Co., Ltd.), used airplanes, and other properties to secure ₩3.49 trillion; by December 31, 2015, the Company prepared approximately ₩ 3.55 trillion for financial structural reform. The Company plans to further develop and implement plans to improve its business results in the future.

48. Account Receivables Due from and Deferred Revenue Due to Customers for Contracts in Progress

(a) Changes in contract work for the years ended December 31, 2015 and 2014 are summarized as follows:

(In millions of won and in thousands of US dollars)

		2015		2015
				(Note 4)
Revenues incurred to date	₩	627,714	$	535,592
Costs incurred to date		573,914		489,687
Recognized profits to date	₩	53,800	$	45,905
Ending balance of Construction contracts (*)	₩	1,285,602	$	1,096,930

(*) The balance as of December 31, 2015 does not include amounts for contracts that do not have the specific details (quantity, amount, and others) confirmed despite being signed. The Company estimates above amount to be ₩ 2,530,876 million.

(b) Accounts receivables due from and deferred revenue due to customers for contracts in progress as of December 31, 2015 and 2014 are summarized as follows:

(In millions of won and in thousands of US dollars)

		2015	2014		2015
					(Note 4)
Account receivables due from customers for contracts in progress	₩	158,239	130,209	$	135,016
Deferred revenue due to customers for contracts in progress		(94,297)	(148,134)		(80,458)

49. Segment Information

In accordance with K-IFRS 1108 *Operating Segments*, the Company's segment information is summarized as follows:

(a) Revenue by segment for the years ended December 31, 2015 and 2014 are summarized as follows:

(In millions of won and in thousands of US dollars)

		2015	2014		2015 (Note 4)
Air transportation	₩	10,301,095	10,792,941	$	8,789,330
Aerospace		913,533	796,456		779,465
In-flight meals		93,795	91,001		80,030
	₩	11,308,423	11,680,398	$	9,648,825

The profit of limousine business division (₩ 1,562 million for the current financial year, and ₩ 21,348 million for the previous financial year) transferred to Air Total Service Co., Ltd. as part of the contribution in-kind was included as part of air transport revenue.

(b) There is no single customer who accounts for more than 10% of the Company's revenue for the years ended December 31, 2015 and 2014. Meanwhile, revenue for the years ended December 31, 2015 and 2014 are mainly occurred in Korea, United States, and others.

50. Assets held for sale

(a) Assets held for sale as of December 31, 2015 and 2014 are summarized as follows:

(In millions of won and in thousands of US dollars)

		2015	2014		2015 (Note 4)
Current assets					
Planes	₩	19,621	-	$	16,742
Engines		25,922	-		22,117
	₩	45,543	-	$	38,859

(b) The Company reclassified a portion of aircraft and engines to assets held for sale and disposed of it according to the aircraft sales plan. The Company accordingly recognized a sales loss of ₩ 5,234 million and an impairment loss of ₩ 63,063 million.

51. Restated Prior Period Financial Statements

The Company has corrected an accounting error regarding oil-price derivatives contract and has restated its financial statements of the year ended December 31, 2014. Effects of the restatement are described below.

(In millions of won and in thousands of US dollars)

		Before restatement	Adjustments	After restatement		After restatement
<Prior Period> - Statements of Financial Position						
Total assets	₩	21,420,447	-	21,420,447	$	18,276,832
Total liabilities		19,440,735	-	19,440,735		16,587,658
Total equity		1,979,712	-	1,979,712		1,689,174
Capital stock		298,931	-	298,931		255,061
Other capital surplus		11,248	-	11,248		9,597
Other capital components		206,894	155,099	361,993		308,868
Retained earnings		1,462,639	(155,099)	1,307,540		1,115,648
<Prior Period>-Statements of Comprehensive Income (Loss)						
Revenue		11,680,398	-	11,680,398		9,966,210
Cost of sales		10,171,068	-	10,171,068		8,678,386
Gross profit		1,509,330	-	1,509,330		1,287,824
Selling, general and administrative expenses		1,136,822	-	1,136,822		969,985
Operating income		372,508	-	372,508		317,839
Finance income		54,003	-	54,003		46,078
Finance costs		422,316	205,204	627,520		535,426
Other non-operating income		443,000	-	443,000		377,986
Other non-operating expenses		784,080	-	784,080		669,010
Loss before income tax		(336,885)	(205,204)	(542,089)		(462,533)
Income tax benefit		(131,408)	(50,105)	(181,513)		(154,874)
Loss for the Period		(205,477)	(155,099)	(360,576)		(307,659)
Other comprehensive income (loss) for the period, net of income tax		(72,232)	155,099	82,867		70,706
Total comprehensive loss for the period		(277,709)	-	(277,709)		(236,953)

52. Subsequent Events

(a) Purchase of Debentures from Related Parties:
The Company acquired ₩ 220,000 million of hybrid securities (unregistered unguaranteed debentures) issued by Hanjin Shipping Co., Ltd. on February 24th, 2016.

(b) Issuance of Debentures:
The Company decided to issue 60th unregistered unguaranteed debentures amounted to ₩ 150,000 million.

APPENDIX II

AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF KOREAN AIR LINES CO., LTD. AS OF 31 DECEMBER 2015

Independent Auditors' Report

Based on a report originally issued in Korean

The Board of Directors and Stockholders
Korean Air Lines Co., Ltd.:

We have audited the accompanying consolidated financial statements of Korean Air Lines Co., Ltd. and its subsidiaries (the "Group"), expressed in Korean won, which comprise the consolidated statements of financial position as at December 31, 2015 and 2014, the consolidated statements of income and comprehensive income, changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Korean International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility
Our responsibility is to express an opinion on these consolidated 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 audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated 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 consolidated 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 consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2015 and 2014 and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with Korean International Financial Reporting Standards.

Emphasis of matter
The following matters may be helpful to the readers in their understanding of the consolidated financial statements.

(1) Financial Restatements
As discussed in Note 51 of the consolidated financial statements, the Group has corrected an accounting error regarding oil-price derivatives contract, and has restated its financial statements of the year ended December 31, 2014. As a result of these restatements, unappropriated retained earnings of the year ended December 31, 2014 has decreased by ₩155,099 million, and the net loss for the year ended December 31, 2014 has increased by ₩155,099 million.

(2) Material Uncertainty
As of December 31, 2015, the Group's current liabilities exceed its current assets by ₩5,161,254 million which, combined with matters explained in Note 47, indicates the existence of a material uncertainty with respect to the Group's business results.

Other Matter
The consolidated statement of financial position of the Group as of December 31, 2014, and the related consolidated statements of comprehensive income (loss), changes in equity and cash flows for the year then ended, which are not accompanying this report, were audited by other auditors in accordance with Korean Standards on Auditing, whose report thereon dated March 19, 2015, expressed an unqualified opinion. The restatements detailed in Note 51 are not reflected on the financial statements audited by previous auditors, whereas the accompanying consolidated financial statements of the Group as of and for the year ended December 31, 2014, presented for comparative purposes, has such restatements reflected.

KPMG Samjong Accounting Corp.

Seoul, Korea
March 10, 2016

This report is effective as of March 10, 2016, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying consolidated financial statements and notes thereto. Accordingly, the readers of the audit report should understand that the above audit report has not been updated to reflect the impact of such subsequent events or circumstances, if any.

KOREAN AIR LINES CO., LTD. AND SUBSIDIARIES
Consolidated Statements of Financial Position

For the years ended December 31, 2015 and 2014

(In millions of won and in thousands of US dollars)

	Note		2015	2014		2015
Assets						**(Note 4)**
Cash and cash equivalents	6,7,42	₩	967,481	796,604	$	825,496
Short-term financial instruments	7,42		111,988	59,018		95,553
Current portion of finance lease receivables	12,42		7,474	13,014		6,377
Trade and other receivables	8,42,44		951,421	1,012,299		811,792
Account receivables due from customers for contracts in progress	48		158,239	130,209		135,016
Current portion of held-to-maturity investments	7,10,42		71	20		61
Inventories	11		490,647	430,180		418,641
Income tax receivables	39		5,987	5,415		5,108
Other current assets	21,24		550,276	475,862		469,519
Assets held for sale	17,49		45,543	2,025,419		38,859
Total current assets			3,289,127	4,948,040		2,806,422
Long-term financial instruments	7,24,42		115,255	60,090		98,341
Long-term trade and other receivables	8,42,44		43	253		37
Available-for-sale financial assets	7,9,42,43		172,174	207,492		146,906
Held-to-maturity investments	7,10,42		900	954		768
Finance lease receivables	12,42		26,365	72,341		22,496
Investments in associates	14,15,19,24		519,975	467,574		443,664
Property, aircraft and equipment, net	17,19		17,850,703	15,778,074		15,230,974
Investment property, net	16,19		309,520	175,570		264,096
Intangible assets, net	18,19		294,744	331,228		251,488
Financial derivative assets	29,42,43		-	5,446		-
Other financial assets	20,24,42		330,675	256,024		282,146
Deferred income tax assets	39		940,315	814,781		802,317
Other non-current assets	21,24		330,555	347,857		282,044
Total non-current assets			20,891,224	18,517,684		17,825,277
Total assets		₩	24,180,351	23,465,724	$	20,631,699

See accompanying notes to the consolidated financial statements.

KOREAN AIR LINES CO., LTD. AND SUBSIDIARIES
Consolidated Statements of Financial Position, Continued

For the years ended December 31, 2015 and 2014

(In millions of won and in thousands of US dollars)

	Note		2015	2014		2015
Liabilities						**(Note 4)**
Trade and other payables	22,42,44	₩	870,087	698,246	$	742,395
Short-term borrowings	19,23,42		869,438	1,634,526		741,842
Current portion of long-term liabilities	24,42		3,926,166	2,760,824		3,349,972
Current portion of finance lease obligations	25,42		1,234,471	957,218		1,053,303
Current portion of financial derivative liabilities	29,42		35,729	205,204		30,485
Current portion of provisions	27,48		16,795	-		14,330
Income tax payables	39		4,052	7,113		3,457
Deferred revenue due to customers for contracts in progress	48		94,297	148,134		80,458
Other current liabilities	30		1,399,346	1,030,621		1,193,981
Total current liabilities			8,450,381	7,441,886		7,210,223
Long-term trade and other payables	22,24,42,44		41,103	126,277		35,071
Long-term borrowings	19,24,42		1,095,490	1,602,450		934,718
Debentures	24,42,52		693,001	2,415,489		591,298
Asset-backed securitization loans	24,42		1,181,066	1,388,447		1,007,736
Guaranteed loans	7,19,24,42,44		13,030	24,896		11,118
Finance lease obligations	25,42		7,155,363	5,547,251		6,105,258
Defined benefit obligations	26		1,027,681	851,071		876,861
Provisions	27,45,47		171,187	142,450		146,064
Deferred revenue	28		1,701,781	1,633,782		1,452,030
Financial derivative liabilities	29,42,43		34,053	476		29,055
Deferred income tax liabilities	39		56,989	52,120		48,626
Other non-current liabilities	30		60,191	37,971		51,358
Total non-current liabilities			13,230,935	13,822,680		11,289,193
Total liabilities			21,681,316	21,264,566		18,499,416

See accompanying notes to the consolidated financial statements.

KOREAN AIR LINES CO., LTD. AND SUBSIDIARIES
Consolidated Statements of Financial Position, Continued

For the years ended December 31, 2015 and 2014

(In millions of won and in thousands of US dollars)

	Note		2015	2014		2015
Equity						**(Note 4)**
Capital stock	1,31	₩	369,753	298,931	$	315,489
Other capital surplus	32		817,783	52,562		697,767
Other capital components	33		405,311	411,347		345,829
Retained earnings	34		794,265	1,389,468		677,700
Amounts recognized in other comprehensive income and accumulated in equity relating to assets held for sale	49		-	(61,364)		-
Equity attributable to owners of the Parent Company			2,387,112	2,090,944		2,036,785
Non-controlling interests			111,923	110,214		95,498
Total equity			2,499,035	2,201,158		2,132,283
Total liabilities and equity		₩	24,180,351	23,465,724	$	20,631,699

See accompanying notes to the consolidated financial statements.

KOREAN AIR LINES CO., LTD. AND SUBSIDIARIES
Consolidated Statements of Comprehensive Income (Loss)

For the years ended December 31, 2015 and 2014

(In millions of won and in thousands of US dollars, except loss per share)

	Note		2015	2014		2015 (Note 4)
Revenue	5,15,35,44	₩	11,544,831	11,909,748	$	9,850,539
Cost of sales	40,44		9,517,397	10,389,544		8,120,646
Gross profit			2,027,434	1,520,204		1,729,893
Selling, general and administrative expenses	36,40		1,144,346	1,124,869		976,405
Operating income			883,088	395,335		753,488
Finance income	37,42		56,271	52,732		48,013
Finance costs	37,42		515,967	633,124		440,245
Share of profit of associates	14		17,485	7,138		14,919
Other non-operating income	38,42		385,914	536,917		329,278
Other non-operating expenses	38,42		1,313,154	800,693		1,120,439
Loss before income tax			(486,363)	(441,695)		(414,986)
Income tax expense (benefit)	39		(85,494)	(156,853)		(72,947)
Loss from continuing operations			(400,869)	(284,842)		(342,039)
Discontinued operations						
Loss from discontinued operations			(162,098)	(328,080)		(138,309)
Loss for the period			(562,967)	(612,922)		(480,348)

See accompanying notes to the consolidated financial statements.

KOREAN AIR LINES CO., LTD. AND SUBSIDIARIES
Consolidated Statements of Comprehensive Income (Loss), Continued

For the years ended December 31, 2015 and 2014

(In millions of won and in thousands of US dollars, except earnings (loss) per share)

	Note		2015	2014		2015 (Note 4)
Other comprehensive income (loss)						
Items that will never be reclassified to profit or loss						
Defined benefit plan actuarial gain (loss)	26	₩	(73,828)	90,667	$	(62,994)
Change in retained earnings - equity method accounted investments	14		(209)	(14,885)		(178)
Revaluation surplus	16,17,33		(362)	(3)		(309)
Items that are or may be reclassified to profit or loss						
Change in fair value of available-for-sale financial assets			(28,621)	(2,512)		(24,420)
Change in capital adjustments - equity method accounted investments	14,33		75,482	19,472		64,404
Effective portion of changes in fair value of cash flow hedges	29,33		(1,681)	2,150		(1,434)
Foreign currency translation difference	33		11,491	3,307		9,805
Other comprehensive income (loss) for the period, net of income tax			(17,728)	98,196		(15,126)
Total comprehensive income (loss) for the period		₩	(580,695)	(514,726)	$	(495,474)

See accompanying notes to the consolidated financial statements.

KOREAN AIR LINES CO., LTD. AND SUBSIDIARIES
Consolidated Statements of Comprehensive Income (Loss), Continued

For the years ended December 31, 2015 and 2014

(In millions of won and in thousands of US dollars, except earnings (loss) per share)

	Note		2015	2014		2015 (Note 4)
Loss attributable to:						
Owners of the Parent Company		₩	(564,977)	(635,359)	$	(482,063)
Non-controlling interests			2,010	22,437		1,715
Total comprehensive income (loss) attributable to:						
Owners of the Parent Company			(582,413)	(538,607)		(496,940)
Non-controlling Interests			1,718	23,881		1,466
Earnings (loss) per share attributable to owners of the Parent Company (in won and US dollars)						
Continuing operation and discontinued operation						
Attributable to common stock	41	₩	(7,968)	(10,629)	$	(6.80)
Attributable to preferred stock	41		(7,868)	(10,529)		(6.71)
Continuing operation						
Attributable to common stock	41		(5,713)	(5,216)		(4.87)
Attributable to preferred stock	41		(5,663)	(5,166)		(4.83)

See accompanying notes to the consolidated financial statements.

KOREAN AIR LINES CO., LTD. AND SUBSIDIARIES
Consolidated Statements of Changes in Equity

For the years ended December 31, 2015 and 2014

(In millions of won and in thousands of US dollars)

		Attributable to owners of the Parent Company								
			Other Capital Surplus							
		Capital stock	Additional paid-in capital	Other	Other capital components	Retained earnings	Amounts recognized in accumulated other comprehensive income relating to assets held for sale	Total equity attributable to owners of the Parent Company	Non-controlling interests	Total
Balance at January 1, 2014	₩	298,931	174,907	(122,208)	328,164	1,967,197	-	2,646,991	93,221	2,740,212
Total comprehensive income (loss) for the period										
Loss for the period		-	-	-	-	(635,358)	-	(635,358)	22,436	(612,922)
Defined benefit plan actuarial loss		-	-	-	-	89,818	-	89,818	850	90,668
Change in retained earnings - equity method accounted investments		-	-	-	-	(14,885)	-	(14,885)	-	(14,885)
Revaluation surplus		-	-	-	(3)	-	-	(3)	-	(3)
Change in fair value of available-for-sale financial assets		-	-	-	(2,757)	-	-	(2,757)	244	(2,513)
Change in capital adjustments - equity method accounted investments		-	-	-	18,862	-	-	18,862	610	19,472
Effective portion of changes in fair value of cash flow hedges		-	-	-	2,098	-	-	2,098	52	2,150
Foreign currency translation difference		-	-	-	3,619	-	-	3,619	(311)	3,308
Transactions with owners of the Parent Company, recognized directly in equity										
Dividends		-	-	-	-	-	-	-	(622)	(622)
Increase in paid-in capital		-	-	(137)	-	-	-	(137)	(116)	(253)
Dividends attributable to hybrid securities		-	-	-	-	(13,476)	-	(13,476)	-	(13,476)
Assets held for sale		-	-	-	61,364	-	(61,364)	-	-	-
Others		-	-	-	-	(3,828)	-	(3,828)	(6,150)	(9,978)
Balance at December 31, 2014	₩	298,931	174,907	(122,345)	411,347	1,389,468	(61,364)	2,090,944	110,214	2,201,158

See accompanying notes to the consolidated financial statements.

KOREAN AIR LINES CO., LTD. AND SUBSIDIARIES
Consolidated Statements of Changes in Equity, Continued

For the years ended December 31, 2015 and 2014

(In millions of won and in thousands of US dollars)

		Attributable to owners of the Parent Company								
			Other Capital Surplus							
		Capital stock	Additional paid-in capital	Other	Other capital components	Retained earnings	Amounts recognized in accumulated other comprehensive income relating to assets held for sale	Total equity attributable to owners of the Parent Company	Non-controlling interests	Total
Balance at January 1, 2015	₩	298,931	174,907	(122,345)	411,347	1,389,468	(61,364)	2,090,944	110,214	2,201,158
Total comprehensive income (loss) for the period										
Loss for the period		-	-	-	-	(564,977)	-	(564,977)	2,010	(562,967)
Defined benefit plan actuarial loss		-	-	-	-	(72,556)	-	(72,556)	(1,272)	(73,828)
Change in retained earnings - equity method accounted investments		-	-	-	-	(209)	-	(209)	-	(209)
Revaluation surplus		-	-	-	(354)	-	-	(354)	(8)	(362)
Change in fair value of available-for-sale financial assets		-	-	-	(28,847)	-	-	(28,847)	226	(28,621)
Change in capital adjustments - equity method accounted investments		-	-	-	13,381	-	61,364	74,745	737	75,482
Effective portion of changes in fair value of cash flow hedges		-	-	-	(1,658)	-	-	(1,658)	(23)	(1,681)
Foreign currency translation difference		-	-	-	11,442	-	-	11,442	49	11,491
Transactions with owners of the Parent Company, recognized directly in equity										
Dividends		-	-	-	-	-	-	-	(617)	(617)
Increase in paid-in capital		70,822	423,381	-	-	-	-	494,203	-	494,203
Issuance of hybrid securities		-	-	341,551	-	-	-	341,551	-	341,551
Dividends attributable to hybrid securities		-	-	-	-	(14,347)	-	(14,347)	-	(14,347)
Liquidation of investments in subsidiary		-	-	-	-	51,636	-	51,636	-	51,636
Others		-	4,567	(4,278)	-	5,250	-	5,539	607	6,146
Balance at December 31, 2015	₩	369,753	602,855	214,928	405,311	794,265	-	2,387,112	111,923	2,499,035
(Note 4)	$	315,489	514,381	183,386	345,829	677,700	-	2,036,785	95,498	2,132,283

See accompanying notes to the consolidated financial statements.

KOREAN AIR LINES CO., LTD. AND SUBSIDIARIES
Consolidated Statements of Cash Flows

For the years ended December 31, 2015 and 2014

(In millions of won and in thousands of US dollars)

		2015	2014		2015
Cash flows from operating activities					**(Note 4)**
Loss for the period	₩	(562,967)	(612,922)	$	(480,348)
Adjustments for:					
Maintenance material cost		5,962	4,659		5,087
Provision for leased aircraft maintenance		27,980	1,248		23,873
Provision for construction losses		15,479	-		13,207
Provision for construction warranties		2,039	-		1,740
Green house gases emission cost		1,316	-		1,122
Other provision		534	-		456
Post-employment benefits		164,696	156,230		140,525
Long-term employee benefits		3,340	9,932		2,850
Depreciation		1,610,946	1,558,001		1,374,527
Amortization		39,979	35,024		34,112
Bad debt expenses		-	492		-
Interest expense		372,401	464,229		317,748
Loss on valuation of derivatives		72,104	208,679		61,522
Loss on disposal of available-for-sale financial assets		-	7,884		-
Impairment loss on available-for-sale financial assets		290	3,899		247
Loss on disposal of investments in associates		-	4,188		-
Other bad debt expenses		42,703	324		36,436
Loss on foreign currency translation		607,521	402,323		518,362
Loss on foreign currency transaction		99,082	-		84,541
Loss on disposal of property, aircraft and equipment		173,009	112,840		147,618
Loss on disposal of assets held for sale		5,234	-		4,466
Impairment loss on property, aircraft and equipment		72,364	-		61,744
Loss on disposal of intangible assets		124	23		106
Impairment loss on intangible assets		-	78		-
Loss on fair value evaluations		-	398,642		-
Loss on disposal of discontinued operations		92,003	-		78,501
Others		-	1,431		-
Interest income		(42,791)	(40,394)		(36,511)
Dividend income		(4,263)	(3,967)		(3,637)
Gain on valuation of derivatives		-	(5,736)		-
Share of profit of associates		(17,485)	(31,190)		(14,919)
Gain on disposal of available-for-sale financial assets		(1,704)	(264)		(1,454)
Gain on disposal of investments in associates		(22)	(88,559)		(19)
Reversal of impairment loss occurred in investments in associates		-	(14,651)		-
Gain on foreign currency translation		(112,940)	(168,772)		(96,365)
Reversal of allowance for doubtful accounts		(362)	-		(309)
Reversal of allowance for other doubtful accounts		(3)	(603)		(2)
Gain on disposal of property, aircraft and equipment		(5,075)	(3,571)		(4,330)
Gain on disposal of intangible assets		(13)	-		(11)
Reversal of provisions		(90)	-		(77)
Reversal of negative goodwill		(5,244)	-		(4,474)
Income tax benefit		(15,865)	(245,691)		(13,537)
Others		(5,252)	(20,101)		(4,480)

See accompanying notes to the consolidated financial statements.

For the years ended December 31, 2015 and 2014

(In millions of won and in thousands of US dollars)

		2015	2014		2015
Changes in:					**(Note 4)**
Trade receivables	₩	(34,076)	29,081	$	(29,075)
Non-trade receivables		(3,917)	(53,311)		(3,342)
Accrued revenues		(10,136)	(8,996)		(8,648)
Account receivables due from customers for contracts in progress		(28,029)	15,535		(23,916)
Inventories		(58,651)	34,184		(50,043)
Financial derivative assets		5,736	4,234		4,894
Advance payments		(35,507)	(136,207)		(30,296)
Prepaid expenses		(4,488)	(9,566)		(3,829)
Other current assets		(3,014)	5,293		(2,571)
Other non-current assets		41,974	-		35,814
Lease deposit		(757)	-		(646)
Long-term advance payments		-	388		-
Long-term prepaid expenses		-	603		-
Trade payables		12,260	(83,031)		10,460
Other payables		(88,584)	(94,917)		(75,584)
Accrued expenses		187,095	(77,288)		159,637
Advances		73,184	(50,029)		62,444
Unearned revenues		242,055	-		206,532
Deferred revenue due to customers for contracts in progress		(53,837)	23,659		(45,936)
Financial derivative liabilities		(208,846)	(29,412)		(178,196)
Withholdings		25,891	-		22,091
Other current liabilities		-	71,774		-
Plan assets		3,586	6,101		3,060
Payment of retirement benefits		(90,961)	(76,085)		(77,612)
Succession of defined benefit obligation		517	-		441
Provision		(1,770)	-		(1,510)
Deferred revenue		67,998	74,995		58,019
Other non-current liabilities		14,732	7,015		12,570
Others		(66)	282		(55)
Cash generated from operations		2,687,419	1,788,007		2,293,020
Interest received		46,473	40,580		39,652
Dividend received		6,639	40,202		5,665
Income taxes paid		(12,508)	(5,225)		(10,672)
Net cash provided by operating activities		2,728,023	1,863,564		2,327,665

See accompanying notes to the consolidated financial statements.

KOREAN AIR LINES CO., LTD. AND SUBSIDIARIES
Consolidated Statements of Cash Flows, Continued

For the years ended December 31, 2015 and 2014

(In millions of won and in thousands of US dollars)

		2015	2014		2015
Cash flows from investing activities					**(note 4)**
Decrease in short-term financial instruments	₩	128,564	65,834	$	109,696
Decrease in long-term financial instruments		1,429	-		1,220
Recovery of finance lease receivables		13,750	12,886		11,732
Decrease in current portion of available-for-sale financial assets		-	3,000		-
Decrease in current portion of held-to-maturity investments		-	9,356		-
Decrease in short-term loans		15	29,989		13
Decrease in long-term financial instruments		-	1,590		-
Proceeds from disposal of available-for-sale financial assets		6,966	15,529		5,944
Decrease in held-to-maturity investments		19	17		17
Proceeds from disposal of associates		-	64,401		-
Proceeds from disposal of investments in subsidiaries		1,184	-		1,010
Proceeds from disposal of property, aircraft and equipment		318,316	381,973		271,601
Proceeds from disposal of assets held for sale		10,003	-		8,535
Proceeds from disposal of intangible assets		313	77		267
Decrease in guarantee deposits		37,790	122,127		32,244
Increase in short-term loans		(13)	-		(11)
Decrease in other non-current assets		2	-		2
Increase in rent deposits		29	-		24
Proceeds from disposal of business segment		1,982,982	-		1,691,964
Increase in short-term financial instruments		(181,393)	(68,633)		(154,773)
Increase in long-term financial instruments		(52,512)	(57,911)		(44,806)
Acquisition of available-for-sale financial assets		(3,000)	(5,090)		(2,560)
Acquisition of held-to-maturity investments		(27)	(25)		(23)
Acquisition of investments in associates		-	(400,000)		-
Acquisition of investments in subsidiaries		(6,267)	(1,971)		(5,347)
Acquisition of property, aircraft and equipment and investment property		(1,742,725)	(1,120,619)		(1,486,966)
Acquisition of intangible assets		(32)	(1)		(28)
Increase in guarantee deposits		(96,664)	(117,480)		(82,478)
Inflow of cash from other investing activities		-	2		-
Net cash provided by (used in) investing activities		418,729	(1,064,949)		357,277

See accompanying notes to the consolidated financial statements.

KOREAN AIR LINES CO., LTD. AND SUBSIDIARIES
Consolidated Statements of Cash Flows, Continued

For the years ended December 31, 2015 and 2014

(In millions of won and in thousands of US dollars)

		2015	2014		2015
Cash flows from financing activities					**(note 4)**
Proceeds from short-term borrowings	₩	1,572,576	2,050,927	$	1,341,789
Proceeds from issuance of bonds		286,470	449,751		244,428
Proceeds from long-term borrowings		570,094	2,012,651		486,429
Proceeds from issuance of asset-backed securitization loans		600,000	1,271,866		511,945
Issuance of hybrid securities		341,551	-		291,426
Proceeds from disposal of investments in subsidiaries		313	-		267
Increase in paid-in capital		494,202	-		421,674
Repayment of short-term borrowings		(2,367,142)	(1,245,366)		(2,019,746)
Repayment of current portion of long-term liabilities		(2,997,644)	(4,214,645)		(2,557,717)
Repayment of current portion of finance leases obligations		(1,093,376)	(984,903)		(932,914)
Interest paid		(385,736)	(465,889)		(329,126)
Payment of dividends attributable to hybrid securities		(13,440)	(13,440)		(11,468)
Payment of dividends		(617)	(622)		(527)
Outflow of cash from other financing activities		(3,850)	1,737		(3,285)
Net cash used in financing activities		(2,996,599)	(1,137,933)		(2,556,825)
Net increase (decrease) in cash and cash equivalents		150,153	(339,318)		128,117
Cash and cash equivalents at January 1		796,604	1,126,825		679,696
Effect of exchange rate fluctuations on cash held		19,005	9,097		16,217
Increase in cash and cash equivalent due to changes in scope of consolidation		1,719	-		1,466
Cash and cash equivalents at December 31	₩	967,481	796,604	$	825,496

See accompanying notes to the consolidated financial statements.

1. General Description of the Parent Company

Korean Air Lines Co., Ltd. (the "Parent Company") was established on June 19, 1962 under the Investment Promotion Law of the Republic of Korea and is engaged in the business of domestic and international airline services, manufacture of aircraft parts, maintenance of aircraft and catering of in-flight meals.

The Parent Company has been a publicly traded company upon listing its common stock on the Korea Exchange since 1966. Total capital stock of the Parent Company as of December 31, 2015 amounts to ₩369,753 million in par value (including ₩5,554 million of preferred stock). The principal shareholders of the Parent Company's common stocks are Hanjin KAL Co., Ltd. (31.46%) and its affiliates (4.14%).

2. Basis of Preparation

The consolidated financial statements have been prepared in accordance with Korean International Financial Reporting Standards ("K-IFRS"), as prescribed in the Act on External Audit of Corporations in the Republic of Korea.

The Group's accounting policies applied for the accompanying consolidated financial statements are the same as the policies applied for the preparation of consolidated financial statements for the year ended December 31, 2014, except for the effects from the introduction of new and revised accounting standards of interpretation described in Note 3.

The accompanying consolidated financial statements have been prepared on the historical cost basis except for certain non-current assets and financial instruments that are measured at revalued amounts or fair values. Historical cost is generally based on the fair value of the consideration given.

(a) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis, except for the following material items in the consolidated statements of financial position:
- Derivative financial instruments are measured at fair value
- Financial instruments at fair value through profit or loss are measured at fair value
- Available-for-sale financial assets are measured at fair value
- Property, aircraft and equipment, and investment property measured at fair value
- Liabilities for defined benefit plans are recognized at the net of total present value of defined benefit obligations less the fair value of plan assets

(b) Functional and presentation currency

The Group's consolidated financial statements are presented in the currency of the primary economic environment in which the Group operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of the Group are expressed in Korean won, which is the functional currency of the Parent Company and the presentation currency for the consolidated financial statements.

(c) Use of estimates and judgments

The preparation of the consolidated financial statements in conformity with K-IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized prospectively.

In the application of the Group accounting policies, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.
The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

1) Critical judgments in applying accounting policies
The followings are the critical judgments, apart from those involving estimations, that the management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements.

Management has reviewed the Group's held-to-maturity financial assets in the light of its capital maintenance and liquidity requirements and has confirmed the Group's positive intention and ability to hold those assets to maturity. The carrying amount of the held-to-maturity financial assets is ₩ 971 million ($829 thousand). Details of these assets are set out in Note 10.

2) Key sources of estimation uncertainty
The followings are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

A. Defined benefit plan
The Group'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 Group'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. At the end of this year, net defined benefit obligation of the plan is ₩1,027,681 million ($876,861thousand) (prior year ₩851,071 million), as detailed in Note 26.

B. Valuation of financial instruments
As described in Notes 42 and 43, the Group 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. Notes 42 and 43 provide detailed information about key assumptions used in the determination of the fair value of financial instruments, as well as the detailed sensitivity analysis for these assumptions. The management believes that the chosen valuation techniques and assumptions used are appropriate in determining the fair value of financial instruments.

C. Probability on the realization of unused deferred tax assets
In consideration of operating performance of the Group and estimate of the future operating performance, the Group recognizes deferred tax asset in relation to unused tax loss carryforward.

3. Significant Accounting Policies

(a) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Parent Company and entities (including structured entities) controlled by the Parent Company (and its subsidiaries). Control is achieved where the Parent Company 1) has the power over the investee; 2) is exposed, or has rights, to variable returns from its involvement with the investee; and 3) has the ability to use its power to affect its returns. The Parent Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive loss from the date the Parent Company gains control until the date when the Parent Company ceases to control the subsidiary. Profit or loss and each component of other comprehensive income are attributed to the owners of the Parent Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Parent Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies.
All intragroup transactions and related assets, liabilities, income and expenses are eliminated in full on consolidation.

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to owners of the Parent Company.

When the Group loses control of a subsidiary, a gain or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill) and liabilities of the subsidiary and any non-controlling interests. When assets of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss has been recognized in other comprehensive income and accumulated in equity, the amounts previously recognized in other comprehensive income and accumulated in equity are accounted for as if the Group had directly disposed of the relevant assets (i.e., reclassified to profit or loss or transferred directly to retained earnings). The fair value of any investment retained in the former subsidiary at the date when control is lost is recognized as the fair value on initial recognition for subsequent accounting under K-IFRS 1039 or, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

(b) Business combination

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognized in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognized at their fair value at the acquisition date, except that:

• deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognized and measured in accordance with K-IFRS 1012, Income Taxes, and K-IFRS 1019, respectively;
• liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with K-IFRS 1102, Share-Based Payment, at the acquisition date; and
• assets (or disposal groups) that are classified as held for sale in accordance with K-IFRS 1105, Non-current Assets Held for Sale and Discontinued Operations, are measured in accordance with that standard.

Goodwill is measured as the excess of the sum of a) the consideration transferred, b) the amount of any non-controlling interests in the acquiree and c) the fair value of the acquirer's previously held equity interest in the acquiree (if any), over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of a) the consideration transferred, b) the amount of any non-controlling interests in the acquiree and c) the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognized immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognized amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another K-IFRS.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement-period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement-period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement-period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with K-IFRS 1039 or K-IFRS 1037, Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognized in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date and the resulting gain or loss, if any, is recognized in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognized in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest was disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognized, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognized at that date.

(c) Investments in subsidiaries, jointly controlled entities and associates

An associate is an entity over which the Group 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.

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.

The results and assets and liabilities of associates or joint ventures are incorporated in these consolidated 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 or a joint venture is initially recognized in the consolidated statement of financial position at cost and adjusted thereafter to recognize the Group's share of the profit or loss and other comprehensive income of the associate or joint venture. When the Group's share of losses of an associate or a joint venture exceeds the Group's interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), the Group discontinues recognizing its share of further losses. Additional losses are recognized only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an associate or a joint venture recognized at the date of acquisition is recognized as goodwill, which is included within the carrying amount of the investment and is reviewed for impairment as part of investment. Any excess of the Group’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.

Upon disposal of an associate or a joint venture that results in the Group losing significant influence over that associate or joint venture, any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset in accordance with K-IFRS 1039. The difference between the previous carrying amount of the associate or joint venture attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate or joint venture. In addition, the Group accounts for all amounts previously recognized in other comprehensive income in relation to that associate or joint venture on the same basis it would be required if that associate or joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognized in other comprehensive income by that associate or joint venture would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as reclassification adjustment) when it loses significant influence over that associate or joint venture.

When the Group reduces its ownership interest in an associate or a joint venture, but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognized in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities. In addition, the Group applies K-IFRS 1105 to a portion of investment in an associate or a joint venture that meets the criteria to be classified as held for sale.

The requirements of K-IFRS 1039 are applied to determine whether it is necessary to recognize any impairment loss with respect to the Group's investment in an associate or a joint venture. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with K-IFRS 1036 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 to the extent that the recoverable amount of the investment subsequently increases.

The Group continues to use the equity method when an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate. There is no remeasurement to fair value upon such changes in ownership interests.

When a Group entity transacts with an associate or a joint venture of the Group, profits and losses resulting from the transactions with the associate or joint venture are recognized in the Group's consolidated financial statements only to the extent of interests in the associate or joint venture that are not related to the Group.

(d) Interests in joint operations

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 the Group undertakes its activities under joint operations, the Group 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 Group accounts for the assets, liabilities, revenues and expenses relating to its interest in a joint operation in accordance with the K-IFRS applicable to the particular assets, liabilities, revenues and expenses.

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When the Group transacts in a joint operation in which the Group is a joint operator (such as a sale or contribution of assets), the Group is considered to be conducting the transaction with the other parties to the joint operation, and gains and losses resulting from the transactions are recognized in the Group's consolidated financial statements only to the extent of other parties' interests in the joint operation.

When the Group transacts in a joint operation in which the Group is a joint operator (such as a purchase of assets), the Group does not recognize its share of the gains and losses until it resells those assets to a third party.

(e) Goodwill

Goodwill arising on the acquisition of a business is carried at cost, as established at the date of acquisition of the business, less accumulated impairment losses, if any.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually or more frequently when there is indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit on a pro rata basis based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognized directly in profit or loss. An impairment loss recognized for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

The Group's policy for goodwill arising on the acquisition of an associate is described in Note 3. (c).

(f) Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continued use. This condition is regarded as met only when the sale is highly probable and the non-current asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Group is committed to a sale plan involving loss of control over a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after the sale.

When the Group is committed to a sale plan involving disposal of an investment, or a portion of an investment, in an associate or joint venture, the investment, or the portion of the investment, that will be disposed of is classified as held for sale when the criteria described above are met, and the Group discontinues the use of the equity method in relation to the portion that is classified a held for sale. Any retained portion of an investment in an associate or a joint venture that has not been classified as held for sale continues to be accounted for using the equity method. The Group discontinues the use of the equity method at the time of disposal when the disposal results in the Group losing significant influence over the associate or joint venture.

After the disposal takes place, the Group accounts for any retained interest in the associate or joint venture in accordance with K-IFRS 1039, Financial Instruments: Recognition and Measurement, unless the retained interest continues to be an associate or a joint venture, in which case the Group uses the equity method.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value, less costs to sell. A non-current asset that is classified as held for sale or part of a disposal group classified as held for sale is not depreciated or amortized.

(g) 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 Group 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 Group's activities, as described below.

1) Sale of goods

Revenue is recognized when persuasive evidence exists that the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably.

2) Rendering of services

Revenue from airline services is recognized upon completion of the services, and revenue from a contract to provide other services is recognized by reference to stage of completion of the contract. Depending on the nature of the transaction, the Group 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.

Rendering of services that result in award credits for customers, under the Group's Maxi-Points Scheme, is accounted for as multiple-element revenue transactions, and the fair value of the consideration received or receivable is allocated between the goods supplied and the award credits granted. The consideration allocated to the award credits is measured by reference to their fair value– the amount for which the award credits could be sold separately.

Such consideration is not recognized as revenue at the time of the initial sale transaction, but is deferred and recognized as revenue when the award credits are redeemed and the Group's obligations have been fulfilled.

3) Dividend and interest income

Dividend income from investments is recognized when the Group's right to receive payment has been established.

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 Group's policy for recognition of revenue from operating leases is described in Note 3 (i).

5) Customer loyalty program
The Group operates customer loyalty program to provide customers with incentives to buy their goods or services. If a customer buys goods or services, the Group grants the customer award credits. The customer can redeem the award credits for awards, such as free or discounted goods or services.

The award credits are accounted separately as identifiable component of the sales transaction(s) in which they are granted (the 'initial sales'). The fair value of the consideration received or receivable in respect of the initial sale shall be allocated between the award credits and the other components of the sale.

If the Group supplies the awards itself, it shall recognize the consideration allocated to award credits as revenue when award credits are redeemed and it fulfills its obligation to supply awards. The amount of revenue recognized shall be based on the number of award credits that have been redeemed in exchange for awards related to the total number expected to be redeemed.

If the third party supplies the awards, the Group shall assess whether it is collecting the consideration allocated to the award credits on its own account (as the principal in the transaction) or on behalf of the third party (as agent for the third party). The amount of revenue recognized shall be net amount retained on its own account.

(h) Construction contracts
Where the outcome of a construction contract can be estimated reliably, revenue and costs are recognized by reference to the stage of completion of the contract activity at the end of the reporting period, measured based on the proportion of contract costs incurred for work performed to date relative to the estimated total contract costs, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that the amount can be measured reliably and its receipt is considered probable.

Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognized to the extent of contract costs incurred that it is probable will be recoverable. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognized as an expense immediately.

When contract costs incurred to date, plus recognized profits, less recognized losses, exceed progress billing, the surplus is shown as amounts due from customers for contract work. For contracts where progress billings exceed contract costs incurred to date, plus recognized profits, less recognized losses, the surplus is shown as the amounts due to customers for contract work. Amounts received before the related work is performed are included in the consolidated statement of financial position, as a liability, as advances received. Amounts billed for work performed, but not yet paid by the customer are included in the consolidated statement of financial position under trade and other receivables.

(i) Leases
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 Group as lessor
Amounts due from lessees under finance leases are recognized as receivables at the amount of the Group'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 Group'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 Group as lessee
Assets held under finance leases are initially recognized as assets of the Group 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 consolidated 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 Group's general policy on borrowing costs (Note 3. (k)). 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.

(j) Foreign currencies
The Group's consolidated financial statements are presented in the currency of the primary economic environment in which the Group operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of the Group are expressed in Korean won, which is the functional currency of the Group and the presentation currency for the consolidated financial statements.

In preparing the consolidated financial statements of the individual 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 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 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.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are expressed in Korean won using exchange rates prevailing at the end of the reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognized in other comprehensive income and accumulated in equity (attributed to non-controlling interests as appropriate).

On the disposal of a foreign operation (i.e., a disposal of the Group's entire interest in a foreign operation, a disposal involving loss of control over a subsidiary that includes a foreign operation or partial disposal of an interest in a joint arrangement or an associate that includes a foreign operation where the retained interest becomes a financial asset), all of the accumulated exchange differences in respect of that operation attributable to the owners of the Group are reclassified to profit or loss. Any exchange differences that have previously been attributed to non-controlling interests are derecognized, but they are not reclassified to profit or loss.

In the case of a partial disposal (i.e., no loss of control) of a subsidiary that includes a foreign operation, the proportionate share of accumulated exchange differences are reattributed to non-controlling interests in equity and are not recognized in profit or loss. For all other partial disposals (i.e., partial disposals of associates or joint arrangements that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate. Exchange differences arising are recognized in other comprehensive income.

(k) 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.

(l) Government grants
Government grants are not recognized until there is reasonable assurance that the Group will comply with the conditions attached to them and that the grants will be received.

The benefit of a government loan at a below-market rate of interest is treated as a government grant, measured as the difference between proceeds received and the fair value of the loan based on prevailing market interest rates.

Government grants related to assets are presented in the consolidated statement of financial position by deducting the grant from the carrying amount of the asset. The related grant is recognized in profit or loss over the life of a depreciable asset as a reduced depreciation expense.

Government grants related to income are deducted from the related expenses. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognized in profit or loss in the period in which they become receivable.

(m) Employee benefits

1) Short-term employee benefits

Short-term employee benefits are employee benefits that are due to be settled within 12 months after the end of the period in which the employees render the related service. When an employee has rendered service to the Group during an accounting period, the Group recognizes the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service.

2) Other long-term employee benefits

Other long-term employee benefits include employee benefits that are settled beyond 12 months after the end of the period in which the employees render the related service, and are calculated at the present value of the amount of future benefit that employees have earned in return for their service in the current and prior periods. Any actuarial gains and losses are recognized in profit or loss in the period in which they arise.

3) Retirement benefit costs

For defined benefit retirement benefit plans, the cost of providing benefits is determined by an independent actuarial company 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 consolidated statement of financial position, with a charge or credit recognized in other comprehensive income in the period in which it occurs. 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 Group 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 consolidated statement of financial position represents the actual deficit or surplus in the Group'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.

(n) Income taxes

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

1) Current tax

The tax is the expected tax payable or receivable on taxable profit or loss for the year. Taxable profit differs from profit as reported in the consolidated statement of profit or loss and 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 Group'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 consolidated 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 that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets are not recognized if the temporary difference arises 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 Group 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 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 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 Group 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 Group 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. Therefore, as long as the presumption is not rebutted, measurement of deferred tax asset or liability reflects the tax effect of sale of investment property at its book value.

3) Current tax and deferred tax for the year

Current and deferred tax 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 tax and deferred tax 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.

(o) Property, aircraft and equipment

Property, aircraft and equipment except land are stated at cost less subsequent accumulated depreciation and accumulated impairment losses. Land shall be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated impairment losses. Revaluation shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

The cost of an item of property, aircraft and equipment is directly attributable to their purchase or construction, which includes 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. It also includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

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 Group and the cost of an asset can be measured reliably. Routine maintenance and repairs are expensed as incurred.

The Group does not depreciate land and leased land. Depreciation expense is computed using the straight-line method based on the estimated useful lives of the assets as follows:

		Useful lives (years)
Buildings, structures		20 ~ 40
Machinery		4 ~ 15
Aircraft, leased aircraft	Fuselage, etc.	6 ~ 15
	Overhaul	3.6 ~ 12
Engines, leased engines	Engine	15
	Overhaul	3.3 ~ 8.8
Aircraft parts		15
Others		2 ~15

If each part of an item of property, aircraft and equipment has a cost that is significant in relation to the total cost of the item, it is depreciated separately.

The Group reviews the depreciation method, the estimated useful lives and residual values of property, aircraft and equipment at the end of each annual reporting period. If expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate.

An item of property, aircraft 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. The revaluation surplus included in equity in respect of an item of property, aircraft and equipment may be transferred directly to retained earnings when the asset is derecognized.

(p) Investment properties
Investment properties are properties held to earn rentals or for capital appreciation. 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 the 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 Group 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 asset's estimated useful lives of 40 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 change being treated as change in the accounting estimate.

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.

(q) 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 being treated as change in accounting estimate

Intangible assets with indefinite useful lives that are acquired separately are carried at cost, less accumulated impairment losses.

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 Group 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 as 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.

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.

4) Derecognition of intangible assets
An intangible asset is derecognized on disposal or when no future economic benefits are expected from its use or disposal. 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, is recognized in profit or loss when the asset is derecognized.

Intangible assets with finite useful lives are amortized based on the estimated useful lives of the assets as follows:

	Estimated useful lives (years)
Facility usage rights	19 ~ 30
Development costs	2.2 ~ 15.3
Other intangible assets	5 ~ 20

Among the Group's intangible assets, useful life of a membership is estimated to be infinite as the usable period is not limited in accordance with the terms of the contract and the economic benefits are expected to be continuously generated from the asset during the holding period.

(r) Impairment of non-financial assets other than goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its non-financial 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 Group 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 annually whether there is an indication of impairment.

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.

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Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the lesser of 1) revised estimate of its recoverable amount, or the carrying amount that would have been had no impairment loss been recognized. A reversal of an impairment loss is recognized immediately in profit or loss.

(s) Inventories
Inventories are stated at the lower of cost and net realizable value. The cost of inventories is measured by the following evaluation method:

		Evaluation method
Merchandise		First-in-first-out method
Products		Total average method and others
Raw materials	Aerospace	Moving average method
	In-flight meals	First-in-first-out method
Supplies	Air transport, Aerospace	Moving average method
	In-flight meals	First-in-first-out method
	Others	First-in-first-out method and others
Materials in transit		Specific identification method

Cost of inventories consists of the purchase price, cost of conversion and other costs incurred in bringing the inventories to ready for use state. 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 are 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.

(t) Provisions
Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group 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 borrowing cost.

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.

(u) Financial Instruments

Financial assets are recognized when the Group becomes a party to the contractual provisions of the instruments. Financial assets are initially measured at fair value. Transaction costs that are directly attributable to the acquisition of financial assets are added to or deducted from the fair value of the financial assets, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets at fair value through profit or loss ("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 financial assets classified as at FVTPL.

2) Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL. Financial assets acquired for short-term holding are classified as held for trading, and all derivative financial instruments except for those that are effective and designated as hedging instrument are measured in fair value, with the associated change in fair value being recognized as gain or loss in the reporting period

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 Group 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 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 Group'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 'Other non-operating income and expense' line item in the consolidated statement of comprehensive loss.

3) Held-to-maturity investments
Non-derivatives financial assets with fixed or determinable payments and fixed maturity dates that the Group 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 gain (loss) on AFS financial assets, net). 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 Group'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 more events have occurred after the initial recognition of the financial asset and 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 Group's past experience of collecting payments and an increase in the number of delayed payments, 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.

Carrying amount of impaired financial assets classified as loans or trade receivables is reduced through the use of an allowance account; when a trade receivable is considered uncollectible, it is also 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 Group 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 Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

On derecognition of financial assets in its entirety, the difference between the assets' 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 financial assets other than in its entirety (e.g., when the Group 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 Group 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.

(v) 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 Group are recognized as the proceeds are received, net of direct issue costs.

Repurchase of the Group'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 Group's own equity instruments.

3) Financial liabilities

Financial liabilities are recognized when the Group becomes a party to the contractual provisions of the instruments. Financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the issue of financial liabilities are 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.

4) Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as 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 Group manages together and has a recent actual pattern of short-term profit taking; or

December 31, 2015 and 2014

A financial liability other than a financial liability held for trading 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 Group'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.

5) 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.

6) 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 he/she 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, determined in accordance with K-IFRS 1037, and
• the amount initially recognized, less cumulative amortization recognized in accordance with the K-IFRS 1018, Revenue

7) Derecognition of financial liabilities
The Group derecognize financial liabilities when the Group's obligation are discharged or canceled or they expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

(w) Derivative financial instruments
The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate, foreign exchange rate and oil price risk, including currency option, oil price option and interest rate 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.

All derivative financial instruments except for those that are effective and designated as hedging instrument are measured in fair value; associated change in fair value is recognized as gain or loss in the reporting period.

A derivative with a positive fair value is recognized as a financial asset, and 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.

(x) 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 Group 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 consolidated 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.

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 entity 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.

(y) Greenhouse gases emission right

The Group accounts for greenhouse gases emission right and the relevant liability pursuant to the Act on Allocation and Trading of Greenhouse Gas Emission which became effective in 2015. Emission liability is recognized when it is probable that outflows of resources will be required to settle the obligation and the costs required to perform the obligation are reliably estimable. Emission liability is an amount of estimated obligations for emission rights to be submitted to the government for the performing period. The emission liability is measured based on the expected quantity of emission for the performing period in excess of emission allowance in possession and the unit price for such emission rights in the market at the end of the reporting period. The Group derecognizes an emission right liability when the emission allowance is submitted to government.

(z) Approval of the consolidated financial statements

The accompanying consolidated financial statements were approved by the board of directors on February 24, 2016, and it will be finally approved by the general meeting of shareholders on March 18, 2016.

(aa) New standards and interpretations not yet adopted

The following new standards, interpretations and amendments to existing standards have been published and are mandatory for the Group for annual periods beginning after January 1, 2015, and the Group has not early adopted them. Management believes the impact of the amendments on the Group's consolidated financial statements is not significant.

(i) K-IFRS No. 1115, Revenue from Contracts with Customers

K-IFRS 1115, published in January 2016, establishes a single new revenue recognition standard for contracts with customers and introduces a five-step model for determining whether, how much and when revenue is recognized. It replaces risk-and-reward based model with control-based model. K-IFRS 1115 is effective for annual reporting periods beginning on or after January 1, 2018, with early adoption permitted.

4. Convenience Translation of Financial Statements

The consolidated financial statements as of December 31, 2015 and for the year ended December 31, 2015 are expressed in Korean won and have been translated into US dollars at the rate of ₩1,172.00 to $1, the basic exchange rate on December 31, 2015 posted by Seoul Money Brokerage Services, solely for the convenience of the reader. These translations do not comply with K-IFRS and also should not be construed as a representation that any or all of the amounts shown could be converted into US dollars at this or any other rate.

5. Segment Information

(a) The Group's reportable segments are summarized as follows:

Segment	Type of Goods and Services	Customer's information
Air transport	Passenger and cargo transportation	Individual, enterprises, government, etc.
Aerospace	Maintenance of aircraft and manufacture of aircraft parts	Department of defense, etc.
In-flight meals	Catering of in-flight meals	Overseas airlines, etc.
Hotel/limousine and others	Hotel services and limousine transportation	Individual, etc.

(b) Segment results, assets and liabilities as of and for the year ended December 31, 2015 are summarized as follows:

(In millions of won)

		Air transport	Aerospace	In-flight meals	Hotel/ limousine	Others	Adjustment for consolidation	Total
Total revenue	₩	10,628,613	913,533	93,795	42,656	301,066	(434,832)	11,544,831
Internal revenue		(270,354)	-	(25)	(3,500)	(160,953)	434,832	-
Net revenue		10,358,259	913,533	93,770	39,156	140,113	-	11,544,831
Operating income (loss)		708,662	119,476	31,080	(600)	24,563	(93)	883,088
Depreciation and amortization		(1,583,556)	(42,783)	(5,702)	(1,288)	(17,367)	(229)	(1,650,925)
Total assets		21,795,847	1,191,650	61,443	1,096,629	729,565	(694,783)	24,180,351
Total liabilities								21,681,316

(Note 4)
(In thousands of US dollars)

		Air transport	Aerospace	In-flight meals	Hotel/ limousine	Others	Adjustment for consolidation	Total
Total revenue	$	9,068,783	779,465	80,030	36,395	256,883	(371,017)	9,850,539
Internal revenue		(230,678)	-	(21)	(2,986)	(137,332)	371,017	-
Net revenue		8,838,105	779,465	80,009	33,409	119,551	-	9,850,539
Operating income (loss)		604,661	101,941	26,519	(512)	20,958	(79)	753,488
Depreciation and amortization		(1,351,157)	(36,505)	(4,865)	(1,099)	(14,817)	(196)	(1,408,639)
Total assets		18,597,139	1,016,766	52,425	935,690	622,497	(592,818)	20,631,699
Total liabilities								18,499,416

5. Segment Information, continued

(c) Geographical entity wide information as of and for the year ended December 31, 2015 are summarized as follows:

(In millions of won)

		Local		Overseas			
		Domestic	International	Americas	Asia	Adjustment for consolidation	Total
Total revenue	₩	1,988,158	9,959,487	6,884	25,134	(434,832)	11,544,831
Internal revenue		(407,547)		(6,858)	(20,427)	434,832	-
Net revenue		11,540,098		26	4,707	-	11,544,831
Operating income (loss)		884,079		(1,984)	1,086	(93)	883,088
Total assets		23,781,716		1,070,746	22,672	(694,783)	24,180,351
Total liabilities							21,681,316

(Note 4)
(In thousands of US dollars)

		Local		Overseas			
		Domestic	International	Americas	Asia	Adjustment for consolidation	Total
Total revenue	$	1,696,381	8,497,855	5,874	21,446	(371,017)	9,850,539
Internal revenue		(347,736)		(5,852)	(17,429)	371,017	-
Net revenue		9,846,500		22	4,017	-	9,850,539
Operating income (loss)		754,334		(1,693)	926	(79)	753,488
Total assets		20,291,567		913,605	19,345	(592,818)	20,631,699
Total liabilities							18,499,416

(d) No single customer accounted for more than 10% of the Group's revenue for the years ended December 31, 2015 and 2014.

December 31, 2015 and 2014

6. Cash and Cash Equivalents

Cash and cash equivalents as of December 31, 2015 and 2014 are summarized as follows:

(In millions of won and in thousands of US dollars)

		2015	2014		2015 (Note 4)
Cash on hand	₩	160	324	$	136
Bank deposits		967,321	796,280		825,360
	₩	967,481	796,604	$	825,496

7. Restricted Deposits and Pledged Financial Instruments

Restricted deposits and pledged financial instruments as of December 31, 2015 and 2014 are summarized as follows:

(In millions of won and in thousands of US dollars)

	Currency	2015	2014	Remark
Cash and cash equivalents	KRW	-	1,800	Pledged for Hanjin Shipping Co., Ltd.'s guaranteed loans
	KRW	-	7,547	Pledged for Grandstar Cargo International Airlines Co., Ltd.'s borrowings
	USD	100,000	-	Restricted by use of specific purpose
	KRW	-	5,130	Performance guarantee deposit on the mail delivery contract with Korea Post
Held-to-maturity investments	KRW	809	808	Performance guarantee deposit on the mail delivery contract with Korea Post
Available-for-sale financial assets	KRW	78,772	106,182	Pledged for HIC's loans
	KRW	423	423	Performance guarantee for Korea Software Financial Cooperative and others
Short-term and long-term financial instruments	KRW	5,522	3,722	Pledged for Hanjin Shipping Co., Ltd.'s guaranteed loans
	KRW	4,000	-	The Export-Import Bank of Korea collateral on joint security
	KRW	1,200	1,000	Rental guarantee for Incheon International Airport terminal
	KRW	10,080	-	Performance guarantee deposit on the mail delivery contract with Korea Post
	USD	50,000	50,000	Pledged HIC's loans
	USD	35,000	-	Pledged for hybrid securities
	KRW	17	17	Bank account deposit
	KRW	-	130	Performance guarantee deposit for the U.S. Air Force delivery service
	KRW	1,070	966	Accident compensation for employees and guarantee for X-Ray of Incheon International Airport
	KRW	67	66	Receivables attachment for employees
	USD	371	327	Guarantee deposit on newly opened North america L/C
	KRW	2,400	-	Government project deposits

8. Trade and Other Receivables

(a) Trade and other receivables as of December 31, 2015 and 2014 are summarized as follows:

(In millions of won and in thousands of US dollars)

		2015	2014		2015
					(Note 4)
Current trade receivables:					
Trade receivables	₩	576,441	612,908	$	491,844
Allowance for doubtful accounts		(5,383)	(5,997)		(4,593)
Present value discounts		(1)	(30)		(1)
		571,057	606,881		487,250
Non-current trade receivables:					
Trade receivables		9	279		8
Allowance for doubtful accounts		-	(2)		-
Present value discounts		-	(24)		-
		9	253		8
		571,066	607,134		487,258
Current other receivables:					
Short-term loans (*)		220,020	220,017		187,731
Non-trade receivables		140,431	133,926		119,821
Allowance for doubtful accounts		(43,153)	(766)		(36,820)
Accrued income		63,691	52,761		54,344
Allowance for doubtful accounts		(626)	(520)		(534)
		380,363	405,418		324,542
Non-current other receivables:					
Long-term loans		35	-		29
		35	-		29
		380,398	405,418		324,571
	₩	951,464	1,012,552	$	811,829

(*) Short term loans consist of ₩220,000 million of loans provided to Hanjin Shipping Co., Ltd. as of December 31, 2015 and 2014.(Note 44)

(b) Credit risk and details of allowance for doubtful accounts as of December 31, 2015 and 2014 are as follows:

The trade and other receivables are classified as 'loans and receivables' and are measured at amortized cost. The Group estimates the allowance for doubtful accounts based on the each receivable analysis because the credit offering period for the sales of the Group varies with the sales' categories and customers.

December 31, 2015 and 2014

8. Trade and Other Receivables, continued

(i) Aging analysis of the trade receivables that are overdue, but are not impaired as of December 31, 2015 and 2014 are as follows:

(In millions of won and in thousands of US dollars)

		Within 6 months	6~12 months	1~3 years	More than 3 years	Total		Total (Note 4)
December 31, 2015								
Trade receivables	₩	26,551	182	534	697	27,964	$	23,860
Allowance for doubtful accounts		(249)	(2)	(5)	(6)	(262)		(223)
	₩	26,302	180	529	691	27,702	$	23,637

(In millions of won)

		Within 6 months	6~12 months	1~3 years	More than 3 years	Total
December 31, 2014						
Trade receivables	₩	20,519	961	588	305	22,373
Allowance for doubtful accounts		(218)	(10)	(6)	(3)	(237)
	₩	20,301	951	582	302	22,136

(ii) Trade receivables are not impaired as of December 31, 2015 and 2014.

December 31, 2015 and 2014

8. Trade and Other Receivables, continued

(iii) Changes in allowance for trade and other receivables for the years ended December 31, 2015 and 2014 are as follows:

(In millions of won and in thousands of US dollars)

		Beginning balance	Recognition (Reversal) of allowance for doubtful accounts	Write -off	Decrease due to contribution in kind	Increase due to changes in scope of consolidation	Ending balance		Ending balance (Note 4)
December 31, 2015									
Trade receivable	₩	5,999	(398)	(219)	(1)	2	5,383	$	4,593
Non-trade Receivables		766	42,593	(207)	(2)	3	43,153		36,820
Accrued income		520	111	-	(5)	-	626		534

(In millions of won)

		Beginning balance	Recognition (Reversal) of allowance for doubtful accounts	Ending balance
December 31, 2014				
Trade receivable	₩	6,400	(401)	5,999
Non-trade Receivables		606	160	766
Accrued income		436	84	520

The Group has judged the recoverability of the trade receivables by considering the changes in credit rating from the beginning date of credit offering to the end of the reporting period. The concentration of credit risk is limited because there are lots of customers and no interconnection between them.

9. Available-for-Sale Financial Assets

Available-for-sale financial assets as of December 31, 2015 and 2014 are summarized as follows:

(In millions of won and in thousands of US dollars)

		2015	2014		2015
					(Note 4)
Marketable securities recorded at fair value	₩	108,505	134,360	$	92,581
Non-marketable securities		51,917	59,603		44,297
Beneficiary certificate		-	5,000		-
Debt securities		6	6		5
Investments in other equity securities(*)		11,746	8,523		10,023
	₩	172,174	207,492	$	146,906

(*)The Group provides available for sale financial assets as collateral as of December 31, 2015 (Note 7).

Impairment losses of ₩290,038 thousand and ₩3,898,716 thousand was recognized from available-for-sale financial assets for the years ended December 31, 2015 and 2014.

10. Held-to-Maturity Investments

Held-to-maturity investments as of December 31, 2015 and 2014 are summarized as follows:

(In millions of won and in thousands of US dollars)

		2015	2014		2015
					(Note 4)
Current	₩	71	19	$	61
Non-current		900	954		768
	₩	971	973	$	829

Government and public bonds worth ₩808,875 thousand are pledged as performance guarantee as of December 31, 2015 and 2014 (Note 7).

Held-to-maturity investments are neither overdue nor impaired as of December 31, 2015 and 2014.

December 31, 2015 and 2014

11. Inventories

Inventories as of December 31, 2015 and 2014 are summarized as follows:

(In millions of won and in thousands of US dollars)

		2015	2014		2015
					(Note 4)
Merchandises	₩	20,096	21,490	$	17,147
Finished goods		10,372	8,903		8,850
Raw materials		88,934	74,197		75,882
Supplies		327,641	309,677		279,557
Materials-in-transit		43,604	15,913		37,205
	₩	490,647	430,180	$	418,641

12. Finance Lease Receivables

The Group has provided finance leases on aircrafts. The minimum lease payment and present value of the finance leases as of December 31, 2015 and 2014 are summarized as follows:

(In millions of won and in thousands of US dollars)

		2015	2014		2015
					(Note 4)
Less than one year	₩	10,479	22,879	$	8,941
One year to five years		28,996	82,418		24,740
		39,475	105,297		33,681
Present value discounts		(5,636)	(19,942)		(4,808)
		33,839	85,355		28,873
Less: current portion of finance lease receivables		(7,474)	(13,014)		(6,377)
	₩	26,365	72,341	$	22,496

Finance lease receivables were not impaired as of December 31, 2015 and 2014.

13. Consolidated Subsidiaries

(a) Consolidated subsidiaries as of December 31, 2015 and 2014 are summarized as follows:

			Percentage of ownership	
Company	**Principal Business**	**Location**	**2015**	**2014**
Korean Airport Service Co., Ltd.	Airport support service	Korea	59.54%	59.54%
Hanjin Information Systems & Telecommunication Co., Ltd.	Software development and supply	Korea	99.35%	99.35%
Air Total Service Co., Ltd.	Labor supply	Korea	100.00%	100.00%
Hanjin Energy Co., Ltd.	Business support service	Korea	-	100.00%
Hanjin International Corp.	Hotel and rental service	USA	100.00%	100.00%
Hanjin Central Asia MChJ.	Construction operating	Uzbekistan	100.00%	100.00%
Incheon Aviation Tech Co., Ltd.	Aircraft engine repair service	Korea	90.00%	90.00%
Wangsan Leisure Development Co., Ltd.	Sports and leisure service	Korea	100.00%	100.00%
Korea Global Logistics System Co., Ltd.	Telecommunication service	Korea	95.00%	95.00%
Air Korea Co., Ltd.	Airport support service	Korea	100.00%	100.00%
Hanjin Int'l Japan Co., Ltd.	Airport support service	Japan	50.00%	55.00%
TAS	Seconding personnel service	USA	100.00%	100.00%
Cyber Sky Co., Ltd.	Online sales	Korea	100.00%	-
KAL 4 Asset Securitization Specialty Company(*)	Issuance and repayment of asset-backed securitization (“ABS”) loans	Korea	-	0.50%
KAL 7 Asset Securitization Specialty Company(*)	Issuance and repayment of ABS loans	Korea	0.50%	0.50%
KAL 8 Asset Securitization Specialty Company(*)	Issuance and repayment of ABS loans	Korea	-	0.50%
KAL 9 Asset Securitization Specialty Company(*)	Issuance and repayment of ABS loans	Korea	0.50%	0.50%
KAL 10 Asset Securitization Specialty Company(*)	Issuance and repayment o ABS loans	Korea	0.50%	0.50%
KAL 11 Asset Securitization Specialty Company(*)	Issuance and repayment of ABS loans	Korea	0.50%	0.50%
KAL 11B Asset Securitization Specialty Company(*)	Issuance and repayment of ABS loans	Korea	0.50%	0.50%
KAL 11C Asset Securitization Specialty Company(*)	Issuance and repayment of ABS loans	Korea	0.50%	0.50%
KAL 12 Asset Securitization Specialty Company(*)	Issuance and repayment of ABS loans	Korea	0.50%	0.50%
KAL 13 Asset Securitization Specialty Company(*)	Issuance and repayment of ABS loans	Korea	0.50%	0.50%
KAL 14 Asset Securitization Specialty Company(*)	Issuance and repayment of ABS loans	Korea	0.50%	0.50%
KAL 15 Asset Securitization Specialty Company(*)	Issuance and repayment of ABS loans	Korea	0.50%	0.50%
KAL 16 Asset Securitization Specialty Company(*)	Issuance and repayment of ABS loans	Korea	0.50%	0.50%

(*) The Parent Company classified KAL Asset Securitization Specialty Companies as investments in subsidiaries because the Parent Company controls investees when it is exposed, or has rights, to variable returns from its involvement with the investees and has the ability to affect those returns through its power over the investees.

13. Consolidated Subsidiaries, continued

(b) Financial positions of the Group's major subsidiaries as of December 31, 2015 are summarized as follows:

(In millions of won)

		Korea Airport Service Co., Ltd.	Hanjin Information Systems & Telecommunication Co., Ltd.	Korea Global Logistics System Co., Ltd.	Hanjin International Corp.
Current assets	₩	176,262	68,275	9,233	218,779
Non-current assets		196,173	14,783	83	851,967
	₩	372,435	83,058	9,316	1,070,746
Current liabilities	₩	53,287	16,992	442	46,283
Non-current Liabilities		54,593	3,263	44	730,749
	₩	107,880	20,255	486	777,032
Owners of the Company	₩	264,555	62,803	8,830	293,714
Non-controlling Interests		-	-	-	-
	₩	264,555	62,803	8,830	293,714

(c) Summary of financial performances of the Group's major subsidiaries for the year ended December 31, 2015 are as follows:

(In millions of won)

		Korea Airport Service Co., Ltd.	Hanjin Information Systems & Telecommunication Co., Ltd.	Korea Global Logistics System Co., Ltd.	Hanjin International Corp.
Revenue	₩	429,134	125,611	3,107	6,884
Operating income (loss)		13,951	8,071	1,361	(1,984)
Net income (loss)		7,611	9,563	1,205	(19,174)

13. Consolidated Subsidiaries, Continued

(d) Cash flows of the Group's major subsidiaries for the year ended December 31, 2015 are summarized as follows:

(In millions of won)

		Korea Airport Service Co., Ltd.	Hanjin Information Systems & Telecommuni-cation Co., Ltd.	Korea Global Logistics System Co., Ltd.	Hanjin International Corp.
Cash flows from operating activities	₩	32,766	(1,864)	1,319	34,229
Cash flows from Investing activities		(30,139)	(1,002)	(1,032)	(434,011)
Cash flows from financing activities		(12,150)	(350)	-	282,872
Net changes in cash and cash equivalents		(9,523)	(3,216)	287	(116,910)
Changes in cash and cash equivalents due to foreign currency translation		33	-	-	16,848
Beginning balance		28,439	4,923	736	317,588
Ending balance	₩	18,949	1,707	1,023	217,526

Cash flows, as disclosed above, are based on each company's separate financial statements and include the intercompany transactions prior to elimination.

(e) The ownership ratio of the non-controlling interests, financial position, financial performance and the dividend paid to non-controlling interests of major subsidiaries as of December 31, 2015 are as follows:

(In millions of won)

		Korea Airport Service Co., Ltd.	Hanjin Information Systems & Telecommunication Co., Ltd.	Korea Global Logistics System Co., Ltd.
Ownership ratio(*)		40.46%	0.65%	5.00%
Non-controlling interests	₩	107,714	425	442
Net Income (loss) Attributable to non-controlling interests		3,015	63	60
Dividend paid to non-controlling interests		587	2	-

(*)The ownership ratio of the non-controlling interest represents the shares that do not belong to the Parent Company's owners either directly or indirectly. Therefore, the above ownership ratio may differ from the ownership ratio calculated by simply subtracting the shares directly owned by companies that compose the Group from 100%.

December 31, 2015 and 2014

14. Investments in Associates

(a) Investments in associates as of December 31, 2015 and 2014 are summarized as follows:

(In millions of won and in thousands of US dollars)

	Loca-tion	Percentage of ownership		2015	2014		2015
							(Note 4)
Grandstar Cargo International Airlines Co., Ltd.(*1)	China	-	₩	-	-	$	-
Hanjin Shipping Co., Ltd. (*2)	Korea	33.23%		519,975	467,574		443,664
EIGHTCITY Co., Ltd.(*3)	Korea	23.81%		-	-		-
Czech Airlines j.s.c.(*3)	Czech	44.00%		-	-		-
			₩	519,975	467,574	$	443,664

(*1) Investment in Grandstar Cargo Int'l Airlines Co., Ltd. was fully impaired prior to 2014. The investment was disposed in May 2015.

(*2) Investments in Hanjin Shipping Co., Ltd. are pledged as collateral for Hanjin Int'l Corp's guaranteed loans. (Note 19).

(*3) Investments in EIGHTCITY Co., Ltd. and Czech Airlines j.s.c. were fully impaired prior to 2014.

(b) Fair values of the marketable securities under investments in associates as of December 31, 2015 and 2014 are as follows:

(In millions of won and in thousands of US dollars)

		2015	2014		2015
					(Note 4)
Hanjin Shipping Co., Ltd. (*1)	₩	296,239	490,607	$	252,763

(*1) The Group performed evaluation of the estimated recoverable amount of the investment in Hanjin Shipping Co., Ltd due to existing indication of impairment as of December 31, 2015. However, impairment loss was not recognized because the recoverable amount exceeded the carrying value of the investment.

14. Investments in Associates, continued

(c) Changes in investment in associates for the year ended December 31, 2015 are as follows:

(In millions of won and in thousands of US dollars)

		Balance at Jan.1, 2015	Acquisition	Share of profit	Net change in interests of equity method	Others (*)	Balance at Dec. 31, 2015		Balance at Dec. 31, 2015
									(Note 4)
Hanjin Shipping Co., Ltd.	₩	467,574	-	17,485	35,570	(654)	519,975	$	443,664

(*) Other changes are mainly due to the share exchange of Hanjin Shipping Co., Ltd. and the reversal of negative goodwill arising from exercise of bonds with warrants.

(d) Changes in investment in associates for the year ended December 31, 2014 are as follows:

(In millions of won)

		Balance at Jan. 1, 2014	Acquisi-tion	Disposal	Dividend	Share of profit	Net change in interests of equity method	Others	Balance at Dec. 31, 2014
Hanjin Shipping Co., Ltd.(*1)	₩	-	400,000	(29,635)	-	8,501	20,185	68,523	467,574
Eusu Holdings Co., Ltd. (formerly, Hanjin Shipping Holdings Co., Ltd.)(*1,2)		-	-	(27,989)	-	10,600	5,178	12,211	-
Hanjin- Jungseok Investment		2,566	-	(2,591)	-	25	-	-	-
S-Oil Co., Ltd.(*3)		2,392,410	-	-	(28,146)	24,053	(6,787)	(2,381,530)	-
Czech Airlines j.s.c.(*2)		10,848	-	-	-	(12,542)	(747)	2,441	-
Air Korea Co., Ltd.(*4)		1,672	-	-	(35)	554	-	(2,191)	-
	₩	2,407,496	400,000	(60,215)	(28,181)	31,191	17,829	(2,300,546)	467,574

(*1) Hanjin Shipping Co., Ltd. merged with the shipping holdings segment and the trademark management segment of Eusu Holdings Co., Ltd. (formerly, Hanjin Shipping Holdings Co., Ltd.) that was spun-off during the year ended December 31, 2014. As a result, 8,431,450 shares of Hanjin Shipping Holdings Co., Ltd. were exchanged for 12,174,256 shares of Hanjin Shipping Co., Ltd.

(*2) The Group recognized ₩12,210 million and ₩2,441 million as reversal of impairment loss on the shares of Eusu Holdings Co., Ltd. (formerly, Hanjin Shipping Holdings Co., Ltd.) and Czech Airlines j.s.c. respectively for the period ended December 31, 2014.

(*3) The investment was reclassified to assets held for sale during the year ended December 31, 2014.

(*4) The investment was reclassified from an associate to a subsidiary during the year ended December 31, 2014.

December 31, 2015 and 2014

14. Investments in Associates, continued

(e) Financial information of the Group's associates as of December 31, 2015 and 2014 is as follows:

(In millions of won and in thousands of US dollars)

		2015	2014		2015
					(Note 4)
Hanjin Shipping Co., Ltd.					
Current assets	₩	1,039,650	1,678,773	$	887,074
Non-current assets		6,383,852	6,836,526		5,446,973
	₩	7,423,502	8,515,299	$	6,334,047
Current liabilities	₩	4,071,635	5,058,842	$	3,474,092
Non-current liabilities		2,568,606	2,678,916		2,191,643
	₩	6,640,241	7,737,758	$	5,665,735
Owners of the Parent Company	₩	778,393	726,831	$	664,158
Non-controlling interests		4,868	50,710		4,154
	₩	783,261	777,541	$	668,312
Revenue	₩	7,735,467	8,654,833	$	6,600,228
Operating income		36,934	82,145		31,514
Net loss attributable to owners of the Parent Company		(24,246)	(447,687)		(20,688)
Net income attributable to non-controlling interests		27,288	24,353		23,283

The financial information of the investments in associates summarized above reflects the adjustments for fair value due to acquisition of equity and the adjustments arising from difference in accounting policies with the Group. However, intercompany transactions and goodwill recognized by the Group are not reflected in the above financial information.

14. Investments in Associates, continued

(f) Adjustments from equity of associates to book value of shares owned as of December 31, 2015 and 2014 are as follows:

(In millions of won and in thousands of US dollars)

		2015	2014		2015
					(Note 4)
Hanjin Shipping Co., Ltd.					
Net assets (A)(*1)	₩	622,472	532,301	$	531,119
Ownership ratio (B)(*2)		41.77%	43.22%		41.77%
(A) X (B)		260,014	230,038		221,855
Investment difference		259,961	237,536		221,809
Book value	₩	519,975	467,574	$	443,664

(*1) Hanjin Shipping Co., Ltd.'s hybrid securities were excluded from net assets.

(*2) Hanjin Shipping Co., Ltd.'s treasury stocks were excluded in the calculation of ownership ratio.

15. Interests in Joint Operations

The Group owns a building for joint investment purpose pursuant to a joint arrangement. Under the joint arrangement, the Group has 70% ownership of the building, INHA International Medical Center, which is located at Jung-gu, Incheon, and invested in the building for the purpose of leasing. The Group has the right to rental income and the obligation to incurred expenses in proportion to its ownership interest.

December 31, 2015 and 2014

16. Investment Property

(a) Investment property as of December 31, 2015 and 2014 are summarized as follows:

(In millions of won)

		Acquisition cost	Accumulated depreciation	Book value
December 31, 2015				
Land	₩	63,173	-	63,173
Buildings		32,114	(12,531)	19,583
Construction-in-progress		226,764	-	226,764
	₩	322,051	(12,531)	309,520
December 31, 2014				
Land	₩	60,973	-	60,973
Buildings		31,279	(11,348)	19,931
Construction-in-progress		94,666	-	94,666
	₩	186,918	(11,348)	175,570

(b) Changes in the carrying amount of investment property for the year ended December 31, 2015 are summarized as follows:

(In millions of won and in thousands of US dollars)

		Balance at Jan. 1, 2015	Acqui-sition	Deprecia-tion	Others (*)	Balance at Dec. 31, 2015		Balance at Dec. 31, 2015
								(Note 4)
Land	₩	60,973	-	-	2,200	63,173	$	53,902
Buildings		19,931	-	(850)	502	19,583		16,709
Construction-in-progress		94,666	125,828	-	6,270	226,764		193,485
	₩	175,570	125,828	(850)	8,972	309,520	$	264,096

(*) Other increases or decreases were mainly due to the transfer of property, aircraft and equipment to investment properties, and exchange rate fluctuations.

16. Investment Property, continued

(c) Changes in the carrying amount of investment property for the year ended December 31, 2014 are summarized as follows:

(In millions of won)

		Balance at Jan. 1, 2014	Acquisition	Depreciation	Others(*)	Balance at Dec. 31, 2014
Land	₩	44,407	-	-	16,566	60,973
Buildings		24,157	-	(691)	(3,535)	19,931
Construction-in-progress		-	-	-	94,666	94,666
	₩	68,564	-	(691)	107,697	175,570

(*) Other increases or decreases were mainly due to the transfer of property, aircraft and equipment to investment properties, and exchange rate fluctuations.

(d) Revenue and cost related to investment property for the years ended December 31, 2015 and 2014 are summarized as follows:

(In millions of won and in thousands of US dollars)

		2015	2014		2015 (Note 4)
Rental income	₩	2,119	2,064	$	1,808
Cost (depreciation, etc.)		850	829		725

(e) Fair values of investment properties as of December 31, 2015 are as follows:

(In millions of won)

		Book value	Fair value
Land	₩	63,173	63,200
Buildings		19,583	35,101
	₩	82,756	98,301

As of June 30, 2013, the Group appraised land by an independent and professional appraiser, Hana Appraisal & Consulting Co., Ltd.

(f) Fair value measurements of investment properties by fair value hierarchy levels as of December 31, 2015 are as follows:

(In millions of won and in thousands of US dollars)

		Level 1	Level 2	Level 3	Total		Total (Note 4)
Land	₩	-	63,200	-	63,200	$	53,926
Buildings		-	35,101	-	35,101		29,949
	₩	-	98,301	-	98,301	$	83,875

17. Property, Aircraft and Equipment

(a) Property, aircraft and equipment as of December 31, 2015 and 2014 are summarized as follows:

(In millions of won)

		Acquisition cost	Accumulated depreciation	Accumulated impairment	Book value
December 31, 2015					
Land(*)	₩	1,957,074	-	-	1,957,074
Leased land(*)		21,460	-	-	21,460
Buildings		837,432	(318,154)	-	519,278
Structures		166,285	(88,290)	-	77,995
Machinery		361,095	(272,138)	-	88,957
Aircraft		6,232,727	(4,036,440)	(9,300)	2,186,987
Engines		1,975,212	(1,153,325)	-	821,887
Leased aircraft		10,075,357	(2,267,858)	-	7,807,499
Leased engines		2,824,991	(863,621)	-	1,961,370
Aircraft parts		251,100	(131,847)	-	119,253
Others		520,774	(394,150)	-	126,624
Construction-in-progress		2,162,319	-	-	2,162,319
	₩	27,385,826	(9,525,823)	(9,300)	17,850,703
December 31, 2014					
Land(*)	₩	1,955,231	-	-	1,955,231
Leased land(*)		21,460	-	-	21,460
Buildings		790,751	(297,737)	-	493,014
Structures		165,984	(83,763)	-	82,221
Machinery		348,295	(257,428)	-	90,867
Aircraft		6,614,869	(4,313,487)	-	2,301,382
Engines		2,071,034	(1,222,542)	-	848,492
Leased aircraft		8,817,585	(2,181,010)	-	6,636,575
Leased engines		2,371,227	(791,659)	-	1,579,568
Aircraft parts		233,871	(125,329)	-	108,542
Others		508,744	(382,752)	-	125,992
Construction-in-progress		1,534,730	-	-	1,534,730
	₩	25,433,781	(9,655,707)	-	15,778,074

(*) Acquisition cost as of December 31, 2015 includes the increase of ₩370,378 million from land revaluation before 2014.

December 31, 2015 and 2014

17. Property, Aircraft and Equipment, continued

(b) Changes in the carrying amount of property, aircraft and equipment for the year ended December 31, 2015 are as follows:

(In millions of won and in thousands of US dollars)

	Balance at Jan. 1, 2015	Acquisi-tion	Disposal	Deprecia-tion	Others (*)	Changes in scope of consolida-tion	Balance at Dec. 31, 2015	Balance at Dec. 31, 2015
								(Note 4)
Land	₩ 1,955,231	31	(48)	-	1,860	-	1,957,074	$ 1,669,858
Leased land	21,460	-	-	-	-	-	21,460	18,311
Buildings	493,014	4,177	(4)	(21,104)	43,195	-	519,278	443,070
Structures	82,221	78	-	(4,645)	341	-	77,995	66,548
Machinery	90,867	4,013	(17)	(15,844)	9,938	-	88,957	75,902
Aircraft	2,301,382	67,156	(283,783)	(326,153)	428,385	-	2,186,987	1,866,030
Engines	848,492	5,357	(188,132)	(251,009)	407,179	-	821,887	701,269
Leased aircraft	6,636,575	219,124	-	(610,458)	1,562,258	-	7,807,499	6,661,689
Leased engines	1,579,568	134,209	-	(335,216)	582,809	-	1,961,370	1,673,524
Aircraft parts	108,542	29,819	(770)	(12,376)	(5,962)	-	119,253	101,751
Others	125,992	31,836	(204)	(33,291)	2,285	6	126,624	108,041
Construction-in-progress	1,534,730	3,711,456	-	-	(3,083,867)	-	2,162,319	1,844,981
	₩ 15,778,074	4,207,256	(472,958)	(1,610,096)	(51,579)	6	17,850,703	$ 15,230,974

(*) Other changes were mainly due to the transfer of construction-in-progress to property, aircraft and equipment, reclassification of aircraft and engines to assets held for sale, reclassification of real property to investment property, occurrence of contribution-in-kind, and foreign currency effects on overseas property. (Note 49)

17. Property, Aircraft and Equipment, continued

(c) Changes in the carrying amount of property, aircraft and equipment for the year ended December 31, 2014 are as follows:

(In millions of won)

		Balance at Jan. 1, 2014	Acquisition	Disposal	Depreciation	Others (*)	Balance at Dec. 31, 2014
Land	₩	1,965,606	-	(70)	-	(10,305)	1,955,231
Leased land		21,460	-	-	-	-	21,460
Buildings		514,236	-	-	(20,376)	(846)	493,014
Structures		85,935	20	(11)	(4,670)	947	82,221
Machinery		98,578	8,257	(2,365)	(15,898)	2,295	90,867
Aircraft		1,992,461	30,227	(240,821)	(317,573)	837,088	2,301,382
Engines		991,934	9,108	(356,015)	(253,554)	457,019	848,492
Leased aircraft		6,753,921	128,737	(11,733)	(581,092)	346,742	6,636,575
Leased engines		1,502,652	219,207	(9,531)	(318,444)	185,684	1,579,568
Aircraft parts		105,426	20,946	(10)	(12,141)	(5,679)	108,542
Others		117,350	32,287	(4,839)	(33,562)	14,756	125,992
Construction-in-progress		1,354,330	2,127,443	-	-	(1,947,043)	1,534,730
	₩	15,503,889	2,576,232	(625,395)	(1,557,310)	(119,342)	15,778,074

(*) Other changes were mainly due to the transfer of construction-in-progress to property, aircraft and equipment, intangible assets and investment properties.

(d) The Group capitalized borrowing costs of ₩34,163 million as construction-in-progress for the year ended December 31, 2015. The weighted average capitalization rates for specific loans and general loans are 4.18% and 4.17% respectively. In addition, the subsidiaries used interest rates of 3M LIBOR + 1.80%~3.30% and 4.14%~5.20% on borrowings specifically for the purpose of obtaining qualifying assets for the year ended December 31, 2015.

(e) The Group accounts for land and leased land using the revaluation model. As of June 30, 2013, the Group revaluated land through an independent and professional appraiser, Hana Appraisal & Consulting Co., Ltd. Land was revaluated based on land-basis method, which uses price of land nearby and similar of utility value, and further applies the effect of land price change rate from the date of public land value announcement, producer price index, location, shape, environment, usage, and other factors. The book value of land using revaluation model and cost model as of December 31, 2015 are as follows:

(In millions of won and in thousands of US dollars)

		Revaluation model	Cost model		Revaluation model	Cost model
					(Note 4)	
Land	₩	1,957,074	1,594,771	$	1,669,858	1,360,726
Leased land		21,460	13,385		18,311	11,421
	₩	1,978,534	1,608,156	$	1,688,169	1,372,147

December 31, 2015 and 2014

17. Property, Aircraft and Equipment, Continued

The Group recognized revaluation surplus of ₩422,781 million (before income tax), which is credited to equity as other comprehensive income and recognized accumulated revaluation loss of ₩52,403 million as of December 31, 2015.

(f) Fair value measurements of land and leased land by fair value hierarchy levels as of December 31, 2015 are as follows:

(In millions of won and in thousands of US dollars)

		Level 1	Level 2	Level 3	Total		Total
							(Note 4)
Land	₩	-	1,957,074	-	1,957,074	$	1,669,858
Leased land		-	21,460	-	21,460		18,311
	₩	-	1,978,534	-	1,978,534	$	1,688,169

18. Intangible Assets

(a) Intangible assets as of December 31, 2015 and 2014 are summarized as follows:

(In millions of won)

		Acquisition cost	Accumulated amortization	Book value
December 31, 2015				
Goodwill	₩	4,320	-	4,320
Facility usage rights		228,894	(134,436)	94,458
Development costs		136,109	(68,768)	67,341
Other intangible assets		180,509	(51,884)	128,625
	₩	549,832	(255,088)	294,744
December 31, 2014				
Goodwill	₩	4,890	-	4,890
Facility usage rights		228,895	(124,395)	104,500
Development costs		131,777	(47,388)	84,389
Other intangible assets		181,411	(43,962)	137,449
	₩	546,973	(215,745)	331,228

18. Intangible Assets, continued

(b) Changes in the carrying amount of intangible assets for the year ended December 31, 2015 are as follows:

(In millions of won and in thousands of US dollars)

		Balance at Jan. 1, 2015	Acquisition	Disposal	Amortization	Others (*)	Changes in scope of consolidation	Balance at Dec. 31, 2015		Balance at Dec. 31, 2015 (Note 4)
Goodwill	₩	4,890	-	-	-	(570)	-	4,320	$	3,686
Facility usage rights		104,500	-	-	(10,042)	-	-	94,458		80,596
Development costs		84,389	-	-	(21,380)	4,332	-	67,341		57,458
Other intangible assets		137,449	32	(425)	(8,557)	122	4	128,625		109,748
	₩	331,228	32	(425)	(39,979)	3,884	4	294,744	$	251,488

(*) Other increases or decreases were mainly due to the transfers from construction-in-progress.

(c) Changes in the carrying amount of intangible assets for the year ended December 31, 2014 are as follows:

(In millions of won)

		Balance at Jan. 1, 2014	Acquisition	Disposal	Amortization	Others (*)	Balance at Dec. 31, 2014
Goodwill	₩	2,302	-	-	-	2,588	4,890
Facility usage rights		114,574	-	-	(10,074)	-	104,500
Development costs		87,545	-	-	(16,637)	13,481	84,389
Other intangible assets		144,801	1	(100)	(8,313)	1,060	137,449
	₩	349,222	1	(100)	(35,024)	17,129	331,228

(*) Other increases or decreases were mainly due to the transfers from construction-in progress.

19. Pledged Assets (Non-financial Assets)

Pledged assets provided as collateral and guarantees as of December 31, 2015 are summarized as follows:

(In millions of won, except share data)

Pledged assets		Book value	Collateralized amount (*4) /shares	Provided to	In relation to
Land and buildings(*1)	₩	1,880,233	1,875,954	Korea Development Bank and others	Short-term, long-term borrowings and borrowings of Hanjin International Corp., etc.
Aircraft and engines(*2)		2,645,422	3,619,460		
Machinery		15,567	12,930		
Facility usage rights		72,244	212,774		
Investment in associates - Hanjin Shipping Co., Ltd		519,974	81,496,169 shares	The Export-Import Bank of Korea and others	Long-term borrowings and borrowings of Hanjin International Corp., etc.
Hanjin International Corp.'s shares(*3)		-	54,140,000 shares	Industrial Bank of Korea and others	Borrowings of Hanjin International Corp., etc.

(*1) The land and buildings provided as collateral consist of property and investment property.

(*2) The aircrafts and engines provided as collateral are composed of tangible assets and assets held for sale.

(*3) Investment in associates (Hanjin Int'l Corp.) provided as collateral are part of the Group, and therefore carry no book value on the financial statements.

(*4) The collateralized amounts of the pledged assets provided as collateral and guarantees in foreign currency are translated into Korean won at the exchange rate on December 31, 2015.

In addition, the Group has provided leased aircraft, engines and land as collateral to the lessors for finance lease obligations. The Group has also provided property such as land, buildings, machinery, and mining rights worth of ₩24,460 million as collateral for borrowings of ₩4,518 million from Korea Resources Corporation (Note 24).

December 31, 2015 and 2014

20. Other Financial Assets

Other financial assets as of December 31, 2015 and 2014 are summarized as follows:

(In millions of won and in thousands of US dollars)

		2015	2014		2015
					(Note 4)
Guarantee deposits	₩	330,675	256,024	$	282,146

The Group provided JPY 7,722,972 thousand, $20,833 thousand and HKD 44,158 thousand as guarantee deposits for ABS loans (Note 24). Other financial assets are not impaired or overdue as of December 31, 2015 and 2014.

21. Other Assets

Other assets as of December 31, 2015 and 2014 are summarized as follows:

(In millions of won and in thousands of US dollars)

		2015	2014		2015
					(Note 4)
Other current assets:					
Advanced payments(*)	₩	384,609	347,522	$	328,165
Prepaid expenses		157,581	123,331		134,454
Others		8,086	5,009		6,900
		550,276	475,862	$	469,519
Other non-current assets:					
Advanced payments(*)		58	75	$	49
Prepaid expenses		327,336	344,620		279,298
Others		3,161	3,162		2,697
		330,555	347,857	$	282,044
	₩	880,831	823,719	$	751,563

(*) The Group provided ₩104,531 million, JPY 1,527,309 thousand, $13,244 thousand and HKD 22,134 thousand as advanced payments for ABS loans (Note 24).

22. Trade and Other Payables

Trade and other payables as of December 31, 2015 and 2014 are summarized as follows:

(In millions of won and in thousands of US dollars)

		2015	2014		2015 (Note 4)
Current trade and other payables:					
Trade payables	₩	123,749	121,696	$	105,588
Non-trade payables		233,180	192,022		198,959
Accrued expenses		512,174	384,451		437,009
Dividends payable		984	77		839
	₩	870,087	698,246	$	742,395
Non-current trade and other payables:					
Non-trade payables	₩	28,803	110,147	$	24,576
Accrued expenses		12,300	16,130		10,495
	₩	41,103	126,277	$	35,071

23. Short-term Borrowings

Short-term borrowings as of December 31, 2015 and 2014 are summarized as follows:

(In millions of won and in thousands of US dollars)

	Annual interest rate		2015	2014		2015 (Note 4)
Korea Development Bank	-	₩	-	130,000	$	-
Hana Bank and others	3M CD + 1.50%		30,000	1,066,211		25,597
NongHyup Bank	3M CD + 1.70%, 3.1%		220,000	170,000		187,714
Hongkong and Shanghai Banking Cor.	3M CD + 1.00%		20,000	-		17,065
Shinhan Bank	2.84%		7,000	5,000		5,973
Woori Bank	3M LIBOR + 2.33%		58,600	54,960		50,000
Hana Bank (formerly Korea Exchange Bank)	3M LIBOR + 2.80%		35,160	-		30,000
Hana Bank	3M LIBOR + 1.90%~2.50%		90,991	66,558		77,637
Kookmin Bank	3M LIBOR + 1.95%~3.60%		136,297	61,555		116,294
NongHyup Bank	3M LIBOR + 1.98%		56,073	25,282		47,844
Korea Development Bank	3M LIBOR + 1.85%		57,641	-		49,182
Shinhan Bank	1.64%		40,476	-		34,536
Korea Development Bank - Singapore	3M LIBOR + 2.10%		58,600	54,960		50,000
Bank of China	3M LIBOR + 2.80%		58,600	-		50,000
		₩	869,438	1,634,526	$	741,842

December 31, 2015 and 2014

24. Long-term Debt

(a) Debentures

Debentures issued and outstanding as of December 31, 2015 and 2014 are summarized as follows:

(In millions of won and in thousands of US dollars)

Series	Issue date	Maturity	Annual interest rate		2015	2014		2015 (Note 4)
38-2nd	10.02.04	15.02.04	-	₩	-	200,000	$	-
43-2nd	11.08.08	16.08.08	5.03%		297,471	300,000		253,815
44-1st	12.02.08	15.02.08	-		-	200,000		-
44-2nd	12.02.08	16.02.08	4.52%		150,000	150,000		127,986
44-3rd	12.02.08	15.02.08	-		-	92,014		-
45th	12.02.27	15.02.27	-		-	92,014		-
46-1st	12.07.19	15.07.19	-		-	150,000		-
46-2nd	12.07.19	17.07.19	3.98%		250,000	250,000		213,311
47-2nd	12.10.08	19.10.18	4.16%		250,000	250,000		213,311
49-3rd	12.12.13	19.12.13	4.36%		170,000	170,000		145,051
50th(*1)	13.02.25	16.02.25	6M JPY LIBOR + 1.55%		82,621	78,212		70,496
51th	13.02.26	16.02.26	6M JPY LIBOR + 2.35%		97,201	92,014		82,936
52th	13.03.11	15.09.11	-		-	92,014		-
53th	13.03.13	15.12.21	-		-	78,212		-
54th(*2)	13.03.19	16.03.19	3M LIBOR + 1.35%		117,200	109,920		100,000
55th	14.06.30	16.06.30	3M LIBOR + 2.90%		117,200	109,920		100,000
56-1st	14.09.16	16.03.16	3.90%		100,000	100,000		85,324
56-2nd	14.09.16	16.09.16	4.10%		100,000	100,000		85,324
57-1st	14.11.20	16.05.20	3.90%		80,000	80,000		68,259
57-2nd	14.11.20	16.11.20	4.10%		70,000	70,000		59,727
58th(*3)	15.02.27	18.02.27	3M JPY LIBOR + 2.00%		97,201	-		82,936
59th(*4)	15.08.31	18.08.31	4.75%		200,000	-		170,648
Arirang bond	12.11.02	17.11.02	3M LIBOR + 2.76%		246,174	230,882		210,046
Kexim(*5)	14.10.30	17.10.30	3M LIBOR + 0.88%		351,600	329,760		300,000
					2,776,668	3,324,962		2,369,170
Present value discounts					(4,798)	(5,600)		(4,093)
					2,771,870	3,319,362		2,365,077
Less: current portion of debentures, net of present value discounts					(2,078,869)	(903,873)		(1,773,779)
				₩	693,001	2,415,489	$	591,298

(*1) Kookmin Bank has provided payment guarantee of up to JPY 8,969,623 thousand for the 50th guaranteed debentures.

(*2) Shinhan Bank has provided payment guarantee of up to $100,000 thousand for the 54th guaranteed debenture.

(*3) Kookmin Bank has provided payment guarantee of up to JPY 10,639 million for 58th guaranteed debentures.

December 31, 2015 and 2014

24. Long-term Debt, continued

(*4) The book value of the debentures were reclassified to current liability during the year ended December 31, 2015 because the Group exceeded the required debt ratio of 1,000% per the debentures contract terms. (As of December 31, 2015, the Group has debt ratio below 1,000% in compliance with the contract requirement.)

(*5) The Export-Import Bank of Korea provides up to $300,000 thousand as payment guarantee associated with the debenture.

(b) Long-term borrowings

Long-term borrowings as of December 31, 2015 and 2014 are summarized as follows:

(In millions of won and in thousands of US dollars)

	Annual interest rate		2015	2014		2015 (Note 4)
Korea Development Bank	Fiscal Financing Special Account Rate + 0.75%	₩	600	2,800	$	512
	-		-	130,000		-
	4.04~4.59%		87,600	88,700		74,744
Industrial Bank of Korea	4.35%		3,200	3,600		2,730
Kookmin Bank	2.50%		8,442	10,517		7,203
Korea Resources Corporation	-		12	37		10
	2.60%~3.10%		4,507	7,616		3,845
NongHyup Bank	-		-	4,167		-
Hana Bank	-		-	4,580		-
Tongyang Life Insurance Co., Ltd.	-		-	34,000		-
Standard Chartered Bank Korea Limited	-		-	34,000		-
Korea Development Bank	3M LIBOR + 0.57%~3.05%		813,617	632,996		694,213
	3M JPY LIBOR + 2.00%		72,901	133,420		62,202
The Export-Import Bank of Korea	3M LIBOR + 1.35%~2.51%		200,263	668,774		170,873
NongHyup Bank	3M LIBOR + 0.60%~3.25%		9,962	30,584		8,500
Hana Bank	3M LIBOR + 0.60%~2.75%		109,854	212,496		93,732
Woori Bank	1.50%		148,223	48,984		126,470
National Federation of Fisheries Cooperatives	3M LIBOR + 2.85%		58,600	54,960		50,000
Hana Bank (formerly Korea Exchange Bank)	3M LIBOR + 2.90%		26,370	70,139		22,500
Bank of Communications	3M LIBOR + 2.70%		245,502	325,914		209,473
KDB Capital	3M LIBOR + 4.00%		5,977	-		5,100
DVB BANK	3M LIBOR + 2.20%~2.40%		175,214	239,259		149,500
Industrial Bank of Korea and others	3M LIBOR + 3.30%		117,200	-		100,000
			2,088,044	2,737,543		1,781,607
Less: current portion of long-term borrowings			(992,554)	(1,135,093)		(846,889)
		₩	1,095,490	1,602,450	$	934,718

24. Long-term Debt, continued

(c) Asset-backed securitization loans

The Group's asset-backed securitization ("ABS") loans are obtained from various special purpose entities, and entails the sales of rights to receive certain amount of cash flows from the future receivables of the Group to several financial institutions. Details of the ABS loans as of December 31, 2015 and 2014 are summarized as follows:

(In millions of won and in thousands of US dollars)

Series	Maturity	Annual interest rate		2015	2014		2015
							(Note 4)
KAL-7th ABS	16.11.08	4.75%	₩	110,000	230,000	$	93,857
KAL-9th ABS	18.04.25	3.15%		300,000	420,000		255,973
KAL-10th ABS	16.11.28	0.84%		123,717	243,727		105,561
KAL-11th ABS	19.02.14	5.11%		350,000	470,000		298,636
KAL-12th ABS	19.05.07	4.74%		105,000	136,000		89,590
KAL-13th ABS	17.07.20	0.69%		63,375	97,903		54,074
KAL-14th ABS	18.08.27	1M HIBOR + 3.50%		99,799	113,360		85,152
KAL-15th ABS	17.11.20	1M LIBOR + 0.65%		269,560	384,720		230,000
KAL-16th ABS	20.01.28	3.98%		600,000	-		511,945
				2,021,451	2,095,710		1,724,788
Less current portion of ABS loans				(840,385)	(707,263)		(717,052)
			₩	1,181,066	1,388,447	$	1,007,736

In association with above ABS loans, the Group provides guarantee deposit of JPY 7,722,972 thousand, $20,833 thousand and HKD 44,158 thousand. The Group also provides advanced payments of ₩104,531 million, JPY 1,527,309 thousand, $13,244 thousand and HKD 22,134 thousand. (Note 20, 21)

24. Long-term Debt, continued

(d) The Group has agreed to assume certain guaranteed liabilities of Hanjin Shipping Co., Ltd., with Korea Exchange Bank and other financial institutions ("Guaranteed loans"), pursuant to the Government Guidelines for the Rationalization of the Marine Industry. The guaranteed loans accrue no interest and are payable in equal installments over 20 years. In accordance with the repayment schedule, the Group made its first installment payment in 2003 and the final installment will be due in 2017. Guaranteed loans as of December 31, 2015 and 2014 are summarized as follows:

(In millions of won and in thousands of US dollars)

		2015	2014		2015
					(Note 4)
Korea Development Bank	₩	7,845	11,770	$	6,694
Woori Bank		5,156	7,725		4,399
Triumph II Investments (Ireland) Limited		323	489		275
Hanshin Mutual Savings & Finance Co., Ltd.		395	593		337
Kookmin Bank		288	436		246
Shinhan Bank		1,030	1,608		879
Daegu Bank		971	1,456		829
Hana Bank (formerly, Korea Exchange Bank)		12,777	19,168		10,902
Tongyang Life Insurance Co., Ltd.		1,755	2,827		1,497
Lotte Insurance Co., Ltd.		262	399		224
		30,802	46,471		26,282
Present value discounts		(3,414)	(6,979)		(2,913)
		27,388	39,492		23,369
Less: current portion of liabilities		(15,414)	(15,669)		(13,152)
Present value discounts, current portion		1,056	1,073		901
	₩	13,030	24,896	$	11,118

476,436 shares of Hanjin Shipping Co., Ltd. and ₩ 5,522 million of long-term financial assets were provided as collateral for the guaranteed loans to Hana Bank (formerly, Korea Exchange Bank) as of December 31, 2015 (Note 7, 19).

25. Finance Lease Obligations

(a) Finance lease obligations as of December 31, 2015 and 2014 are summarized as follows:

(In millions of won and in thousands of US dollars)

	Annual interest rate	2015	2014	2015 (Note 4)
Arirang Ltd.	5.55%	₩ 36,147	46,567	$ 30,842
AWMS (Celtic) Ltd.	3.88%	29,178	35,562	24,896
Begin Again Ltd.	3M LIBOR + 2.40%	40,238	-	34,333
Boeing Capital Leasing Ltd.	4.43%	17,846	37,768	15,227
Boeing Training Service Korea LLC	7.75%	12,171	12,171	10,385
Castle 2003-2 Ireland Ltd.	3.26%	8,627	10,481	7,361
CIT Aerospace International	3.68%~3.69%	66,633	69,180	56,854
Constitution Aircraft Leasing (Ireland) 4 Ltd.	3.53%	38,434	42,780	32,794
DOOLEY Aviation Ltd.	3M LIBOR + 2.22%	127,258	142,635	108,582
ECA-2014B Ltd.	3M EURIBOR + 0.32%, 3M LIBOR + 2.85%	230,052	260,868	196,290
ECA-2014C Ltd.	3M LIBOR + 0.90%	140,232	144,421	119,652
ECA-2015A Ltd.	3M EURIBOR + 0.31%, 3M LIBOR + 2.85%~3.00%	282,001	-	240,615
ECA-2015B Ltd.	3M JPY LIBOR + 0.30%, 3M LIBOR + 3.00%	147,400	-	125,768
Export Leasing (2015) LLC	3M LIBOR + 0.52%	179,768	-	153,386
EXPORT LEASING(2015-B)	3M LIBOR + 0.77%	222,608	-	189,939
EXPORT LEASING (2015-A) LLC	3M LIBOR + 0.75%~0.76%	432,966	-	369,425
EXPORT LEASING (2015-B) LLC	3M LIBOR + 0.76%	217,394	-	185,490
EXPORT LEASING(2015-C)	3M LIBOR + 0.78%	224,132	-	191,239
Fly Aircraft Holdings Four Ltd.	5.73%	1,535	5,602	1,310
GECAS Technical Services Ltd.	3.78%~4.30%	81,068	91,740	69,171
GKL Aircraft Ireland One Ltd.	9.57%	14,044	15,774	11,983
Hanmaum / Aeguk	3M LIBOR + 1.95%	108,973	120,912	92,980
Ji Yoo Aviation Ltd.	3M LIBOR + 3.25%~3.50%	180,131	173,124	153,695
Jin An Ireland Company Ltd.	3M LIBOR + 2.70%	38,096	39,921	32,505
KALECA03 Aviation	3M JPY LIBOR + 0.15%	-	7,848	-
KALECA10 Aviation Ltd.	3M LIBOR + 0.59%	112,848	120,985	96,287
KALECA11 Aviation Ltd.	3M LIBOR + 0.96%~1.04%	667,751	722,849	569,753
KALECA11-2 Aviation Ltd.	3M LIBOR + 0.97%	170,118	182,951	145,152
KALECA12 Aviation Ltd.	3M JPY LIBOR + 0.71%, 3M LIBOR + 2.80%	162,580	176,448	138,720
KALECA13 Aviation Ltd.	3M EURIBOR + 0.63%, 3M LIBOR + 2.55%	207,031	238,989	176,647
KALEDC (2011) Ltd.	3M LIBOR + 1.12%	28,481	31,137	24,301
KE 2013B 739-A	3M LIBOR + 2.70%	38,726	40,575	33,043
KE Atomos Ltd.	3M LIBOR + 1.50%	-	30,228	-

25. Finance Lease Obligations, continued

(a) Finance lease obligations as of December 31, 2015 and 2014 are summarized as follows, continued:

(In millions of won and in thousands of US dollars)

	Annual interest rate		2015	2014		2015 (Note 4)
KE Augustus Ltd.	4.55%	₩	25,782	36,924	$	21,999
KE Cayman Leasing (2012) Ltd.	3M JPY LIBOR + 2.90%		-	41,986		-
KE Export Leasing (2003) Ltd.	4.55%		4,065	50,672		3,469
KE Export Leasing (2009) Ltd.	3M LIBOR + 1.25%		170,387	186,426		145,381
KE Export Leasing (2010) Ltd.	3M LIBOR + 0.30%		296,700	325,301		253,157
KE Export Leasing (2011) Ltd.	3M LIBOR + 0.40%~0.43%		351,695	376,600		300,081
KE Export Leasing (2011-II) Ltd.	3M LIBOR + 0.48%~0.52%		251,054	267,117		214,210
KE Export Leasing (2012) Ltd.	3M LIBOR + 1.30%~1.31%		391,359	416,238		333,924
KE Export Leasing (2013-A)	3M LIBOR + 0.39%		143,332	149,038		122,297
KE Export Leasing (2013-B)	3M LIBOR + 0.38%		149,431	155,383		127,501
KE Export Leasing (2013-C)	3M LIBOR + 0.68%		160,598	166,455		137,029
KE Export Leasing (2013-D) LLC	3M LIBOR + 0.38%~0.68%		342,464	350,796		292,204
KE Export Leasing 2005-A	5.35%		26,572	38,149		22,672
KE Export Leasing 2005-B	4.99%~5.10%		75,699	102,471		64,590
KE Export Leasing 2014 LLC	3M LIBOR + 0.67%~1.08%		483,903	494,941		412,886
KE Jumbos V Ltd.	5.38%		38,204	49,009		32,598
KE Octavius Ltd.	4.76%		57,311	78,586		48,900
KE WINNER Leasing, Ltd.	3M LIBOR + 2.86%		86,189	91,050		73,540
KE WITH leasing Ltd.	3M LIBOR + 2.60%		63,579	66,910		54,248
KE2013 B777	3M LIBOR + 2.64%		143,130	155,451		122,125
KEXPORT LEASING 2015	3M LIBOR + 1.23%~1.24%		380,323	-		324,507
KOSMO / SKYTEAM 2010 Ltd.	3M LIBOR + 2.20%		18,752	26,381		16,000
Kosmo Suites / Yun Aviation Limited	3M LIBOR + 1.95%		187,520	-		160,000
KUBAEK	3M LIBOR + 2.20%		68,668	77,069		58,590
Yian Limited	3M LIBOR + 2.14%		208,650	-		178,029
			8,389,834	6,504,469		7,158,562
Less: current portion of finance lease obligations, net of present value discounts			(1,234,471)	(957,218)		(1,053,303)
		₩	7,155,363	5,547,251	$	6,105,259

The Export-Import Bank of the United States and others have provided payment guarantees of $5,134 million for the above finance lease obligations as of December 31, 2015. Meanwhile, the Group has provided a payment guarantee of $148 million to Bank of China, the beneficiary of the financial lease obligations due to Yian Limited, as of December 31, 2015.

25. Finance Lease Obligations, continued

(b) Minimum lease payments and present values of long-term finance lease obligations as of December 31, 2015 are summarized as follows:

(In millions of won and in thousands of US dollars)

		2015		2015 (Note 4)
Less than one year	₩	1,358,049	$	1,158,745
One year to five years		4,309,481		3,677,032
More than five years		3,182,421		2,715,376
		8,849,951		7,551,153
Present value discounts		(460,117)		(392,591)
	₩	8,389,834	$	7,158,562

26. Employee Benefits

(a) Details of defined benefit plan liabilities as of December 31, 2015 and 2014 are summarized as follows:

(In millions of won and in thousands of US dollars)

		2015	2014		2015 (Note 4)
Present value of defined benefit obligations	₩	1,367,582	1,188,148	$	1,166,878
Fair value of plan assets		(339,901)	(337,077)		(290,017)
	₩	1,027,681	851,071	$	876,861

(b) Changes in the carrying amount of the defined benefit obligations for the years ended December 31, 2015 and 2014 are summarized as follows:

(In millions of won and in thousands of US dollars)

		2015	2014		2015 (Note 4)
Beginning balance	₩	1,188,148	1,210,888	$	1,013,778
Current service costs		138,829	122,970		118,455
Interest expense		34,827	45,594		29,716
Re-measurement of the net defined benefit obligations		95,772	(121,784)		81,716
Benefits paid by the plan		(90,961)	(76,085)		(77,612)
Retirement benefits paid		-	-		-
Succession of defined benefit obligations		517	397		441
Others		-	6,168		-
Changes in scope of consolidation		450	-		384
Ending balance	₩	1,367,582	1,188,148	$	1,166,878

(c) Changes in the carrying amount of the plan assets for the years ended December 31, 2015 and 2014 are summarized as follows:

(In millions of won and in thousands of US dollars)

		2015	2014		2015 (Note 4)
Beginning balance	₩	337,077	330,958	$	287,608
Interest income		7,963	12,333		6,795
Re-measurement of the net defined benefit obligations		(1,853)	(4,362)		(1,581)
Benefits paid by the plan		(26,259)	(21,146)		(22,406)
Retirement benefits paid		22,673	15,045		19,346
Others		-	4,249		-
Changes in scope of consolidation		300	-		256
Ending balance	₩	339,901	337,077	$	290,018

26. Employee Benefits, continued

(d) The principal assumption used for actuarial valuation as of December 31, 2015 and 2014 is as follows:

	2015	2014
Discount rate (%)	2.18 ~ 2.50	2.54 ~ 2.99
Future salary growth (%)	1.80 ~ 9.91	1.60 ~ 4.84

(e) The fair values of plan assets as of December 31, 2015 and 2014 are as follows:

(In millions of won and in thousands of US dollars)

		2015	2014		2015 (Note 4)
Bank deposits and others	₩	175,679	155,122	$	149,897
Equity instruments		51,589	54,893		44,018
Debt instruments		73,910	86,053		63,063
others		38,723	41,009		33,040
	₩	339,901	337,077	$	290,018

Policy and investment strategy about plan assets pursue the balance between reducing risk and creating profit. Fundamentally, it is accomplished by diversified investment, partially matching strategy of assets and liabilities, and hedging strategy to minimize flexibility of assets related to liabilities. The Group extensively diversifies investment to broadly based assets to reduce overall flexibility of assets related to liabilities (risk adjustment), and achieve a target profit. It is similar to bonds and partially responds to a long maturity pension liability to allocation of assets for earning static profit.

The actual return of plan assets for the years ended December 31, 2015 and 2014 are ₩6,110 million ($5,214thousand) and ₩7,971 million, respectively.

(f) The sensitivity analyses below have been determined based on reasonably possible changes of the respective assumptions occurring as of December 31, 2015 and 2014, while holding all other assumptions constant.

(In millions of won)

		2015		2014	
		Increase	Decrease	Increase	Decrease
Discount rate (1% movement)	₩	(112,683)	131,256	(88,640)	117,081
Future salary growth (1% movement)		130,777	(114,368)	118,599	(91,728)

Since there is correlation among actuarial assumptions, changes of assumptions will not occur in isolation and above sensitivity analyses will not show the actual change of defined benefit obligations. Also, in the above sensitivity analyses, present value of defined benefit obligations are measured by using the projected unit credit method that is applied to measure the amount of defined benefit obligations in the consolidated statements of financial position

27. Provision

(a) Provisions as of December 31, 2015 and 2014 are summarized as follows:

(In millions of won and in thousands of US dollars)

		2015	2014		2015 (Note 4)
Current portion of provisions					
Provision for construction loss (*1)	₩	15,479	-	$	13,208
Liabilities of greenhouse gas emissions (*2)		1,316	-		1,122
		16,795	-		14,330
Non-current portion of provisions					
Provision for leased aircraft maintenance (*3)		135,124	108,913		115,293
Provision for passenger flight ticket coupon (*4)		27,521	27,522		23,482
Provision for construction warranties (*5)		2,038	-		1,740
Others(*6)		6,504	6,015		5,549
		171,187	142,450		146,064
	₩	187,982	142,450	$	160,394

(*1) The Parent Company includes expected future construction loss of Aerospace segment as provision for construction loss (Note 48).

(*2) The Group has recognized provisions for Greenhouse gases emission cost by measuring the expected quantity of emission for the performing period in excess of emission allowance in possession at the end of the reporting period.

(*3) The Group has maintenance obligations related to the operating leases. In order to fulfill the obligations, the Group has recognized a provision for leased aircraft maintenance by estimating future maintenance costs since it is probable that an outflow of resources embodying economic benefits will be required to settle the obligations (Note 45).

(*4) The Group has recognized $26,000 thousand as a provision for passenger flight tickets coupons agreed to be distributed to the plaintiff in relation to the United States court class action on airline ticket price collusion of flights to Americas (Note 47).

(*5) The Group has recognized provisions for the maintenance expenses expected to incur from Aerospace segment's sales.

(*6) The Group has recognized ₩6,460 million as a provision for the restoration of forest due to the production of limestone, and is provided with performance guarantees by Seoul Guarantee Insurance Company (Note 47).

27. Provision, continued

(b) Changes in the carrying amount of the provision for leased aircraft maintenance for the years ended December 31, 2015 and 2014 are as follows:

(In millions of won and in thousands of US dollars)

		2015	2014		2015
					(Note 4)
Beginning balance	₩	108,913	107,666	$	92,930
Charged to profit or loss		27,980	22,772		23,873
Utilization		(1,769)	(21,525)		(1,510)
Ending balance	₩	135,124	108,913	$	115,293

(c) Changes in the carrying amount of the other provision for the years ended December 31, 2015 and 2014 are as follows:

(In millions of won and in thousands of US dollars)

		2015	2014		2015
					(Note 4)
Beginning balance	₩	6,015	5,499	$	5,133
Charged to profit or loss		535	533		456
Reversal of provisions		(90)	-		(77)
Utilization		-	(17)		-
Changes in scope of consolidation		44	-		37
Ending balance	₩	6,504	6,015	$	5,549

28. Deferred Revenue

The Group manages "SKYPASS", a customer loyalty program, which provides incentives to frequent flyers through accrued mileage such as bonus flight tickets, seat class upgrades, and other benefits to customers of the Group and Group's alliance companies. The Group allocates fair value of the consideration received from sales to award credits and service revenue. The award credit portion of sales price is measured at the fair value, but is not recognized as revenue until obligations are performed. The Group's deferred income associated with the SKYPASS system in the consolidated statement of financial position as of December 31, 2015 amounts ₩1,746,085 million, including ₩44,304 million of advance receipts from customers and ₩1,701,781 million of deferred revenue.

29. Derivative Instruments and Hedge Accounting

(a) As of December 31, 2015, the Group entered into a variety of derivative agreements with Korea Development Bank and 9 other financial institutions to manage its exposure to interest risk, oil price risk, and exchange risks. Derivatives as of December 31, 2015 are summarized as follows:

Type of transactions	Accounting policy	Maturity	Contract amount
Oil price option	Trading	2016.12.31	BBL 4,700 thousand
Interest rate swaps	Trading	2016.09.01	KRW 15,000 million
Cross-currency interest rate swaps	Trading	2023.06.12	JPY 25,917,175 thousand
	Trading	2017.11.02	KRW 230,000 million
TRS(*)	Trading	2018.01.18	KRW 157,100 million

(*)As of December 31, 2015, the Group has entered into a TRS (Total return swap) agreement for the price differences of Hanjin shipping Co., Ltd.'s 30 years permanent exchangeable bond arising within the term of the agreement. The value of the agreement is calculated by discounting the difference between the settlement basis price and the value of the exchangeable bond to present value.

(b) Impact on the consolidated financial statements in relation to derivatives as of and for the year ended December 31, 2015 is summarized as follows:

(In millions of won)

		Consolidated statement of financial position			Consolidated statement of income (loss)			
Derivative instruments		Financial derivative assets	Financial derivative liabilities	Other capital components	Valuation gain	Valuation loss	Transaction gain	Transaction loss
Oil price option	₩	-	35,476	-	-	35,476	11,619	72,989
Interest rate swaps		-	252	-	-	62	9	21
Cross-currency interest rate swaps		-	22,464	-	-	21,621	84	193
TRS		-	11,589	-	-	14,945	297	-
	₩	-	69,781	-	-	72,104	12,009	73,203

(Note 4)
(in thousands of US dollars)

		Consolidated statement of financial position			Consolidated statement of income (loss)			
Derivative instruments		Financial derivative assets	Financial derivative liabilities	Other capital components	Valuation gain	Valuation loss	Transaction gain	Transaction loss
Oil price option	$	-	30,270	-	-	30,270	9,915	62,277
Interest rate swaps		-	215	-	-	53	8	18
Cross-currency interest rate swaps		-	19,167	-	-	18,448	71	165
TRS		-	9,888	-	-	12,751	253	-
	$	-	59,540	-	-	61,522	10,247	62,460

December 31, 2015 and 2014

30. Other Liabilities

Other liabilities as of December 31, 2015 and 2014 are summarized as follows:

(In millions of won and in thousands of US dollars)

		2015	2014		2015 (Note 4)
Other current liabilities:					
Advances	₩	919,132	845,581	$	784,243
Withholdings		111,564	85,327		95,191
Unearned revenues		367,624	99,713		313,672
Others		1,026	-		875
		1,399,346	1,030,621		1,193,981
Other non-current liabilities:					
Long-term withholdings		53,357	37,079		45,527
Others		6,834	892		5,831
		60,191	37,971		51,358
	₩	1,459,537	1,068,592	$	1,245,339

31. Capital Stock

(a) As of December 31, 2015, the number of shares authorized to issue, the number of shares issued, and the share par value of the Parent Company are 250,000,000 shares, 73,950,538 shares (including 1,110,794 shares of preferred shares) and ₩5,000, respectively.

(b) Changes in the number of shares issued for the years ended December 31, 2015 and 2014 are summarized as follows:

(The number of shares)

	2015		2014	
	Common share	**Preferred share(*)**	**Common share**	**Preferred share(*)**
Beginning balance	58,675,438	1,110,794	58,675,438	1,110,794
Issuance of common shares	14,164,306	-	-	-
Ending balance	72,839,744	1,110,794	58,675,438	1,110,794

(*) In case the Parent Company is not able to pay the agreed additional dividends (dividend rate for common share + 1%) on preferred share, the preferred shareholders are given voting right from the date of the general shareholders' meeting which approves the suspension of dividends to preferred share, to the date of the general shareholders' meeting which approves the resumption of the dividends to preferred share.

32. Other Capital Surplus

(a) Other capital surplus as of December 31, 2015 and 2014 are summarized as follows:

(In millions of won and in thousands of US dollars)

		2015	2014		2015 (Note 4)
Additional paid-in capital	₩	602,855	174,907	$	514,381
Other capital		214,928	(122,345)		183,386
	₩	817,783	52,562	$	697,767

(b) Changes in additional paid-in capital for the years ended December 31, 2015 and 2014 are summarized as follows:

(In millions of won and in thousands of US dollars)

		2015	2014		2015 (Note 4)
Beginning balance	₩	174,907	174,907	$	149,238
Issuance of common shares (*)		423,381	-		361,246
Others		4,567	-		3,897
Ending balance	₩	602,855	174,907	$	514,381

(*) 14,164,306 common shares were issued for the year ended December 31, 2015.

(c) Changes in other capital for the years ended December 31, 2015 and 2014 are summarized as follows:

(In millions of won and in thousands of US dollars)

		2015	2014		2015 (Note 4)
Beginning balance	₩	(122,345)	(122,208)	$	(104,390)
Decrease due to issuance of common shares		-	(137)		-
Issuance of hybrid securities		341,551	-		291,426
Others		(4,278)	-		(3,650)
Ending balance	₩	214,928	(122,345)	$	183,386

32. Other Capital Surplus, continued

(d) Hybrid securities as of December 31, 2015 and 2014 are summarized as follows:

(In millions of won and in thousands of US dollars)

	Date of issue	Maturity	Interest rate		2015	2014		2015
								(Note 4)
Unsecured bearer debenture (*1)	2013.06.28	2043.06.28	6.40%	₩	208,860	208,860	$	178,208
Registered guaranteed debenture (*2)	2015.11.25	2045.11.25	2.50%		341,551	-		291,426
				₩	550,411	208,860	$	469,634

(*1) The interest rate is 6.40% for five years after issuance, and the increased interest rate (6.40% + 3.50% + (benchmark yield after five years from the date of issue -3.32%)) is applied after the five years.

The Parent Company can exercise the right of early repayment every year after five years of the hybrid securities' issuance. If notice of willingness to extend maturity is given one month prior to the maturity date, maturity can be extended for 30 years under the same condition. In addition, the Parent Company can choose not to pay the interest on hybrid securities based on the decision to extend maturity. However, the Parent Company cannot suspend payment of the interest if the decision on stock dividend, purchase and redemption of stocks, and profit retirement occurred in the last 12 months.

(*2) The interest rate is 2.5% for three years after issuance, and 4.0% from three to five years after issuance. After the five years, the increased interest rate (6.5% + 3.0%) is applied.

The Parent Company can exercise the right of early repayment every six months after three years of the securities' issuance. If notice of willingness to extend maturity is given one month prior to the maturity date, maturity can be extended for 30 years under the same condition. In addition, the Parent Company can choose not to pay the interest on securities based on the decision to extend maturity. However, the Parent Company cannot suspend payment of the interest if the decision on stock dividend, purchase and redemption of stocks, and profit retirement occurred in the last 12 months.

33. Other Capital Components

(a) Other capital components as of December 31, 2015 and 2014 are summarized as follows:

(In millions of won and in thousands of US dollars)

		2015	2014		2015
					(Note 4)
Gain on valuation of available-for-sale financial assets, net	₩	46,383	75,230	$	39,576
Change in capital adjustments - equity method accounted investments		42,229	28,848		36,032
Gain on valuation of derivatives, net		-	1,658		-
Cumulative effects of foreign currency translation		2,888	(8,555)		2,464
Revaluation surplus		313,811	314,166		267,757
	₩	405,311	411,347	$	345,829

(b) Changes in other capital components for the years ended December 31, 2015 and 2014 are summarized as follows:

(In millions of won and in thousands of US dollars)

		2015	2014		2015
					(Note 4)
Beginning balance	₩	411,347	328,164	$	350,979
Gain (loss) on valuation of available-for-sale financial assets, net		(28,847)	(2,757)		(24,613)
Change in capital adjustments - equity method accounted investments		13,381	18,862		11,417
Gain (loss) on valuation of derivatives, net		(1,658)	2,098		(1,415)
Cumulative effects of foreign currency translation		11,442	3,619		9,763
Revaluation surplus		(354)	(3)		(302)
Assets held for sale		-	61,364		-
Ending balance	₩	405,311	411,347	$	345,829

34. Retained Earnings

(a) Details of retained earnings as of December 31, 2015 and 2014 are summarized as follows:

(In millions of won and in thousands of US dollars)

		2015	2014		2015
					(Note 4)
Legal reserve(*)	₩	3,452	3,452	$	2,945
Voluntary reserve		200,000	200,000		170,648
Unappropriated retained earnings		590,813	1,186,016		504,107
	₩	794,265	1,389,468	$	677,700

(*) The Korean Commercial Code requires the Parent Company to appropriate as legal reserve an amount equal to at least 10% of cash dividends for each accounting period until the reserve equals 50% of stated capital. The legal reserve may be used to reduce a deficit or may be transferred to common shares in connection with a free issue of new shares.

(b) Changes in unappropriated retained earnings for the years ended December 31, 2015 and 2014 are summarized as follows:

(In millions of won and in thousands of US dollars)

		2015	2014		2015
					(Note 4)
Beginning balance	₩	1,389,468	1,967,197	$	1,185,553
Loss for the period		(564,977)	(635,358)		(482,062)
Other comprehensive income (loss)		(72,765)	74,933		(62,087)
Dividend attributable to hybrid securities		(14,347)	(13,476)		(12,242)
Liquidation of Subsidiary		51,636	-		44,058
Change of retained earnings of associates and subsidiaries		-	(4,161)		-
Others		5,250	333		4,480
Ending balance	₩	794,265	1,389,468	$	677,700

(c) There was no dividend payment (except for the dividend attributable to hybrid securities) for the years ended December 31, 2015 and 2014.

December 31, 2015 and 2014

35. Revenue

Revenue from the Group's continuing operations for the years ended December 31, 2015 and 2014 are summarized as follows:

(In millions of won and in thousands of US dollars)

		2015	2014		2015
					(Note 4)
Air transport revenue	₩	10,358,259	10,813,188	$	8,838,106
Other revenue		1,186,572	1,096,560		1,012,433
	₩	11,544,831	11,909,748	$	9,850,539

36. Selling, General and Administrative Expenses

Details of selling, general and administrative expenses for the years ended December 31, 2015 and 2014 are summarized as follows:

(In millions of won and in thousands of US dollars)

		2015	2014		2015
					(Note 4)
Salary	₩	289,195	269,893	$	246,755
Retirement benefit costs		31,735	30,394		27,078
Depreciation		11,195	10,676		9,552
amortization		25,584	20,651		21,829
Rental		18,967	18,289		16,183
Sales commission		298,034	304,172		254,295
Advertising		105,245	105,910		89,799
Welfare		63,313	56,318		54,021
Training		8,499	7,020		7,252
Communications		24,124	40,783		20,584
Taxes & dues		21,414	17,985		18,272
Facility maintenance		8,915	7,362		7,607
Service fees		160,717	156,039		137,130
Others		77,409	79,377		66,048
	₩	1,144,346	1,124,869	$	976,405

December 31, 2015 and 2014

37. Finance Income and Costs

Finance income and costs for the years ended December 31, 2015 and 2014 are summarized as follows:

(In millions of won and in thousands of US dollars)

		2015	2014		2015 (Note 4)
Finance income:					
Interest income	₩	39,999	40,394	$	34,129
Dividend income		4,263	2,441		3,637
Gains on valuation of financial derivatives		-	5,736		-
Gains on transactions of financial derivatives		12,009	4,161		10,247
		56,271	52,732		48,013
Finance costs:					
Interest expense	₩	370,661	412,362	$	316,263
Losses on valuation of financial derivatives		72,103	208,679		61,522
Losses on transactions of financial derivatives		73,203	12,083		62,460
		515,967	633,124		440,245
Net finance costs	₩	(459,696)	(580,392)	$	(392,232)

38. Other Non-operating Income and Expenses

Other non-operating income and expenses for the years ended December 31, 2015 and 2014 are summarized as follows:

(In millions of won and in thousands of US dollars)

		2015	2014		2015 (Note 4)
Other non-operating income:					
Gain on foreign currency transactions	₩	247,385	217,420	$	211,079
Gain on foreign currency translation		112,940	168,772		96,365
Reversal of allowance for other doubtful accounts		3	603		2
Gain on disposal of available-for-sale financial assets		1,704	264		1,454
Gain on disposal of investments in associates		22	88,559		19
Reversal of impairment loss occurred in investments in associates		-	14,652		-
Gain on disposal of property, aircraft and equipment		5,070	3,571		4,326
Gain on disposal of intangible assets		13	-		11
Miscellaneous gain		13,533	43,076		11,548
Reversal of allowance for negative goodwill		5,244	-		4,474
		385,914	536,917		329,278
Other non-operating expenses:					
Other bad debt expenses		42,703	324		36,436
Loss on foreign currency transactions		365,642	249,853		311,981
Loss on foreign currency translation		607,521	402,323		518,362
Loss on disposal of available-for-sale financial assets		-	7,884		-
Impairment loss occurred in available-for-sale financial assets		290	3,899		247
Loss on disposal of subsidiaries		-	4,188		-
Loss on disposal of property, aircraft and equipment		173,009	112,840		147,618
Loss on disposal of assets held for sale		5,234	-		4,466
Impairment loss on property, aircraft and equipment		72,364	-		61,744
Loss on disposal of intangible assets		124	23		106
Impairment loss occurred in intangible assets		-	78		-
Donations		22,138	17,291		18,889
Miscellaneous loss		24,129	1,990		20,590
		1,313,154	800,693		1,120,439
Net other non-operating income (expenses)	₩	(927,240)	(263,776)	$	(791,161)

December 31, 2015 and 2014

39. Income Tax Expense

(a) The components of the income tax expense (benefit) for the years ended December 31, 2015 and 2014 are summarized as follows:

(In millions of won and in thousands of US dollars)

		2015	2014		2015
					(Note 4)
Current income tax expense	₩	9,697	34,862	$	8,274
Changes in temporary difference		(39,692)	(87,391)		(33,867)
Changes in deferred taxes related to tax loss carryforward		(80,973)	(64,828)		(69,090)
Items recorded directly in equity		25,474	(39,496)		21,736
Income tax benefit	₩	(85,494)	(156,853)	$	(72,947)

(b) The income tax expense (benefit) calculated by applying statutory tax rates to the Group's profit (loss) before income taxes differs from the actual tax expense (benefit) in the consolidated statements of comprehensive income (loss) for the years ended December 31, 2015 and 2014 for the following reasons:

(In millions of won and in thousands of US dollars)

		2015	2014		2015
					(Note 4)
Loss before income taxes	₩	(486,363)	(441,694)	$	(414,986)
Income tax benefit computed at statutory rate(*1)		(117,700)	(106,890)		(100,426)
Adjustments:					
Non-deductible expense		(19,576)	(15,744)		(16,703)
Additional payment tax credits		17,299	(18,634)		14,760
Others		34,483	(15,585)		29,422
Income tax benefit	₩	(85,494)	(156,853)	$	(72,947)
Effective tax rate(*2)		-	-		-

(*1) The statutory rates used to calculate income tax expense for the years ended December 31, 2015 and 2014 are the tax rates of Republic of Korea (24.2%) in which the Group operates in.

(*2) Effective tax rate has not been determined, because income tax expense is negative.

December 31, 2015 and 2014

40. Classification of Expenses by Nature

Details of expenses by nature for the years ended December 31, 2015 and 2014 are summarized as follows:

(In millions of won and in thousands of US dollars)

		2015	2014		2015
					(Note 4)
Employee benefits	₩	1,768,158	1,636,372	$	1,508,667
Welfare		322,881	270,604		275,496
Depreciation and amortization		1,650,925	1,593,026		1,408,639
Rent		229,363	195,663		195,703
Fuel & oil charges(*)		2,667,106	4,018,839		2,275,687
Airport related costs		1,024,198	985,635		873,889
Sales commission		298,034	304,172		254,295
Others		2,701,078	2,510,102		2,304,675
	₩	10,661,743	11,514,413	$	9,097,051

(*) 10% increase (decrease) of fuel & oil prices would have decreased (increased) operating income by ₩266,711 million and ₩401,884 million for the years ended December 31, 2015 and 2014, respectively (excluding the effect of operating income caused by fuel surcharge). Fluctuation of fuel & oil prices has significant impact on operating results and cash flows of the Group.

These expenses are the sum of cost of sales and selling, general and administrative expenses.

41. Loss per Share

(a) Basic loss per share attributable to common shares for the years ended December 31, 2015 and 2014 are summarized as follows:

(In millions of won and in thousands of US dollars, except share data and earnings (loss) per share)

		2015	2014		2015
					(Note 4)
Loss attributable to owners of the Parent Company	₩	(564,977)	(635,359)	$	(482,062)
Continuing operation		(405,115)	(311,808)		(345,661)
Discontinued operation		(159,862)	(323,551)		(136,401)
Loss attributable to common shares		(556,238)	(623,663)		(474,606)
Continuing operation		(398,825)	(306,069)		(340,295)
Discontinued operation		(157,413)	(317,594)		(134,311)
Weighted average number of common shares		69,812,851	58,675,438		69,812,851
Basic loss per share in won and US dollars	₩	(7,968)	(10,629)	$	(6.80)
Continuing operation		(5,713)	(5,216)		(4.87)
Discontinued operation		(2,255)	(5,413)		(1.93)

41. Loss per Share, Continued

The contents of weighted-average common shares for the years ended December 31, 2015 and 2014 are as follows:

(Number of shares)

	2015	2014
Cumulative number of weighted-average common shares	25,481,690,692	21,416,534,870
Number of days	365 days	365 days
Weighted-average number of common shares outstanding	69,812,851	58,675,438

As the Group does not have any outstanding potentially dilutive common shares, there is no effect from dilution and thus the basic loss per share and the diluted loss per share is equal.

(b) Basic loss per share attributable to preferred shares for the years ended December 31, 2015 and 2014 are summarized as follows:

(In millions of won and in thousands of US dollars, except share data and earnings (loss) per share)

		2015	2014		2015
					(Note 4)
Loss attributable to owners of the Parent Company	₩	(8,739)	(11,696)	$	(7,457)
Continuing operation		(6,290)	(5,739)		(5,367)
Discontinued operation		(2,449)	(5,957)		(2,090)
Weighted-average number of preferred shares outstanding		1,110,794	1,110,794		1,110,794
Basic loss per share in won and US dollars	₩	(7,868)	(10,529)	$	(6.71)
Continuing operation		(5,663)	(5,166)		(4.83)
Discontinued operation		(2,205)	(5,363)		(1.88)

42. Financial Instruments

(a) Capital risk management:

The Group manages its capital in order to maintain the ability to continuously provide profits to its shareholders and interest parties and optimum capital structure to reduce capital expenses. In order to maintain such optimum, the Group adjusts dividend payments, redeems paid-in capital to shareholders and issues stocks to reduce liabilities or sell assets. Like other entities in the field in which the Group operates in, the Group manages its capital based on the ratio of net debt to total equity. Net debt refers to total borrowings (including obligation under finance leases as presented in the separate statement of financial position) less cash and cash equivalents and short-term financial assets, and total equity refers to capital presented in the statement of financial position, plus net debt.

The Group's net debt to total equity ratio as of December 31, 2015 and 2014 is as follows:

(In millions of won and in thousands of US dollars)

		2015	2014		2015
					(Note 4)
Total borrowings	₩	16,168,026	16,331,101	$	13,795,244
Less: cash and cash equivalents and short-term financial instruments		1,079,469	855,622		921,049
Net debt		15,088,557	15,475,479		12,874,195
Capital		2,499,035	2,201,158		2,132,283
Total equity	₩	17,587,592	17,676,637		15,006,478
Net debt to total equity ratio		85.79%	87.55%		85.79%

(b) Significant accounting policies and methods (recognition criteria, measurement standards, including recognition criteria for revenue and expenses) adopted by the Group regarding financial assets, financial liabilities and shareholders' equity are disclosed in detail in Note 2 and 3.

42. Financial Instruments, continued

(c) The carrying amounts on category of the financial assets as of December 31, 2015 and 2014 are as follows:

(In millions of won and in thousands of US dollars)

		Loans and receivables	Held-to-maturity financial assets	Available-for-sale financial assets	Total		Total (Note 4)
December 31, 2015							
Cash and cash equivalents	₩	967,482	-	-	967,482	$	825,496
Short and long-term financial instruments		227,243	-	-	227,243		193,893
Held-to-maturity financial assets		-	971	-	971		829
Available-for-sale financial assets		-	-	172,173	172,173		146,906
Trade and other receivables		951,464	-	-	951,464		811,829
Finance lease receivables		33,839	-	-	33,839		28,873
Other financial assets		330,675	-	-	330,675		282,146
	₩	2,510,703	971	172,173	2,683,847	$	2,289,972

(In millions of won)

		Loans and receivables	Financial assets at fair value through profit or loss	Held-to-maturity financial assets	Available-for-sale financial assets	Total
December 31, 2014						
Cash and cash equivalents	₩	796,604	-	-	-	796,604
Short and long-term financial instruments		119,108	-	-	-	119,108
Held-to-maturity financial assets		-	-	973	-	973
Available-for-sale financial assets		-	-	-	207,492	207,492
Trade and other receivables		1,012,552	-	-	-	1,012,552
Financial derivative assets		-	5,446	-	-	5,446
Finance lease receivables		85,355	-	-	-	85,355
Other financial assets		256,024	-	-	-	256,024
	₩	2,269,643	5446	973	207,492	2,483,554

42. Financial Instruments, continued

(d) The carrying amounts on category of the financial liabilities as of December 31, 2015 and 2014 are as follows:

(In millions of won and in thousands of US dollars)

		Financial liabilities at fair value through profit or loss	Financial liabilities recognized at amortized cost	Total		Total
						(Note 4)
December 31, 2015						
Trade and other payables	₩	-	898,891	898,891	$	766,972
Borrowings		-	5,006,321	5,006,321		4,271,605
Debentures		-	2,771,870	2,771,870		2,365,077
Financial derivative liabilities		69,781	-	69,781		59,540
Finance lease obligations		-	8,389,834	8,389,834		7,158,562
	₩	69,781	17,066,916	17,136,697	$	14,621,756

(In millions of won)

		Financial liabilities at fair value through profit or loss	Financial liabilities recognized at amortized cost	Total
December 31, 2014				
Trade and other payables	₩	-	808,393	808,393
Borrowings		-	6,507,271	6,507,271
Debentures		-	3,319,362	3,319,362
Financial derivative liabilities		205,681	-	205,681
Finance lease obligations		-	6,504,468	6,504,468
	₩	205,681	17,139,494	17,345,175

42. Financial Instruments, continued

(e) Income or loss by category of financial assets for the years ended December 31, 2015 and 2014 are as follows:

(In millions of won and in thousands of US dollars)

		Loans and receivables	Financial asset at fair value through profit or loss	Held-to-maturity financial assets	Available-for-sale financial assets	Total	Total (Note 4)
December 31, 2015							
Interest income	₩	42,577	-	53	161	42,791	$ 36,511
Dividend income		-	-	-	4,263	4,263	3,637
Reversal of allowance for doubtful accounts		3	-	-	-	3	2
Gain on foreign currency translation		34,437	-	-	-	34,437	29,384
Gain on valuation of available-for-sale financial assets		-	-	-	(28,621)	(28,621)	(24,421)
Impairment loss on available-for-sale financial assets		-	-	-	(290)	(290)	(247)
Loss on disposal of available-for-sale financial assets		-	-	-	1,704	1,704	1,454
	₩	77,017	-	53	(22,783)	54,287	$ 46,320

(In millions of won)

		Loans and receivables	Financial asset at fair value through profit or loss	Held-to-maturity financial assets	Available-for-sale financial assets	Total
December 31, 2014						
Interest income	₩	39,317	836	63	178	40,394
Dividend income		-	-	-	2,441	2,441
Bad debt expenses		(214)	-	-	-	(214)
Loss on foreign currency translation		(372,989)	-	-	-	(372,989)
Gain on valuation of financial derivatives		-	5,736	-	-	5,736
Loss on valuation of available-for-sale financial assets		-	-	-	(2,513)	(2,513)
Loss on disposal of available-for-sale financial assets		-	-	-	(7,620)	(7,620)
Impairment loss on available-for-sale financial assets		-	-	-	(3,899)	(3,899)
	₩	(333,886)	6,572	63	(11,413)	(338,664)

December 31, 2015 and 2014

42. Financial Instruments, continued

(f) Income or loss by category of financial liabilities for the years ended December 31, 2015 and 2014 are as follows:

(In millions of won and in thousands of US dollars

		Financial liabilities at fair value through profit or loss	Financial liabilities recognized at amortized cost	Total		Total (Note 4)
December 31, 2015						
Interest expense	₩	-	(372,441)	(372,441)	$	(317,782)
Loss on foreign currency translation		(743)	(533,869)	(534,612)		(456,154)
Loss on valuation of financial derivatives		(72,103)	-	(72,103)		(61,522)
Loss on transactions of financial derivatives		(61,194)	-	(61,194)		(52,213)
	₩	(134,040)	(906,310)	(1,040,350)	$	(887,671)

(In millions of won)

		Financial liability at fair value through profit or loss	Financial liabilities recognized at amortized cost	Total
December 31, 2014				
Interest expense	₩	(2,300)	(458,426)	(460,726)
Gain on foreign currency translation		54	139,385	139,439
Loss on valuation of financial derivatives		(208,679)	-	(208,679)
Loss on transactions of financial derivatives		(7,922)	-	(7,922)
	₩	(218,847)	(319,041)	(537,888)

42. Financial Instruments, continued

(g) Financial risk management

1) Financial risk
The financial sector manages the Group's business and organizes the approach to the domestic and international financial markets. Furthermore, it monitors and manages the financial risk related to the Group's business through internal risk reports, which analyze the scope and scale of each risk. These risks include the market risk (including currency risk, interest rate risk, including oil price fluctuation risk and price risk), credit risk, liquidity risk and cash flow interest rate risk.

The Group tries to minimize the impact of these risks by using derivative instruments for risk aversion. Use of derivatives is determined on the basis of the policy of the Group approved by the Board of Directors, but, by this, documented principles about foreign exchange risk, interest rate risk, credit risk, use of non-derivative financial instruments and derivative financial instruments, and the investment of excess liquidity is provided. Internal auditor reviews the compliance with the policy and limitations of risk consistently. The Group does not make and transact the financial instrument contract, including derivatives, for speculative purposes.
Finance sector is reporting on a quarterly basis to the Risk Management Committee, an independent organization to monitor the risk and policy in order to reduce the degree of risk.

2) Market risk
The Group is mainly exposed to financial risks, such as foreign exchange rate risk, interest rate risk and oil price risk. Therefore, the Group made a contract for derivative instruments.

a) Foreign exchange risk management

The Group is exposed to various foreign currency risks since it makes transactions in foreign currencies. By using the currency option contracts, the Group manages the degree of risk exposure due to the changes in exchange rates within the limit decided in the policy that has been approved.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities as of December 31, 2015 and 2014 are as follows:

(In millions of won and in thousands of US dollars)

		2015	2014		2015
					(Note 4)
Assets denominated in foreign currency:					
USD	₩	968,342	741,076	$	826,230
JPY		155,163	108,254		132,392
Others		266,216	259,095		227,147
	₩	1,389,721	1,108,425	$	1,185,769
Liabilities denominated in foreign currency:					
USD	₩	10,811,335	9,623,776	$	9,224,689
JPY		809,684	1,202,373		690,857
Others		768,818	585,491		655,988
	₩	12,389,837	11,411,640	$	10,571,534

42. Financial Instruments, continued

a-1) Foreign currency sensitivity analysis

The Group is mainly exposed to the risk on USD, JPY, and other currencies (EUR, CNY, and others). The Group's sensitivity to a 10% increase or decrease and in KRW (functional currency of the Parent Company) against the foreign currencies as of December 31, 2015 and 2014 is presented in the table below. The sensitivity rate used in reporting foreign currency risk internally to key management personnel is 10% and it represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period-end for a 10% change in foreign currency rates. A positive number below indicates an increase in income (loss) before income tax expense and other equity where the KRW is strengthening 10% against the relevant currency. For a 10% weakness of KRW against the relevant currency, there would be an equal and opposite impact on the income (loss) before income tax expense and other equity.

(In millions of won and in thousands of US dollars)

	Currency		2015	2014		2015 (Note 4)
Profit (loss) before income tax(*)	USD	₩	984,299	888,270	$	839,846
	JPY		65,452	109,412		55,846
	Others		50,260	32,640		42,884

(*) Increase (decrease) is mainly due to exchange rate fluctuations of USD, JPY currency receivables and payables as of December 31, 2015 and 2014

b) Interest risk management

The Group has borrowed funds in fixed and floating interest rate; therefore, the Group is exposed to interest rate risk. In order to manage interest rate risk, the Group maintains the proper balance between floating rate borrowings and fixed-rate borrowings, or the Group has entered into interest rate swap contracts. In order to appropriately adjust to situation of interest and the defined tendency of risk, the risk aversion activity is evaluated periodically, and optimal hedging strategy is applied. The exposure degree of interest rate risk for financial assets and liabilities is described in more detail in the footnotes of liquidity risk management.

b-1) Interest sensitivity analysis
The sensitivity analyses above have been determined based on the exposure to interest rates for both derivatives and non-derivative instruments at the end of the reporting period. For floating rate financial assets and liabilities, the analysis is prepared assuming the amount of the financial assets and liabilities outstanding at the end of the reporting period was outstanding for whole year. A 50 basis point (bp) increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

The Group's sensitivity to a 50 bp change in interest rates on net income when all other variables are fixed, as of December 31, 2015 and 2014 is as follows:

- The Group' s net loss will decrease (increase) to ₩ 53,637 million ($45,765 thousand) (prior year ₩ 47,069 million), and it is mainly due to the interest rate risk of floating rate borrowings.

42. Financial Instruments, continued

b-2) Interest rate swap contracts
On the basis of the interest rate swap agreement, the Group will exchange the balance that is calculated by applying the difference between fixed-rate and floating rate interest of the nominal principal that is determined in advance. These contracts will reduce the risk of changes in fair value of the fixed-rate liabilities and cash flows of floating rate liabilities with the Group attributable to changes in interest rates. The fair value of the interest rate swap is determined by discounting the future cash flows estimated using the credit risk that is inherent in the contract with the yield curve as of December 31, 2015 and it is disclosed in the following table. The average interest rate is determined based on the outstanding balance as of December 31, 2015.
The interest rate swaps outstanding as of December 31, 2015 and 2014 are as follows:

(In millions of won and in thousands of Yen)

	Average contracted fixed rate		Contract amount	Fair value
December 31, 2015				
For trading				
Within one year	3.90%	₩	15,000	(252)
1~2 years	3M LIBOR + 2.76%		230,000	(15,763)
More than two years	2.70%		JPY 25,917,175	(6,704)
December 31, 2014				
For trading				
1~2 years	3.90%	₩	15,000	(476)
More than two years	3M LIBOR + 2.76%		230,000	(290)

c) Risk of changes in oil prices
Market prices of oil products, such as jet fuel, have fluctuated greatly due to various factors that affect to determine the supply and demand of crude oil in the world market. These factors will affect the cash flow and performance of air transportation business, which is the largest business segment of the Group.
The effects of 10% change in oil price on income (loss) for the years ended December 31, 2015 and 2014 are as follows:

(In millions of won)

		2015		2014	
		10% Up	10% Down	10% Up	10% Down
Income or loss	₩	(266,711)	266,711	(401,884)	401,884

d) Other price risk
The Group is exposed to price risk arising from equity instruments. The Group held equity instruments for a strategic purpose and not for trading, and have not actively traded the investment assets.

42. Financial Instruments, continued

d-1) Stock price sensitivity analysis
The following sensitivity analysis is based on the current stock price fluctuation risk as of December 31, 2015.

The effect of 5% fall in stock price is as follows:

- The Group's other comprehensive income will increase (decrease) to ₩ 5,425 million ($4,629 thousand) (prior year ₩ 6,705 million increase and ₩ 6,700 million decrease), and it is due to the change of the fair value of AFS financial assets.

3) Credit risk management
The credit risk refers to risk of financial losses to the Group when the counterpart defaults on the obligations of the contract. As a means to reduce the economic losses due to default, the Group trades with the customers whose credit ratings are above a certain level, and the Group has adopted a policy to receive adequate collateral.

The Group has traded only with companies that received a credit rating that is applicable to investment grade and above. This credit information is provided by independent credit-rating agencies. If the Group is not able to use information that credit rating agency provided, the Group uses the another financial information and trading performance, which officially announces for the purpose of the Group to determine the credit rating of major customers. The Group has reviewed the exposure of credit risk and credit rating of customers consistently, and transaction amounts are distributed to the approved customers. Credit risk is controlled by the approved transaction limits that are reviewed annually by the Risk Management Committee.

The trade receivables consist of many suppliers and distribute in various regions. The credit evaluation about the trade receivables has been carried out consistently.

The maximum amount of exposure to credit risk as of December 31, 2015 and 2014 is as follows:

(In millions of won and in thousands of US dollars)

		2015		2015
				(Note 4)
Financial guarantee contract	₩	207,469	$	177,021

4) Liquidity risk management
The board of directors to formulate the basic policy for financing the Group's short-term and long-term funds and managing liquidity management regulations has ultimate responsibility for liquidity risk management. The Group manages liquidity risk by maintaining the sufficient reserves and borrowing limit, observing the predicted and actual cash flows, and matching the maturity structure of financial assets and financial liabilities.

42. Financial Instruments, continued

a) Details related to liquidity and interest rate risk
The following table shows the contractual maturity of the Group's non-derivative financial liabilities. The table is formed based on the earliest maturity date on which the Group has to pay on the basis of the cash flows of the financial liabilities that are not discounted, and the cash flows include both the principal and interest. If the interest cash flows are based on a floating interest rate, cash flows that are not discounted have been derived based on the yield curve at the end of the reporting period. The maturity analysis is based on the earliest maturity date on which the Group can be required to pay.

(In millions of won and in thousands of US dollars)

	Within 1 year	1 ~ 5 years	Over 5 years	Total	Total (Note 4)
December 31, 2015					
Trade and other payables	₩ 870,087	28,804	-	898,891	$ 766,972
Obligation under finance leases	1,358,049	4,309,481	3,182,421	8,849,951	7,551,152
Borrowings	2,875,950	2,140,511	318,859	5,335,320	4,552,321
Debentures	2,169,569	726,491	-	2,896,060	2,471,041
	₩ 7,273,655	7,205,287	3,501,280	17,980,222	$ 15,341,486

(In millions of won)

	Within 1 year	1 ~ 5 years	Over 5 years	Total
December 31, 2014				
Trade and other payables	₩ 692,099	116,294	-	808,393
Obligation under finance leases	1,063,083	3,327,933	2,502,326	6,893,342
Borrowings	3,678,646	2,863,968	313,154	6,855,768
Debentures	1,030,061	2,610,482	-	3,640,543
	₩ 6,463,889	8,918,677	2,815,480	18,198,046

December 31, 2015 and 2014

42. Financial Instruments, Continued

The following table shows the expected maturity of the Group's non-derivative financial assets, and the table is formed based on the contractual maturity amount of the financial assets that are not discounted. In order to understand the liquidity risk management of the Group, the information about the non-derivative financial assets has to be included because the Group manages the liquidity based on the net assets and net liabilities.

(In millions of won and in thousands of US dollars)

		Within 1 year	1 ~ 5 years	Over 5 years	Total		Total (Note 4)
December 31, 2015							
Cash and cash equivalents	₩	967,481	-	-	967,481	$	825,496
Short and long-term financial instruments		111,988	112,112	3,143	227,243		193,893
Finance lease receivables		10,479	28,996	-	39,475		33,681
Trade and other receivables		951,421	43	-	951,464		811,830
Available-for-sale financial assets		-	6	-	6		5
Held-to-maturity financial assets		71	895	5	971		829
Other financial assets		-	106,162	224,848	331,010		282,432
	₩	2,041,440	248,214	227,996	2,517,650	$	2,148,166

(In millions of won)

		Within 1 year	1 ~ 5 years	Over 5 years	Total
December 31, 2014					
Cash and cash equivalents	₩	796,604	-	-	796,604
Short and long-term financial instruments		59,018	-	60,090	119,108
Finance lease receivables		22,879	88,138	-	111,017
Trade and other receivables		1,012,299	253	-	1,012,552
Available-for-sale financial assets		-	-	6	6
Held-to-maturity financial assets		19	842	112	973
Other financial assets		-	-	256,024	256,024
	₩	1,890,819	89,233	316,232	2,296,284

The amount of the floating rate instruments (non-derivative financial assets and liabilities) contained in the table above may be changed if the changes in floating interest rates are different from the determined estimate rate at the end of the reporting period.

42. Financial Instruments, Continued

The table below shows in detail the breakdown of the liquidity analysis of derivative financial instruments. The amount of the derivative instruments that are settled in net amounts is based on undiscounted net cash inflows and outflows in accordance with the terms of the contract, and that of the derivative instruments that are settled in gross amounts is based on undiscounted total cash inflows and outflows. In case the amounts to be received or paid are not settled, an interest rate estimated based on the yield curve at the end of the reporting period is used.

(In millions of won)

		Within 1 year	1 ~ 2 years	Over 2 years
December 31, 2015				
Net settlement:				
Oil price option	₩	(35,477)	-	-
TRS		-	-	(11,589)
Gross settlement:				
Cross-currency/Interest rate swaps				
Inflows		87,144	299,670	154,071
Outflows		(84,209)	(312,393)	(148,731)
	₩	(32,542)	(12,723)	(6,249)
December 31, 2014				
Net settlement:				
Oil price option	₩	(205,204)	-	-
TRS		-	-	5,736
Gross settlement:				
Cross-currency/Interest rate swaps				
Inflows		9,784	24,707	237,897
Outflows		(7,498)	(22,353)	(236,643)
	₩	(202,918)	2,354	6,990

(h) Reclassification of financial assets
There are no financial assets that have been reclassified due to the change of use or purpose of them during the current period.

43. Fair Value of Financial Instruments

(a) Fair value

The Group classifies fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. Current levels of financial instruments measured at fair value as of December 31, 2015 and 2014 are summarized as follows:

	Significance of the inputs
Level 1	Quoted prices 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 or indirectly
Level 3	Inputs for the asset or liability that are not based on observable market data

Current levels of financial instruments measured at fair value as of December 31, 2015 and 2014 are summarized as follows:

(In millions of won and in thousands of US dollars)

		Level 1	Level 2	Level 3	Total		Total (Note 4)
December 31, 2015							
Listed securities	₩	108,505	-	-	108,505	$	92,581
Unlisted securities		-	-	21,113	21,113		18,015
Derivative instrument liabilities		-	69,781	-	69,781		59,540
December 31, 2014							
Listed securities	₩	134,360	-	-	134,360	$	114,642
Unlisted securities		-	-	20,534	20,534		17,521
Beneficiary certificates		-	5,000	-	5,000		4,266
Derivative instrument assets		-	5,446	-	5,446		4,647
Derivative instrument liabilities		-	205,681	-	205,681		175,495

There is no significant movement between the Level 1 and Level 2 for the years ended December 31, 2015 and 2014.

(b) The management of the Group considers that the carrying amounts of financial assets and financial liabilities recognized at amortized cost in the consolidated financial statements approximate their fair values.

43. Fair Value of Financial Instruments, Continued

(c) The following table gives information about how the fair values of financial instruments categorized into Levels 2 and 3 are determined, in particular the valuation techniques and relationship of significant unobservable inputs to fair value.

(In millions of won)

		Fair value	Valuation techniques	Significant unobservable inputs	Description of relationships
Derivative instrument assets	₩	-		N/A	N/A
Derivative instrument liabilities		69,781			
Unlisted securities		20,580	Discounted Cash Flow	Sales growth rate Pretax operating income ratio Weighted-average cost of capital	Fair value of non-listed shares will increase if the weighted-average cost of capital is reduced along with the increase of pretax operating margin and sales growth rate
		533	Net Asset Valuation Method	N/A	N/A

(d) The changes in financial instruments that are measured at fair value on a recurring basis and classified as Level 3 for the year ended December 31, 2015 are as follows.

(In millions of won and in thousands of US dollars)

		Beginning balance	Income or loss	Other compre-hensive income	Purchase (Sale)	Ending balance		Ending balance (Note 4)
Available-for-sale financial assets								
Unlisted securities (*)	₩	20,534	-	579	-	21,113	$	18,015

(*) the amount recognized as other comprehensive income is the change in gain or loss due to evaluations of held for sale financial assets.

(e) The Group recognizes transfers between levels of the fair value hierarchy at the time of the event or change in circumstances that caused the transfer. In addition, there is no change of the valuation techniques that have been used to measure the fair value of financial instruments classified as Level 2 and Level 3 for the year ended December 31, 2015.

(f) As of December 31, 2015 and 2014, available-for-sale financial assets that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are amount of ₩ 42,555 million and ₩ 47,597 million, respectively.

AFS financial assets are issued by non-listed companies in early stages of business. They are measured at cost because it is hard to obtain reliable financial information required for the measurement of fair value, or even if the financial information is obtained, the range of fair value measurements is significant and it is impossible to reliably evaluate the occurrence probability of various estimates.

44. Transactions and Balances with Related Parties

(a) Details of relationships as of December 31, 2015 are as follows:

Relationship	Related parties
Significant influence over the Parent Company	Hanjin KAL Co., Ltd.(*1)
Associates	Grandstar Cargo International Airlines Co., Ltd.(*2), EIGHTCITY Co., Ltd., Czech Airlines j.s.c., Hanjin Shipping Co., Ltd. and etc.
Other related parties	Hanjin Transportation Co., Ltd., Topas Co., Ltd., KAL Hotel Network Co., Ltd., Hanjin Travel Service Co., Ltd., Jungseok Enterprise Co., Ltd., Jedong Leisure Co., Ltd., Jin Air Co., Ltd., Uniconverse Co., Ltd., Jungseok-Inha School's Foundation, Terminal One Management Inc., S-Oil Corp.(*3), and etc.

(*1) Hanjin KAL Co., Ltd. was classified as entities having significant influence over the Group during the year ended December 31, 2014.

(*2) Grandstar Cargo International Airlines Co., Ltd. was disposed and therefore excluded from the Group's list of associates during the year ended December 31, 2015.

(*3) S-Oil Corp. was classified as assets held for sale during the year ended December 31, 2014 and disposed during the year ended December 31, 2015.

44. Transactions and Balances with Related Parties, continued

(b) Significant transactions which occurred in the normal course of business with related parties for the year ended December 31, 2015 are summarized as follows:

(In millions of won and in thousands of US dollars)

		2015			2015	
		Sales and others	Purchase and others		Sales and others	Purchase and others
					(Note 4)	
Significant influence over the Parent Company						
Hanjin KAL Co., Ltd.	₩	435	29,731	$	371	25,368
Associates						
Czech Airlines j.s.c.		24,079	25,487		20,546	21,747
Others		2,587	45		2,208	38
Other related parties						
Jin Air Co., Ltd.		165,808	3,845		141,475	3,281
Topas Co., Ltd.		6,395	2,392		5,457	2,041
KAL Hotel Network Co., Ltd.		26,257	34,560		22,403	29,488
Hanjin Travel Service Co., Ltd.		1,117	6,116		953	5,218
Jungseok Enterprise Co., Ltd.		288	1,874		246	1,599
Hanjin Transportation Co., Ltd.		15,474	42,392		13,203	36,171
Cyber Sky Co., Ltd.(*1)		326	4,212		278	3,594
Jungseok-Inha School's Foundation		8	6,706		7	5,722
Uniconverse Co., Ltd.		1,613	22,132		1,376	18,884
S-Oil Corp.(*2)		-	14,758		-	12,592
Others		3,221	3,866		2,748	3,299

(*1) Although Cyber Sky Co., Ltd. was reclassified to the Group's subsidiary during the year ended December 31, 2015, it was still included in the list of other related parties because transactions occurred between Cyber Sky Co., Ltd. and the Group during the current financial year.

(*2) The Group's investment in S-Oil Corp. was disposed on January 19, 2015. The amount disclosed represents transaction amounts up to the disposal date.

44. Transactions and Balances with Related Parties, continued

(c) Significant transactions which occurred in the normal course of business with related parties for the year ended December 31, 2014 are summarized as follows:

(In millions of won)		2014	
		Sales and others	**Purchase and others**
Significant influence over the Parent Company			
Hanjin KAL Co., Ltd. (*)	₩	90	31,073
Associates			
S-Oil Corp.		166	554,283
Czech Airlines j.s.c.		31,125	21,401
Air Korea Co., Ltd.		138	34,299
Others		936	26
Other related parties			
Jin Air Co., Ltd.		113,653	1,067
Topas Co., Ltd.		26,514	23,362
KAL Hotel Network Co., Ltd.		27,268	30,436
Hanjin Travel Service Co., Ltd.		1,091	5,560
Jungseok Enterprise Co., Ltd.		312	1,979
Hanjin Transportation Co., Ltd.		12,381	41,300
Cyber Sky Co., Ltd.		248	3,801
Jungseok-Inha School's Foundation		7	6,302
Uniconverse Co., Ltd.		1,557	19,264
Others		1,662	4,266

(*) All transaction between Hanjin KAL Co., Ltd. and the Group was disclosed in the above table because Hanjin KAL Co., Ltd. has been reclassified from other related parties to an entity having significant influence over the Group.

December 31, 2015 and 2014

44. Transactions and Balances with Related Parties, continued

(d) Account balances with related parties as of December 31, 2015 are summarized as follows:

(In millions of won and in thousands of US dollars)

		2015			2015	
		Receivables	**Payables**		**Receivables**	**Payables**
Significant influence over the Parent Company					(Note 4)	
Hanjin KAL Co., Ltd.	₩	2,485	6,445	$	2,120	5,499
Associates						
Czech Airlines j.s.c.		1,607	11,998		1,371	10,237
Others		451	-		385	-
Other related parties						
Jin Air Co., Ltd.		25,972	33,317		22,161	28,428
Topas Co., Ltd.		425	117		362	100
KAL Hotel Network Co., Ltd.		4,223	6,192		3,603	5,283
Hanjin Travel Service Co., Ltd.		90	1,646		77	1,405
Jungseok Enterprise Co., Ltd.		569	18		485	15
Hanjin Transportation Co., Ltd.		2,590	8,889		2,210	7,585
Uniconverse Co., Ltd.		151	2,116		128	1,805
Others		72	250		62	213

44. Transactions and Balances with Related Parties, continued

(e) Account balances with related parties as of December 31, 2014 are summarized as follows:

(In millions of won)		2014	
		Receivables	**Payables**
Significant influence over a company			
Hanjin KAL Co., Ltd.	₩	2,214	6,682
Associates			
S-Oil Corp.		-	32,020
Czech Airlines j.s.c.		848	7,530
Hanjin Shipping Co., Ltd.		346	-
Other related parties			
Jin Air Co., Ltd.		20,860	17,235
Topas Co., Ltd.		4,344	3,125
KAL Hotel Network Co., Ltd.		3,982	2,948
Hanjin Travel Service Co., Ltd.		291	1,437
Jungseok Enterprise Co., Ltd.		412	9
Hanjin Transportation Co., Ltd.		1,870	6,291
Cyber Sky Co., Ltd.		18	345
Uniconverse Co., Ltd.		235	3,239
Others		250	271

(f) Loan and borrowing transactions with related parties for the year ended December 31, 2015 are as follows:

(In millions of won and in thousands of US dollars)

	Account		**Balance at Jan.1,2015**	**Increase**	**Decrease**	**Balance at Dec.31, 2015**		**Balance at Dec.31,2015**
Associates								(Note 4)
Hanjin Shipping Co., Ltd.(*)	Short-term loans	₩	220,000	-	-	220,000	$	187,713

(*) The Group has received 13,800,000 treasury shares of Hanjin Shipping Co., Ltd., trademark held by Hanjin Shipping Co., Ltd., 526,316 shares of H-Line Co., Ltd. and overseas property (appraised value of ₩ 40 billion) as collateral as of December 31, 2015. In relation to the above short-term loans, the Group recognized interest income amounting to ₩ 13,212 million for the year ended December 31, 2015 and accrued income amounting to ₩ 2,291 million as of December 31, 2015. Meanwhile, on 24th of February, 2016 (past the reporting period), above loans were converted to unregistered unguaranteed debentures (hybrid securities) issued by Hanjin Shipping Co., Ltd. (Note 52).

44. Transactions and Balances with Related Parties, continued

(g) Loan and borrowing transactions with related parties for the year ended December 31, 2014 are as follows:

(In millions of won)

	Account	Balance at Jan. 1, 2014	Increase	Decrease	Balance at Dec. 31, 2014
Associates					
Hanjin Shipping Co., Ltd.(*)	Short-term loans	-	250,000	(30,000)	220,000
Other related parties					
Eusu Holdings Co., Ltd. (formerly, Hanjin Shipping Holdings Co., Ltd.)(*)	Short-term loans	250,000	-	(250,000)	-

(*) Hanjin Shipping Co., Ltd. merged trademark management segment and shipping holdings segment of Eusu Holdings Co., Ltd. (formerly, Hanjin Shipping Holdings Co., Ltd.), which was spun off for the year ended December 31, 2014. As a result, Hanjin Shipping Co., Ltd. took over borrowings of ₩250 billion that Eusu Holdings Co., Ltd. (formerly, Hanjin Shipping Holdings Co., Ltd.) had charged before the spin-off and the merger, and repaid ₩30 billion on December 16, 2014.

The Group has received 13,800,000 treasury shares of Hanjin Shipping Co., Ltd., four ships, 2,336,316 shares of H-Line Co., Ltd. and overseas property (appraised value of ₩40 billion) as collateral as of December 31, 2014. In relation to the above short-term loans, the Group recognized interest income amounting to ₩5,585 million from Eusu Holdings Co., Ltd. (formerly, Hanjin Shipping Holdings Co., Ltd.) and ₩8,091 million from Hanjin Shipping Co., Ltd. for the year ended December 31, 2014, respectively, and accrued income from Hanjin Shipping Co., Ltd. amounting to ₩2,242 million as of December 31, 2014.

(h) Capital transactions with the related parties for the year ended December 31, 2015 are as follows:

(In millions of won and in thousands of US dollars)

	Transaction	2015	2015 (Note 4)
Significant influence over a company			
Hanjin KAL Co., Ltd.	Increase in paid-in capital	₩ 128,588	$ 109,717
Other related parties			
Hanjin Transportation Co., Ltd. (*)	Disposal of Hanjin Int'l Japan stocks	36	31
Uniconverse Co., Ltd	Disposal of stocks	1,658	1,415
Key management personnel	Purchase of Cyber Sky Co., Ltd. stocks	6,267	5,347

(*) The Group has sold part of its shares in Hanjin Int'l Japan to Hanjin Transporation Co., Ltd for ₩313 million.

44. Transactions and Balances with Related Parties, continued

(i) Capital transactions with the related parties for the year ended December 31, 2014 are as follows:

(In millions of won)

	Transaction		2014
Associates			
Hanjin Shipping Co., Ltd.	Increase in paid-in capital	₩	400,000
	Increase due to merger division(*)		73,533
Other related parties			
Eusu Holdings Co., Ltd. (formerly, Hanjin Shipping Holdings Co., Ltd.)	Decrease due to merger division(*)		-
Jungseok Enterprise Co., Ltd.	Disposal of Hanjin Transportation Co., Ltd. stocks		(12,310)
	Disposal of Jungseok Enterprise Co., Ltd. stocks		(1,566)
	Purchase of Air Korea Co., Ltd. stocks		2,023
Hanjin Transportation Co., Ltd.	Purchase of Air Korea Co., Ltd. stocks		2,023
Relatives of Key management	Disposal of Eusu Holdings Co., Ltd. stocks		(13,913)

(*) Hanjin Shipping Co., Ltd. merged a trademark management segment and a shipping holdings segment of Eusu Holdings Co., Ltd. (formerly, Hanjin Shipping Holdings Co., Ltd.) that was spun off for the year ended December 31, 2014. As a result, 8,431,450 shares of Eusu Holdings Co., Ltd. (formerly, Hanjin Shipping Holdings Co., Ltd.) have been replaced with 12,174,256 shares of Hanjin Shipping Co., Ltd.

(j) Key management personnel compensation in total for the years ended December 31, 2015 and 2014 are as follows:

(In millions of won and in thousands of US dollars)

		2015	2014		2015
					(Note 4)
Short-term employee benefits	₩	4,122	4,385	$	3,517
Retirement benefit cost		19,137	2,605		16,328

44. Transactions and Balances with Related Parties, continued

(k) Details of guarantees which the Group has provided with related parties as of December 31, 2015 are as follows:

(In millions of won and in thousands of US dollars)

	Currency	Guaranteed amounts	Financial institutions
Jungseok Enterprise Co., Ltd.	KRW	6,752	Hana Bank(formerly, Korea Exchange Bank)
Hanjin Transportation Co., Ltd.	KRW	10,075	
Hanjin Heavy Industries & Construction Holdings Co., Ltd.	KRW	4,316	Korea Development Bank and others

(*) Each company jointly provides a guarantee with the other companies.

(l) Details of guarantees which have been provided with the Group by related parties as of December 31, 2015 are summarized as follows:

(In millions of won)

		Guaranteed amounts	Financial institutions
Jungseok Enterprise Co., Ltd.	₩	10,199	Korea Development Bank
		16,610	Hana Bank (formerly, Korea Exchange Bank)
		12,292	Woori Bank and Others
Hanjin Transportation Co., Ltd.		10,199	Korea Development Bank
		16,610	Hana Bank (formerly, Korea Exchange Bank)
		12,292	Woori Bank and Others
Hanjin Shipping Co., Ltd.(*)		10,199	Korea Development Bank
		16,610	Hana Bank (formerly, Korea Exchange Bank)
		12,472	Woori Bank and Others
Hanjin Heavy Industries & Construction holdings Co., Ltd.		10,199	Korea Development Bank
		16,610	Hana Bank(formerly, Korea Exchange Bank)
		12,292	Woori Bank and Others

(*) As Hanjin Shipping Co., Ltd. (the new company) was spun off from Eusu Holdings Co., Ltd. (formerly, Hanjin Shipping Holdings Co., Ltd.) (the surviving company) on December 1, 2009, Eusu Holdings Co., Ltd. (formerly, Hanjin Shipping Holdings Co., Ltd) jointly provides a guarantee for the long-term liabilities that were assumed by the companies above.

(m) As of December 31, 2015, the Group has an obligation to take over the outstanding balance related to Asset-Backed Loan / Asset-Backed Bond issued with an underlying asset (hybrid bond issued by Hanjin Shipping Co., Ltd.) three years and one month from the date of issue, and the Parent Company and the investors are obliged to settle the differences between the transaction price of the underlying assets and the settlement basis price. The agreement is structured so that if the value of the exchangeable bond is higher than the settlement basis price, the differential gain is delivered to the Parent Company, and if the value of the exchangeable bond is lower than the settlement basis price, the Parent Company is obligated to compensate for the differential loss.

44. Transactions and Balances with Related Parties, continued

Terms	Details
Basic asset	Hanjin Shopping Co., Ltd.'s exchangeable bond
Interim settlement	When basic asset's sales price on interest payment date exceeds 120% of basic asset's face value
Final settlement	Three years and one month from the date of issuance
Settlement basis price	Face value of basic asset + interest at rate of 6.2% applied from the last interest payment date to settlement date
Settlement price	Sales price – Settlement basis price
Settlement terms	i) If settlement basis price is higher than the sales price: the difference is paid by the Parent Company to the investors ii) If settlement basis price is lower than the sales price: In the case of interim settlement, the investors pay 20% of the difference to the Parent Company; for the case of final settlement, the investors pay the difference in value to the Parent Company

45. Operating Lease

(a) As of December 31, 2015, the Parent Company has entered into operating lease agreements to lease 25 aircraft and certain aircraft parts from International Lease Finance Corporation and other lessors. The Parent Company has also entered into an operating lease agreement to use the cargo terminal at JFK International Airport located in the United States with the New York City Industrial Development Agency ("IDA").

The schedule of lease payments of December 31, 2015 is summarized as follows:

(In millions of won and in thousands of US dollars)

		2015		2015 (Note 4)
2016. 1. 1~2016. 12. 31	₩	174,845	$	149,185
2017. 1. 1~2017. 12. 31		143,507		122,446
2018. 1. 1~2018. 12. 31		134,706		114,937
2019. 1. 1~2019. 12. 31		132,039		112,661
2020. 1. 1~2020. 12. 31		101,489		86,594
Thereafter		325,201		277,476
	₩	1,011,787	$	863,299

Korea Development Bank has provided a guarantee of $27 million for the aircraft operating lease agreements and Kookmin Bank has provided a guarantee up to $52 million for opening letters of credit in accordance with the IDA operating lease contract with the Parent Company.

Also, the Group has entered into operating lease agreements to lease business computing equipment from Macquarie Finance Korea Ltd. The schedule of lease payments as of December 31, 2015 is as follows:

(In millions of won and in thousands of US dollars)

		2015		2015 (Note 4)
2016. 1. 1~2016. 12. 31	₩	792	$	676
2017. 1. 1~2017. 12. 31		246		210
2018. 1. 1~2018. 12. 31		36		31
	₩	1,074	$	917

45. Operating Lease, continued

(b) The Parent Company has entered into operating lease agreements to lease 16 aircraft and certain aircraft parts to Jin Air Co., Ltd and others. The schedule of lease collection on this agreement is summarized as follows:

(In millions of won and in thousands of US dollars)

		2015		2015
				(Note 4)
2016. 1. 1~2016. 12. 31	₩	81,557	$	69,588
2017. 1. 1~2017. 12. 31		49,409		42,158
2018. 1. 1~2018. 12. 31		41,742		35,616
2019. 1. 1~2019. 12. 31		39,979		34,112
2020. 1. 1~2020. 12. 31		31,757		27,096
Thereafter		65,126		55,569
	₩	309,570	$	264,139

(c) Furthermore, the Parent Company has entered into operating lease agreements to lease data processing equipment to LG Sports Ltd. and KAL Hotel Network Co., Ltd. The schedule of lease collection on this agreement is summarized as follows:

(In millions of won and in thousands of US dollars)

		2015		2015
				(Note 4)
2016. 1. 1~2016. 12. 31	₩	20	$	19
2017. 1. 1~2017. 12. 31		10		8
2018. 1. 1~2018. 12. 31		2		1
	₩	32	$	28

December 31, 2015 and 2014

46. Non-cash Transactions

Investing and financing activities of non-cash transactions for the years ended December 31, 2015 and 2014 are as follows:

(In millions of won and in thousands of US dollars)

		2015	2014		2015
					(Note 4)
Transfer of long-term borrowings to current portion of long-term liabilities	₩	2,024,468	2,193,557	$	1,727,362
Transfer of debentures to current portion of long-term liabilities		2,081,693	704,529		1,776,189
Transfer of finance lease obligation to current portion of finance lease obligation		1,344,609	1,070,673		1,147,277
Transfer of construction-in-progress to property, aircraft and equipment, etc.		3,111,660	1,864,617		2,655,000
Transfer of property, aircraft and equipment to investment property		-	94,930		-
Increase in finance lease liabilities		2,593,028	1,388,034		2,212,482
Transfer of property, aircraft and equipment to non-trade payables		(1,159)	37,416		(989)
Transfer of finance lease obligation to finance lease receivables		-	12,175		-
Increase in investment in subsidiary		3,034	-		2,589

47. Commitments and Contingencies

(a) The guarantees provided as of December 31, 2015 are as follows:

(In millions of won and in thousands of US dollars)

Financial institution		2015	Details
Seoul Guarantee Insurance Co., Ltd.	₩	2,523	Bids, performance, maintenance and others
Korea Defense Industry Association		976,886	
HSBC Bank Australia Limited and others		16,013	
Engineering Financial Cooperative		31,158	
Korea Software Financial Cooperative		16,727	
Information & Communication Financial Cooperative		90	
BBCN BANK	$	5,364	

As of December 31, 2015, the Group is provided with guarantees amounting to ₩15,702 million by Seoul Guarantee Insurance Co., Ltd. in relation to the restoration of forest due to the production of limestone and amounting to $3,000 thousand by Hana Bank in connection with the purchase of equipment, respectively.

(b) The Parent Company provides a joint guarantee of ₩12,269 million in relation to the personal loan of flight training center trainees. The Parent Company also provides a payment guarantee of $10,981 thousand to Bank of China for Grandstar Cargo International Airlines Co., Ltd.

(c) The credit line and details of credit agreements as of December 31, 2015 are as follows:

(In millions of won and in thousands of US dollars)

	Financial institutions	Currency	Limit
Credit line agreement	Hana Bank (formerly Korea Exchange Bank) and others	USD	80,000
		KRW	170,000
Letter of credit	Korea Development Bank and others	USD	79,623
Ordinary loan	Shinhan Bank	KRW	10,000
Line of credit	NongHyup Bank	KRW	10,000

(d) As of December 31, 2015, the Parent Company has one outstanding promissory note pledged as collateral to the Korea Defense Industry Association.

(e) With regard to the alleged antitrust violation relating to the Parent Company and other parties colluding on price fixing of air cargo services, the Parent Company made a plea to the United States Department of Justice on August, 2007 for the payment of fines totaling $300,000 thousand to be paid in annual installments. Accordingly, the Parent Company made fine payments of $250,000 thousand since 2007 and the rest will be paid through 2016 under an agreement with the U.S. court. With regard to the remaining balance to be paid, $50,000 thousand is included in other payables as of December 31, 2015.

47. Commitments and Contingencies, continued

The Parent Company settled with the plaintiff to pay $115,000 thousand in the class action lawsuit filed with the U.S. court. The Parent Company made payments of $97,500 thousand since 2014 and the residual payment of $17,500 thousand is included in other payables. In addition, as the Parent Company has agreed with the plaintiff to settle the lawsuit with compensation of $ 39,000 in cash and $ 26,000 in passenger flight ticket coupons, the Parent Company recognizes the coupon of passenger flight tickets amounting to $26,000 thousand (₩ 27,521 million) in a provision for coupon for passenger flight ticket.

The Parent Company settled with the plaintiff to pay CAD 4,100 thousand in the class action lawsuit on Canada cargo route price-fixing collusion. As a result, the Parent Company disbursed CAD 3,000 thousand for the year ended December 31, 2015; CAD 1,100 thousand expected to be paid by the first half of 2016 is included in other payables.

As of December 31, 2015, various claims, lawsuits and complaints arising from airline service operations are pending against the Parent Company and ultimate outcome of these cases is unpredictable. Management believes that the ultimate outcome of these cases will not have any material adverse effect on the financial performance and position of the Parent Company.

(f) The Parent Company has signed various contracts with manufacturers, such as the Boeing Company to purchase aircrafts. The amount of such contracts is $5,337 million as of December 31, 2015. The Parent Company has also signed MOUs with Airbus S.A.S., the Boeing Company, and others regarding the purchase of aircrafts from 2019.

(g) The Parent Company and three other airlines including Air France entered into a joint use agreement of the JFK Airport in New York and established Terminal One Group Association ("TOGA") to cooperate the Terminal One of JFK Airport. They have provided TOGA with a joint guarantee up to $238 million for each terminal usage fee.

(h) Material Uncertainty and Financial Structural Reform Agreement

i) Material Uncertainty:

Profitability of airline industry is by nature sensitive to the changes in external conditions such as oil price, exchange rates, and global politics. Recently, competition has been worsened as low-price airline companies started expanding service areas to accommodate more customers. Such changes in the environmental and external factors can have a direct impact on the Parent Company's sales and profitability.

Hanjin Shipping Co., Ltd. is going under a banking structural reform to improve its financial structure, and the Parent Company is holding Hanjin Shipping Co., Ltd.'s shares worth ₩519,974 million as investment in associate and ₩220,000 million of short term receivables. In addition, the Parent Company has entered into a TRS contract based on the future value of Hanjin Shipping Co., Ltd.'s exchangeable bond (Note 29, 44). Furthermore, 81,019,733 shares of Hanjin Shipping Co., Ltd. held by the Parent Company is provided as a collateral for Hanjin Int'l Corp's long-term debt of ₩714,973 million (Note 19).

47. Commitments and Contingencies, continued

Finally, the Parent Company has ₩5,161,254 million of current liability over its current assets, and the Parent Company accordingly developed financing plans utilizing methods such as extension of existing loans and entering of new loans to manage liquidity issues.

Such details imply that a material uncertainty exists in the Parent Company's business results or performance. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

ii) Financial Structural Reform Agreement:
The Parent Company is part of a group of conglomerates selected by the Financial Supervisory Service for special supervision on its financial stability as the Parent Company accounts for more than 0.1% of total credit provided by the financial sector. As the Parent Company is under close supervision, it has signed an agreement with its main bank, the Korea Development Bank, to improve its financial structure by going under a financial structural reform on May 2009.

Per the agreement, the Parent Company pronounced plans to liquidate the shares of S-OIL Corp. held by its subsidiary (Hanjin Energy Co., Ltd.), used airplanes, and other properties to secure ₩3.49 trillion; by December 31, 2015, the Parent Company prepared approximately ₩ 3.55 trillion for financial structural reform. The Parent Company plans to further develop and implement plans to improve its business results in the future.

(i) Main agreements entered by the Group are summarized as follows:

1) Korea Airport Service Co., Ltd. contributed certain ground handling facilities constructed by KAS at the Incheon International Airport, in accordance with the agreement with the Ministry of Construction and Transportation dated March 9, 2001, in exchange for usage rights to the contributed facilities for 20 years. Korea Airport Service Co., Ltd. owns a building for joint investment purpose pursuant to a joint arrangement. Under the joint arrangement, Korea Airport Service Co., Ltd. has 20% ownership of the building, INHA International Medical Center, which is located at Jung-gu, Incheon, and invested in the building for the purpose of leasing. Korea Airport Service Co., Ltd. has the right to rental income and the obligation to incurred expenses in proportion to its ownership interest.

2) On March 30, 2011, Wangsan Leisure Development Co., Ltd. entered into an agreement on "Wang San Marina Business" with Incheon Metropolitan City and Yongyu-muui Project Management Co., Ltd. Details of the agreement are summarized as follows:

- Location : San 143 Eulwang-dong, Jung-gu, Incheon, Korea
- Business content : Construction of yacht tournament course scheduled to be held in 2014 Incheon Asian Game.
- Total amount of investment : Approx. ₩170 billion
- Government subsidy : Incheon Metropolitan City government agreed to provide total of ₩16.7 billion as financial subsidy depending on the construction progress.

Wangsan Leisure Development Co., Ltd. accomplished timely development of Wang San Marina Business including construction of 2014 Incheon Asian Games yacht tournament course, cooperated for successful host and operation of yacht tournament at 2014 Incheon Asian Games, and invested rest of the amount after excluding Wang San Marina Business operating expenses

47. Commitments and Contingencies, continued

granted by the government, construction costs of access road, and other infrastructure costs. Wangsan Leisure Development Co., Ltd. is entitled to acquire business reclamation sites excluding public sites at composition cost or below, and is granted at least 30 years of operating rights after completion of construction of Wangsan Marina facilities.

Incheon Free Economic Zone Authority provided ₩167 billion as subsidy for Wang San Marina Business project to Wangsan Leisure Development Co., Ltd. However, Incheon Metropolitan City has raised claims on legal validity of the subsidy, and the claim is in progress as of December 31, 2015. The Group believes that the ultimate outcome of this case and estimated impacts on the financial statements are unpredictable.

Meanwhile, the Parent Company made a commitment with Korea Development Bank to participate in paid-in-capital increase of Wangsan Leisure Development Co., Ltd. if Wangsan Leisure Development Co., Ltd. is short of financial resources to repay the borrowings provided by Korea Development Bank. The outstanding balance of borrowings is ₩ 79,900 million as of December 31, 2015. The deposits, land, buildings acquired under the purpose of Wang San Marina Business are pledged to Korea Development Co., Ltd. as collateral.

3) On June 30, 2011, Incheon Aviation Tech Co., Ltd. entered into an agreement with Incheon Metropolitan City, Korea Land & Housing Corporation and Inchon Development & Tourism Corporation for a project related to "Attraction of Incheon Free Economic Zone, Yeongjong Sky City Airways Airplane Engine Maintenance Centre". Major terms of the agreement include Incheon Aviation Tech Co., Ltd.'s investment of ₩ 120 billion for construction of Airplane Engine Maintenance Centre and acquisition of related land, located at 779-11, Unbuk-dong, Jung-gu, Incheon, Korea. Meanwhile, Incheon Aviation Tech Co., Ltd. is prohibited from providing land as collateral or guarantee for five years from the date of first purchase agreement of land (July 2011), which is recognized under land as of December 31, 2015. Incheon Aviation Tech Co., Ltd. is also prohibited from leasing or selling the land to third parties for five years from the date of ownership transfer. Lastly, Incheon Aviation Tech Co., Ltd. is to maintain ratio of its foreign investors' ownership higher than 10% for at least five years from July 2011, under the Act of Foreigner Investment Promotion.

As of December 31, 2015, preferred shares of Incheon Aviation Tech Co., Ltd. are cumulative and non-participative preferred shares and will be converted proportionately for one common stock per one preferred stock at the time after five years and six months (conversion date) from the date that Aviation Tech Co., Ltd. acquired land for its business purpose.

In addition, 6% of dividend is guaranteed for preferred shareholders until the conversion date, and, in the case of dividend in arrears, preferred shareholders have a right to refuse conversion until the dividend in arrears is paid. Accordingly, the Group classifies the preferred shares as finance liability, net of discount.

Meanwhile, for the period of last six months out of five years and six months, the Parent Company has a call option to purchase the preferred shares held by United Technologies International Corporation-Asia Private Ltd., a preferred shareholder, while the preferred shareholder also has a put option to sell the preferred shares to the Parent Company.

48. Account Receivables Due from and Deferred Revenue Due to Customers for Contracts in Progress

(a) Changes in contract work for the years ended December 31, 2015 and 2014 are summarized as follows:

(In millions of won and in thousands of US dollars)

		2015		2015 (Note 4)
Revenues incurred to date	₩	627,714	$	535,592
Costs incurred to date		573,914		489,687
Recognized profits to date	₩	53,800	$	45,905
Ending balance of Construction contracts (*)	₩	1,285,602	$	1,096,930

(*) The balance as of December 31, 2015 does not include amounts for contracts that do not have the specific details (quantity, amount, and others) confirmed despite being signed. The Group estimates above amount to be ₩ 2,530,875 million.

(b) Accounts receivables due from and deferred revenue due to customers for contracts in progress as of December 31, 2015 and 2014 are summarized as follows:

(In millions of won and in thousands of US dollars)

		2015	2014		2015 (Note 4)
Account receivables due from customers for contracts in progress	₩	158,239	130,209	$	135,016
Deferred revenue due to customers for contracts in progress		(94,297)	(148,134)		(80,458)

December 31, 2015 and 2014

49. Assets held for sale

(a) Assets held for sale as of December 31, 2015 and 2014 are summarized as follows:

(In millions of won and in thousands of US dollars)

		2015	2014		2015 (Note 4)
Current assets					
Aircraft	₩	19,621	-	$	16,742
Engine		25,922	-		22,117
Investments in associates		-	1,982,982		-
Deferred tax asset		-	42,437		-
	₩	45,543	2,025,419	$	38,859
Amounts recognized in other comprehensive income and accumulated in equity relating to assets held for sale					
Change in capital adjustment - equity method accounted investments	₩	-	(61,364)	$	-
	₩	-	(61,364)	$	-

(b) The Parent Company reclassified a portion of aircraft and engines to assets held for sale and disposed of it according to the aircraft sales plan. The Parent Company accordingly recognized a sales loss of ₩ 5,234 million and an impairment loss of ₩ 63,063 million.

50. Discontinued Operations

(a) On August 11, 2014, Hanjin Energy Co., Ltd. entered into a sales agreement with Aramco Overseas Company B.V. to dispose 31,983,586 shares of S-Oil Corporation to repay borrowings and improve financial structure of the Parent Company, by the decision made by the Board of Directors on July 2, 2014. Hanjin Energy Co., Ltd. disposed S-Oil Corporation shares for the year ended December 31, 2015.

Incurred revenue and costs, and recognized profit and loss until the liquidation of Hanjin Energy Co., Ltd. is classified as a discontinued operation in the consolidated statements of comprehensive income (loss). Comparative amounts have been re-represented as a result of the discontinued operation during the current year. In addition, the cash flows from discontinued operations are stated separately as below.

(b) The discontinued operation included in the consolidated statements of comprehensive income (loss) for the years ended December 31, 2015 and 2014 are summarized as follows:

(In millions of won and in thousands of US dollars)

		2015	2014		2015 (note4)
Revenue	₩	-	-	$	-
Cost of sales		-	-		-
Gross profit		-	-		-
Selling and administrative expenses		554	288		473
Operating loss		(554)	(288)		(473)
Financial income		2,792	6,323		2,382
Financial costs		2,704	48,364		2,307
Share of profit of associates		-	24,053		-
Other non-operating income		-	-		-
Other non-operating expenses		92,003	398,642		78,501
Loss before income tax		(92,469)	(416,918)		(78,899)
Income tax expense (benefit)		69,629	(88,838)		59,410
Loss from discontinued operations	₩	(162,098)	(328,080)	$	(138,309)

(c) The cash flows from discontinued operations for the years ended December 31, 2015 and 2014 are summarized as follows:

(In millions of won and in thousands of US dollars)

		2015	2014		2015 (Note 4)
Cash flows from operating activities	₩	(11,724)	32,285	$	(10,004)
Cash flows from investing activities		1,985,777	-		1,694,349
Cash flows from financing activities		(1,974,054)	(32,287)		(1,684,346)
Net cash flows	₩	(1)	(2)	$	(1)

51. Restated Prior Period Financial Statements

The Group has corrected an accounting error regarding oil-price derivatives contract and has restated its financial statements of the year ended December 31, 2014. Effects of the restatement are described below.

(In millions of won and in thousands of US dollars)

		Before restatement	Adjustments	After restatement		After restatement (Note 4)
<Prior Period> - Consolidated Statements of Financial Position						
Total assets	₩	23,465,724	-	23,465,724	$	20,021,949
Total liabilities		21,264,566	-	21,264,566		18,143,827
Total equity		2,201,158	-	2,201,158		1,878,122
Capital stock		298,931	-	298,931		255,061
Other capital surplus		52,562	-	52,562		44,849
Other capital components		256,248	155,099	411,347		350,979
Retained earnings		1,544,566	(155,099)	1,389,467		1,185,552
Amounts recognized in other comprehensive income and accumulated in equity relating to assets held for sale		(61,364)	-	(61,364)		(52,359)
Non-controlling Interests		110,215	-	110,215		94,040

51. Restated Prior Period Financial Statements, Continued

(In millions of won and in thousands of US dollars)

		Before restatement	Adjustments	After restatement		After restatement
						(Note 4)
<Prior Period> - Consolidated Statements of Comprehensive Income (Loss)						
Revenue	₩	11,909,748	-	11,909,748	$	10,161,902
Cost of sales		10,389,544	-	10,389,544		8,864,799
Gross profit		1,520,204	-	1,520,204		1,297,103
Selling, general and administrative expenses		1,124,869	-	1,124,869		959,786
Operating income		395,335	-	395,335		337,317
Finance income		52,732	-	52,732		44,993
Finance costs		427,919	205,205	633,124		540,208
Share of profit of associates		7,138	-	7,138		6,090
Other non-operating income		536,917	-	536,917		458,120
Other non-operating expenses		800,693	-	800,693		683,184
Loss before income tax		(236,490)	(205,205)	(441,695)		(376,872)
Income tax benefit		(106,747)	(50,106)	(156,853)		(133,833)
Loss from continuing operations		(129,743)	(155,099)	(284,842)		(243,039)
Loss from Discontinued Operations		(328,080)	-	(328,080)		(279,932)
Loss for the Period		(457,823)	(155,099)	(612,922)		(522,971)
Other comprehensive income (loss) for the period, net of income tax		(56,903)	155,099	98,196		83,784
Total comprehensive loss for the period		(514,726)	-	(514,726)		(439,187)
Loss attributable to:						
Owners of the Parent Company		(480,260)	(155,099)	(635,359)		(542,115)
Non-controlling interests		22,437	-	22,437		19,144
Total comprehensive income (loss) attributable to:						
Owners of the Parent Company		(538,607)	-	(538,607)		(459,563)
Non-controlling Interests		23,881	-	23,881		20,376

52. Subsequent Events

(a) Purchase of Debentures from Related Parties:
The Parent Company acquired ₩ 220,000 million of unregistered debentures (hybrid securities) issued by Hanjin Shipping Co., Ltd. on February 24th, 2016.

(b) Issuance of Debentures:
The Parent Company issued 60th unregistered unguaranteed debentures amounted to ₩ 150,000 million.

APPENDIX III

UNAUDITED INTERIM SEPARATE FINANCIAL STATEMENTS OF KOREAN AIR LINES CO., LTD. AS OF 30 SEPTEMBER, AND FOR THE THREE AND NINE MONTHS ENDED 30 SEPTEMBER 2016

Deloitte.

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Independent Accountants' Review Report

English Translation of Independent Accountants' Review Report Originally Issued in Korean on November 14, 2016

To the Shareholders and the Board of Directors of
Korean Air Lines Co., Ltd.:

We have reviewed the accompanying condensed separate financial statement of Korean Air Lines Co., Ltd. (the "Company"). The condensed separate financial statements consist of the condensed separate statement of financial position as of September 30, 2016, and the related condensed separate statement of comprehensive income (loss) for the three and nine months ended September 30, 2016, and condensed separate statement of changes in equity and condensed separate statement of cash flows, all expressed in Korean won, for the nine months ended September 30, 2016, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the condensed separate financial statements

Management is responsible for the preparation and fair presentation of these condensed separate financial statements in accordance with Korean International Financial Reporting Standards ("K-IFRS") and for such internal control as management determines is necessary to enable the preparation of condensed separate 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 separate 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 separate financial statement of the Company are not presented fairly, in all material respects, in accordance with K-IFRS 1034, *Interim Financial Reporting*.

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Emphasis of matter

We draw attention to the condensed separate financial statements that is described as follows. Our opinion is not qualified with respect to this matter.

(1) The independent accountants' emphasis of matter about additional stated matters based on Korean Practice Guide on Auditing about engineering to order and others

Additional stated matters based on Korean Practice Guide on Auditing mean selecting significant matters on the accompanying condensed separate financial statements based on our review through the independent accountants' professional judgments and communication with those charged with governance in accordance with Korean Practice Guide on Auditing 2016-1. Additional stated matters based on Korean Practice Guide on Auditing are dealt with a view of our review about the condensed separate financial statements, and we do not provide a separate opinion on these matters.

As discussed in 'Independent accountants' responsibility', we perform primarily inquiries of Company personnel and analytical procedures applied to financial data related to additional stated matters, based on Korean Practice Guide on Auditing 2016-1 about engineering to order, as our responsibility is to express a conclusion on the accompanying condensed separate financial statements based on our reviews.

a) General matter

In relation to additional stated matters based on Korean Practice Guide on Auditing about engineering to order, which is described in the independent accountants' review report, the common contents are as follows: As of September 30, 2016, the Company recognizes revenue of the aerospace division, which is exceeding 5% of the Company's total revenue, in accordance with the stage of completion determined by reference to the contract costs incurred to date and when the outcome of a construction contract can be estimated reliably, contract revenue and contract costs associated with the construction contract shall be recognized as revenue and expenses respectively by reference to the stage of completion of the contract activity. The stage of completion is determined by the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs, except for contract costs that do not reflect work performed. The gross amount due from customers for contract work is the net amount of contracts in progress for which costs incurred, plus recognized profits (less recognized losses) exceed progress billings, and the gross amount due to customers for contract work is the net amount of contracts in progress for which progress billings exceed costs incurred, plus recognized profits (less recognized losses).

b) Revenue recognition in accordance with the stage of completion determined by reference to the contract costs incurred to date

The gross amount of contract revenue is measured by the initial amount of revenue agreed in the contract, but the measurement of contract revenue is affected by a variety of uncertainties related to the outcome of future events as the gross amount of contract revenue may increase in accordance with variations in contract work, claims and incentive payments or may decrease as a result of penalties arising from delays caused by the Company in the completion of the contract. Also, amount of contract revenue is influenced by the stage of completion determined by reference to the contract costs incurred to date, and the gross amount of contract costs is estimated by the expectations of the materials costs, labor costs and contract period. As discussed in Note 46, estimated decrease in contract revenue and cost is ₩19,005 million ($17,336 thousand) and ₩11,758 million ($10,725 thousand), respectively, for the nine months ended September 30, 2016; and current profit decrease ₩3,308 million ($3,017 thousand) and future profit decrease ₩3,938 million ($3,592 thousand), in accordance with the variations of estimated increase (decrease) in contract revenue and cost. We selected revenue recognition in accordance with the stage of completion determined by reference to the contract costs incurred to date as a significant risk because there is a possibility that the variations of estimated increase (decrease) in contract revenue and cost can influence future profit negatively.

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As of September 30, 2016, we performed the following review procedures about revenue recognition in accordance with the stage of completion determined by reference to the contract costs incurred to date:

- Inquiries of major contracts
- Inquiries of accounting policy of revenue recognition and changes of accounting policy
- Inquiries of current progress and significant changes of major projects
- Analytic review of the initial amount of revenue agreed in the contract, the estimated total contract costs, the cost ratio, the amount due from customers for contract work ratio and others

c) Uncertainty of estimated total contract costs

Total contract costs are estimated based on future expectations, including material cost, labor cost, construction period and others, and we selected the uncertainty of estimated total contract costs as a significant risk because there is a possibility that the increase of the uncertainty of estimated total contract costs and the estimation change in accordance with process delays or process inefficiency can influence future profit negatively.

As of September 30, 2016, we performed the following review procedures about the impact on the condensed separate financial statements caused by the uncertainty of estimated total contract costs:

- Inquiries and analytic review of fluctuations in the major cost items in the estimated total contract costs each reporting period
- Inquiries of the cause of variations about the project, which has significant variations of the estimated total contract costs and others
- Inquiries of the cause of variations related to the project, which has significant difference between the expected cost ratio and the actual cost ratio and others

d) Determination of the stage of completion

As discussed in Note 46, the estimated decrease in contract cost is ₩11,758 million ($10,725 thousand) for the nine months ended September 30, 2016, and as of September 30, 2016, cost incurred to date is ₩759,793 million ($693,052 thousand). We selected the determination of the stage of completion as a significant risk because there is a possibility that the increase of the contract cost in comparison with the estimated total contract cost due to the unexpected process delay before the prior period and others and the increase of the uncertainty of estimated total contract costs can influence future profit negatively.

We performed the following review procedures with regard to the estimated total contract costs and cost incurred to date that can affect the determination of the stage of completion:

- Inquiries of the cause of variations of the stage of completion quarterly
- Analytical review of the fluctuation about the estimated total contract costs and cost incurred to date

e) Recoverability of the amount due from customers for contract work

As discussed in Note 46, the amount due from customers for contract work is ₩171,085 million ($156,057 thousand), and we selected the recoverability of the amount due from customers for contract work as a significant risk because there is a possibility that the increase of the amount due from customers for contract work and the increase rate of the amount due from customers for contract work exceeding the increase rate of revenues incurred to date can influence future profit negatively.

We performed the following review procedures about the project such that the amount due from customers for contract work increases significantly for the nine months ended September 30, 2016:

- Inquiries of the payment condition, delay compensation, delivery period and other obligations of the contract
- Inquiries of the expiry of the payment date under the contract and the financial solvency of customer

f) Accounting for variations in contract work

The total contract revenue can be measured on the initial amount of revenue agreed in the contract, but the measurement of contract revenue is affected by the various uncertainties related to the result of future events because the total contract revenue may increase as a result of variations in contract work and others or may decrease as a result of penalties arising from delays caused by the Company in the completion of the contract. We selected the accounting for variations in contract work as a significant risk because there is a possibility that such uncertainties can influence future profit negatively.

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We performed the following review procedures about the accounting for variations in contract work and disclosures:

- Inquiries of the reason for the significant variation of a contract price
- Inquiries of the possibility that the customer can approve the amount of revenue due to variations in contract work
- Inquiries of the impact of estimated total contract costs and the stage of completion due to the variations in contract work

(2) As discussed in Note 45.(8), The Seoul District Court decided to commence the rehabilitation procedure of Hanjin Shipping Co., Ltd. on September 1, 2016. The Company recognized ₩444,829 million ($405,755 thousand) of impairment losses on investments in associates and ₩252,630 million ($230,439 thousand) of impairment losses on available-for-sale ("AFS") financial assets, respectively, relating to Hanjin Shipping Co., Ltd. for the nine months ended September 30, 2016. In addition, the Company recognized ₩41,592 million ($37,939 thousand) of loss on valuation of derivatives and ₩ 74,959 million ($68,375 thousand) of loss on trading of derivatives, respectively, relating to the TRS contracts (see Notes 26 and 42), which based on the future value of Hanjin Shipping Co., Ltd.'s exchangeable bond for the nine months ended September 30, 2016.

Others

The accompanying condensed separate statement of comprehensive income (loss), condensed separate statement of changes in equity and condensed separate statement of cash flows for the three and nine months ended were reviewed by other accountants whose report thereon dated November 13, 2015, expressed that nothing has come to our attention that causes us to believe that the accompanying condensed separate financial statement of the Company are not presented fairly, in all material respects, in accordance with K-IFRS 1034. Meanwhile, the revisions described in Note 50 are reflected on the condensed separate statement of financial position as of September 30, 2015, and the related condensed separate statement of comprehensive income (loss) for the three and nine months ended September 30, 2015, and condensed separate statement of changes in shareholders' equity and condensed separate statement of cash flows for the nine months ended September 30, 2015.

The accompanying separate statement of financial position as of December 31, 2015, and the separate statement of comprehensive income (loss), separate statement of changes in equity and separate statement of cash flows for the year then ended, which are not presented in the accompanying separate financial statements, were audited by other auditors in accordance with the Korean Standards on Auditing ("KSAs") and an unqualified opinion was expressed on March 10, 2016. The separate statement of financial position as of December 31, 2015, presented for a comparative purpose in the accompanying financial statements does not differ, in all material respects, from the audited consolidated statement of financial position as of December 31, 2015.

Our review also comprehended the translation of Korean won amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis of financial statement presentation in Note 2. Such U.S. dollar amounts are presented solely for the convenience of readers outside of Korea.

Deloitte Anjin LLC

November 14, 2016

Notice to Readers

This report is effective as of November 14, 2016, 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 separate financial statements and may result in modifications to the independent accountants' review report.

KOREAN AIR LINES CO., LTD.

CONDENSED SEPARATE STATEMENTS OF FINANCIAL POSITION

AS OF SEPTEMBER 30, 2016, AND DECEMBER 31, 2015

ASSETS	NOTES	Korean won 2016	Korean won 2015	Translation into U.S. dollars (Note 2) 2016	Translation into U.S. dollars (Note 2) 2015
		(In millions)		(In thousands)	
CURRENT ASSETS:					
Cash and cash equivalents	4	₩ 619,442	₩ 698,947	$ 565,030	$ 637,551
Short-term financial instruments	5	47,480	20,263	43,310	18,483
Current portion of finance lease receivables	10	16,637	7,474	15,175	6,818
Trade and other receivables	6	740,835	917,455	675,759	836,865
Amount due from customers for contract work	46	171,085	158,239	156,057	144,339
Current portion of held-to-maturity investments	5,8	76	39	69	36
Inventories	9	507,502	475,678	462,923	433,894
Current tax assets		43	5,929	39	5,407
Other current assets	19	564,546	543,996	514,956	496,211
Assets held for sale	15,48	17,830	45,543	16,264	41,542
Total current assets		2,685,476	2,873,563	2,449,582	2,621,146
NON-CURRENT ASSETS:					
Long-term financial instruments	5	98,114	106,492	89,495	97,138
AFS financial assets	5,7,41	144,918	149,558	132,189	136,421
Held-to-maturity investments	5,8	758	813	691	741
Finance lease receivables	10	51,388	26,365	46,874	24,049
Investment in associates	11	-	444,829	-	405,755
Investment in subsidiaries	12,15	1,133,765	691,340	1,034,174	630,612
Property, aircraft and equipment	13,14,15	16,714,072	16,803,447	15,245,892	15,327,417
Investment property	15,16	79,153	73,537	72,200	67,078
Intangible assets	15,17	391,613	284,841	357,214	259,820
Other financial assets	18	305,582	328,492	278,740	299,637
Deferred tax assets		965,234	938,168	880,446	855,758
Other non-current assets	19	268,527	327,495	244,939	298,728
Total non-current assets		20,153,124	20,175,377	18,382,854	18,403,154
Total assets		₩ 22,838,600	₩ 23,048,940	$ 20,832,436	$ 21,024,300

(Continued)

KOREAN AIR LINES CO., LTD.

CONDENSED SEPARATE STATEMENTS OF FINANCIAL POSITION (CONTINUED)

AS OF SEPTEMBER 30, 2016, AND DECEMBER 31, 2015

LIABILITIES AND SHAREHOLDERS' EQUITY	NOTES	Korean won 2016	Korean won 2015	Translation into U.S. dollars (Note 2) 2016	Translation into U.S. dollars (Note 2) 2015
		(In millions)		(In thousands)	
CURRENT LIABILITIES:					
Trade and other payables	20	₩ 1,026,972	₩ 868,964	$ 936,762	$ 792,633
Short-term borrowings	15,21	1,095,448	862,438	999,223	786,681
Short-term debentures	21	186,155	-	169,803	-
Current portion of long-term borrowings	15,21	2,247,838	3,919,169	2,050,386	3,574,906
Current portion of finance lease obligations	15,22	1,513,769	1,234,471	1,380,798	1,126,034
Current portion of financial derivative liabilities	26,41	457	35,729	417	32,590
Current portion of financial guarantee liabilities	27,40	10,641	10,234	9,706	9,335
Current portion of provisions	24	-	16,795	-	15,319
Amount due to customers for contract work	46	67,319	94,297	61,405	86,014
Current tax liabilities		31,914	-	29,111	-
Other current liabilities	25,28	1,421,112	1,386,017	1,296,280	1,264,268
Total current liabilities		7,601,625	8,428,114	6,933,891	7,687,780
NON-CURRENT LIABILITIES:					
Long-term trade and other payables	20	28,830	41,103	26,298	37,493
Long-term borrowings	15,21	792,498	898,969	722,884	820,003
Debentures	21	590,962	95,228	539,051	86,863
Asset-backed securitization ("ABS") loans	18,19,21	1,784,325	1,181,066	1,627,588	1,077,320
Guaranteed loans	5,15,21	-	9,025	-	8,232
Finance lease obligations	15,22	6,491,574	7,155,363	5,921,348	6,526,829
Net defined benefit obligation	23	1,186,320	996,500	1,082,114	908,967
Provisions	24	161,095	164,683	146,944	150,217
Deferred revenue	25	1,828,466	1,701,781	1,667,852	1,552,295
Financial derivative liabilities	26,41	67,322	18,293	61,408	16,686
Financial guarantee liabilities	27,40	1,165	8,806	1,062	8,033
Other non-current liabilities	28	59,346	53,715	54,133	48,997
Total non-current liabilities		12,991,903	12,324,532	11,850,682	11,241,935
Total liabilities		20,593,528	20,752,646	18,784,573	18,929,715
COMMITMENTS AND CONTINGENCIES	45				
SHAREHOLDERS' EQUITY:					
Capital stock	1,29	369,753	369,753	337,273	337,273
Other capital surplus	30	776,179	776,179	707,999	707,999
Other capital components	14,32	325,335	332,917	296,758	303,673
Retained earnings	31	773,805	817,445	705,833	745,640
Total shareholders' equity		2,245,072	2,296,294	2,047,863	2,094,585
Total liabilities and shareholders' equity		₩ 22,838,600	₩ 23,048,940	$ 20,832,436	$ 21,024,300

(Concluded)

See accompanying notes to condensed separate financial statements.

KOREAN AIR LINES CO., LTD.

CONDENSED SEPARATE STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2016 AND 2015

	NOTES	Korean won			
		Three months ended September 30, 2016	Nine months ended September 30, 2016	Three months ended September 30, 2015	Nine months ended September 30, 2015
		(In millions, except for earnings (loss) per share)			
SALES	33,47	₩ 3,056,766	₩ 8,634,804	₩ 2,918,589	₩ 8,462,928
COST OF SALES	38	2,309,814	6,837,486	2,301,160	6,958,021
GROSS PROFIT		746,952	1,797,318	617,429	1,504,907
Selling and administrative expenses	34,38	299,308	893,470	285,680	853,175
OPERATING INCOME		447,644	903,848	331,749	651,732
Financial income	35	22,346	60,562	12,294	60,910
Financial expenses	35	180,292	486,749	170,070	367,647
Other non-operating income	36	717,637	1,048,664	129,258	294,941
Other non-operating expenses	36	488,052	1,397,611	941,369	1,381,152
INCOME (LOSS) BEFORE INCOME TAX EXPENSE (BENEFIT)		519,283	128,714	(638,138)	(741,216)
INCOME TAX EXPENSE (BENEFIT)	37	91,326	48,489	(127,821)	(143,551)
NET INCOME (LOSS)		427,957	80,225	(510,317)	(597,665)

(Continued)

KOREAN AIR LINES CO., LTD.

CONDENSED SEPARATE STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (CONTINUED)

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2016 AND 2015

	NOTES	Three months ended September 30, 2016	Nine months ended September 30, 2016	Three months ended September 30, 2015	Nine months ended September 30, 2015
		Korean won (In millions, except for earnings (loss) per share)			
OTHER COMPREHENSIVE INCOME (LOSS) AFTER INCOME TAX:					
Items not to be reclassified subsequently to income or loss:					
Remeasurement of net defined benefit liabilities	23	₩ (107,594)	₩ (107,648)	₩ (213)	₩ (87,488)
Revaluation surplus	32	-	(225)	-	(2)
		(107,594)	(107,873)	(213)	(87,490)
Items to be reclassified subsequently to income or loss:					
Loss on AFS financial assets, net	32	(1,841)	(7,356)	(18,050)	(9,672)
		(1,841)	(7,356)	(18,050)	(9,672)
COMPREHENSIVE INCOME (LOSS)		₩ 318,522	₩ (35,005)	₩ (528,580)	₩ (694,827)
EARNINGS (LOSS) PER SHARE:	39				
Attributable to common stock		₩ 5,786	₩ 1,084	₩ (6,902)	₩ (8,551)
Attributable to preferred stock		5,836	1,134	(6,852)	(8,501)

(Concluded)

See accompanying notes to condensed separate financial statements.

KOREAN AIR LINES CO., LTD.

CONDENSED SEPARATE STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2016 AND 2015

		Translation into U.S. dollars (Note 2)			
	NOTES	Three months ended September 30, 2016	Nine months ended September 30, 2016	Three months ended September 30, 2015	Nine months ended September 30, 2015
		(In thousands, except for earnings (loss) per share)			
SALES	33,47	$ 2,788,257	$ 7,876,315	$ 2,662,217	$ 7,719,537
COST OF SALES	38	2,106,918	6,236,875	2,099,024	6,346,822
GROSS PROFIT		681,339	1,639,440	563,193	1,372,715
Selling and administrative expenses	34,38	273,016	814,987	260,585	778,231
OPERATING INCOME		408,323	824,453	302,608	594,484
Financial income	35	20,383	55,243	11,214	55,560
Financial expenses	35	164,455	443,993	155,131	335,353
Other non-operating income	36	654,599	956,548	117,904	269,033
Other non-operating expenses	36	445,181	1,274,844	858,678	1,259,831
INCOME (LOSS) BEFORE INCOME TAX EXPENSE (BENEFIT)		473,669	117,407	(582,083)	(676,107)
INCOME TAX EXPENSE (BENEFIT)	37	83,304	44,230	(116,593)	(130,941)
NET INCOME (LOSS)		390,365	73,177	(465,490)	(545,166)

(Continued)

KOREAN AIR LINES CO., LTD.

CONDENSED SEPARATE STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (CONTINUED)

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2016 AND 2015

		Translation into U.S. dollars (Note 2)			
	NOTES	Three months ended September 30, 2016	Nine months ended September 30, 2016	Three months ended September 30, 2015	Nine months ended September 30, 2015
		(In thousands, except for earnings (loss) per share)			
OTHER COMPREHENSIVE INCOME (LOSS) AFTER INCOME TAX:					
Items not to be reclassified subsequently to income or loss:					
Remeasurement of net defined benefit liabilities	23	$ (98,143)	$ (98,192)	$ (194)	$ (79,803)
Revaluation surplus	32	-	(205)	-	(2)
		(98,143)	(98,397)	(194)	(79,805)
Items to be reclassified subsequently to income or loss:					
Loss on AFS financial assets, net	32	(1,679)	(6,710)	(16,465)	(8,822)
		(1,679)	(6,710)	(16,465)	(8,822)
COMPREHENSIVE INCOME (LOSS)		$ 290,543	$ (31,930)	$ (482,149)	$ (633,793)
EARNINGS (LOSS) PER SHARE:	39				
Attributable to common stock		$ 5	$ 1	$ (6)	$ (8)
Attributable to preferred stock		5	1	(6)	(8)

(Concluded)

See accompanying notes to condensed separate financial statements.

KOREAN AIR LINES CO., LTD.

CONDENSED SEPARATE STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2016 AND 2015

	Korean won							
		Other capital surplus						
	Capital stock	Additional paid-up capital	Treasury stock	Loss from capital reduction	Hybrid securities	Other capital components	Retained earnings	Total
	(In millions)							
January 1, 2015	₩ 298,931	₩ 179,474	₩ -	₩ (377,086)	₩ 208,860	₩ 361,993	₩ 1,307,540	₩ 1,979,712
Net loss	-	-	-	-	-	-	(597,665)	(597,665)
Other comprehensive loss	-	-	-	-	-	(9,675)	(87,488)	(97,163)
Increase in paid-up capital	70,822	423,381	-	-	-	-	-	494,203
Dividends from hybrid securities	-	-	-	-	-	-	(10,080)	(10,080)
Others	-	-	-	-	-	-	3	3
September 30, 2015	₩ 369,753	₩ 602,855	₩ -	₩ (377,086)	₩ 208,860	₩ 352,318	₩ 612,310	₩ 1,769,010
January 1, 2016	₩ 369,753	₩ 602,855	₩ -	₩ (377,086)	₩ 550,410	₩ 332,917	₩ 817,445	₩ 2,296,294
Net income	-	-	-	-	-	-	80,225	80,225
Other comprehensive loss	-	-	-	-	-	(7,582)	(107,648)	(115,230)
Dividends from hybrid securities	-	-	-	-	-	-	(16,513)	(16,513)
Others	-	-	-	-	-	-	296	296
September 30, 2016	₩ 369,753	₩ 602,855	₩ -	₩ (377,086)	₩ 550,410	₩ 325,335	₩ 773,805	₩ 2,245,072

(Continued)

KOREAN AIR LINES CO., LTD.

CONDENSED SEPARATE STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (CONTINUED)

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2016 AND 2015

	Translation into U.S. dollars (Note 2)							
		Other capital surplus						
	Capital stock	Additional paid-up capital	Treasury stock	Loss from capital reduction	Hybrid securities	Other capital components	Retained earnings	Total
	(In thousands)							
January 1, 2015	$ 272,673	$ 163,709	$ -	$ (343,963)	$ 190,514	$ 330,196	$ 1,192,684	$ 1,805,813
Net loss	-	-	-	-	-	-	(545,166)	(545,166)
Other comprehensive loss	-	-	-	-	-	(8,824)	(79,803)	(88,627)
Increase in paid-up capital	64,600	386,191	-	-	-	-	-	450,791
Dividends from hybrid securities	-	-	-	-	-	-	(9,195)	(9,195)
Others	-	-	-	-	-	-	3	3
September 30, 2015	$ 337,273	$ 549,900	$ -	$ (343,963)	$ 190,514	$ 321,372	$ 558,523	$ 1,613,619
January 1, 2016	$ 337,273	$ 549,900	$ -	$ (343,963)	$ 502,062	$ 303,673	$ 745,640	$ 2,094,585
Net profit	-	-	-	-	-	-	73,177	73,177
Other comprehensive loss	-	-	-	-	-	(6,915)	(98,192)	(105,107)
Dividends from hybrid securities	-	-	-	-	-	-	(15,063)	(15,063)
Others	-	-	-	-	-	-	271	271
September 30, 2016	$ 337,273	$ 549,900	$ -	$ (343,963)	$ 502,062	$ 296,758	$ 705,833	$ 2,047,863

(Concluded)

See accompanying notes to condensed separate financial statements.

KOREAN AIR LINES CO., LTD.

CONDENSED SEPARATE STATEMENTS OF CASH FLOWS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2016 AND 2015

	Korean won		Translation into U.S. dollars (Note 2)	
	2016	2015	2016	2015
	(In millions)		(In thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:				
Cash flows from operations:				
Net income (loss)	₩ 80,225	₩ (597,665)	$ 73,177	$ (545,166)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:				
Provision for leased aircraft maintenance	22,034	20,116	20,099	18,349
Retirement benefit costs	99,566	112,954	90,820	103,032
Depreciation	1,270,177	1,179,321	1,158,604	1,075,729
Amortization	38,677	30,836	35,280	28,127
Bad debt expenses	1,526	444	1,392	405
Interest expense	293,458	277,355	267,680	252,992
Loss on valuation of derivatives	103,472	52,466	94,383	47,858
Loss on foreign currency translation	137,715	865,683	125,618	789,641
Loss on foreign currency transaction	35,208	61,334	32,116	55,946
Other bad debt expenses	20,036	794	18,276	724
Loss on disposal of property, aircraft and equipment	102,687	144,238	93,666	131,568
Loss on disposal of assets held for sale	19,311	-	17,615	-
Impairment loss on property, aircraft and equipment	72,886	72,364	66,483	66,007
Revaluation loss on property, aircraft and equipment	2	-	2	-
Loss on disposal of intangible assets	459	-	419	-
Impairment loss on intangible assets	7,873	-	7,181	-
Loss on disposal of AFS financial assets	108	-	98	-
Impairment loss on AFS financial assets	252,630	-	230,439	-
Impairment loss on investment in associates	444,829	-	405,755	-
Income tax expenses	48,489	-	44,230	-
Interest income	(23,164)	(31,171)	(21,129)	(28,433)
Dividend income	(12,688)	(7,330)	(11,573)	(6,686)
Gain on valuation of derivatives	(3,096)	(3,304)	(2,824)	(3,013)
Gain on foreign currency translation	(773,808)	(96,078)	(705,836)	(87,639)
Reversal of allowance for other doubtful accounts	(579)	(51)	(528)	(46)
Gain on disposal of property, aircraft and equipment	(13,067)	(3,670)	(11,919)	(3,348)
Gain on disposal of assets held for sale	(955)	-	(871)	-
Gain on disposal of intangible assets	(10)	(2)	(9)	(2)
Gain on disposal of AFS financial assets	-	(176)	-	(160)
Reversal of provision for financial guarantee	(7,655)	(7,219)	(6,983)	(6,585)
Income tax benefit	-	(143,551)	-	(130,941)
Others	8,307	9,147	7,577	8,342
	₩ 2,144,428	₩ 2,534,500	$ 1,956,061	$ 2,311,867

(Continued)

KOREAN AIR LINES CO., LTD.

CONDENSED SEPARATE STATEMENTS OF CASH FLOWS (CONTINUED)

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2016 AND 2015

	Korean won		Translation into U.S. dollars (Note 2)	
	2016	2015	2016	2015
	(In millions)		(In thousands)	
Changes in assets and liabilities resulting from operations:				
Increase in trade receivables	₩ (20,617)	₩ (9,482)	$ (18,806)	$ (8,649)
Increase in other receivables	(6,073)	(58,187)	(5,540)	(53,075)
Decrease (increase) in accrued revenues	4,497	(2,011)	4,102	(1,834)
Increase in amount due from customers for contract work	(15,687)	(42,148)	(14,309)	(38,446)
Increase in inventories	(30,965)	(48,496)	(28,245)	(44,236)
Decrease in financial derivative assets	-	1,791	-	1,634
Increase in advance payments	(37,651)	(23,456)	(34,343)	(21,396)
Decrease (increase) in prepaid expenses	37,469	(12,258)	34,178	(11,181)
Decrease in trade payables	(21,710)	(4,782)	(19,803)	(4,362)
Decrease in non-trade payables	(3,638)	(64,129)	(3,318)	(58,496)
Increase (decrease) in accrued expenses	173,669	(50,941)	158,413	(46,466)
Increase (decrease) in advances	(14,676)	38,421	(13,387)	35,046
Decrease in amount due to customers for contract work	(26,979)	(69,917)	(24,609)	(63,775)
Decrease in financial derivative liabilities	(86,373)	(171,538)	(78,786)	(156,470)
Decrease in plan assets	9,151	9,177	8,347	8,371
Payment of severance benefit	(62,135)	(53,282)	(56,677)	(48,602)
Succession of defined benefit obligation	645	517	589	471
Decrease in provisions	(39,934)	(1,770)	(36,426)	(1,614)
Increase in deferred revenue	126,685	59,572	115,557	54,339
Others	47,483	164,707	43,312	150,239
	33,161	(338,212)	30,249	(308,502)
Interest received	13,284	30,435	12,117	27,762
Dividends received	12,448	7,107	11,355	6,482
Income taxes paid	(968)	(60)	(883)	(55)
Net cash provided by operating activities	₩ 2,282,578	₩ 1,636,105	$ 2,082,076	$ 1,492,388

(Continued)

KOREAN AIR LINES CO., LTD.

CONDENSED SEPARATE STATEMENT OF CASH FLOWS (CONTINUED)

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2016 AND 2015

	Korean won		Translation into U.S. dollars (Note 2)	
	2016	2015	2016	2015
	(In millions)		(In thousands)	
CASH FLOWS FROM INVESTING ACTIVITIES:				
Net decrease in short-term financial instruments	₩ (24,928)	₩ (45,001)	$ (22,738)	$ (41,048)
Increase in short-term loans	(60,000)	-	(54,730)	-
Recovery of finance lease obligations	11,291	10,444	10,299	9,526
Decrease in current portion of held-to-maturity investments	38	-	35	-
Net decrease in long-term financial instruments	(290)	(1,976)	(265)	(1,802)
Disposal of AFS financial assets	266	5,176	243	4,721
Purchase of AFS financial assets	(37,830)	(3,000)	(34,507)	(2,736)
Purchase of held-to-maturity investments	(20)	(3)	(18)	(3)
Disposal of investment in subsidiaries	-	866,329	-	790,230
Purchase of investment in subsidiaries	-	-	-	-
Disposal of property, aircraft and equipment	186,218	129,700	169,860	118,307
Acquisition of property, aircraft and equipment	(546,287)	(806,524)	(498,300)	(735,678)
Disposal of assets held for sale	45,086	-	41,126	-
Disposal of intangible assets	557	68	508	62
Acquisition of intangible assets	(672)	-	(613)	-
Decrease in guarantee deposits	129,099	37,551	117,759	34,253
Increase in guarantee deposits	(113,342)	(85,381)	(103,386)	(77,881)
Decrease in other non-current assets	3	2	2	2
Net cash provided by (used in) investing activities	(410,811)	107,385	(374,725)	97,953
CASH FLOWS FROM FINANCING ACTIVITIES:				
Net increase in short-term borrowings	286,102	126,948	260,971	115,796
Proceeds from short-term debentures	188,783	-	172,200	-
Repayment of current portion of long-term borrowings	(2,697,005)	(2,434,916)	(2,460,098)	(2,221,031)
Repayment of current portion of finance lease obligations	(1,041,479)	(763,483)	(949,995)	(696,418)
Proceeds from long-term borrowings	348,119	405,422	317,540	369,809
Proceeds from debentures	486,858	288,999	444,092	263,613
Proceeds from ABS loans	1,230,635	600,000	1,122,535	547,295
Increase in paid-up capital	-	494,202	-	450,791
Increase in investment in subsidiaries	(441,338)	(139,160)	(402,571)	(126,936)
Dividends from hybrid securities paid	(14,552)	(10,080)	(13,274)	(9,195)
Interest paid	(291,123)	(285,031)	(265,551)	(259,994)
Net cash used in financing activities	₩ (1,945,000)	₩ (1,717,099)	$ (1,774,151)	$ (1,566,270)

(Continued)

KOREAN AIR LINES CO., LTD.

CONDENSED SEPARATE STATEMENT OF CASH FLOWS (CONTINUED)

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2016 AND 2015

	Korean won		Translation into U.S. dollars (Note 2)	
	2016	2015	2016	2015
	(In millions)		(In thousands)	
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	₩ (73,233)	₩ 26,391	$ (66,800)	$ 24,071
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	698,947	410,108	637,551	374,084
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(6,272)	12,109	(5,721)	11,046
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	₩ 619,442	₩ 448,608	$ 565,030	$ 409,201

(Concluded)

See accompanying notes to condensed separate financial statements.

NOTES TO CONDENSED SEPARATE FINANCIAL STATEMENTS

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2016 AND 2015

1. GENERAL:

Korean Air Lines Co., Ltd. (the "Company") was established on June 19, 1962, and is engaged in the business of domestic and international airline services, manufacture of aircraft parts, maintenance of aircraft and catering of in-flight meals. The Company has been a publicly traded company upon listing its common stock on the Korea Exchange since 1966.

Total capital stock of the Company as of September 30, 2016, amounted to ₩369,753 million in par value (including ₩5,554 million of preferred stock). The principal shareholders of the Company's common shares are Hanjin Kal Co., Ltd. (31.46%) and its affiliates (4.10%).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Basis of Condensed Separate Financial Statement Presentation
The Company maintains its official accounting records in Korean won and prepares condensed separate financial statements in conformity with Korean statutory requirements and Korean International Financial Reporting Standards ("K-IFRS"), in Korean language (Hangul). Accordingly, these condensed separate financial statements are intended for use by those who are informed about K-IFRS and Korean practices. Certain information included in the Korean language financial statements, but not required for a fair presentation of the Company's financial position, operating results, changes in shareholders' equity or cash flows, is not presented in the accompanying condensed separate financial statements.

The accompanying condensed separate financial statements are stated in Korean won, the currency of the country in which the Company is incorporated and operates. The translation of Korean won amounts into U.S. dollar amounts is included solely for the convenience of readers outside of the Republic of Korea and has been made at the rate of ₩1,096.30 to USD 1.00 on September 30, 2016, the base rate announced by Seoul Money Brokerage Services, Ltd. Such translations should not be construed as representations that the Korean won amounts could be converted into U.S. dollars at that or any other rate.

(1) Basis of Preparation

The Company's condensed separate financial statements for the nine months ended September 30, 2016, are prepared in accordance with K-IFRS 1034, *Interim Financial Reporting*, and K-IFRS 1027, *Separate Financial Statements*. In order to understand these condensed separate financial statements, users should use annual financial statements that are made in accordance with K-IFRS as of December 31, 2015.

The Company's accounting policies applied for the accompanying interim condensed separate financial statements are the same as the policies applied for the preparation of separate financial statements for the year ended December 31, 2015, except for the effects from the introduction of new and revised accounting standards or interpretations as described below.

1) Accounting standards and interpretations that were newly applied for the nine months ended September 30, 2016, and changes in the Company's accounting policies are as follows:

Amendments to K-IFRS 1001 – *Presentation of Financial Statements*
The amendments to K-IFRS 1001 clarify the concept of applying materiality in practice and restrict an entity reducing the understandability of its financial statements by obscuring material information with immaterial information or by aggregating material items that have different natures or functions. The application of these amendments has no significant impact on the Company's condensed separate financial statements.

Amendments to K-IFRS 1016 – *Property, Plant and Equipment*
The amendments to K-IFRS 1016 prohibit the group from using a revenue-based depreciation method for items of property, plant and equipment. The application of these amendments has no significant impact on the Company's condensed separate financial statements.

Amendments to K-IFRS 1038 – *Intangible Assets*
The amendments to K-IFRS 1038 do not allow presumption that revenue is an appropriate basis for the amortization of intangible assets, which the presumption can only be limited when the intangible asset expressed as a measure of revenue or when it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated. The application of these amendments has no significant impact on the Company's condensed separate financial statements.

Amendments to K-IFRS 1016 – *Property, plant and equipment and K-IFRS 1041 – Agriculture: Bearer Plants*
The amendments to K-IFRS 1016 and K-IFRS 1041 define a bearer plant and require biological assets that meet the definition of a bearer plant to be accounted for as property, plant and equipment in accordance with K-IFRS 1016, instead of K-IFRS 1041. The application of these amendments has no significant impact on the Company's condensed separate financial statements.

Amendments to K-IFRS 1111 – *Accounting for Acquisitions of Interests in Joint Operations*
The amendments to K-IFRS 1111 provide guidance on how to account for the acquisition of a joint operation that constitutes a business as defined in K-IFRS 1103, *Business Combinations*. A joint operator is also required to disclose the relevant information required by K-IFRS 1103 and other standards for business combinations. The application of these amendments has no significant impact on the Company's condensed separate financial statements.

Annual Improvements to K-IFRS 2012-2014 Cycle
The Annual Improvements include amendments to a number of K-IFRS. The amendments introduce specific guidance on K-IFRS 1105, *Non-Current Assets Held for Sale and Discontinued Operations*, for 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, 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 significant impact on the Company's condensed separate financial statements.

Amendments to K-IFRS 1027 – *Separate Financial Statements*
The following amendments discuss accounting for investment in subsidiaries, related parties and joint ventures at cost basis and allow the selection of the application of K-IFRS 1039, *Financial Instruments: Recognition and Measurement*, or the application of equity method accounting under K-IFRS 1028, *Investment in Associates and Joint Ventures*. The application of these amendments has no significant impact on the Company's condensed separate financial statements.

2) The Company has not applied the following new and revised K-IFRSs that have been issued, but are not yet effective:

Enactment of 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 and broadened types of instruments that qualify as hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting and the change of the hedge effectiveness test. The amendments are effective for annual periods beginning on or after January 1, 2018.

Enactment of 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.

3. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY:

In the application of the Company's accounting policies, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. Actual results may differ from those estimates.

The application of the Company's accounting policies and the judgments by management on sources of estimation uncertainty are the same as those of the condensed separate financial statements as of December 31, 2015.

4. CASH AND CASH EQUIVALENTS:

Cash and cash equivalents as of September 30, 2016, and December 31, 2015, consist of the following:

	Korean won		Translation into U.S. dollars (Note 2)	
	2016	2015	2016	2015
	(In millions)		(In thousands)	
Cash on hand	₩ 133	₩ 145	$ 121	$ 132
Bank deposits	619,309	698,802	564,909	637,419
	₩ 619,442	₩ 698,947	$ 565,030	$ 637,551

5. RESTRICTED DEPOSITS:

Restricted deposits as of September 30, 2016, and December 31, 2015, consist of the following:

	(In millions of won and in thousands of U.S. dollars)				
	2016		2015		Remark
Short-term financial instruments	₩	4,000	₩	4,000	Collateral on the joint security with Export-Import Bank of Korea
	₩	5,320	₩	5,450	Performance guarantee deposit on the mail delivery contract with Korea Post
	₩	24,918	₩	-	Pledged for the Floating Rate Note contract extension amounting to $100 million
	₩	2,400	₩	2,400	Government project deposits
	$	374	$	-	Guarantee deposit on newly opened North America L/C
Held-to-maturity investments	₩	690	₩	809	Performance guarantee deposit on the mail delivery contract with Korea Post
AFS financial assets (*)	₩	69,776	₩	78,772	Pledged for hybrid securities and Hanjin Int'l Corp's borrowings and others
Long-term financial instruments	₩	4,920	₩	4,630	Performance guarantee deposit on the mail delivery contract with Korea Post and for the U.S. Air Force delivery service
	₩	1,800	₩	1,800	Pledged for guaranteed loans
	₩	8	₩	8	Bank account deposit
	$	50,000	$	50,000	Pledged for Hanjin Int'l Corp.'s borrowings
	$	35,000	$	35,000	Pledged for hybrid securities
	$	-	$	371	Guarantee deposit on newly opened North America L/C
	₩	113,832	₩	97,869	
	$	85,374	$	85,371	

(*) 81,496,169 shares of Hanjin Shipping Co., Ltd. held by the Company are provided as collateral for Hanjin Int'l Corp's borrowings and others.

6. TRADE AND OTHER RECEIVABLES:

Trade and other receivables as of September 30, 2016, and December 31, 2015, consist of the following:

	Korean won		Translation into U.S. dollars (Note 2)	
	2016	2015	2016	2015
	(In millions)		(In thousands)	
Trade receivables	₩ 560,356	₩ 545,991	$ 511,133	$ 498,031
Allowance for doubtful accounts	(5,656)	(5,141)	(5,159)	(4,689)
	554,700	540,850	505,974	493,342
Short-term loans	60,000	220,000	54,730	200,675
Non-trade receivables	121,226	137,754	110,577	125,654
Allowance for doubtful accounts	(51,147)	(43,153)	(46,654)	(39,362)
	70,079	94,601	63,923	86,292
Accrued revenues	67,841	62,630	61,882	57,128
Allowance for doubtful accounts	(11,785)	(626)	(10,750)	(572)
	56,056	62,004	51,132	56,556
	₩ 740,835	₩ 917,455	$ 675,759	$ 836,865

7. AFS FINANCIAL ASSETS:

AFS financial assets as of September 30, 2016, and December 31, 2015, consist of the following:

	Korean won		Translation into U.S. dollars (Note 2)	
	2016	2015	2016	2015
	(In millions)		(In thousands)	
Equity securities:				
Listed securities (*)	₩ 85,405	₩ 95,110	$ 77,903	$ 86,756
Unlisted securities	42,775	43,150	39,018	39,360
Beneficiary certificates	2,100	-	1,916	-
Debt securities:				
Corporate bonds	-	-	-	-
Investments in other equity securities	14,638	11,298	13,352	10,305
	₩ 144,918	₩ 149,558	$ 132,189	$ 136,421

(*) Listed securities amounting to ₩69,776 million ($63,647 thousand) are pledged for hybrid securities and Hanjin Int'l Corp's borrowings and others as of September 30, 2016 (see Note 5).

Impairment loss recognized from AFS financial assets for the nine months ended September 30, 2016, was ₩252,630 million ($230,439 thousand), with all loss being recognized from corporate bond, and there was no impairment loss recognized on AFS financial assets for the nine months ended September 30, 2015. There were no reversal of impairment loss recognized on AFS financial assets for the nine months ended September 30, 2016 and 2015.

8. HELD-TO-MATURITY INVESTMENTS:

Held-to-maturity investments as of September 30, 2016, and December 31, 2015, consist of the following:

	Korean won			
	2016		2015	
	Current	Non-current	Current	Non-current
	(In millions)			
Government and public bonds (*)	₩ 76	₩ 758	₩ 39	₩ 813

	Translation into U.S. dollars (Note 2)			
	2016		2015	
	Current	Non-current	Current	Non-current
	(In thousands)			
Government and public bonds (*)	$ 69	$ 691	$ 36	$ 741

(*) Government and public bonds amounting to ₩690 million ($629 thousand) are pledged for performance guarantee as of September 30, 2016 (see Note 5).

There were no held-to-maturity investments overdue or impaired for the nine months ended September 30, 2016 and 2015.

9. INVENTORIES:

Inventories as of September 30, 2016, and December 31, 2015, consist of the following:

	Korean won					
	2016			2015		
	Acquisition cost	Valuation allowance	Book value	Acquisition cost	Valuation allowance	Book value
	(In millions)					
Merchandise	₩ 20,070	₩ -	₩ 20,070	₩ 19,083	₩ -	₩ 19,083
Raw materials	94,723	-	94,723	88,933	-	88,933
Supplies	356,276	-	356,276	324,695	-	324,695
Materials in transit	36,433	-	36,433	42,967	-	42,967
	₩ 507,502	₩ -	₩ 507,502	₩ 475,678	₩ -	₩ 475,678

	Translation into U.S. dollars (Note 2)					
	2016			2015		
	Acquisition cost	Valuation allowance	Book value	Acquisition cost	Valuation allowance	Book value
	(In thousands)					
Merchandise	$ 18,307	$ -	$ 18,307	$ 17,405	$ -	$ 17,405
Raw materials	86,402	-	86,402	81,122	-	81,122
Supplies	324,981	-	324,981	296,174	-	296,174
Materials in transit	33,233	-	33,233	39,193	-	39,193
	$ 462,923	$ -	$ 462,923	$ 433,894	$ -	$ 433,894

10. FINANCE LEASE RECEIVABLES:

(1) The Company has offered the finance leases of the aircraft. The minimum lease payments and present value of the finance leases as of September 30, 2016, and December 31, 2015, are as follows:

Description	Korean won 2016	Korean won 2015	Translation into U.S. dollars (Note 2) 2016	Translation into U.S. dollars (Note 2) 2015
	(In millions)		(In thousands)	
Less than one year	₩ 20,832	₩ 10,479	$ 19,002	$ 9,558
One year to five years	54,633	28,996	49,834	26,449
	75,465	39,475	68,836	36,007
Present value discounts	(7,440)	(5,636)	(6,787)	(5,140)
	68,025	33,839	62,049	30,867
Less: Current portion of finance lease receivables	(16,637)	(7,474)	(15,175)	(6,818)
	₩ 51,388	₩ 26,365	$ 46,874	$ 24,049

(2) Finance lease receivables were not impaired for the nine months ended September 30, 2016 and 2015.

11. INVESTMENTS IN ASSOCIATES:

(1) Investments in associates as of September 30, 2016, and December 31, 2015, consist of the following:

2016

Description	Principal business	Location	Ownership	Korean won Acquisition cost	Korean won Book value	Closing month
			(%)	(In millions)		
Hanjin Shipping Co., Ltd. (*1)	Shipping company	Korea	-	₩ -	₩ -	December
EIGHTCITY Co., Ltd. (*2)	Real estate	Korea	23.81%	1,500	-	December
Czech Airlines j.s.c. (*2)	Airline services	Czech	44.00%	3,905	-	December
				₩ 5,405	₩ -	

Description	Principal business	Location	Ownership	Translation into U.S. dollars (Note 2) Acquisition cost	Translation into U.S. dollars (Note 2) Book value	Closing month
			(%)	(In thousands)		
Hanjin Shipping Co., Ltd. (*1)	Shipping company	Korea	-	$ -	$ -	December
EIGHTCITY Co., Ltd. (*2)	Real estate	Korea	23.81%	1,368	-	December
Czech Airlines j.s.c. (*2)	Airline services	Czech	44.00%	3,562	-	December
				$ 4,930	$ -	

2015

Description	Principal business	Location	Ownership	Korean won: Acquisition cost	Korean won: Book value	Closing month
			(%)	(In millions)		
Hanjin Shipping Co., Ltd. (*1)	Shipping company	Korea	33.23%	₩ 444,829	₩ 444,829	December
EIGHTCITY Co., Ltd. (*2)	Real estate	Korea	23.81%	1,500	-	December
Czech Airlines j.s.c. (*2)	Airline services	Czech	44.00%	3,905	-	December
				₩ 450,234	₩ 444,829	

Description	Principal business	Location	Ownership	Translation into U.S. dollars (Note 2): Acquisition cost	Translation into U.S. dollars (Note 2): Book value	Closing month
			(%)	(In thousands)		
Hanjin Shipping Co., Ltd. (*1)	Shipping company	Korea	33.23%	$ 405,755	$ 405,755	December
EIGHTCITY Co., Ltd. (*2)	Real estate	Korea	23.81%	1,368	-	December
Czech Airlines j.s.c. (*2)	Airline services	Czech	44.00%	3,562	-	December
				$ 410,685	$ 405,755	

(*1) Investment in associates of Hanjin Shipping Co., Ltd. was reclassified as AFS financial assets due to the decision of the rehabilitation procedure for the nine months ended September 30, 2016, and was pledged as collateral for Hanjin Int'l Corp's borrowings and others (see Note 5).
(*2) Investments in EIGHTCITY Co., Ltd. and Czech Airlines j.s.c. were fully impaired prior to 2015.

(2) Changes in investments in associates for the nine months ended September 30, 2016, are as follows, and there were no changes for the nine months ended September 30, 2015.

2016

Description	Korean won: Beginning balance	Acquisition	Disposal	Others (*)	Ending balance
			(In millions)		
Hanjin Shipping Co., Ltd. (*)	₩ 444,829	₩ -	₩ -	₩ (444,829)	₩ -
EIGHTCITY Co., Ltd.	-	-	-	-	-
Czech Airlines j.s.c.	-	-	-	-	-
	₩ 444,829	₩ -	₩ -	₩ (444,829)	₩ -

Description	Translation into U.S. dollars (Note 2): Beginning balance	Acquisition	Disposal	Others (*)	Ending balance
			(In thousands)		
Hanjin Shipping Co., Ltd. (*)	$ 405,755	$ -	$ -	$ (405,755)	$ -
EIGHTCITY Co., Ltd.	-	-	-	-	-
Czech Airlines j.s.c.	-	-	-	-	-
	$ 405,755	$ -	$ -	$ (405,755)	$ -

(*) The Company recognized impairment loss of ₩444,829 million ($405,755 thousand) from shares of Hanjin Shipping Co., Ltd. for the nine months ended September 30, 2016.

12. INVESTMENTS IN SUBSIDIARIES:

(1) Investments in subsidiaries as of September 30, 2016, and December 31, 2015, consist of the following:

Description	Principal business	Location	Ownership 2016	Ownership 2015	Korean won 2016 (In millions)	Korean won 2015 (In millions)	Closing month
Korea Airport Service Co., Ltd.	Airport support service	Korea	59.54%	59.54%	₩ 145,352	₩ 145,352	December
Hanjin Information Systems & Telecommunication Co., Ltd.	Software development and supply	Korea	99.35%	99.35%	30,077	30,077	December
Air Total Service Co., Ltd.	Labor supply	Korea	100.00%	100.00%	10,136	10,136	December
Hanjin Int'l Corp.	Hotel and rental service	USA	100.00%	100.00%	764,392	330,467	December
Hanjin Central Asia MChJ.	Hotel business	Uzbekistan	100.00%	100.00%	14,459	14,459	December
IAT Co., Ltd.	Aircraft engine repair services	Korea	90.00%	90.00%	70,200	70,200	December
WLD Co., Ltd.	Sports and leisure service	Korea	100.00%	100.00%	88,500	80,000	December
Korea Global Logistics System Co., Ltd.	Telecommunication service	Korea	95.00%	95.00%	4,024	4,024	December
Hanjin Int'l Japan (*)	Airport support service	Japan	50.00%	50.00%	358	358	December
Cyber Sky Co., Ltd.	Online sales	Korea	100.00%	100.00%	6,267	6,267	December
KAL 7 Asset Securitization Specialty Company (*)	Issuance and repayment of ABS	Korea	0.50%	0.50%	-	-	December
KAL 9 Asset Securitization Specialty Company (*)	Issuance and repayment of ABS	Korea	0.50%	0.50%	-	-	December
KAL 10 Asset Securitization Specialty Company (*)	Issuance and repayment of ABS	Korea	0.50%	0.50%	-	-	December
KAL 11 Asset Securitization Specialty Company (*)	Issuance and repayment of ABS	Korea	0.50%	0.50%	-	-	December
KAL 11B Asset Securitization Specialty Company (*)	Issuance and repayment of ABS	Korea	0.50%	0.50%	-	-	December
KAL 11C Asset Securitization Specialty Company (*)	Issuance and repayment of ABS	Korea	0.50%	0.50%	-	-	December
KAL 12 Asset Securitization Specialty Company (*)	Issuance and repayment of ABS	Korea	0.50%	0.50%	-	-	December
KAL 13 Asset Securitization Specialty Company (*)	Issuance and repayment of ABS	Korea	0.50%	0.50%	-	-	December
KAL 14 Asset Securitization Specialty Company (*)	Issuance and repayment of ABS	Korea	0.50%	0.50%	-	-	December
KAL 15 Asset Securitization Specialty Company (*)	Issuance and repayment of ABS	Korea	0.50%	0.50%	-	-	December
KAL 16 Asset Securitization Specialty Company (*)	Issuance and repayment of ABS	Korea	0.50%	0.50%	-	-	December
KAL 17 Asset Securitization Specialty Company (*)	Issuance and repayment of ABS	Korea	0.50%	-	-	-	December
KAL 18 Asset Securitization Specialty Company (*)	Issuance and repayment of ABS	Korea	0.50%	-	-	-	December
KAL 19 Asset Securitization Specialty Company (*)	Issuance and repayment of ABS	Korea	0.50%	-	-	-	December
					₩ 1,133,765	₩ 691,340	

Description	Principal business	Location	Ownership 2016	Ownership 2015	Translation into U.S. dollars (Note 2) 2016	Translation into U.S. dollars (Note 2) 2015	Closing month
					(In thousands)		
Korea Airport Service Co., Ltd.	Airport support service	Korea	59.54%	59.54%	$ 132,584	$ 132,584	December
Hanjin Information Systems & Telecommunication Co., Ltd.	Software development and supply	Korea	99.35%	99.35%	27,435	27,435	December
Air Total Service Co., Ltd.	Labor supply	Korea	100.00%	100.00%	9,245	9,245	December
Hanjin Int'l Corp.	Hotel and rental service	USA	100.00%	100.00%	697,246	301,437	December
Hanjin Central Asia MChJ.	Hotel business	Uzbekistan	100.00%	100.00%	13,189	13,189	December
IAT Co., Ltd.	Aircraft engine repair services	Korea	90.00%	90.00%	64,034	64,034	December
WLD Co., Ltd.	Sports and leisure service	Korea	100.00%	100.00%	80,726	72,973	December
Korea Global Logistics System Co., Ltd.	Telecommunication service	Korea	95.00%	95.00%	3,671	3,671	December
Hanjin Int'l Japan (*)	Airport support service	Japan	50.00%	50.00%	327	327	December
Cyber Sky Co., Ltd.	Online sales	Korea	100.00%	100.00%	5,717	5,717	December
KAL 7 Asset Securitization Specialty Company (*)	Issuance and repayment of ABS	Korea	0.50%	0.50%	-	-	December
KAL 9 Asset Securitization Specialty Company (*)	Issuance and repayment of ABS	Korea	0.50%	0.50%	-	-	December
KAL 10 Asset Securitization Specialty Company (*)	Issuance and repayment of ABS	Korea	0.50%	0.50%	-	-	December
KAL 11 Asset Securitization Specialty Company (*)	Issuance and repayment of ABS	Korea	0.50%	0.50%	-	-	December
KAL 11B Asset Securitization Specialty Company (*)	Issuance and repayment of ABS	Korea	0.50%	0.50%	-	-	December
KAL 11C Asset Securitization Specialty Company (*)	Issuance and repayment of ABS	Korea	0.50%	0.50%	-	-	December
KAL 12 Asset Securitization Specialty Company (*)	Issuance and repayment of ABS	Korea	0.50%	0.50%	-	-	December
KAL 13 Asset Securitization Specialty Company (*)	Issuance and repayment of ABS	Korea	0.50%	0.50%	-	-	December
KAL 14 Asset Securitization Specialty Company (*)	Issuance and repayment of ABS	Korea	0.50%	0.50%	-	-	December
KAL 15 Asset Securitization Specialty Company (*)	Issuance and repayment of ABS	Korea	0.50%	0.50%	-	-	December
KAL 16 Asset Securitization Specialty Company (*)	Issuance and repayment of ABS	Korea	0.50%	0.50%	-	-	December
KAL 17 Asset Securitization Specialty Company (*)	Issuance and repayment of ABS	Korea	0.50%	-	-	-	December
KAL 18 Asset Securitization Specialty Company (*)	Issuance and repayment of ABS	Korea	0.50%	-	-	-	December
KAL 19 Asset Securitization Specialty Company (*)	Issuance and repayment of ABS	Korea	0.50%	-	-	-	December
					$ 1,034,174	$ 630,612	

(*) The Company classified KAL Asset Securitization Specialty Companies as investments in subsidiaries because the Company controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

(2) Changes in investments in subsidiaries for the nine months ended September 30, 2016 and 2015, are as follows:

2016

Description	Beginning balance	Acquisition	Disposal	Others	Ending balance
	Korean won (In millions)				
Korea Airport Service Co., Ltd.	₩ 145,352	₩ -	₩ -	₩ -	₩ 145,352
Hanjin Information Systems & Telecommunication Co., Ltd.	30,077	-	-	-	30,077
Air Total Service Co., Ltd.	10,136	-	-	-	10,136
Hanjin Int'l Corp. (*1)	330,467	432,838	-	1,087	764,392
Hanjin Central Asia MChJ.	14,459	-	-	-	14,459
IAT Co., Ltd.	70,200	-	-	-	70,200
WLD Co., Ltd. (*2)	80,000	8,500	-	-	88,500
Korea Global Logistics System Co., Ltd.	4,024	-	-	-	4,024
Hanjin Int'l Japan	358	-	-	-	358
Cyber Sky Co., Ltd.	6,267	-	-	-	6,267
KAL 7 Asset Securitization Specialty Company	-	-	-	-	-
KAL 9 Asset Securitization Specialty Company	-	-	-	-	-
KAL 10 Asset Securitization Specialty Company	-	-	-	-	-
KAL 11 Asset Securitization Specialty Company	-	-	-	-	-
KAL 11B Asset Securitization Specialty Company	-	-	-	-	-
KAL 11C Asset Securitization Specialty Company	-	-	-	-	-
KAL 12 Asset Securitization Specialty Company	-	-	-	-	-
KAL 13 Asset Securitization Specialty Company	-	-	-	-	-
KAL 14 Asset Securitization Specialty Company	-	-	-	-	-
KAL 15 Asset Securitization Specialty Company	-	-	-	-	-
KAL 16 Asset Securitization Specialty Company	-	-	-	-	-
KAL 17 Asset Securitization Specialty Company	-	-	-	-	-
KAL 18 Asset Securitization Specialty Company	-	-	-	-	-
KAL 19 Asset Securitization Specialty Company	-	-	-	-	-
	₩ 691,340	₩ 441,338	₩ -	₩ 1,087	₩ 1,133,765

Description	Translation into U.S. dollars (Note 2)				
	Beginning balance	Acquisition	Disposal	Others	Ending balance
			(In millions)		
Korea Airport Service Co., Ltd.	$ 132,584	$ -	$ -	$ -	$ 132,584
Hanjin Information Systems & Telecommunication Co., Ltd.	27,435	-	-	-	27,435
Air Total Service Co., Ltd.	9,245	-	-	-	9,245
Hanjin Int’l Corp. (*1)	301,437	394,817	-	992	697,246
Hanjin Central Asia MChJ.	13,189	-	-	-	13,189
IAT Co., Ltd.	64,034	-	-	-	64,034
WLD Co., Ltd. (*2)	72,973	7,753	-	-	80,726
Korea Global Logistics System Co., Ltd.	3,671	-	-	-	3,671
Hanjin Int’l Japan	327	-	-	-	327
Cyber Sky Co., Ltd.	5,717	-	-	-	5,717
KAL 7 Asset Securitization Specialty Company	-	-	-	-	-
KAL 9 Asset Securitization Specialty Company	-	-	-	-	-
KAL 10 Asset Securitization Specialty Company	-	-	-	-	-
KAL 11 Asset Securitization Specialty Company	-	-	-	-	-
KAL 11B Asset Securitization Specialty Company	-	-	-	-	-
KAL 11C Asset Securitization Specialty Company	-	-	-	-	-
KAL 12 Asset Securitization Specialty Company	-	-	-	-	-
KAL 13 Asset Securitization Specialty Company	-	-	-	-	-
KAL 14 Asset Securitization Specialty Company	-	-	-	-	-
KAL 15 Asset Securitization Specialty Company	-	-	-	-	-
KAL 16 Asset Securitization Specialty Company	-	-	-	-	-
KAL 17 Asset Securitization Specialty Company	-	-	-	-	-
KAL 18 Asset Securitization Specialty Company	-	-	-	-	-
KAL 19 Asset Securitization Specialty Company	-	-	-	-	-
	$ 630,612	$ 402,570	$ -	$ 992	$ 1,034,174

(*1) The Company invested ₩432,838 million ($394,817 thousand) in Hanjin Int'l Corp for the nine months ended September 30, 2016.

(*2) The Company invested ₩8,500 million ($7,753 thousand) in WLD Co., Ltd. additionally for the nine months ended September 30, 2016.

2015

Description	Beginning balance	Acquisition	Disposal	Ending balance
	Korean won			
	(In millions)			
Korea Airport Service Co., Ltd.	₩ 145,352	₩ -	₩ -	₩ 145,352
Hanjin Information Systems & Telecommunication Co., Ltd.	30,077	-	-	30,077
Air Total Service Co., Ltd. (*1)	3,816	6,320	-	10,136
Hanjin Energy Co., Ltd. (*2, 6)	866,329	-	(866,329)	-
Hanjin Int'l Corp. (*3)	151,231	122,135	-	273,366
Hanjin Central Asia MChJ.	14,459	-	-	14,459
IAT Co., Ltd. (*4)	55,350	14,850	-	70,200
WLD Co., Ltd.	80,000	-	-	80,000
Korea Global Logistics System Co., Ltd. (*5)	650	3,374	-	4,024
Hanjin Int'l Japan	394	-	-	394
KAL 4 Asset Securitization Specialty Company (*6)	-	-	-	-
KAL 7 Asset Securitization Specialty Company	-	-	-	-
KAL 8 Asset Securitization Specialty Company (*6)	-	-	-	-
KAL 9 Asset Securitization Specialty Company	-	-	-	-
KAL 10 Asset Securitization Specialty Company	-	-	-	-
KAL 11 Asset Securitization Specialty Company	-	-	-	-
KAL 11B Asset Securitization Specialty Company	-	-	-	-
KAL 11C Asset Securitization Specialty Company	-	-	-	-
KAL 12 Asset Securitization Specialty Company	-	-	-	-
KAL 13 Asset Securitization Specialty Company	-	-	-	-
KAL 14 Asset Securitization Specialty Company	-	-	-	-
KAL 15 Asset Securitization Specialty Company	-	-	-	-
KAL 16 Asset Securitization Specialty Company	-	-	-	-
	₩ 1,347,658	₩ 146,679	₩ (866,329)	₩ 628,008

Description	Beginning balance	Acquisition	Disposal	Ending balance
	Translation into U.S. dollars (Note 2)			
	(In thousands)			
Korea Airport Service Co., Ltd.	$ 132,584	$ -	$ -	$ 132,584
Hanjin Information Systems & Telecommunication Co., Ltd.	27,435	-	-	27,435
Air Total Service Co., Ltd. (*1)	3,481	5,765	-	9,246
Hanjin Energy Co., Ltd. (*2, 6)	790,230	-	(790,230)	-
Hanjin Int'l Corp. (*3)	137,947	111,406	-	249,353
Hanjin Central Asia MChJ.	13,189	-	-	13,189
IAT Co., Ltd. (*4)	50,488	13,546	-	64,034
WLD Co., Ltd.	72,973	-	-	72,973
Korea Global Logistics System Co., Ltd. (*5)	593	3,078	-	3,671
Hanjin Int'l Japan	359	-	-	359
KAL 4 Asset Securitization Specialty Company (*6)	-	-	-	-
KAL 7 Asset Securitization Specialty Company	-	-	-	-
KAL 8 Asset Securitization Specialty Company (*6)	-	-	-	-
KAL 9 Asset Securitization Specialty Company	-	-	-	-
KAL 10 Asset Securitization Specialty Company	-	-	-	-
KAL 11 Asset Securitization Specialty Company	-	-	-	-
KAL 11B Asset Securitization Specialty Company	-	-	-	-
KAL 11C Asset Securitization Specialty Company	-	-	-	-
KAL 12 Asset Securitization Specialty Company	-	-	-	-
KAL 13 Asset Securitization Specialty Company	-	-	-	-
KAL 14 Asset Securitization Specialty Company	-	-	-	-
KAL 15 Asset Securitization Specialty Company	-	-	-	-
KAL 16 Asset Securitization Specialty Company	-	-	-	-
	$ 1,229,279	$ 133,795	$ (790,230)	$ 572,844

(*1) The Company transferred assets and liabilities of its limousine business division as part of contribution in-kind, in return for acquisition of new shares (1,473,765 shares) of Air Total Service Co., Ltd. for the nine months ended September 30, 2015.

(*2) The Company participated in Hanjin Energy co., Ltd.'s capital reduction for the nine months ended September 30, 2015. As a result, investment was reduced by ₩865,145 million ($789,150 thousand), and 33,915 shares of 34,000 shares were discarded. In addition, investment has been reduced ₩1,184 million ($1,080 thousand) by the liquidation.

(*3) The Company invested ₩122,135 million ($111,406 thousand) in Hanjin Int'l Corp additionally for the nine months ended September 30, 2015.

(*4) The Company invested ₩14,850 million ($13,546 thousand) in IAT Co., Ltd. additionally for the nine months ended September 30, 2015.

(*5) The Company acquired 60,000 shares of Korea Global Logistics System Co., Ltd. additionally for nine months ended September 30, 2015.

(*6) The Company liquidated its shares of KAL 4 Asset Securitization Specialty Company and KAL 8 Asset Securitization Specialty Company for the nine months ended September 30, 2015, and excluded it from investment in subsidiaries.

13. INTERESTS IN JOINT OPERATIONS:

The Company owns a joint investment building, which has the significant joint arrangement. Under the joint arrangement, the Company has 50% ownership of the building, INHA International Medical Center, which is located in Jung-gu, Incheon, and the Company recognized income and expenses in relation to its interest.

14. PROPERTY, AIRCRAFT AND EQUIPMENT:

(1) Changes in property, aircraft and equipment for the nine months ended September 30, 2016 and 2015, are as follows:

2016

	Korean won					
	Beginning balance	Acquisition	Disposal	Depreciation	Others (*)	Ending balance
	(In millions)					
Land	₩ 1,816,856	₩ 4,702	₩ (1,659)	₩ -	₩ (4,083)	₩ 1,815,816
Leased land	21,460	-	-	-	-	21,460
Buildings	479,163	1,984	-	(15,198)	24,669	490,618
Structures	64,181	543	-	(2,160)	-	62,564
Machinery	73,564	311	(4)	(10,879)	-	62,992
Aircraft	2,186,987	50,417	(39,753)	(253,754)	12,967	1,956,864
Engines	821,887	-	(96,122)	(176,625)	178,114	727,254
Leased aircraft	7,807,499	58,227	(32,770)	(502,407)	780,172	8,110,721
Leased engines	1,961,370	151,633	(45,807)	(282,052)	393,781	2,178,925
Aircraft parts	119,253	17,315	(496)	(9,291)	(6,900)	119,881
Vehicles	2,980	1,116	(19)	(1,059)	959	3,977
Others	44,040	28,044	(57)	(14,944)	-	57,083
Leasehold improvements	7,698	1,195	-	(1,120)	-	7,773
Construction in progress	1,396,509	1,377,219	-	-	(1,675,584)	1,098,144
	₩ 16,803,447	₩ 1,692,706	₩ (216,687)	₩ (1,269,489)	₩ (295,905)	₩ 16,714,072

	Translation into U.S. dollars (Note 2)					
	Beginning balance	Acquisition	Disposal	Depreciation	Others (*)	Ending balance
	(In thousands)					
Land	$ 1,657,262	$ 4,289	$ (1,514)	$ -	$ (3,724)	$ 1,656,313
Leased land	19,575	-	-	-	-	19,575
Buildings	437,073	1,810	-	(13,863)	22,502	447,522
Structures	58,543	496	-	(1,970)	-	57,069
Machinery	67,102	284	(4)	(9,923)	-	57,459
Aircraft	1,994,880	45,988	(36,261)	(231,464)	11,828	1,784,971
Engines	749,692	-	(87,679)	(161,110)	162,468	663,371
Leased aircraft	7,121,682	53,112	(29,892)	(458,276)	711,641	7,398,267
Leased engines	1,789,081	138,314	(41,783)	(257,276)	359,191	1,987,527
Aircraft parts	108,777	15,794	(453)	(8,475)	(6,292)	109,351
Vehicles	2,718	1,018	(18)	(966)	875	3,627
Others	40,172	25,580	(52)	(13,631)	-	52,069
Leasehold improvements	7,022	1,090	-	(1,022)	-	7,090
Construction in progress	1,273,838	1,256,243	-	-	(1,528,400)	1,001,681
	$ 15,327,417	$ 1,544,018	$ (197,656)	$ (1,157,976)	$ (269,911)	$ 15,245,892

(*) Other increase or decrease was mainly due to the transfer of construction in progress and consisted of the transfer of property, aircraft and equipment with investment properties, the transfer of assets held for sale, impairment loss on property, aircraft and equipment and others.

2015

	Korean won					
	Beginning balance	Acquisition	Disposal	Depreciation	Others (*)	Ending balance
	(In millions)					
Land	₩ 1,828,373	₩ -	₩ -	₩ -	₩ (572)	₩ 1,827,801
Leased land	21,460	-	-	-	-	21,460
Buildings	469,006	2,317	-	(14,885)	31,049	487,487
Structures	67,016	78	-	(2,149)	(48)	64,897
Machinery	84,629	3,980	(6)	(11,343)	(33)	77,227
Aircraft	2,301,381	2,566	(160,836)	(245,475)	194,573	2,092,209
Engines	848,492	-	(93,819)	(189,948)	236,960	801,685
Leased aircraft	6,636,575	105,784	-	(448,789)	1,249,229	7,542,799
Leased engines	1,579,568	50,525	-	(242,959)	471,048	1,858,182
Aircraft parts	108,542	24,885	(771)	(9,256)	(4,889)	118,511
Vehicles	7,933	607	-	(1,068)	(4,322)	3,150
Others	43,208	8,911	(20)	(12,067)	(11)	40,021
Leasehold improvements	7,946	-	-	(868)	919	7,997
Construction in progress	1,116,521	2,363,732	-	-	(2,307,768)	1,172,485
	₩ 15,120,650	₩ 2,563,385	₩ (255,452)	₩ (1,178,807)	₩ (133,865)	₩ 16,115,911

	Translation into U.S. dollars (Note 2)					
	Beginning balance	Acquisition	Disposal	Depreciation	Others (*)	Ending balance
	(In thousands)					
Land	$ 1,667,767	$ -	$ -	$ -	$ (522)	$ 1,667,245
Leased land	19,575	-	-	-	-	19,575
Buildings	427,808	2,113	-	(13,578)	28,322	444,665
Structures	61,129	71	-	(1,960)	(44)	59,196
Machinery	77,196	3,631	(5)	(10,346)	(30)	70,446
Aircraft	2,099,226	2,340	(146,708)	(223,912)	177,482	1,908,428
Engines	773,960	-	(85,578)	(173,263)	216,145	731,264
Leased aircraft	6,053,612	96,491	-	(409,367)	1,139,495	6,880,231
Leased engines	1,440,818	46,087	-	(221,617)	429,670	1,694,958
Aircraft parts	99,008	22,699	(703)	(8,443)	(4,459)	108,102
Vehicles	7,236	554	-	(974)	(3,942)	2,874
Others	39,413	8,128	(18)	(11,007)	(10)	36,506
Leasehold improvements	7,248	-	-	(793)	838	7,293
Construction in progress	1,018,445	2,156,100	-	-	(2,105,052)	1,069,493
	$ 13,792,441	$ 2,338,214	$ (233,012)	$ (1,075,260)	$ (122,107)	$ 14,700,276

(*) Other increase or decrease was mainly due to the transfer of construction in progress and consisted of the transfer of property, aircraft and equipment with investment properties, contribution-in-kind and others.

(2) The Company capitalized borrowing costs of ₩9,855 million ($8,989 thousand) into construction in progress for the nine months ended September 30, 2016. For the determination of borrowing costs, the Company used the interest rate on funds specifically for the purpose of obtaining a qualifying asset and other general funds, whose interest rates are 3.03% and 3.16%, respectively.

(3) The Company accounts for land and leased land using the revaluation model. As of June 30, 2013, the Company revaluated land through an independent and professional appraiser, Hans Appraisal & Consulting Co., Ltd. Land was revaluated based on land-basis method, which uses price of land nearby and similar of utility value, and further applies the effect of land price change rate from the date of public land value announcement, producer price index, location, shape, environment, usage and other factors. The book value of land using revaluation model and cost model as of September 30, 2016, is as follows:

	Korean won		Translation into U.S. dollars (Note 2)	
	Revaluation model	Cost model	Revaluation model	Cost model
	(In millions)		(In thousands)	
Land	₩ 1,815,816	₩ 1,489,134	$ 1,656,313	$ 1,358,327
Leased land	21,460	13,385	19,575	12,210
	₩ 1,837,276	₩ 1,502,519	$ 1,675,888	$ 1,370,537

The Company has recognized revaluation surplus of ₩377,772 million ($344,588 thousand) before income tax and recognized accumulated revaluation loss of ₩43,015 million ($39,236 thousand) for the period from June 30, 2013, to September 30, 2016.

(4) Fair value measurements of land and leased land by fair value hierarchy levels as of September 30, 2016, are as follows:

	Korean won			
	Level 1	Level 2	Level 3	Total
	(In millions)			
Land	₩ -	₩ -	₩ 1,815,816	₩ 1,815,816
Leased land	-	-	21,460	21,460
	₩ -	₩ -	₩ 1,837,276	₩ 1,837,276

	Translation into U.S. dollars (Note 2)			
	Level 1	Level 2	Level 3	Total
	(In thousands)			
Land	$ -	$ -	$ 1,656,313	$ 1,656,313
Leased land	-	-	19,575	19,575
	$ -	$ -	$ 1,675,888	$ 1,675,888

(5) There was no movement between Level 1 and Level 2 for the nine months ended September 30, 2016.

15. PLEDGED ASSETS AND GUARANTEES (NON-FIANCIAL ASSETS):

(1) Significant pledged assets provided as collateral and guarantees for the Company as of September 30, 2016, are as follows (in millions of Korean won, except for share data):

Pledged assets	Book value	Collateralized amount/shares	Provided to	In relation to
Land/buildings (*1)	₩ 2,060,955	1,962,249		Short-term and long-term
Aircraft and engines (*2)	2,230,115	3,188,964		borrowings and
Machinery	13,080	10,957	Korea Development Bank	borrowings of Hanjin
Facility usage rights	67,309	208,074	("KDB") and others	Int'l Corp., etc.
Investment in subsidiaries — Hanjin Int'l Corp.	764,392	91,440,000 Shares	Industrial Bank of Korea and others	Borrowings of Hanjin Int'l Corp.
	₩ 5,135,851			

(*1) The land and buildings provided as collateral consist of property and investment property.
(*2) The aircrafts and engines provided as collateral are composed of tangible assets and assets held for sale.
(*3) The collateralized amounts of the pledged assets provided as collateral and guarantees in foreign currency are translated into Korean won at the exchange rate on September 30, 2016.

(2) In addition, the Company has provided leased aircraft, leased engines and leased land as collateral to the lessor for the finance lease obligations. Also, the Company has provided mileage receivables as collateral for the long-term borrowings (Note 21).

16. INVESTMENT PROPERTIES:

(1) Changes in the carrying amount of investment properties for the nine months ended September 30, 2016 and 2015, are as follows:

2016

	Korean won					
	Beginning balance	Acquisition	Disposal	Depreciation	Others (*)	Ending balance
	(In millions)					
Land	₩ 56,559	₩ -	₩ -	₩ -	₩ 4,082	₩ 60,641
Buildings	16,978	-	-	(688)	2,222	18,512
	₩ 73,537	₩ -	₩ -	₩ (688)	₩ 6,304	₩ 79,153

	Translation into U.S. dollars (Note 2)					
	Beginning balance	Acquisition	Disposal	Depreciation	Others (*)	Ending balance
	(In thousands)					
Land	$ 51,591	$ -	$ -	$ -	$ 3,723	$ 55,314
Buildings	15,487	-	-	(628)	2,027	16,886
	$ 67,078	$ -	$ -	$ (628)	$ 5,750	$ 72,200

(*) Other increase or decrease was due to the transfer of property, aircraft and equipment with investment property.

2015

	Korean won					
	Beginning balance	Acquisition	Disposal	Depreciation	Others (*)	Ending balance
	(In millions)					
Land	₩ 45,176	₩ -	₩ -	₩ -	₩ 438	₩ 45,614
Buildings	14,010	-	-	(514)	360	13,856
	₩ 59,186	₩ -	₩ -	₩ (514)	₩ 798	₩ 59,470

	Translation into U.S. dollars (Note 2)					
	Beginning balance	Acquisition	Disposal	Depreciation	Others (*)	Ending balance
	(In thousands)					
Land	$ 41,208	$ -	$ -	$ -	$ 400	$ 41,608
Buildings	12,779	-	-	(469)	328	12,638
	$ 53,987	$ -	$ -	$ (469)	$ 728	$ 54,246

(*) Other increase or decrease was due to the transfer of property, aircraft and equipment with investment property.

(2) Revenue and cost related to investment properties for the nine months ended September 30, 2016 and 2015, are as follows:

	Korean won		Translation into U.S. dollars (Note 2)	
	2016	2015	2016	2015
	(In millions)		(In thousands)	
Rental income	₩ 1,946	₩ 1,209	$ 1,775	$ 1,103
Rental cost (depreciation)	688	514	627	469

(3) Fair values of investment properties as of September 30, 2016, are as follows:

	Korean won		Translation into U.S. dollars (Note 2)	
	Book	Fair value	Book	Fair value
	(In millions)		(In thousands)	
Land	₩ 60,641	₩ 60,670	$ 55,314	$ 55,341
Buildings	18,512	33,901	16,886	30,924
	₩ 79,153	₩ 94,571	$ 72,200	$ 86,265

As of June 30, 2013, the Company appraised land by an independent and professional appraiser, Hana Appraisal & Consulting Co., Ltd. The revaluation method is appraised using value of land-basis method, which uses standard land price, which is nearby the land similar to utility value considering the ratio of changing land price, the ratio of increasing Producer Price Index, location, shape, environment, state of usage of land and other factors of valuation from the date of public announcement of land value.

(4) Fair value measurements of investment properties by fair value hierarchy levels as of September 30, 2016, are as follows:

	Korean won			
	(In millions)			
	Level 1	Level 2	Level 3	Total
Land	₩ -	₩ -	₩ 60,670	₩ 60,670
Buildings	-	-	33,901	33,901
	₩ -	₩ -	₩ 94,571	₩ 94,571

	Translation into U.S. dollars (Note 2)			
	(In thousands)			
	Level 1	Level 2	Level 3	Total
Land	$ -	$ -	$ 55,341	$ 55,341
Buildings	-	-	30,924	30,924
	$ -	$ -	$ 86,265	$ 86,265

17. INTANGIBLE ASSETS:

Changes in the carrying amount of intangible assets for the nine months ended September 30, 2016 and 2015, are as follows:

2016

	Korean won						
	Beginning balance	Acquisition	Disposal	Amortization	Impairment loss	Others (*)	Ending balance
	(In millions)						
Facility usage rights	₩ 94,458	₩ -	₩ -	₩ (7,531)	₩ -	₩ -	₩ 86,927
Research and development costs	67,340	-	-	(12,956)	-	-	54,384
Other intangibles	123,043	672	(1,006)	(18,190)	(7,873)	153,656	250,302
	₩ 284,841	₩ 672	₩ (1,006)	₩ (38,677)	₩ (7,873)	₩ 153,656	₩ 391,613

	Translation into U.S. dollars (Note 2)						
	Beginning balance	Acquisition	Disposal	Amortization	Impairment loss	Others (*)	Ending balance
	(In thousands)						
Facility usage rights	$ 86,161	$ -	$ -	$ (6,870)	$ -	$ -	$ 79,291
Research and development costs	61,425	-	-	(11,818)	-	-	49,607
Other intangibles	112,234	613	(918)	(16,592)	(7,181)	140,160	228,316
	$ 259,820	$ 613	$ (918)	$ (35,280)	$ (7,181)	$ 140,160	$ 357,214

2015

	Korean won					
	Beginning balance	Acquisition	Disposal	Amortization	Others (*)	Ending balance
	(In millions)					
Facility usage rights	₩ 104,500	₩ -	₩ -	₩ (7,531)	₩ -	₩ 96,969
Research and development costs	84,389	-	-	(17,062)	4,332	71,659
Other intangibles	131,717	-	(66)	(6,243)	66	125,475
	₩ 320,606	₩ -	₩ (66)	₩ (30,836)	₩ 4,398	₩ 294,103

	Translation into U.S. dollars (Note 2)					
	Beginning balance	Acquisition	Disposal	Amortization	Others (*)	Ending balance
	(In thousands)					
Facility usage rights	$ 95,321	$ -	$ -	$ (6,870)	$ -	$ 88,451
Research and development costs	76,976	-	-	(15,563)	3,951	65,364
Other intangibles	120,147	-	(60)	(5,694)	60	114,453
	$ 292,444	$ -	$ (60)	$ (28,127)	$ 4,011	$ 268,268

(*) Other increase or decrease was mainly due to the transfer of construction in progress.

18. OTHER FINANCIAL ASSETS:

Other financial assets as of September 30, 2016, and December 31, 2015. consist of the following:

	Korean won		Translation into U.S. dollars (Note 2)	
	2016	2015	2016	2015
	(In millions)		(In thousands)	
Guarantee deposits	₩ 305,582	₩ 328,492	$ 278,740	$ 299,637

The Company provides guarantee deposits of JPY 4,210,217 thousand, $25,593 thousand and HKD 73,449 thousand for ABS loans (Note 21). There were no overdue or impaired other financial assets for the nine months ended September 30, 2016 and 2015.

19. OTHER ASSETS:

Other assets as of September 30, 2016, and December 31, 2015, are as follows:

	Korean won			
	2016		2015	
	Current	Non-current	Current	Non-current
	(In millions)			
Advance payments	₩ 419,315	₩ 3,163	₩ 381,366	₩ 58
Prepaid expenses	128,903	262,206	154,594	324,276
Others	16,328	3,158	8,036	3,161
	₩ 564,546	₩ 268,527	₩ 543,996	₩ 327,495

	Translation into U.S. dollars (Note 2)			
	2016		2015	
	Current	Non-current	Current	Non-current
	(In thousands)			
Advance payments	$ 382,482	$ 2,886	$ 347,866	$ 53
Prepaid expenses	117,580	239,174	141,014	295,792
Others	14,894	2,879	7,331	2,883
	$ 514,956	$ 244,939	$ 496,211	$ 298,728

The Company provides advance payments of ₩141,116 million ($128,720 thousand), JPY 359,750 thousand, $27,207 thousand and HKD 119,388 thousand for ABS loans (Note 21).

20. TRADE AND OTHER PAYABLES:

Trade and other payables as of September 30, 2016, and December 31, 2015, consist of the following:

	Korean won			
	2016		2015	
	Current	Non-current	Current	Non-current
	(In millions)			
Trade payables	₩ 127,118	₩ -	₩ 150,168	₩ -
Non-trade payables	179,429	17,876	176,744	28,803
Accrued expenses	717,490	10,954	541,070	12,300
Dividends payable	2,935	-	982	-
	₩ 1,026,972	₩ 28,830	₩ 868,964	₩ 41,103

	Translation into U.S. dollars (Note 2)			
	2016		2015	
	Current	Non-current	Current	Non-current
	(In thousands)			
Trade payables	$ 115,951	$ -	$ 136,977	$ -
Non-trade payables	163,668	16,306	161,219	26,273
Accrued expenses	654,465	9,992	493,542	11,220
Dividends payable	2,678	-	895	-
	$ 936,762	$ 26,298	$ 792,633	$ 37,493

21. BORROWINGS AND DEBENTURES:

(1) Short-term borrowings as of September 30, 2016, and December 31, 2015, consist of the following:

		Korean won		Translation into U.S. dollars (Note 2)	
Lender	Annual interest rate	2016	2015	2016	2015
		(In millions)		(In thousands)	
NongHyup Bank	3M CD + 1.86% 3.04%	₩ 220,000	₩ 220,000	$ 200,675	$ 200,675
Hana Bank and others	-	-	50,000	-	45,608
KDB	3M London InterBank Offered Rate (LIBOR) + 1.95–2.80%	361,779	57,641	330,000	52,578
KDB (Singapore branch)	3M LIBOR + 2.40%	49,334	58,600	45,000	53,453
Dandelion Aviation Limited	3M LIBOR + 2.40%	80,835	-	73,734	-
Hana Bank and others	2.50%–4.45%	383,500	476,197	349,814	434,367
		₩ 1,095,448	₩ 862,438	$ 999,223	$ 786,681

The Company has provided payment guarantees of $74 million to the creditor of Dandelion Aviation Limited (PK AirFinance S.a.r.l.) as of September 30, 2016.

(2) Long-term borrowings as of September 30, 2016, and December 31, 2015, consist of the following:

Lender	Annual interest rate	Maturity	Korean won 2016	Korean won 2015	Translation into U.S. dollars (Note 2) 2016	Translation into U.S. dollars (Note 2) 2015
			(In millions)		(In thousands)	
KDB	-	-	₩ -	₩ 600	$ -	$ 547
	4.15%	2022-12-15	6,875	7,700	6,271	7,024
Standard Chartered Bank Korea Limited. and others (*)	2.50%–5.41%	2023-12-15	80,883	11,642	73,778	10,619
KDB	3M LIBOR + 0.57%–3.05%	2025-09-30	416,896	813,617	380,275	742,148
	3M JPY LIBOR + 2.00%	2018-04-09	56,893	72,901	51,896	66,497
	1,79–1.84%	2018-09-26	233,761	-	213,227	-
The Export-Import Bank of Korea	3M LIBOR + 2.51%	2024-06-27	141,346	200,263	128,930	182,672
Woori Bank	-	-	-	148,223	-	135,203
Bank of Communications	3M LIBOR + 2.70%	2023-08-28	207,421	245,502	189,201	223,937
Hana Bank and others	3M LIBOR + 2.20%–4.00%	2020-06-27	185,737	385,977	169,422	352,073
			1,329,812	1,886,425	1,213,000	1,720,720
Less: current portion of long-term borrowings			(537,314)	(987,456)	(490,116)	(900,717)
			₩ 792,498	₩ 898,969	$ 722,884	$ 820,003

(*) The Company has provided mileage receivables for the long-term borrowings (Note 15).

(3) Debentures as of September 30, 2016, and December 31, 2015, consist of the following:

Series	Issue Date	Maturity	Annual interest rate	Korean won 2016	Korean won 2015	Translation into U.S. dollars (Note 2) 2016	Translation into U.S. dollars (Note 2) 2015
				(In millions)		(In thousands)	
43-2nd	2011-08-08	2016-08-08	-	₩ -	₩ 300,000	$ -	$ 273,648
44-2nd	2012-02-08	2016-02-08	-	-	150,000	-	136,824
46-2nd	2012-07-19	2017-07-19	3.98%	250,000	250,000	228,040	228,040
47-2nd	2012-10-08	2019-10-08	4.16%	250,000	250,000	228,040	228,040
49-3rd	2012-12-13	2019-12-13	4.36%	170,000	170,000	155,067	155,067
50th	2013-02-25	2016-02-25	-	-	82,621	-	75,363
51st	2013-02-26	2016-02-26	-	-	97,201	-	88,663
54th	2013-03-19	2016-03-19	-	-	117,200	-	106,905
55th	2014-06-30	2016-06-30	-	-	117,200	-	106,905
56-1st	2014-09-16	2016-03-16	-	-	100,000	-	91,216
56-2nd	2014-09-16	2016-09-16	-	-	100,000	-	91,216
57-1st	2014-11-20	2016-05-20	-	-	80,000	-	72,973
57-2nd	2014-11-20	2016-11-20	4.10%	70,000	70,000	63,851	63,851
58th (*1)	2015-02-27	2018-02-27	3M JPY LIBOR + 2.00%	108,368	97,201	98,849	88,663
59th	2015-08-31	2018-08-31	4.75%	200,000	200,000	182,432	182,432
60th	2016-02-17	2018-02-17	4.80%	150,000	-	136,824	-
61st (*2)	2016-02-25	2017-02-25	3M JPY LIBOR + 2.00%	73,690	-	67,217	-
63-1st (*3)	2016-03-21	2017-03-21	3M LIBOR + 0.80%	32,889	-	30,000	-
63-2nd (*3)	2016-03-21	2018-03-21	3M LIBOR + 1.10%	32,889	-	30,000	-
63-3rd (*3)	2016-03-21	2019-03-21	3M LIBOR + 1.20%	43,852	-	40,000	-
62th	2016-04-12	2018-04-12	4.90%	250,000	-	228,040	-
64th	2016-04-20	2017-04-20	4.09%	50,000	-	45,608	-
65th	2016-06-10	2017-06-10	4.05%	30,000	-	27,365	-
66th	2016-06-15	2017-12-15	4.45%	10,000	-	9,122	-
				1,721,688	2,181,423	1,570,455	1,989,806
Present value of discounts				(5,998)	(4,797)	(5,472)	(4,377)
				1,715,690	2,176,626	1,564,983	1,985,429
Less: short-term debentures				(186,579)	-	(170,190)	-
Present value of discounts				424	-	387	-
Less: current portion of debentures				(940,000)	(2,084,222)	(857,430)	(1,901,142)
Present value of discounts, less current portion				1,427	2,824	1,301	2,576
				₩ 590,962	₩ 95,228	$ 539,051	$ 86,863

(*1) Kookmin Bank has provided guarantee at a maximum of JYP 10,639,117 thousand for 58th guaranteed debenture.
(*2) Kookmin Bank has provided guarantee at a maximum of JYP 6,937,714 thousand for 61st guaranteed debenture.
(*3) Shinhan Bank has provided guarantee at a maximum of $100,000 thousand for 63rd guaranteed debenture.

(4) ABS loans as of September 30, 2016, and December 31, 2015, consist of the following:

Description	Maturity	Annual interest rate	Korean won 2016	Korean won 2015	Translation into U.S. dollars (Note 2) 2016	Translation into U.S. dollars (Note 2) 2015
			(In millions)		(In thousands)	
KAL-7th ABS	2016-11-08	4.75%	₩ 20,000	₩ 110,000	$ 18,243	$ 100,337
KAL-9th ABS	2018-04-25	3.15%	210,000	300,000	191,553	273,648
KAL-10th ABS	2016-11-28	0.84%	25,163	123,717	22,953	112,850
KAL-11th ABS	2019-02-14	5.11%	260,000	350,000	237,162	319,256
KAL-12th ABS	2019-05-09	4.74%	83,000	105,000	75,709	95,777
KAL-13th ABS	2017-07-27	0.69%	36,953	63,375	33,707	57,808
KAL-14th ABS	2018-08-27	1M Hong Kong InterBank Offered Rate (HIBOR) + 3.50%	68,696	99,799	62,662	91,032
KAL-15th ABS	2017-11-20	1M LIBOR + 0.65%	153,482	269,560	140,000	245,882
KAL-16th ABS	2020-01-28	3.98%	510,000	600,000	465,201	547,295
KAL-17th ABS	2019-04-29	1M LIBOR + 3.00%	188,807	-	172,222	-
KAL-18th ABS	2020-06-01	3M LIBOR + 3.74%	92,133	-	84,040	-
KAL-19th ABS	2021-07-11	4.24%	900,000	-	820,943	-
			2,548,234	2,021,451	2,324,395	1,843,885
Less: current portion of ABS loans			(763,909)	(840,385)	(696,807)	(766,565)
			₩ 1,784,325	₩ 1,181,066	$ 1,627,588	$ 1,077,320

The Company provides the guarantee deposit of JPY 4,210,217 thousand, $25,593 thousand and HKD 73,449 thousand and the advance payments of ₩141,116 million ($128,720 thousand), JPY 359,750 thousand, $27,207 thousand and HKD 119,388 thousand in connection with the above ABS loans (Notes 18 and 19).

Meanwhile, above ABS loans are the borrowings to repay in a way to trust, right to future sales receivables that will be held at the time of selling the airline ticket and in the financial institution, the subject receivables and the period are as follows:

Description	Receivable	Period
KAL-7th ABS	Domestic passenger card sales receivables (Samsung card, Shinhan card)	2011.11.02–2016.11.08
KAL-9th ABS	Domestic passenger card sales receivables (Hyundai card, Hana (formerly Korea Exchange) card, Kookmin card)	2013.04.17–2018.04.25
KAL-10th ABS	Japan passenger card sales receivables	2013.12.12–Of the following conditions, until the earlier date (i) 2018.12.31 (ii) When the ABS loan's principal and interest have been redeemed in all
KAL-11th ABS	Domestic cargo indirect sales receivables	2014.02.06–2019.02.14
KAL-12th ABS	Domestic passenger card sales receivables (NongHyup card, Lotte card)	2014.04.24–2019.05.07
KAL-13th ABS	Japan cargo receivables	2014.08.07–Of the following conditions, until the earlier date (i) 2019.12.31 (ii) When the ABS loan's principal and interest have been redeemed in total
KAL-14th ABS	Hong Kong cargo receivables	2014.11.05–When the ABS loan's principal and interest have been redeemed in all
KAL-15th ABS	Passenger credit card(Visa/Master) dollar receivables	2014.11.25–Of the following conditions, until the earlier date (i) 2019.11.30 (ii) When the ABS loan's principal and interest have been redeemed in total
KAL-16th ABS	Domestic passenger card sales receivables (BC card)	2015.01.20–2020.01.28
KAL-17th ABS	North America region cargo receivables (settlement of Cargo Accounts Settlement Systems (CASS))	2016.04.11–When the ABS loan's principal and interest have been redeemed in total
KAL-18th ABS	Hong Kong and Singapore passenger sales receivables	2016.06.01–When the ABS loan's principal and interest have been redeemed in total
KAL-19th ABS	Korean passenger cash sales receivables	2016.07.11–When the ABS loan's principal and interest have been redeemed in total

(5) The Company took over the borrowings of Hanjin Shipping Co., Ltd. with Korea Exchange Bank and other financial institutions (guaranteed loans) equally for 20 years from 1988, pursuant to the Government Guidelines for the Rationalization of the Marine Industry in 1985. Meanwhile, the Company took over the borrowings payable equally in 15 years with a 15-year grace period without interest and recognized the difference between the nomial amount and present value of the borrowings as present value of discounts. Guaranteed loans as of September 30, 2016, and December 31, 2015, consist of the following:

	Korean won		Translation into U.S. dollars (Note 2)	
Description	2016	2015	2016	2015
	(In millions)		(In thousands)	
KDB	₩ 2,609	₩ 5,226	$ 2,380	$ 4,767
Woori Bank	-	3,433	-	3,131
Triumph II Investments (Ireland) Limited	-	221	-	201
B G.N Loan Co., Ltd. (*)	134	-	123	-
Hanshin Mutual Savings & Finance Co., Ltd. (*)	-	266	-	243
Kookmin Bank	103	201	94	183
Shinhan Bank	441	881	402	803
Daegu Bank	329	652	300	595
Hana Bank (formerly Korea Exchange Bank)	4,252	8,513	3,879	7,766
Tongyang Life Insurance Co., Ltd.	878	1,755	801	1,601
Lotte Insurance Co., Ltd.	88	179	80	164
	8,834	21,327	8,059	19,454
Present value of discounts	(793)	(2,372)	(724)	(2,164)
	8,041	18,955	7,335	17,290
Less: current portion of liabilities	(8,834)	(10,662)	(8,058)	(9,725)
Present value of discounts, current portion	793	732	723	667
	₩ -	₩ 9,025	$ -	$ 8,232

(*) The guaranteed loans of Hanshin Mutual Savings & Finance Co., Ltd. were succeeded by B G.N Loan Co., Ltd. for the nine months ended September 30, 2016.

Hanjin Shipping Co., Ltd.'s 476,436 shares and ₩1,800 million ($1,642 thousand) of long-term financial instruments were provided as collateral for the guaranteed loans to Hana Bank (formerly Korea Exchange Bank) as of September 30, 2016 (Note 5).

22. FINANCE LEASE OBLIGATIONS:

(1) Finance lease obligations as of September 30, 2016, and December 31, 2015, consists of the following:

		Korean won		Translation into U.S. dollars (Note 2)	
Lender	Annual interest rate	2016	2015	2016	2015
		(In millions)		(In thousands)	
DOOLEY Aviation Limited	3M LIBOR + 2.16%	₩ 100,820	₩ 127,258	$ 91,964	$ 116,079
ECA-2014B Limited	3M Euro Interbank Offered Rate (EURIBOR) + 0.32% 3M LIBOR + 2.85%	203,112	230,052	185,270	209,844
ECA-2014C Limited	3M LIBOR + 0.88%	121,408	140,232	110,744	127,914
ECA-2015A Limited	3M EURIBOR + 0.31% 3M LIBOR + 2.85%–3.00%	250,483	282,001	228,480	257,229
ECA-2015B Limited	3M JPY LIBOR + 0.30% 3M LIBOR + 3.00%	149,923	147,400	136,753	134,452
Export Leasing (2015) LLC	3M LIBOR + 0.50%	156,815	179,768	143,040	163,977
Export Leasing (2015)-B	3M LIBOR + 0.75%	193,829	222,608	176,803	203,054
Export Leasing (2015-A) LLC	3M LIBOR + 0.73%–0.75%	377,437	432,966	344,282	394,934
Export Leasing (2015-B) LLC	3M LIBOR + 0.75%	188,928	217,394	172,332	198,298
Export Leasing (2015-C)	3M LIBOR + 0.77%	195,087	224,132	177,951	204,444
Ji Yoo Aviation Ltd.	3M LIBOR + 3.50%	180,689	180,131	164,817	164,308
KALECA11 Aviation Ltd.	3M LIBOR + 0.91%–0.99%	550,918	667,751	502,525	609,095
KALECA11-2 Aviation Ltd.	3M LIBOR + 0.93%	141,319	170,118	128,905	155,175
KALECA12 Aviation Ltd.	3M JPY LIBOR + 0.71% 3M LIBOR + 2.80%	155,601	162,580	141,933	148,299
KALECA13 Aviation Ltd.	3M EURIBOR + 0.63% 3M LIBOR + 2.55%	179,891	207,031	164,089	188,845
KE Export Leasing (2009) Ltd.	3M LIBOR + 1.25%	139,128	170,387	126,907	155,420
KE Export Leasing (2010) Ltd.	3M LIBOR + 0.30%	248,229	296,700	226,424	270,637
KE Export Leasing (2011) Ltd.	3M LIBOR + 0.33%–0.38%	293,002	351,695	267,265	320,802
KE Export Leasing (2011-II) Ltd.	3M LIBOR + 0.43%–0.48%	210,584	251,054	192,086	229,001
KE Export Leasing (2012) Ltd.	3M LIBOR + 1.24%–1.26%	328,179	391,359	299,352	356,981
KE Export Leasing (2013-A)	3M LIBOR + 0.37%	122,979	143,332	112,177	130,741
KE Export Leasing (2013-B)	3M LIBOR + 0.36%	128,202	149,431	116,940	136,305
KE Export Leasing (2013-C)	3M LIBOR + 0.66%	138,132	160,598	125,998	146,491
KE Export Leasing (2013-D) LLC	3M LIBOR + 0.36%–0.66%	297,672	342,464	271,524	312,382
KE Export Leasing 2014 LLC	3M LIBOR + 0.65%–1.06%	421,073	483,903	384,086	441,396
KE2013 B777	3M LIBOR + 2.62%	117,605	143,130	107,275	130,557
KEXPORT Leasing 2015	3M LIBOR + 1.22%–1.23%	326,574	380,323	297,887	346,915
Kosmo Suites / Yun Aviation Limited	3M LIBOR + 1.95%	131,556	187,520	120,000	171,048
SKY HIGH LIV Leasing Company Limited	3M LIBOR + 2.20%	170,595	-	155,610	-
Yian Limited	3M LIBOR + 2.13%	179,806	208,650	164,012	190,322
Export Leasing 2016-A	3M LIBOR + 2.78%	136,486	-	124,497	-
Export Leasing 2016-B	3M JPY LIBOR + 0.85%	148,706	-	135,643	-
Export Leasing 2016-C	3M LIBOR + 0.90%	147,218	-	134,287	-
RAY Aviation Limited	3M LIBOR + 1.70% 5.20%	181,126	-	165,216	-

Lender	Annual interest rate	Korean won 2016	Korean won 2015	Translation into U.S. dollars (Note 2) 2016	Translation into U.S. dollars (Note 2) 2015
		(In millions)		(In thousands)	
RBS and others	1.22%–5.38%	992,231	1,137,866	905,072	1,037,918
		8,005,343	8,389,834	7,302,146	7,652,863
Less: current portion of obligation under finance leases, net of present value of discounts		(1,513,769)	(1,234,471)	(1,380,798)	(1,126,034)
		₩ 6,491,574	₩ 7,155,363	$ 5,921,348	$ 6,526,829

The Export-Import Bank of the United States and others have provided payment guarantees of $4,761 million for above finance lease obligations as of September 30, 2016. Meanwhile, the Company has provided payment guarantees of $138 million to Bank of China, the beneficiary of the financial lease obligations due to Yian Limited, as of September 30, 2016.

(2) Minimum lease payments and present value of long-term finance lease obligations as of September 30, 2016, consist of the following:

	Korean won	Translation into U.S. dollars (Note 2)
	(In millions)	(In thousands)
Less than one year	₩ 1,647,292	$ 1,502,592
One year to five years	4,206,224	3,836,746
More than five years	2,639,977	2,408,078
	8,493,493	7,747,416
Present value of discounts	(488,150)	(445,270)
	₩ 8,005,343	$ 7,302,146

23. EMPLOYEE BENEFITS:

(1) Net defined benefit liabilities as of September 30, 2016, and December 31, 2015, consist of the following:

	Korean won 2016	Korean won 2015	Translation into U.S. dollars (Note 2) 2016	Translation into U.S. dollars (Note 2) 2015
	(In millions)		(In thousands)	
Present value of defined benefit obligations	₩ 1,370,190	₩ 1,187,340	$ 1,249,832	$ 1,083,043
Fair value of plan assets	(183,870)	(190,840)	(167,718)	(174,076)
	₩ 1,186,320	₩ 996,500	$ 1,082,114	$ 908,967

(2) Changes in carrying amount of the net defined benefit liabilities for the nine months ended September 30, 2016 and 2015, are as follows:

2016

	Korean won			Translation into U.S. dollars (Note 2)		
	Present value of defined benefit obligations	Fair value of plan assets	Total	Present value of defined benefit obligations	Fair value of plan assets	Total
		(In millions)			(In thousands)	
Beginning balance	₩ 1,187,340	₩ (190,840)	₩ 996,500	$ 1,083,043	$ (174,076)	$ 908,967
Current service cost	81,665	-	81,665	74,492	-	74,492
Interest expense (income)	21,043	(2,566)	18,477	19,195	(2,340)	16,855
Remeasurement of the net defined benefit liabilities	141,632	385	142,017	129,190	351	129,541
Benefits paid	(62,135)	9,151	(52,984)	(56,677)	8,347	(48,330)
Succession of defined benefit obligation	645	-	645	589	-	589
Ending balance	₩ 1,370,190	₩ (183,870)	₩ 1,186,320	$ 1,249,832	$ (167,718)	$ 1,082,114

2015

	Korean won			Translation into U.S. dollars (Note 2)		
	Present value of defined benefit obligations	Fair value of plan assets	Total	Present value of defined benefit obligations	Fair value of plan assets	Total
		(In millions)			(In thousands)	
Beginning balance	₩ 1,020,640	₩ (200,108)	₩ 820,532	$ 930,986	$ (182,530)	$ 748,456
Current service cost	94,668	-	94,668	86,352	-	86,352
Interest expense (income)	22,469	(3,414)	19,055	20,495	(3,114)	17,381
Remeasurement of the net defined benefit liabilities	114,486	933	115,419	104,429	851	105,280
Benefits paid	(53,282)	9,177	(44,105)	(48,602)	8,371	(40,231)
Succession of defined benefit obligation	517	-	517	471	-	471
Ending balance	₩ 1,199,498	₩ (193,412)	₩ 1,006,086	$ 1,094,131	$ (176,422)	$ 917,709

24. PROVISIONS:

Changes in the provision liabilities for the nine months ended September 30, 2016 and 2015, are as follows:

2016

	Korean won				
	Beginning balance	Charged to income or loss	Utilization	Others	Ending balance
	(In millions)				
Current :					
Provision for construction loss (*1)	₩ 15,479	₩ 686	₩ (13,325)	₩ (2,840)	₩ -
Liabilities of greenhouse gas emissions (*2)	1,316	722	-	(2,038)	-
	16,795	1,408	(13,325)	(4,878)	-
Non-current :					
Provision for leased aircraft maintenance (*3)	135,123	22,035	(26,438)	-	130,720
Provision for coupon for passenger flight tickets (*4)	27,521	-	(171)	986	28,336
Provision for construction warranties (*5)	2,039	-	-	-	2,039
	164,683	22,035	(26,609)	986	161,095
	₩ 181,478	₩ 23,443	₩ (39,934)	₩ (3,892)	₩ 161,095

	Translation into U.S. dollars (Note 2)				
	Beginning balance	Charged to income or loss	Utilization	Others	Ending balance
	(In thousands)				
Current :					
Provision for construction loss (*1)	$ 14,119	$ 626	$ (12,154)	$ (2,591)	$ -
Liabilities of greenhouse gas emissions (*2)	1,200	659	-	(1,859)	-
	15,319	1,285	(12,154)	(4,450)	-
Non-current :					
Provision for leased aircraft maintenance (*3)	123,254	20,099	(24,116)	-	119,237
Provision for coupon for passenger flight tickets (*4)	25,104	-	(156)	900	25,848
Provision for construction warranties (*5)	1,859	-	-	-	1,859
	150,217	20,099	(24,272)	900	146,944
	$ 165,536	$ 21,384	$ (36,426)	$ (3,550)	$ 146,944

2015

	Korean won							
	Beginning balance		Charged to income or loss		Utilization		Ending balance	
	(In millions)							
Provision for construction loss (*1)	₩	-	₩	4,258	₩	-	₩	4,258
Provision for leased aircraft maintenance (*3)	₩	108,913	₩	20,116	₩	(1,770)	₩	127,259
Provision for coupon for passenger flight tickets (*4)		27,521		-		-		27,521
	₩	136,434	₩	24,374	₩	(1,770)	₩	159,038

	Translation into U.S. dollars (Note 2)							
	Beginning balance		Charged to income or loss		Utilization		Ending balance	
	(In thousands)							
Provision for construction loss (*1)	$	-	$	3,884	$	-	$	3,884
Provision for leased aircraft maintenance (*3)	$	99,346	$	18,349	$	(1,614)	$	116,081
Provision for coupon for passenger flight tickets (*4)		25,104		-		-		25,104
	$	124,450	$	22,233	$	(1,614)	$	145,069

(*1) The Company includes expected future construction loss of Aerospace segment as provision for construction loss and reflects provision for construction loss in the amount due from customers for contract work or amount due to customers for contract work (Note 46).
(*2) The Company has recognized provisions for Greenhouse gases emission cost by measuring the expected quantity of emission of the performing period in excess of emission allowance in possession at the end of the reporting period and borrowed the shortage of emission allowance from that of next year and submitted it to the government. In addition, the Company recognizes unearned revenues of ₩2,038 million ($1,859 thousand) that the Company borrows from emission allowance of next year.
(*3) The Company has maintenance obligations related to the operating leases. In order to fulfill the obligations, the Company has recognized a provision for leased aircraft maintenance by estimating future maintenance costs since it is probable that an outflow of resources embodying economic benefits will be required to settle the obligations (Note 43).
(*4) The Company agreed to provide $26,000 thousand of flight ticket coupons to the plaintiffs in the U.S. court class action related to airline ticket price-fixing collusion of flights to North America, and has recognized ₩28,336 million as a provision for passenger flight ticket coupons as of September 30, 2016 (Note 45).
(*5) The Company has recognized provisions for the maintenance expenses expected to incur from aerospace segment's sales.

25. DEFERRED REVENUE:

The Company manages its frequent flyer program, "SKYPASS," a customer loyalty program that provides incentives through accrued mileage, such as bonus flight tickets and seat class upgrades, in addition to other benefits to customers of the Company and its alliance companies. The Company allocates the fair value of the consideration received in respect of the sales into the award credits and service revenue. The award credits' portion of sales price is not recognized as revenue, until the obligation has been performed. The Company's deferred income in connection with the SKYPASS system recognized in the condensed separate statement of financial position as of September 30, 2016, amounted to ₩1,859,923 million ($1,696,546 thousand), including ₩31,457 million ($28,694 thousand) of advance receipts from customers and ₩1,828,466 million ($1,667,852 thousand) of deferred revenue.

26. DERIVATIVE INSTRUMENTS AND HEDGE ACCOUNTING:

(1) As of September 30, 2016, the Company entered into derivative agreements with KDB and five other financial institutions and derivatives as of September 30, 2016, are summarized as follows:

Type of Transactions	Accounting policy	Maturity	Contract amount	
Oil price option	Trading	2016.12.31	BBL	600 thousand
Interest rate swaps	Trading	2019.09.26	EUR	190,000 thousand
Cross-currency interest rate swaps	Trading	2023.06.12	JPY	32,603,931 thousand

(2) Impact on the condensed separate financial statements in relation to derivatives for the nine months ended September 30, 2016, is as follows:

	Korean won					
	Condensed separate statement of financial position		Condensed separate statement of comprehensive loss			
Derivative instruments	Financial derivative assets	Financial derivative liabilities	Valuation gain	Valuation loss	Transaction gain	Transaction loss
	(In millions)					
Oil price option	₩ -	₩ 457	₩ 3,096	₩ -	₩ 13,667	₩ 10,496
Interest rate swaps	-	651	-	651	20	25
Cross-currency interest rate swaps	-	66,671	-	61,228	272	4,339
TRS (*)	-	-	-	41,593	-	74,959
	₩ -	₩ 67,779	₩ 3,096	₩ 103,472	₩ 13,959	₩ 89,819

	Translation into U.S. dollars (Note 2)					
	Condensed separate statement of financial position		Condensed separate statement of comprehensive loss			
Derivative instruments	Financial derivative assets	Financial derivative liabilities	Valuation gain	Valuation loss	Transaction gain	Transaction loss
	(In thousands)					
Oil price option	$ -	$ 417	$ 2,824	$ -	$ 12,466	$ 9,574
Interest rate swaps	-	594	-	594	18	23
Cross-currency interest rate swaps	-	60,814	-	55,850	249	3,958
TRS (*)	-	-	-	37,939	-	68,375
	$ -	$ 61,825	$ 2,824	$ 94,383	$ 12,733	$ 81,930

(*) The Company has entered into a total return swap (TRS) contract based on the future value of Hanjin Shipping Co., Ltd.'s perpetual exchangeable bond in 30-year maturities and the contract was fully settled for the nine months ended September 30, 2016.

27. FINANCIAL GUARANTEE LIABILITIES:

Financial guarantee liabilities as of September 30, 2016, and December 31, 2015, consist of the following:

	Korean won			
	2016		2015	
	Current	Non-current	Current	Non-current
	(In millions)			
Financial guarantee liabilities (*)	₩ 10,641	₩ 1,165	₩ 10,234	₩ 8,806

	Translation into U.S. dollars (Note 2)			
	2016		2015	
	Current	Non-current	Current	Non-current
	(In thousands)			
Financial guarantee liabilities (*)	$ 9,706	$ 1,062	$ 9,335	$ 8,033

(*) The Company offers collateral and payment guarantee for loans of the subsidiary company, Hanjin Int'l Corp. The fair value of payment guarantee is recognized as financial guarantee liabilities (Note 15).

28. OTHER LIABILITIES:

Other liabilities as of September 30, 2016, and December 31, 2015, consist of the following:

	Korean won			
	2016		2015	
	Current	Non-current	Current	Non-current
	(In millions)			
Advances	₩ 901,731	₩ -	₩ 916,407	₩ -
Withholdings	106,881	59,346	102,195	53,715
Unearned revenues	412,500	-	367,415	-
	₩ 1,421,112	₩ 59,346	₩ 1,386,017	₩ 53,715

	Translation into U.S. dollars (Note 2)			
	2016		2015	
	Current	Non-current	Current	Non-current
	(In thousands)			
Advances	$ 822,522	$ -	$ 835,909	$ -
Withholdings	97,492	54,133	93,218	48,997
Unearned revenues	376,266	-	335,141	-
	$ 1,296,280	$ 54,133	$ 1,264,268	$ 48,997

29. CAPITAL STOCK:

Capital stock as of September 30, 2016, and December 31, 2015, consists of the following:

	Number of shares authorized	Number of shares issued	Par value	Korean won 2016	Korean won 2015	Translation into U.S. dollars (Note 2) 2016	Translation into U.S. dollars (Note 2) 2015
				(In millions)		(In thousands)	
Common stock	250,000,000	72,839,744	₩ 5,000	₩ 364,199	₩ 364,199	$ 332,207	$ 332,207
Preferred stock (*)		1,110,794	5,000	5,554	5,554	5,066	5,066
	250,000,000	73,950,538		₩ 369,753	₩ 369,753	$ 337,273	$ 337,273

(*) As the non-voting preferred stock, in case of cash dividends, it gets additional 1% more dividends than common stock. If the Company cannot pay dividends, the preferred stock gets voting right from the resolution of the next general meeting of shareholders that the Company does not pay dividends until the resolution of the general meeting of shareholders that the Company pays dividends.

30. OTHER CAPITAL SURPLUS:

(1) Other capital surplus as of September 30, 2016, and December 31, 2015, consists of the following:

	Korean won 2016	Korean won 2015	Translation into U.S. dollars (Note 2) 2016	Translation into U.S. dollars (Note 2) 2015
	(In millions)		(In thousands)	
Additional paid-up capital	₩ 602,855	₩ 602,855	$ 549,900	$ 549,900
Treasury stock	-	-	-	-
Loss from capital reduction	(377,086)	(377,086)	(343,963)	(343,963)
Hybrid securities	550,410	550,410	502,062	502,062
	₩ 776,179	₩ 776,179	$ 707,999	$ 707,999

(2) Hybrid securities as of September 30, 2016, and December 31, 2015, consist of the following:

	Date of issue	Maturity	Interest rate	Korean won 2016	Korean won 2015	Translation into U.S. dollars (Note 2) 2016	Translation into U.S. dollars (Note 2) 2015
				(In millions)		(In thousands)	
Unsecured bearer debenture (*1)	2013-06-28	2043-06-28	6.40%	₩ 208,860	₩ 208,860	$ 190,514	$ 190,514
Registered guaranteed debenture (*2)	2015-11-25	2045-11-25	2.50%	341,550	341,550	311,548	311,548
				₩ 550,410	₩ 550,410	$ 502,062	$ 502,062

(*1) The interest rate is 6.40% for five years after issuance, and the increased interest rate (6.40% + 3.50% + (benchmark yield after five years from the date of issue -3.32%)) is applied after the five years. The Company can exercise the right of early repayment every year after five years of the hybrid securities' issuance. If notice of willingness to extend maturity is given one month prior to the maturity date, maturity can be extended for 30 years under the same condition. In addition, the Company can choose not to pay the interest on hybrid securities based on the decision to extend maturity. However, the Company cannot suspend payment of the interest if the decision on stock dividend, purchase and redemption of stocks and profit retirement occurred in the last 12 months.

(*2) The interest rate is 2.5% for three years after issuance, and 4.0% from three to five years after issuance. After the five years, the increased interest rate (6.5% + 3.0%) is applied. The Company can exercise the right of early repayment every six months after three years of the securities' issuance. If notice of willingness to extend maturity is given one month prior to the maturity date, maturity can be extended for 30 years under the same condition. In addition, the Company can choose not to pay the interest on securities based on the decision to extend maturity. However, the Company cannot suspend payment of the interest if the decision on stock dividend, purchase and redemption of stocks and profit retirement occurred in the last 12 months.

31. RETAINED EARNINGS AND DIVIDENDS:

(1) Retained earnings as of September 30, 2016, and December 31, 2015, consist of the following:

	Korean won		Translation into U.S. dollars (Note 2)	
	2016	2015	2016	2015
	(In millions)		(In thousands)	
Legal reserve:				
Legal appropriated retained earnings (*)	₩ 3,452	₩ 3,452	$ 3,149	$ 3,149
Voluntary reserve:				
Facility reserve	200,000	200,000	182,432	182,432
Unappropriated retained earnings	570,353	613,993	520,252	560,059
	₩ 773,805	₩ 817,445	$ 705,833	$ 745,640

(*) The Korean Commercial Code requires the Company to appropriate as legal reserve an amount equal to at least 10% of cash dividends paid for each accounting period, until the reserve equals 50% of the stated capital. The legal reserve may be used to reduce a deficit or transferred to capital stock.

(2) There was no dividend payment (except for the dividends from hybrid securities) for the nine months ended September 30, 2016 and 2015.

32. OTHER CAPITAL COMPONENTS:

(1) Other capital components as of September 30, 2016, and December 31, 2015, consist of the following:

	Korean won		Translation into U.S. dollars (Note 2)	
	2016	2015	2016	2015
	(In millions)		(In thousands)	
Gain on valuation of AFS financial assets, net	₩ 38,984	₩ 46,341	$ 35,560	$ 42,270
Revaluation surplus	286,351	286,576	261,198	261,403
	₩ 325,335	₩ 332,917	$ 296,758	$ 303,673

(2) Changes in gain on valuation of AFS financial assets, net for the nine months ended September 30, 2016 and 2015, are as follows:

	Korean won		Translation into U.S. dollars (Note 2)	
	2016	2015	2016	2015
	(In millions)		(In thousands)	
Beginning balance	₩ 46,341	₩ 74,361	$ 42,270	$ 67,829
Gain on valuation of AFS financial assets, net	(7,357)	(9,672)	(6,710)	(8,822)
Ending balance	₩ 38,984	₩ 64,689	$ 35,560	$ 59,007

(3) Changes in revaluation surplus for the nine months ended September 30, 2016 and 2015, are as follows:

	Korean won		Translation into U.S. dollars (Note 2)	
	2016	2015	2016	2015
	(In millions)		(In thousands)	
Beginning balance	₩ 286,576	₩ 287,632	$ 261,403	$ 262,367
Change due to the transfer of property, aircraft and equipment to investment properties	(225)	(2)	(205)	(2)
Ending balance	₩ 286,351	₩ 287,630	$ 261,198	$ 262,365

33. SALES:

Sales classified as operating income or loss resulting from the Company's continuing operations for the three and nine months ended September 30, 2016 and 2015, consist of the following:

	Korean won			
	Three months ended September 30, 2016	Nine months ended September 30, 2016	Three months ended September 30, 2015	Nine months ended September 30, 2015
	(In millions)			
Air transport revenue	₩ 2,845,593	₩ 7,907,011	₩ 2,666,023	₩ 7,683,370
Other revenues	211,173	727,793	252,566	779,558
	₩ 3,056,766	₩ 8,634,804	₩ 2,918,589	₩ 8,462,928

	Translation into U.S. dollars (Note 2)			
	Three months ended September 30, 2016	Nine months ended September 30, 2016	Three months ended September 30, 2015	Nine months ended September 30, 2015
	(In thousands)			
Air transport revenue	$ 2,595,634	$ 7,212,452	$ 2,431,837	$ 7,008,456
Other revenues	192,623	663,863	230,380	711,081
	$ 2,788,257	$ 7,876,315	$ 2,662,217	$ 7,719,537

34. SELLING AND ADMINISTRATIVE EXPENSES:

Selling and administrative expenses for the three and nine months ended September 30, 2016 and 2015, consist of the following:

	Korean won			
	Three months ended September 30, 2016	Nine months ended September 30, 2016	Three months ended September 30, 2015	Nine months ended September 30, 2015
	(In millions)			
Salaries	₩ 64,726	₩ 198,607	₩ 63,001	₩ 193,629
Retirement and severance benefits	6,573	22,696	7,428	23,037
Depreciation	2,645	7,929	2,787	8,138
Amortization	17,281	27,899	5,304	20,039
Rental	5,374	15,815	5,201	15,161
Sales commission	75,201	223,427	75,706	221,130
Advertising	20,433	69,295	23,834	66,749
Welfare	18,091	51,419	16,667	46,864
Training	1,988	5,897	1,960	6,055
Communications	19,364	56,854	19,206	58,326
Taxes and dues	2,795	16,319	2,892	15,398
Facility maintenance	2,598	8,114	2,408	7,147
Commission	45,623	138,559	43,219	124,505
Others	16,616	50,640	16,067	46,997
	₩ 299,308	₩ 893,470	₩ 285,680	₩ 853,175

	Translation into U.S. dollars (Note 2)			
	Three months ended September 30, 2016	Nine months ended September 30, 2016	Three months ended September 30, 2015	Nine months ended September 30, 2015
	(In thousands)			
Salaries	$ 59,041	$ 181,161	$ 57,467	$ 176,620
Retirement and severance benefits	5,996	20,703	6,776	21,013
Depreciation	2,413	7,232	2,542	7,423
Amortization	15,763	25,448	4,838	18,279
Rental	4,901	14,426	4,744	13,829
Sales commission	68,595	203,801	69,056	201,706
Advertising	18,638	63,208	21,741	60,886
Welfare	16,502	46,902	15,203	42,747
Training	1,813	5,379	1,788	5,523
Communications	17,663	51,860	17,519	53,203
Taxes and dues	2,549	14,886	2,638	14,045
Facility maintenance	2,370	7,401	2,197	6,520
Commission	41,615	126,388	39,422	113,569
Others	15,157	46,192	14,654	42,868
	$ 273,016	$ 814,987	$ 260,585	$ 778,231

35. FINANCIAL INCOME AND EXPENSES:

(1) Financial income for the three and nine months ended September 30, 2016 and 2015, consists of the following:

	Korean won			
	Three months ended September 30, 2016	Nine months ended September 30, 2016	Three months ended September 30, 2015	Nine months ended September 30, 2015
	(In millions)			
Interest income	₩ 7,276	₩ 23,164	₩ 9,438	₩ 31,171
Dividend income	6,791	12,688	37	7,330
Gain on valuation of derivatives	2,037	3,096	-	3,304
Gain on derivatives transaction	3,648	13,959	227	11,886
Reversal of provision for financial guarantee	2,594	7,655	2,592	7,219
	₩ 22,346	₩ 60,562	₩ 12,294	₩ 60,910

	Translation into U.S. dollars (Note 2)			
	Three months ended September 30, 2016	Nine months ended September 30, 2016	Three months ended September 30, 2015	Nine months ended September 30, 2015
	(In thousands)			
Interest income	$ 6,637	$ 21,129	$ 8,609	$ 28,433
Dividend income	6,194	11,573	33	6,686
Gain on valuation of derivatives	1,858	2,824	-	3,013
Gain on derivatives transaction	3,328	12,734	208	10,843
Reversal of provision for financial guarantee	2,366	6,983	2,364	6,585
	$ 20,383	$ 55,243	$ 11,214	$ 55,560

(2) Financial expenses for the three and nine months ended September 30, 2016 and 2015, consist of the following:

	Korean won			
	Three months ended September 30, 2016	Nine months ended September 30, 2016	Three months ended September 30, 2015	Nine months ended September 30, 2015
	(In millions)			
Interest expense	₩ 99,462	₩ 293,458	₩ 86,589	₩ 277,355
Loss on valuation of derivatives	3,205	103,472	61,750	52,466
Loss on derivatives transaction	77,625	89,819	21,731	37,826
	₩ 180,292	₩ 486,749	₩ 170,070	₩ 367,647

	Translation into U.S. dollars (Note 2)			
	Three months ended September 30, 2016	Nine months ended September 30, 2016	Three months ended September 30, 2015	Nine months ended September 30, 2015
	(In thousands)			
Interest expense	$ 90,725	$ 267,680	$ 78,983	$ 252,992
Loss on valuation of derivatives	2,923	94,383	56,326	47,858
Loss on derivatives transaction	70,807	81,930	19,822	34,503
	$ 164,455	$ 443,993	$ 155,131	$ 335,353

36. OTHER NON-OPERATING INCOME AND EXPENSES:

(1) Other non-operating income for the three and nine months ended September 30, 2016 and 2015, consists of the following:

	Korean won			
	Three months ended September 30, 2016	Nine months ended September 30, 2016	Three months ended September 30, 2015	Nine months ended September 30, 2015
	(In millions)			
Gain on foreign currency transaction	₩ 100,466	₩ 254,397	₩ 81,182	₩ 185,178
Gain on foreign currency translation	609,135	773,808	42,916	96,078
Reversal of allowance for doubtful accounts	227	579	13	51
Gain on disposal of property, aircraft and equipment	5,821	13,067	1,489	3,670
Gain on disposal of assets held for sale	66	955	-	-
Gain on disposal of intangible asset	6	10	2	2
Gain on disposal of AFS financial asset	-	-	-	176
Miscellaneous income	1,916	5,848	3,656	9,786
	₩ 717,637	₩ 1,048,664	₩ 129,258	₩ 294,941

	Translation into U.S. dollars (Note 2)			
	Three months ended September 30, 2016	Nine months ended September 30, 2016	Three months ended September 30, 2015	Nine months ended September 30, 2015
	(In thousands)			
Gain on foreign currency transaction	$ 91,641	$ 232,051	$ 74,051	$ 168,911
Gain on foreign currency translation	555,628	705,836	39,146	87,639
Reversal of allowance for doubtful accounts	207	528	12	46
Gain on disposal of property, aircraft and equipment	5,310	11,919	1,358	3,348
Gain on disposal of assets held for sale	60	871	-	-
Gain on disposal of intangible asset	6	9	2	2
Gain on disposal of AFS financial asset	-	-	-	160
Miscellaneous income	1,747	5,334	3,335	8,927
	$ 654,599	$ 956,548	$ 117,904	$ 269,033

(2) Other non-operating expenses for the three and nine months ended September 30, 2016 and 2015, consists of the following:

	Korean won			
	Three months ended September 30, 2016	Nine months ended September 30, 2016	Three months ended September 30, 2015	Nine months ended September 30, 2015
	(In millions)			
Other bad debt expenses	₩ 15,336	₩ 20,036	₩ 570	₩ 794
Loss on foreign currency transaction	67,738	302,664	157,117	261,847
Loss on foreign currency translation	3,199	137,715	639,409	865,683
Impairment loss on AFS financial assets	142,630	252,630	-	-
Impairment loss on investments in associates	163,400	444,829	-	-
Loss on disposal of AFS financial asset	-	108	-	-
Loss on disposal of asset held for sale	-	19,311	-	-
Impairment loss on property, aircraft and equipment	7,585	72,886	72,364	72,364
Loss on disposal of property, aircraft and equipment	67,497	102,687	69,247	144,238
Revaluation loss of property, aircraft and equipment	-	2	-	-
Impairment loss on intangible asset	7,873	7,873	-	-
Loss on disposal of intangible asset	313	459	-	-
Donation	2,338	9,668	2,662	12,251
Miscellaneous income	10,143	26,743	-	23,975
	₩ 488,052	₩ 1,397,611	₩ 941,369	₩ 1,381,152

	Translation into U.S. dollars (Note 2)			
	Three months ended September 30, 2016	Nine months ended September 30, 2016	Three months ended September 30, 2015	Nine months ended September 30, 2015
	(In thousands)			
Other bad debt expenses	$ 13,989	$ 18,276	$ 520	$ 724
Loss on foreign currency transaction	61,788	276,077	143,316	238,846
Loss on foreign currency translation	2,918	125,618	583,243	789,641
Impairment loss on AFS financial assets	130,102	230,439	-	-
Impairment loss on investments in associates	149,047	405,755	-	-
Loss on disposal of AFS financial asset	-	98	-	-
Loss on disposal of asset held for sale	-	17,615	-	-
Impairment loss on property, aircraft and equipment	6,919	66,483	66,007	66,007
Loss on disposal of property, aircraft and equipment	61,568	93,666	63,164	131,568
Revaluation loss of property, aircraft and equipment	-	2	-	-
Impairment loss on intangible asset	7,181	7,181	-	-
Loss on disposal of intangible asset	286	419	-	-
Donation	2,132	8,819	2,428	11,175
Miscellaneous income	9,251	24,396	-	21,870
	$ 445,181	$ 1,274,844	$ 858,678	$ 1,259,831

37. INCOME TAX EXPENSE (BENEFIT):

(1) Income tax expense was recognized as current tax expense adjusted to current adjustments for prior periods, deferred tax income by origination and reversal of temporary differences and income tax is recognized in other comprehensive loss. The effective tax rate is 37.67% for the nine months ended September 30, 2016, and was not computed due to income tax benefit and net loss before income tax benefit for the nine months ended September 30, 2015.

(2) Deferred tax assets have been recognized to the extent the Company has determined the probability that future profits will be available against which the Company can utilize the related benefit and if future profits changes, deferred tax assets will be able to be changed.

38. CLASSIFICATION OF EXPENSES BY NATURE:

Expenses classified by nature for the three and nine months ended September 30, 2016 and 2015, consist of the following:

	Korean won			
	Three months ended September 30, 2016	Nine months ended September 30, 2016	Three months ended September 30, 2015	Nine months ended September 30, 2015
	(In millions)			
Salaries, retirement and severance benefit	₩ 379,414	₩ 1,145,588	₩ 372,519	₩ 1,147,023
Welfare	76,275	211,735	74,656	204,867
Depreciation and amortization	445,348	1,308,854	410,461	1,210,157
Rental	71,153	203,520	58,928	155,884
Fuel and oil charges	585,949	1,597,654	679,992	2,081,529
Airport-related costs	314,585	919,533	291,335	838,755
Sales commission	76,042	226,220	76,335	223,411
Others	660,356	2,117,852	622,614	1,949,570
	₩ 2,609,122	₩ 7,730,956	₩ 2,586,840	₩ 7,811,196

	Translation into U.S. dollars (Note 2)			
	Three months ended September 30, 2016	Nine months ended September 30, 2016	Three months ended September 30, 2015	Nine months ended September 30, 2015
	(In thousands)			
Salaries, retirement and severance benefit	$ 346,086	$ 1,044,958	$ 339,796	$ 1,046,268
Welfare	69,575	193,136	68,098	186,871
Depreciation and amortization	406,228	1,193,883	374,406	1,103,856
Rental	64,903	185,642	53,751	142,191
Fuel and oil charges	534,478	1,457,315	620,261	1,898,686
Airport-related costs	286,952	838,760	265,744	765,078
Sales commission	69,362	206,349	69,630	203,787
Others	602,350	1,931,819	567,923	1,778,316
	$ 2,379,934	$ 7,051,862	$ 2,359,609	$ 7,125,053

(*) The amount is the sum of cost of sales and selling and administrative expenses from condensed separate statement of comprehensive income (loss).

39. EARNINGS (LOSS) PER SHARE:

Basic earnings per share for the three and nine months ended September 30, 2016 and 2015, are as follows (In millions of Korean won and in thousands of U.S. dollars, except for share data and earnings (loss) per share):

(1) Common shares

	Korean won			
	Three months ended September 30, 2016	Nine months ended September 30, 2016	Three months ended September 30, 2015	Nine months ended September 30, 2015
	(In millions)			
Net income (loss)	₩ 427,957	₩ 80,224	₩ (510,317)	₩ (597,665)
Net income (loss) applicable to common stock:	421,474	78,965	(502,706)	(588,223)
Weighted-average number of common shares outstanding	72,839,744	72,839,744	72,839,744	68,792,799
Earnings (loss) per share (*):	5,786	1,084	(6,902)	(8,551)

	Translation into U.S. dollars (Note 2)			
	Three months ended September 30, 2016	Nine months ended September 30, 2016	Three months ended September 30, 2015	Nine months ended September 30, 2015
	(In thousands)			
Net income (loss)	$ 390,365	$ 73,177	$ (465,490)	$ (545,166)
Net income (loss) applicable to common stock:	384,451	72,029	(458,548)	(536,553)
Weighted-average number of common shares outstanding	72,839,744	72,839,744	72,839,744	68,792,799
Earnings (loss) per share (*):	5	1	(6)	(8)

(*) Diluted earnings per share for the three and nine months ended September 30, 2016 and 2015, is the same as the basic earnings per share as there are no dilutive potential common shares and dilutive effect.

(2) Preferred shares

	Korean won			
	Three months ended September 30, 2016	Nine months ended September 30, 2016	Three months ended September 30, 2015	Nine months ended September 30, 2015
	(In millions)			
Net income	₩ 427,957	₩ 80,224	₩ (510,317)	₩ (597,665)
Net income applicable to preferred stock:	6,483	1,260	(7,611)	(9,442)
Weighted-average number of preferred shares outstanding	1,110,794	1,110,794	1,110,794	1,110,794
Earnings per share (*):	5,836	1,134	(6,852)	(8,501)

	Translation into U.S. dollars (Note 2)			
	Three months ended September 30, 2016	Nine months ended September 30, 2016	Three months ended September 30, 2015	Nine months ended September 30, 2015
	(In thousands)			
Net income	$ 390,365	$ 73,177	$ (465,490)	$ (545,166)
Net income applicable to preferred stock:	5,913	1,149	(6,942)	(8,613)
Weighted-average number of preferred shares outstanding	1,110,794	1,110,794	1,110,794	1,110,794
Earnings (loss) per share (*):	5	1	(6)	(8)

(3) The contents of weighted-average common shares for three and nine months ended September 30, 2016 and 2015, are as follows:

	Number of shares			
	Three months ended September 30, 2016	Nine months ended September 30, 2016	Three months ended September 30, 2015	Nine months ended September 30, 2015
Cumulative number of weighted-average common shares	6,701,256,448	19,958,089,856	6,701,256,448	18,780,434,244
Cumulative number of weighted-average preferred shares	102,193,048	304,357,556	102,193,048	303,246,762
Number of days	92	274	92	274
Weighted-average number of common shares outstanding	72,839,744	72,839,744	72,839,744	68,792,799
Weighted-average number of preferred shares outstanding	1,110,794	1,110,794	1,110,794	1,110,794

40. FINANCIAL RISK MANAGEMENT:

(1) Capital risk management:
The purpose of capital risk management is to protect the ability to continuously provide profits with shareholders and maintain optimum capital structure to reduce capital expenses. The Company's capital risk management objectives and policies are consistent with those disclosed in the separate financial statements as of and for the year ended December 31, 2015.

(2) Financial risk management

1) Financial risk
The Company is exposed to various financial risks, such as market risk (foreign exchange rate risk, interest rate risk, oil price fluctuation risk and price risk), credit risk and liquidity risk, related to its financial instruments. The purpose of risk management of the Company is to identify potential risks related to financial performance and reduce, eliminate and evade those risks to an acceptable level of risks to the Company.

The Company's financial risk management objectives and policies are consistent with those disclosed in the separate financial statements as of and for the year ended December 31, 2015.

2) Risk aversion
The Company has made contracts for derivative instruments to avoid the change of exchange rate risk, oil price fluctuation risk and interest rate risk.

3) Credit risk management
There is no significant change in the degree of exposure of the maximum credit risk in comparison with the previous period except for the maximum amount of ₩975,558 million ($889,864 thousand), which is to be paid by the warrantee claims under the financial guarantee contracts.

4) Liquidity risk management
There is no significant change in undiscounted net cash inflows and outflows in comparison with the previous period.

41. FAIR VALUE OF FINANCIAL INSTRUMENTS:

(1) Financial instruments that are measured subsequent to initial recognition at fair value are categorized into Level 1 to Level 3 and fair value measurements of financial instruments by fair value hierarchy level as of September 30, 2016, and December 31, 2015, are as follows:

2016

Classification	Korean won			
	Level 1	Level 2	Level 3	Total
	(In millions)			
AFS:				
Listed securities	₩ 85,405	₩ -	₩ -	₩ 85,405
Unlisted securities	-	-	18,693	18,693
Beneficiary certificates	-	-	2,100	2,100
	₩ 85,405	₩ -	₩ 20,793	₩ 106,198
Derivative financial liabilities	₩ -	₩ 67,779	₩ -	₩ 67,779

Classification	Translation into U.S. dollars (Note 2)			
	Level 1	Level 2	Level 3	Total
	(In thousands)			
AFS:				
Listed securities	$ 77,903	$ -	$ -	$ 77,903
Unlisted securities	-	-	17,051	17,051
Beneficiary certificates	-	-	1,916	1,916
	$ 77,903	$ -	$ 18,967	$ 96,870
Derivative financial liabilities	$ -	$ 61,825	$ -	$ 61,825

2015

Classification	Korean won			
	Level 1	Level 2	Level 3	Total
	(In millions)			
AFS:				
Listed securities	₩ 95,110	₩ -	₩ -	₩ 95,110
Unlisted securities	-	-	19,067	19,067
	₩ 95,110	₩ -	₩ 19,067	₩ 114,177
Derivative financial liabilities	₩ -	₩ 54,021	₩ -	₩ 54,021

Classification	Translation into U.S. dollars (Note 2) Level 1	Level 2	Level 3	Total
	(In thousands)			
AFS:				
Listed securities	$ 86,756	$ -	$ -	$ 86,756
Unlisted securities	-	-	17,393	17,393
	$ 86,756	$ -	$ 17,393	$ 104,149
Derivative financial liabilities	$ -	$ 49,276	$ -	$ 49,276

There is no significant movement between the Level 1 and Level 2 for the nine months ended September 30, 2016 and 2015.

(2) The management of the Company considers that the carrying amounts of financial assets and financial liabilities recognized at amortized cost in the condensed separate financial statements approximate their fair values.

(3) The following table gives information about how the fair values of financial instruments categorized into Levels 2 and 3 are determined, in particular, the valuation techniques and relationship of significant unobservable inputs to fair value.

Description	Fair value Korean won	Translation into U.S. dollars (Note 2)	Valuation techniques	Significant unobservable inputs	Description of relationships
	(In millions)	(In thousands)			
Derivative financial liabilities (Note 26)	₩ 67,779	$ 61,825	DISCOUNTED CASH FLOW AND OTHERS	N/A	N/A
AFS financial assets (Note 7)	20,793	18,967		Sales growth rate Pretax operating income ratio Weighted-average cost of capital	Fair value of non-listed shares will increase if the weighted-average cost of capital is reduced along with the increase in pretax operating margin and sales growth rate.

(4) Changes in financial instruments that are measured at fair value on a recurring basis and classified as Level 3 for the nine months ended September 30, 2016, are as follows. There are no changes for the nine months ended September 30 2015.

Description	Korean won Beginning balance	Purchase	Disposal	Ending balance
	(In millions)			
AFS financial assets	₩ 19,067	₩ 2,100	₩ (374)	₩ 20,793

Description	Translation into U.S. dollars (Note 2) Beginning balance	Purchase	Disposal	Ending balance
	(In thousands)			
AFS financial assets	$ 17,393	$ 1,916	$ (341)	$ 18,968

(5) The Company recognizes transfers between levels of the fair value hierarchy at the time of the event or change in circumstances that caused the transfer. In addition, there is no change in the valuation techniques that have been used to measure the fair value of financial instruments classified as Level 2 and Level 3 for the nine months ended September 30, 2016.

(6) Though principle of subsequent measurement to financial assets and liabilities is fair value, the Company could not measure reliable fair value. The list and amount of financial assets and liabilities that do not have disclosed as fair value information are as follows:

		Korean won		Translation into U.S. dollars (Note 2)	
Category	Description (*)	2016	2015	2016	2015
		(In millions)		(In thousands)	
AFS financial assets	Unlisted securities and investments in other equity securities	₩ 38,720	₩ 35,380	$ 35,319	$ 32,272

(*) AFS financial assets are issued by non-listed companies in early stages of business. They are measured at cost because it is hard to obtain reliable financial information required for the measurement of fair value, or even if the financial information were obtained, the range of fair value measurements is significant and it is impossible to reliably evaluate the occurrence probability of various estimates.

42. TRANSACTIONS AND BALANCES WITH RELATED PARTIES:

(1) The list of related parties of the Company as of September 30, 2016, is as follows:

Relationship	Related parties
Significant influence over the Company	Hanjin Kal Co., Ltd.
Subsidiaries	Korea Airport Service Co., Ltd., Hanjin Information Systems & Telecommunication Co., Ltd., Air Total Service Co., Ltd., Hanjin International Corp., Hanjin Central Asia MChJ, Incheon Aviation Tech Co., Ltd., Wangsan Leisure Development Co., Ltd., Hanjin Int'l Japan Korea Global Logistics System Co., Ltd., Air Korea Co., Ltd., TAS, Cyber Sky Co., Ltd., KAL 7-19 Asset Securitization Specialty Company
Associates	EIGHTCITY Co., Ltd., Czech Airlines j.s.c.
Affiliated companies of a Conglomerate and others (*2)	Hanjin Transportation Co., Ltd., Hanjin Shipping Co., Ltd. (*1), Topas Co., Ltd., KAL Hotel Network Co., Ltd., Hanjin Travel Service Co., Ltd., Jungseok Enterprise Co., Ltd., Jedong Leisure Co., Ltd., Jin Air Co., Ltd., Uniconverse Co., Ltd., Jungseok-Inha School's Foundation, etc.

(*1) Hanjin Shipping Co., Ltd. was reclassified from associates to affiliated companies of a conglomerate and others for the nine months ended September 30, 2016.

(*2) These companies are not related parties as defined in paragraph 9 of K-IFRS 1024. However, affiliated companies of a conglomerate designated by the Fair Trade Commission are classified as related parties, in accordance with the resolution of the Securities and Futures Commission that these companies are related parties according to the substance of the relationship defined in paragraph 9 of K-IFRS 1024.

(2) Significant transactions with related parties (except for treasury and equity transactions) for the nine months ended September 30, 2016 and 2015, are as follows:

2016

Description		Korean won	
		Sales and others	Purchases and others
		(In millions)	
Significant influence over the Company	Hanjin Kal Co., Ltd.	₩ 91	₩ 22,938
Subsidiaries	Korea Airport Service Co., Ltd.	727	236,775
	Hanjin Information Systems & Telecommunication Co., Ltd.	968	56,739
	Air Total Service Co., Ltd.	230	1,671
	Korea Global Logistics System Co., Ltd.	65	1,590
	Air Korea Co., Ltd.	5	22,864
	Hanjin Int'l Japan	85	18,064
	Others	2,036	13,876
Associates	Czech Airlines j.s.c.	12,773	14,858
	Others	2,245	5,926
Affiliated companies of a conglomerate and others	Jin Air Co., Ltd.	156,824	3,212
	Topas Co., Ltd.	133	15
	KAL Hotel Network Co., Ltd.	719	27,260
	Hanjin Travel Service Co., Ltd.	81	4,541
	Jungseok Enterprise Co., Ltd.	-	1,430
	Hanjin Transportation Co., Ltd.	2,945	22,880
	Jungseok-Inha School's Foundation	-	6,242
	Uniconverse Co., Ltd.	36	6,378
	Others	181	2,612

Description		Translation into U.S. dollars (Note 2)	
		Sales and others	Purchases and others
		(In thousands)	
Significant influence over the Company	Hanjin Kal Co., Ltd.	$ 83	$ 20,924
Subsidiaries	Korea Airport Service Co., Ltd.	663	215,976
	Hanjin Information Systems & Telecommunication Co., Ltd.	883	51,755
	Air Total Service Co., Ltd.	210	1,525
	Korea Global Logistics System Co., Ltd.	60	1,451
	Air Korea Co., Ltd.	4	20,855
	Hanjin Int'l Japan	78	16,477
	Others	1,858	12,657
Associates	Czech Airlines j.s.c.	11,651	13,553
	Others	2,048	5,405
Affiliated companies of a conglomerate and others	Jin Air Co., Ltd.	143,048	2,929
	Topas Co., Ltd.	122	14
	KAL Hotel Network Co., Ltd.	656	24,865
	Hanjin Travel Service Co., Ltd.	74	4,142
	Jungseok Enterprise Co., Ltd.	-	1,305
	Hanjin Transportation Co., Ltd.	2,687	20,870
	Jungseok-Inha School's Foundation	-	5,694
	Uniconverse Co., Ltd.	33	5,817
	Others	165	2,383

2015

Description		Korean won	
		Sales and others	Purchases and others
		(In millions)	
Significant influence over the Company	Hanjin Kal Co., Ltd.	₩ 155	₩ 22,185
Subsidiaries	Korea Airport Service Co., Ltd.	966	215,474
	Hanjin Information Systems & Telecommunication Co., Ltd.	877	50,337
	Air Total Service Co., Ltd.	202	2,332
	Korea Global Logistics System Co., Ltd.	25	1,529
	Air Korea Co., Ltd.	3	19,656
	Hanjin Int'l Japan	74	14,500
	Others	244	5,316
Associates	Czech Airlines j.s.c.	17,038	20,353
	Others	267	34
Affiliated companies of a conglomerate and others	Jin Air Co., Ltd.	91,834	2,663
	Topas Co., Ltd.	911	2,389
	KAL Hotel Network Co., Ltd.	1,922	25,711
	Hanjin Travel Service Co., Ltd.	406	4,376
	Jungseok Enterprise Co., Ltd.	-	1,357
	Hanjin Transportation Co., Ltd.	2,941	26,159
	Cyber Sky Co., Ltd.	40	3,073
	Jungseok-Inha School's Foundation	-	6,637
	Uniconverse Co., Ltd.	79	14,649
	S-Oil Corp. (*)	-	14,758
	Others	57	1,859

Description		Translation into U.S. dollars (Note 2)	
		Sales and others	Purchases and others
		(In thousands)	
Significant influence over the Company	Hanjin Kal Co., Ltd.	$ 141	$ 20,236
Subsidiaries	Korea Airport Service Co., Ltd.	881	196,547
	Hanjin Information Systems & Telecommunication Co., Ltd.	800	45,916
	Air Total Service Co., Ltd.	184	2,127
	Korea Global Logistics System Co., Ltd.	23	1,395
	Air Korea Co., Ltd.	2	17,929
	Hanjin Int'l Japan	67	13,226
	Others	223	4,849
Associates	Czech Airlines j.s.c.	15,541	18,565
	Others	243	31
Affiliated companies of a conglomerate and others	Jin Air Co., Ltd.	83,767	2,429
	Topas Co., Ltd.	831	2,179
	KAL Hotel Network Co., Ltd.	1,753	23,452
	Hanjin Travel Service Co., Ltd.	371	3,991
	Jungseok Enterprise Co., Ltd.	-	1,238
	Hanjin Transportation Co., Ltd.	2,683	23,862
	Cyber Sky Co., Ltd.	36	2,803
	Jungseok-Inha School's Foundation	-	6,054
	Uniconverse Co., Ltd.	72	13,362
	S-Oil Corp. (*)	-	13,461
	Others	52	1,696

(*) It was disposed for the nine months ended September 30, 2015, and the amount above represents transaction amounts up to the disposal date.

(3) Significant receivables and payables to the related parties (except for loan, borrowing and related interest) as of September 30, 2016, and December 31, 2015, are as follows:

2016

Description		Korean won	
		Trade and other receivables	Trade and other payables
		(In millions)	
Significant influence over the Company	Hanjin Kal Co., Ltd.	₩ 2,221	₩ 7,111
Subsidiaries	Korea Airport Service Co., Ltd.	389	72,591
	Hanjin Information Systems & Telecommunication Co., Ltd.	95	23,460
	Air Total Service Co., Ltd.	29	849
	Korea Global Logistics System Co., Ltd.	16	184
	Hanjin Int'l Japan	-	4,377
	Air Korea Co., Ltd.	1	7,011
	Cyber Sky Co., Ltd.	6	370
	Others	718	2,009
Associates	Czech Airlines j.s.c.	399	13,740
Affiliated companies of a conglomerate and others	Jin Air Co., Ltd.	55,734	37,265
	Topas Co., Ltd.	13	1,120
	KAL Hotel Network Co., Ltd.	145	3,363
	Hanjin Travel Service Co., Ltd.	7	1,973
	Jungseok Enterprise Co., Ltd.	310	1,408
	Hanjin Transportation Co., Ltd.	153	5,811
	Uniconverse Co., Ltd.	-	2
	Others	927	3,540

Description		Translation into U.S. dollars (Note 2)	
		Trade and other receivables	Trade and other payables
		(In thousands)	
Significant influence over the Company	Hanjin Kal Co., Ltd.	$ 2,026	$ 6,486
Subsidiaries	Korea Airport Service Co., Ltd.	354	66,215
	Hanjin Information Systems & Telecommunication Co., Ltd.	86	21,399
	Air Total Service Co., Ltd.	27	774
	Korea Global Logistics System Co., Ltd.	14	168
	Hanjin Int'l Japan	-	3,993
	Air Korea Co., Ltd.	-	6,395
	Cyber Sky Co., Ltd.	6	338
	Others	655	1,832
Associates	Czech Airlines j.s.c.	363	12,533
Affiliated companies of a conglomerate and others	Jin Air Co., Ltd.	50,838	33,992
	Topas Co., Ltd.	12	1,021
	KAL Hotel Network Co., Ltd.	132	3,068
	Hanjin Travel Service Co., Ltd.	6	1,799
	Jungseok Enterprise Co., Ltd.	283	1,285
	Hanjin Transportation Co., Ltd.	140	5,301
	Uniconverse Co., Ltd.	-	2
	Others	846	3,229

2015

Description		Korean won	
		Trade and other receivables	Trade and other payables
		(In millions)	
Significant influence over the Company	Hanjin Kal Co., Ltd.	₩ 2,420	₩ 6,445
Subsidiaries	Korea Airport Service Co., Ltd.	401	77,861
	Hanjin Information Systems & Telecommunication Co., Ltd.	-	22,241
	Air Total Service Co., Ltd.	26	629
	Korea Global Logistics System Co., Ltd.	1	212
	Hanjin Int'l Japan	-	4,137
	Air Korea Co., Ltd.	6	3,409
	Cyber Sky Co., Ltd. (*)	17	348
	Others	95	63
Associates	Czech Airlines j.s.c.	1,607	11,754
	Others	16	-
Affiliated companies of a conglomerate and others	Jin Air Co., Ltd.	21,823	33,317
	Topas Co., Ltd.	13	117
	KAL Hotel Network Co., Ltd.	165	6,171
	Hanjin Travel Service Co., Ltd.	7	1,535
	Jungseok Enterprise Co., Ltd.	453	10
	Hanjin Transportation Co., Ltd.	333	8,042
	Uniconverse Co., Ltd.	10	1,709
	Others	5	193

Description		Translation into U.S. dollars (Note 2)	
		Trade and other receivables	Trade and other payables
		(In thousands)	
Significant influence over the Company	Hanjin Kal Co., Ltd.	$ 2,207	$ 5,879
Subsidiaries	Korea Airport Service Co., Ltd.	366	71,021
	Hanjin Information Systems & Telecommunication Co., Ltd.	-	20,287
	Air Total Service Co., Ltd.	24	574
	Korea Global Logistics System Co., Ltd.	1	194
	Hanjin Int'l Japan	-	3,773
	Air Korea Co., Ltd.	5	3,110
	Cyber Sky Co., Ltd. (*)	15	318
	Others	87	58
Associates	Czech Airlines j.s.c.	1,465	10,721
	Others	14	-
Affiliated companies of a conglomerate and others	Jin Air Co., Ltd.	19,906	30,391
	Topas Co., Ltd.	12	107
	KAL Hotel Network Co., Ltd.	151	5,629
	Hanjin Travel Service Co., Ltd.	6	1,401
	Jungseok Enterprise Co., Ltd.	413	9
	Hanjin Transportation Co., Ltd.	304	7,336
	Uniconverse Co., Ltd.	9	1,559
	Others	4	176

(*) Cyber Sky Co., Ltd. was reclassified from other related party to the Company's subsidiary for the year ended December 31, 2015.

(4) Loan and borrowing transactions with related parties for the nine months ended September 30, 2016, and for the year ended December 31, 2015, are as follows:

2016

Description	Account	Korean won			
		Beginning balance	Increase	Decrease	Ending balance
		(In millions)			
Subsidiaries:					
KAL 7–19 Asset Securitization Specialty Company (*1)	ABS loans	₩ 2,021,451	₩ 1,230,635	₩ (703,851)	₩ 2,548,235
Affiliated companies of a conglomerate and others :					
Hanjin Shipping Co., Ltd. (*2)	Short-term loans	₩ 220,000	₩ 60,000	₩ (220,000)	₩ 60,000

Description	Account	Translation into U.S. dollars (Note 2)			
		Beginning balance	Increase	Decrease	Ending balance
		(In thousands)			
Subsidiaries:					
KAL 7–19 Asset Securitization Specialty Company (*1)	ABS loans	$ 1,843,885	$ 1,122,535	$ (642,024)	$ 2,324,396
Affiliated companies of a conglomerate and others :					
Hanjin Shipping Co., Ltd. (*2)	Short-term loans	$ 200,675	$ 54,730	$ (200,675)	$ 54,730

(*1) Interest expenses and fees of ABS loans for the nine months ended September 30, 2016, are ₩56,919 million ($51,919 thousand) and ₩18,233 million ($16,631 thousand), respectively, and the Company recognized ₩14,960 million ($13,646 thousand) as accrued expenses as of September 30, 2016.

(*2) ₩220,000 million ($200,675 thousand) of short-term loans have been converted to unsecured bearer bonds (hybrid securities) issued by Hanjin Shipping Co., Ltd. and the Company provided additional support of ₩60,000 million ($54,730 thousand) for the purpose of operating loans for the nine months ended September 30, 2016. In relation to the hybrid securities, the Company recognized accrued interest and interest income amounting to ₩11,219 million ($10,234 thousand), and recognized accrued interest and interest income amounting to ₩16 million ($15 thousand) and ₩2,012 million ($1,835 thousand), respectively, in relation to the short-term loans. Meanwhile, the Company recognized the impairment loss on AFS financial assets in relation to the hybrid securities and the allowance for bad debts in relation to accrued interest amounting to ₩220,000 million ($200,675 thousand) and ₩11,219 million ($10,234 thousand), respectively, for the nine months ended September 30, 2016 (see Note 7). In addition, the Company established the collateral for the trade receivable accounts subordinated priority beneficiary right of the employee's apartment collateral trust, and the Atlanta office in the United States of Hanjin Shipping Co., Ltd. in relation to short-term loans.

2015

Description	Account	Korean won Beginning balance	Increase	Decrease	Ending balance
		(In millions)			
Subsidiaries:					
KAL 7–16 Asset Securitization Specialty Company (*1)	ABS loans	₩ 2,095,710	₩ 600,000	₩ (674,258)	₩ 2,021,452
Associates:					
Hanjin Shipping Co., Ltd. (*2)	Short-term loans	₩ 220,000	₩ -	₩ -	₩ 220,000

Description	Account	Translation into U.S. dollars (Note 2) Beginning balance	Increase	Decrease	Ending balance
		(In thousands)			
Subsidiaries:					
KAL 7–16 Asset Securitization Specialty Company (*1)	ABS loans	$ 1,911,621	$ 547,295	$ (615,031)	$ 1,843,885
Associates:					
Hanjin Shipping Co., Ltd. (*2)	Short-term loans	$ 200,675	$ -	$ -	$ 200,675

(*1) Interest expense and fees of the ABS loans for the year ended December 31, 2015, are ₩76,904 million ($70,149 thousand) and ₩10,567 million ($9,639 thousand), respectively, and the Company recognized ₩7,642 million ($6,971 thousand) as accrued expenses as of December 31, 2015.

(*2) The Company has received 13,800,000 treasury shares of Hanjin Shipping Co., Ltd., trademark held by Hanjin Shipping Co., Ltd., 526,316 shares of H-Line Co., Ltd. and overseas property (appraised value of ₩40 billion) as collateral as of December 31, 2015. In relation to the above short-term loans, the Company recognized interest income amounting to ₩13,212 million ($12,051 thousand) for the year ended December 31, 2015, and accrued income amounting to ₩2,291 million ($2,090 thousand) as of December 31, 2015.

(5) Stock trading with the special relevant parties for the nine months ended September 30, 2016, and the year ended December 31, 2015, is as follows:

2016

Description	Company	Transaction	Korean won	Translation into U.S. dollars (Note 2)
			(In millions)	(In thousands)
Investments	Hanjin Int'l Corp. (*Subsidiaries)*	Paid-up capital increase	₩ 432,838	$ 394,817
	Wangsan Leisure Development Co., Ltd. (*Subsidiaries)*	Paid-up capital increase	8,500	7,753

2015

Description	Company	Transaction	Korean won (In millions)	Translation into U.S. dollars (Note 2) (In thousands)
Capital increase	Hanjin KAL Co., Ltd. (*Significant influence over the Company)*	Increase in paid-up capital	₩ 128,588	$ 117,293
Investment	Air Total Service Co., Ltd. (*Subsidiaries)*		6,320	5,765
	Incheon Aviation Tech Co., Ltd. (*Subsidiaries)*	Increase in paid-up capital	14,850	13,546
	Hanjin Int'l Corp. (*Subsidiaries)*	Increase in paid-up capital and others	174,750	159,400
Purchase of investment securities	Hanjin Information Systems & Telecommunication Co., Ltd. (*Subsidiaries)*	Purchase of Korean Global Logistics System Co., Ltd. stocks	3,374	3,078
	Key management personnel	Purchase of Cyber Sky Co., Ltd. stocks	6,267	5,717
Capital reduction	Hanjin Energy Co., Ltd. (*Subsidiaries)*	Capital reduction	865,145	789,150
Liquidation		Liquidation	1,184	1,080
	KAL4 Asset Securitization Specialty Company (*Subsidiaries)*		-	0
	KAL8 Asset Securitization Specialty Company (*Subsidiaries)*		-	0
Disposal of investment securities	Hanjin Transportation Co., Ltd. (*) *(Affiliated companies of a conglomerate and others)*	Disposal of Hanjin Int'l Japan Co., Ltd. stocks	36	33
Dividends	Hanjin Energy Co., Ltd. and others	Dividends received	4,271	3,896

(*) The Company recognized gain on disposal of investments in associates amounting to ₩277 million ($253 thousand) for the year ended December 31, 2015.

(6) The remuneration of registered directors and unregistered directors for the nine months ended September 30, 2016 and 2015, is as follows:

Transaction	Korean won 2016	Korean won 2015	Translation into U.S. dollars (Note 2) 2016	Translation into U.S. dollars (Note 2) 2015
	(In millions)		(In thousands)	
Wages and salaries	₩ 3,471	₩ 3,360	$ 3,166	$ 3,065
Retirement benefit costs	1,678	18,485	1,530	16,861
	₩ 5,149	₩ 21,845	$ 4,696	$ 19,926

(7) Details of guarantees that the Company has provided for related parties as of September 30, 2016, are as follows (in millions of Korean won and in thousands of U.S. dollars):

Transaction	Currency	Guaranteed amount	Financial institutions	Description
Korea Airport Service Co., Ltd.	KRW	4,931	Hana Bank (formerly, Korea Exchange Bank) and others	Guaranteed loans (*)
Jungseok Enterprise Co., Ltd.	KRW	2,785		
Hanjin Transportation Co., Ltd.	KRW	2,081		
Hanjin Heavy Industries & Construction Holdings Co., Ltd.	KRW	2,159	KDB and others	
Hanjin Int'l Corp.	KRW	230,000	Other financial institutions	Borrowings of Hanjin Int'l Corp
	USD	450,000		
	KRW	241,956		
	USD	450,000		

(*) Related to guaranteed loans as of September 30, 2016, Korea Airport Service Co., Ltd., Jungseok Enterprise Co., Ltd., Hanjin Transportation Co., Ltd. and Hanjin Heavy Industries & Construction Holdings Co., Ltd. also have guaranteed payment for the same amount.

(8) The Company made a commitment with KDB to participate in paid-up-capital increase of Wangsan Leisure Development Co., Ltd. in case of Wangsan Leisure Development Co., Ltd. is short for financial resources to repay the borrowings provided by KDB. The outstanding balance of borrowings is ₩78,419 million ($71,531 thousand) as of September 30, 2016.

(9) As of September 30, 2016, issued preferred shares of subsidiary as cumulative and non-participative preferred shares will be converted proportionately for one common stock per one preferred stock after five years and six months (conversion date) from the date of acquiring land. After five years from the first acquisition date of land, the Company has a call option for six months to buy the preferred shares held by United Technologies International Corporation-Asia Private Ltd., a preferred shareholder of Incheon Aviation Tech Co., Ltd., and the preferred shareholder of Incheon Aviation Tech Co., Ltd. also has a put option to sell the preferred shares to the Company during the period.

(10) Guarantees that have been provided to the Company by related parties as of September 30, 2016, are as follows:

	Korean won					
Financial institutions	Guaranteed amount	Korea Airport Service Co., Ltd.	Jungseok Enterprise Co., Ltd.	Hanjin Transportation Co., Ltd.	Hanjin Shipping Co., Ltd. (*)	Hanjin Heavy Industries & Construction Holdings
	(In millions)					
Hana Bank (formerly, Korea Exchange Bank)	₩ 4,253	₩ 5,528	₩ 5,528	₩ 5,528	₩ 5,528	₩ 5,528
KDB	2,609	3,391	3,391	3,391	3,391	3,391
Shinhan Bank and others	1,973	2,167	2,167	2,167	2,255	2,167
	₩ 8,835	₩ 11,086	₩ 11,086	₩ 11,086	₩ 11,174	₩ 11,086

Financial institutions	Guaranteed amount	Korea Airport Service Co., Ltd.	Jungseok Enterprise Co., Ltd.	Hanjin Transportation Co., Ltd.	Hanjin Shipping Co., Ltd. (*)	Hanjin Heavy Industries & Construction Holdings
	Translation into U.S. dollars (Note 2) (In thousands)					
Hana Bank (formerly, Korea Exchange Bank)	$ 3,879	$ 5,043	$ 5,043	$ 5,043	$ 5,043	$ 5,043
KDB	2,380	3,094	3,094	3,094	3,094	3,094
Shinhan Bank and others	1,800	1,977	1,977	1,977	2,057	1,977
	$ 8,059	$ 10,114	$ 10,114	$ 10,114	$ 10,194	$ 10,114

(*) As Hanjin Shipping Co., Ltd. (a new company) was spun off from Eusu Holdings Co., Ltd. (a surviving company) as of December 1, 2009, Eusu Holdings Co., Ltd. jointly provides a guarantee for the long-term liabilities that were assumed by the companies above.

43. OPERATING LEASE:

(1) Breakdown of the usage of an operating lease

As of September 30, 2016, the Company has entered into operating lease agreements to lease 27 aircraft and certain aircraft parts from International Lease Finance Corporation and other lessors. The Company has also entered into an operating lease agreement to use the cargo terminal at JFK International Airport located in the United States with the New York City Industrial Development Agency ("IDA"). The schedule of lease payments as of September 30, 2016, is summarized as follows:

Period	Korean won	Translation into U.S. dollars (Note 2)
	(In millions)	(In thousands)
Less than one year	₩ 205,129	$ 187,111
One year to five years	691,753	630,989
More than five years	573,288	522,930
	₩ 1,470,170	$ 1,341,030

Kookmin Bank has provided a guarantee up to $52 million for opening letters of credit in accordance with the IDA operating lease contract with the Company.

(2) Breakdown of the provision of an operating lease

The Company has entered into operating lease agreements to lease 16 aircraft and certain aircraft parts to Jin Air Co., Ltd. and others. The schedule of lease collection on this agreement is summarized as follows:

Period	Korean won	Translation into U.S. dollars (Note 2)
	(In millions)	(In thousands)
Less than one year	₩ 78,797	$ 71,876
One year to five years	209,564	191,156
More than five years	74,041	67,537
	₩ 362,402	$ 330,569

44. NON-CASH TRANSACTIONS:

The significant non-cash transactions from investing and financing activities that are not included in the condensed consolidated statements of cash flows for the nine months ended September 30, 2016 and 2015, are as follows:

Description	Korean won			
	2016		2015	
	(In millions)			
Transfer of long-term borrowings to current portion of long-term borrowings	₩	992,574	₩	1,614,906
Transfer of debentures to current portion of debentures		974		2,096,502
Transfer of finance lease obligations to current portion of finance lease obligations		1,318,503		973,907
Transfer of construction in progress to property, aircraft and equipment		1,689,505		2,321,325
Acquisition of financial lease assets		1,156,141		1,756,861
Transfer of finance lease obligations to finance lease receivables		50,713		-
Transfer of short-term loans to AFS financial assets		220,000		-

Description	Translation into U.S. dollars (Note 2)			
	2016		2015	
	(In thousands)			
Transfer of long-term borrowings to current portion of long-term borrowings	$	905,386	$	1,473,051
Transfer of debentures to current portion of debentures		888		1,912,343
Transfer of finance lease obligations to current portion of finance lease obligations		1,202,684		888,358
Transfer of construction in progress to property, aircraft and equipment		1,541,098		2,117,418
Acquisition of financial lease assets		1,054,584		1,602,537
Transfer of finance lease obligations to finance lease receivables		46,258		-
Transfer of short-term loans to AFS financial assets		200,675		-

45. COMMITMENTS AND CONTINGENCIES:

(1) The guarantees provided as of September 30, 2016, are as follows:

Financial institution	Korean won		Translation into U.S. dollars (Note 2)		Details
	(In millions)		(In thousands)		
Seoul Guarantee Insurance Co., Ltd.	₩	3,060	$	2,791	Bids, performance, maintenance guarantee and others
Korea Defense Industry Association		924,187		843,005	
HSBC Australia and others		15,483		14,123	

(2) The Company has provided a guarantee of ₩14,496 million ($13,223 thousand) in relation to the personal loan of flight training center trainees. The Company has also provided a payment guarantee of $ 7,321 thousand to Bank of China for Grandstar Cargo International Airlines Co., Ltd.

(3) The credit line and details of credit agreements as of September 30, 2016, are as follows (in millions of Korean won and in thousands of U.S. dollars):

Description	Financial institutions	Currency	Limit
Credit line agreement	Hana bank		
	(Formerly, Korea Exchange Bank)	USD	65,000
	and others	KRW	120,000
Letters of credit	Kookmin Bank	USD	51,763
		KRW	120,000
		USD	116,763

(4) Promissory note pledged as collateral
As of September 30, 2016, the Company has an outstanding promissory note pledged as collateral to the Korea Defense Industry Association.

(5) Pending litigations and others
With regard to the alleged antitrust violation relating to the Company and other parties colluding on price fixing of air cargo services, the Company made a plea to the U.S. Department of Justice on August 1, 2007, for the payment of fines totaling $300,000 thousand to be paid in annual installments. Accordingly, the Company made fine payments of $275,000 thousand since 2007 and the rest will be paid by 2016 under an agreement with U.S. Department of Justice. The amounts of $25,000 thousand are included in non-trade payables as of September 30, 2016.

The Company has agreed with the plaintiff to settle the lawsuit with compensation of $ 39,000 thousand in cash and $ 26,000 thousand in passenger flight ticket coupons; the Company was completed $ 65,000 thousand in cash payment after 2013, and also recognizes the coupon of passenger flight tickets amounting to ₩28,336 million in a provision for coupon for passenger flight ticket.

As of September 2016, various claims, lawsuits and complaints arising from airline service operations are pending against the Company and the ultimate outcome of these cases are unpredictable. Management believes that the ultimate outcome of these cases will not have any material adverse effect on the financial performance and position of the Company.

(6) Purchase plan of new aircrafts
The Company has entered into various contracts with manufacturers, such as The Boeing Company to purchase aircraft. The amount of such contracts is approximately $6,863 million as of September 30, 2016.

(7) Joint-use agreement of passenger terminal
The Company and four other airlines, including Air France, entered into a joint-use agreement with the JFK Airport in New York and established Terminal One Group Association ("TOGA") to cooperate one of the new terminals of JFK Airport. TOGA may have to repay Bond issued by New York Transportation Development Corporation based on terminal lease revenue and they have provided TOGA with a joint guarantee up to $167 million for each terminal usage fee.

(8) The Seoul District Court decided to commence the rehabilitation procedures for Hanjin Shipping Co., Ltd. on September 1, 2016. The Company recognized ₩444,829 million ($405,755 thousand) of impairment losses on investments in associates and ₩252,630 million ($230,439 thousand) of impairment losses on AFS financial assets, relating to Hanjin Shipping Co., Ltd. for the nine months ended September 30, 2016. In addition, the Company recognized ₩41,592 million ($37,939 thousand) of loss on valuation of derivatives and ₩ 74,959 million ($68,375 thousand) of loss on trading of derivatives, relating to the TRS contracts (see Note 26 and 42), which based on the future value of Hanjin Shipping Co., Ltd.'s exchangeable bond for the nine months ended September 30, 2016. Furthermore, 81,019,733 shares of Hanjin Shipping Co., Ltd. held by the Company is provided as a collateral for Hanjin Int'l Corp.'s borrowings of ₩723,608 million ($660,046 thousand).

(9) Financial structure improvement agreement
As the part of a group of conglomerates, the Company is under close supervision; it has signed an agreement with its main bank, the KDB, to improve its financial structure by going under a financial structural reform in May 2009. Per the agreement, the Company pronounced plans to liquidate the shares of S-OIL Corp. held by its subsidiary (Hanjin Energy Co., Ltd.), used airplanes and other properties to secure ₩3.49 trillion. By December 31, 2015, the Company prepared approximately ₩3.55 trillion for financial structure improvement. The Company plans to further develop and implement plans to improve its business results in the future.

46. AMOUNT DUE FROM AND DUE TO CUSTOMERS FOR CONTRACT WORK:

(1) Changes in contract work for the nine months ended September 30, 2016, and a year ended December 31, 2015, are as follows:

	Korean won			
Description	Revenues incurred to date	Costs incurred to date	Recognized profits to date	Ending balance of construction contracts (*)
		(In millions)		
Civil aircraft	₩ 89,733	₩ 75,303	₩ 14,430	₩ 144,927
Military aircraft	720,555	684,490	36,065	631,127
	₩ 810,288	₩ 759,793	₩ 50,495	₩ 776,054

	Translation into U.S. dollars (Note 2)			
Description	Revenues incurred to date	Costs incurred to date	Recognized profits to date	Ending balance of construction contracts (*)
		(In thousands)		
Civil aircraft	$ 81,851	$ 68,688	$ 13,162	$ 132,197
Military aircraft	657,261	624,364	32,897	575,688
	$ 739,112	$ 693,052	$ 46,059	$ 707,885

(*) The balance as of September 30, 2016, does not include amounts for contracts that do not have the specific details (quantity, amount and others) confirmed despite being signed. The Company estimates above amount to be ₩2,287,506 million ($2,086,569 thousand).

(2) Amount due from and due to customers for contract work as of September 30, 2016, and December 31, 2015, is as follows:

	Korean won		Translation into U.S. dollars (Note 2)	
	2016	2015	2016	2015
	(In millions)		(In thousands)	
Account due from customers for contract work (*)	₩ 171,085	₩ 158,239	$ 156,057	$ 144,339
Account due to customers for contract work	(67,319)	(94,297)	(61,405)	(86,014)

(*) Provision for construction loss contained in amount due from customers for contract work is ₩2,840 million ($2,591 thousand) as of September 30, 2016.

(3) The estimated gross contract costs for contracts as of December 31, 2015, changed as cost for power plant segment increased and cost for housing segment decreased during the current period. Details of its effects on profit and loss for the current and future years, and gross amount due from customers for contract work are as follows:

Description	Construction loss provisions (*)	Estimated increase (decrease) in contract revenue (*)	Estimated increase (decrease) in contract cost (*)	Influence on current profit (*)	Influence on future profit (*)	Increase (decrease) in due from customers for contract work (due to customers for contract work) (*)
	Korean won (in millions)					
Civil aircraft	₩ 2,840	₩ (10,352)	₩ (5,255)	₩ (3,035)	₩ (2,061)	₩ (3,036)
Military aircraft	-	(8,653)	(6,503)	(273)	(1,877)	(273)
	₩ 2,840	₩ (19,005)	₩ (11,758)	₩ (3,308)	₩ (3,938)	₩ (3,309)

Description	Construction loss provisions (*)	Estimated increase (decrease) in contract revenue (*)	Estimated increase (decrease) in contract cost (*)	Influence on current profit (*)	Influence on future profit (*)	Increase (decrease) in due from customers for contract work (due to customers for contract work) (*)
	Translation into U.S. dollars (Note 2) (In thousands)					
Civil aircraft	$ 2,591	$ (9,443)	$ (4,794)	$ (2,769)	$ (1,880)	$ (2,769)
Military aircraft	-	(7,893)	(5,932)	(249)	(1,712)	(249)
	$ 2,591	$ (17,336)	$ (10,726)	$ (3,018)	$ (3,592)	$ (3,018)

(*) Contracts being signed newly and terminated are excluded from disclosure for the nine months ended September 30, 2016.

47. SEGMENT INFORMATION:

In accordance with K-IFRS 1108, *Operating Segments*, the Company's segment information is summarized as follows:

(1) Sales by segment for the nine months ended September 30, 2016 and 2015, are as follows:

Description	Three months ended September 30, 2016	Nine months ended September 30, 2016	Three months ended September 30, 2015	Nine months ended September 30, 2015
	Korean won (In millions)			
Air transport	₩ 2,845,593	₩ 7,907,011	₩ 2,666,023	₩ 7,683,370
Aerospace	184,597	654,073	229,851	709,800
Flight meals	26,576	73,720	22,715	69,758
	₩ 3,056,766	₩ 8,634,804	₩ 2,918,589	₩ 8,462,928

Description	Translation into U.S. dollars (Note 2) Three months ended September 30, 2016	Nine months ended September 30, 2016	Three months ended September 30, 2015	Nine months ended September 30, 2015
	(In thousands)			
Air transport	$ 2,595,634	$ 7,212,452	$ 2,431,837	$ 7,008,456
Aerospace	168,381	596,619	209,661	647,450
Flight meals	24,242	67,245	20,719	63,630
	$ 2,788,257	$ 7,876,316	$ 2,662,217	$ 7,719,536

(*) The profit of limousine business division (₩1,562 million ($1,425 thousand)) for the nine months ended September 30, 2015, transferred to Air Total Service Co., Ltd. as part of the contribution in kind and was included as part of air transport revenue.

(2) There is no single customer who accounts for more than 10% of the Company's revenue during the nine months ended September 30, 2016 and 2015. Meanwhile, sales for the nine months ended September 30, 2016 and 2015, are mainly attributable to the domestic customers and the United States.

48. <u>ASSETS HELD FOR SALE:</u>

(1) Assets held for sale as of September 30, 2016, and December 31, 2015, are summarized as follows:

	Korean won 2016	2015
Assets held for sale	(In millions)	
Current assets:	₩ 17,830	₩ 45,543
Aircraft	7,226	19,621
Engines	10,604	25,922
Non-current assets	-	-
	₩ 17,830	₩ 45,543

	Translation into U.S. dollars (Note 2) 2016	2015
Assets held for sale	(In thousands)	
Current assets:	$ 16,264	$ 41,542
Aircraft	6,592	17,898
Engines	9,672	23,644
Non-current assets	-	-
	$ 16,264	$ 41,542

(2) The Company reclassified a portion of aircraft and engines to assets held for sale and disposed of it according to the aircraft sales plan. The Company accordingly recognized an impairment loss of ₩53,388 million ($48,698 thousand), a gain on disposal of assets held for sale of ₩955 million ($871 thousand) and a loss on disposal of assets held for sale of ₩19,311 million ($17,615 thousand).

49. SUBSEQUENT EVENTS:

(1) The Company acquired 760,000 shares of Wangsan Leisure Development Co., Ltd. amounting to ₩3,800 million ($3,466 thousand) on October 14, 2016.

(2) The Company has issued the 68th unregistered and unsecured bearer public offering debenture amounting to ₩150,000 million ($136,824 thousand) subsequent to September 30, 2016.

50. REVISED FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2015:

The Company revised the accounting for oil price derivative contracts of the condensed separate financial statements for the nine months ended September 30, 2015, and the revision effect on the condensed separate financial statements for the nine months ended September 30, 2015, are as follows.

	Korean won					
	Before revision		Revision		After revision	
	Three months ended September 30, 2015	Nine months ended September 30, 2015	Three months ended September 30, 2015	Nine months ended September 30, 2015	Three months ended September 30, 2015	Nine months ended September 30, 2015
	(In millions)					
SALES	₩ 2,918,589	₩ 8,462,928	₩ -	₩ -	₩ 2,918,589	₩ 8,462,928
COST OF SALES	2,353,192	7,150,847	(52,031)	(192,826)	2,301,160	6,958,021
GROSS PROFIT	565,397	1,312,081	52,031	192,826	617,429	1,504,907
Selling and administrative expenses	285,680	853,175	-	-	285,680	853,175
OPERATING INCOME	279,717	458,906	52,031	192,826	331,749	651,732
Financial income	14,992	49,363	(2,698)	11,548	12,294	60,910
Financial expenses	101,459	295,404	68,611	72,243	170,070	367,647
Other non-operating income	129,258	294,941	-	-	129,258	294,941
Other non-operating expenses	941,369	1,381,152	-	-	941,369	1,381,152
LOSS BEFORE INCOME TAX BENEFIT	(618,861)	(873,346)	(19,278)	132,131	(638,138)	(741,216)
INCOME TAX BENEFIT	(123,156)	(175,527)	(4,665)	31,976	(127,821)	(143,551)
NET LOSS	(495,705)	(697,819)	(14,613)	100,155	(510,317)	(597,665)
OTHER COMPREHENSIVE INCOME (LOSS) AFTER INCOME TAX	(32,876)	2,993	14,613	(100,155)	(18,263)	(97,162)
COMPREHENSIVE LOSS	₩ (528,581)	₩ (694,826)	₩ -	₩ -	₩ (528,580)	₩ (694,827)

	Translation into U.S. dollars (Note 2)					
	Before revision		Revision		After revision	
	Three months ended September 30, 2015	Nine months ended September 30, 2015	Three months ended September 30, 2015	Nine months ended September 30, 2015	Three months ended September 30, 2015	Nine months ended September 30, 2015
	(In thousands)					
SALES	$ 2,662,217	$ 7,719,537	$ -	$ -	$ 2,662,217	$ 7,719,537
COST OF SALES	2,146,485	6,522,710	(47,461)	(175,888)	2,099,024	6,346,822
GROSS PROFIT	515,732	1,196,827	47,461	175,888	563,193	1,372,715
Selling and administrative expenses	260,585	778,231	-	-	260,585	778,231
OPERATING INCOME (LOSS)	255,147	418,596	47,461	175,888	302,608	594,484
Financial income	13,675	45,027	(2,461)	10,533	11,214	55,560
Financial expenses	92,547	269,456	62,584	65,897	155,131	335,353
Other non-operating income	117,904	269,033	-	-	117,904	269,033
Other non-operating expenses	858,678	1,259,831	-	-	858,678	1,259,831
LOSS BEFORE INCOME TAX BENEFIT	(564,499)	(796,631)	(17,584)	120,524	(582,083)	(676,107)
INCOME TAX BENEFIT	(112,338)	(160,108)	(4,255)	29,167	(116,593)	(130,941)
NET LOSS	(452,161)	(636,523)	(13,329)	91,357	(465,490)	(545,166)
OTHER COMPREHENSIVE INCOME (LOSS) AFTER INCOME TAX	(29,988)	2,730	13,329	(91,357)	(16,659)	(88,627)
COMPREHENSIVE LOSS	$ (482,149)	$ (633,793)	$ -	$ -	$ (482,149)	$ (633,793)

APPENDIX IV

UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS OF KOREAN AIR LINES CO., LTD. AS OF 30 SEPTEMBER, AND FOR THE THREE AND NINE MONTHS ENDED 30 SEPTEMBER 2016

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Independent Accountants' Review Report

English Translation of Independent Accountants' Review Report Originally Issued in Korean on November 14, 2016

To the Shareholders and the Board of Directors of
Korean Air Lines Co., Ltd.:

We have reviewed the accompanying condensed consolidated financial statements of Korean Air Lines Co., Ltd. (the "Company") and its subsidiaries (collectively, the "Group"). The condensed consolidated financial statements consist of the condensed consolidated statement of financial position as of September 30, 2016, and the related condensed consolidated statement of comprehensive income(loss), all expressed in Korean won, for the three and nine months ended September 30, 2016, and condensed consolidated statement of changes in shareholders' equity and condensed consolidated statement of cash flows, all expressed in Korean won, for the nine months ended September 30, 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 these condensed consolidated financial statements in accordance with Korean International Financial Reporting Standards ("K-IFRS"), 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 review.

We conducted our review 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 review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated financial statements of the Group are not presented fairly, in all material respects, in accordance with K-IFRS 1034, *Interim Financial Reporting*.

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Emphasis of matter

We draw attention to the condensed consolidated financial statements that are described as follows. Our opinion is not qualified in respect of this matter.

(1) The independent accountants' emphasis of matter about additional stated matters based on Korean Practice Guide on Auditing about engineering to order and others

Additional stated matters based on Korean Practice Guide on Auditing mean selecting significant matters on the accompanying condensed consolidated financial statements based on our review through the independent accountants' professional judgments and communication with those charged with governance in accordance with Korean Practice Guide on Auditing 2016-1. Additional stated matters based on Korean Practice Guide on Auditing are dealt with a view of our review about the condensed consolidated financial statements, and we do not provide a separate opinion on these matters.

As discussed in 'Independent accountants' responsibility,' we perform primarily inquiries of Company personnel and analytical procedures applied to financial data related to additional stated matters based on Korean Practice Guide on Auditing 2016-1 about engineering to order as our responsibility is to express a conclusion on the accompanying condensed consolidated financial statements based on our review.

a) General matters

In relation to additional stated matters based on Korean Practice Guide on Auditing about engineering to order, which is described in the independent accountants' review report, the common contents are as follows:

As of September 30, 2016, the Company recognizes revenue of the aerospace division, which is exceeding 5% of the Company's total revenue, in accordance with the stage of completion determined by reference to the contract costs incurred to date, and when the outcome of a construction contract can be estimated reliably, contract revenue and contract costs associated with the construction contract shall be recognized as revenue and expenses, respectively, by reference to the stage of completion of the contract activity. The stage of completion is determined by the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs, except for contract costs that do not reflect work performed. The gross amount due from customers for contract work is the net amount of contracts in progress for which costs incurred, plus recognized profits (less recognized losses) exceed progress billings, and the gross amount due to customers for contract work is the net amount of contracts in progress for which progress billings exceed costs incurred, plus recognized profits (less recognized losses).

b) Revenue recognition in accordance with the stage of completion determined by reference to the contract costs incurred to date

The gross amount of contract revenue is measured by the initial amount of revenue agreed in the contract, but the measurement of contract revenue is affected by a variety of uncertainties related to the outcome of future events as the gross amount of contract revenue may increase in accordance with variations in contract work, claims and incentive payments or may decrease as a result of penalties arising from delays caused by the Company in the completion of the contract. Also, amount of contract revenue is influenced by the stage of completion determined by reference to the contract costs incurred to date, and the gross amount of contract costs is estimated by the expectations of the materials costs, labor costs and contract period. As discussed in Note 46, estimated decrease in contract revenue and cost is ₩19,005 million ($17,336 thousand) and ₩11,758 million ($10,725 thousand), respectively, for the nine months ended September 30, 2016, and current profit decrease is ₩3,308 million ($3,017 thousand) and future profit decrease is ₩3,938 million ($3,592 thousand) in accordance with the variations of estimated increase (decrease) in contract revenue and cost. We selected revenue recognition in accordance with the stage of completion determined by reference to the contract costs incurred to date as a significant risk because there is a possibility that the variations of estimated increase (decrease) in contract revenue and cost can influence future profits negatively.

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As of September 30, 2016, we performed the following review procedures about revenue recognition in accordance with the stage of completion determined by reference to the contract costs incurred to date.
- Inquiries of major contracts
- Inquiries of accounting policy of revenue recognition and changes in accounting policy
- Inquiries of current progress and significant changes in major projects
- Analytic review of the initial amount of revenue agreed in the contract, the estimated total contract costs, the cost ratio, the amount due from customers for contract work ratio and others

c) Uncertainty of estimated total contract costs
Total contract costs are estimated based on future expectations, including material cost, labor cost, construction period and others, and we selected the uncertainty of estimated total contract costs as a significant risk because there is a possibility that the increase in the uncertainty of estimated total contract costs and the estimation change in accordance with process delays or process inefficiency can influence future profits negatively.

As of September 30, 2016, we performed the following review procedures about the impact on the condensed consolidated financial statements caused by the uncertainty of estimated total contract costs.
- Inquiries and analytic review of fluctuations in the major cost items of the estimated total contract costs each reporting period
- Inquiries of the cause of variations about the project, which has significant variations of the estimated total contract costs and others
- Inquiries of the cause of variations related to the project, which has significant difference between the expected cost ratio and the actual cost ratio and others

ci) Determination of the stage of completion
As discussed in Note 46, the estimated decrease in contract cost is ₩11,758 million ($10,725 thousand) for the nine months ended September 30, 2016, and as of September 30, 2016, cost incurred to date is ₩759,793 million ($693,052 thousand). We selected the determination of the stage of completion as a significant risk because there is a possibility that the increase in the contract cost in comparison with the estimated total contract cost due to the unexpected process delay before the prior period and others and the increase in the uncertainty of estimated total contract costs can influence future profits negatively.

We performed the following review procedures with regard to the estimated total contract costs and cost incurred to date, which can affect the determination of the stage of completion.
- Inquiries of the cause of variations of the stage of completion quarterly
- Analytical review of the fluctuation about the estimated total contract costs and cost incurred to date

cii) Recoverability of the amount due from customers for contract work

As discussed in Note 46, the amount due from customers for contract work is ₩171,085 million ($156,057 thousand), and we selected the recoverability of the amount due from customers for contract work as a significant risk because there is a possibility that the increase in the amount due from customers for contract work and the increase rate of the amount due from customers for contract work exceeding the increase rate of revenues incurred to date can influence future profits negatively.

We performed the following review procedures about the project such that the amount due from customers for contract work increases significantly for the nine months ended September 30, 2016:
- Inquiries of the payment condition, delay compensation, delivery period and other obligations of the contract
- Inquiries of the expiry of the payment date under the contract and the financial solvency of customer

ciii) Accounting for variations in contract work
The total contract revenue can be measured on the initial amount of revenue agreed in the contract, but the measurement of contract revenue is affected by the various uncertainties related to the result of future events because the total contract revenue may increase as a result of variations in contract work and others or may decrease as a result of penalties arising from delays caused by the Company in the completion of the contract. We selected the accounting for variations in contract work as a significant risk because there is a possibility that such uncertainties can influence future profits negatively.

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We performed the following review procedures about the accounting for variations in contract work and disclosures:
- Inquiries of the reason for the significant variation of a contract price
- Inquiries of the possibility that the customer can approve the amount of revenue due to variations in contract work
- Inquiries of the impact of estimated total contract costs and the stage of completion due to the variations in contract work

(2) As discussed in Note 45.(8), The Seoul District Court decided to commence the rehabilitation procedure of Hanjin Shipping Co., Ltd. on September 1, 2016. The Group recognized ₩333,798 million ($304,477 thousand) of impairment losses on investments in associates and ₩252,630 million ($230,439 thousand) of impairment losses on available-for-sale (“AFS”) financial assets relating to Hanjin Shipping Co., Ltd. for the nine months ended September 30, 2016. In addition, the Group recognized ₩41,592 million ($37,939 thousand) of loss on valuation of derivatives and ₩74,959 million ($68,375 thousand) of loss on trading of derivatives relating to the TRS contracts (see Notes 26 and 42), which are based on the future value of Hanjin Shipping Co., Ltd.'s exchangeable bond for the nine months ended September 30, 2016.

Others

The accompanying condensed consolidated statement of comprehensive loss for the three and nine months ended September 30, 2016, and condensed consolidated statement of changes in shareholders’ equity and condensed consolidated statement of cash flows for the three months ended September 30, 2016, were reviewed by other accountants whose report thereon, dated November 13, 2015, expressed that nothing has come to our attention that causes us to believe that the accompanying condensed consolidated financial statements of the Company are not presented fairly, in all material respects, in accordance with K-IFRS 1034. Meanwhile, the revisions described in Note 50 are reflected in the condensed consolidated statement of comprehensive loss for the three and nine months ended September 30, 2015, and condensed consolidated statement of changes in shareholders’ equity and condensed consolidated statement of cash flows for the nine months ended September 30, 2015.

The accompanying consolidated statement of financial position as of December 31, 2015, and the related consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in shareholders’ equity and consolidated statement of cash flows for the year ended December 31, 2015, which are not presented in the accompanying condensed consolidated financial statements, were audited by other auditors in accordance with the Korean Standards on Auditing (“KSAs”) and an unqualified opinion was expressed on March 10, 2016. The consolidated statement of financial position as of December 31, 2015, presented for comparative purposes 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, 2015.

Our review also comprehended the translation of Korean won amounts into U.S. dollar amounts, and in our opinion, such translation has been made in conformity with the basis of financial statement presentation in Note 2. Such U.S. dollar amounts are presented solely for the convenience of readers outside of Korea.

Deloitte Anjin LLC

November 14, 2016

Notice to Readers

This report is effective as of November 14, 2016, 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’ review report.

KOREAN AIR LINES CO., LTD. AND ITS SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

AS OF SEPTEMBER 30, 2016, AND DECEMBER 31, 2015

ASSETS	NOTES	Korean won 2016	Korean won 2015	Translation into U.S. dollars (Note 2) 2016	Translation into U.S. dollars (Note 2) 2015
		(In millions)		(In thousands)	
CURRENT ASSETS:					
Cash and cash equivalents	5,6	₩ 992,138	₩ 967,481	$ 904,987	$ 882,497
Short-term financial instruments	6	132,336	111,988	120,711	102,151
Current portion of finance lease receivables	11	16,637	7,474	15,175	6,818
Trade and other receivables	7	763,996	951,421	696,886	867,847
Amount due from customers for contract work	46	171,085	158,239	156,057	144,339
Current portion of held-to-maturity investments	6,9	118	71	108	65
Inventories	10	522,530	490,648	476,631	447,549
Current tax assets		2,037	5,987	1,858	5,461
Other current assets	20	573,709	550,276	523,314	501,939
Assets held for sale	16,47	17,830	45,542	16,264	41,541
Total current assets		3,192,416	3,289,127	2,911,991	3,000,207
NON-CURRENT ASSETS:					
Long-term financial instruments	6	105,226	115,255	95,983	105,131
Long-term trade and other receivables	7	58	43	53	39
AFS financial assets	6,8,41	164,648	172,174	150,187	157,050
Held-to-maturity investments	6,9	1,023	900	933	822
Finance lease receivables	11	51,388	26,365	46,874	24,049
Investments in associates	13	-	519,975	-	474,299
Property, aircraft and equipment	14,15,16	18,103,569	17,850,703	16,513,335	16,282,680
Investment property	16,17	284,805	309,520	259,787	282,332
Intangible assets	16,18	420,745	294,744	383,786	268,853
Other financial assets	19	308,288	330,675	281,207	301,628
Deferred tax assets		967,429	940,315	882,449	857,717
Other non-current assets	20	271,047	330,555	247,238	301,520
Total non-current assets		20,678,226	20,891,224	18,861,832	19,056,120
Total assets		₩ 23,870,642	₩ 24,180,351	$ 21,773,823	$ 22,056,327

(Continued)

KOREAN AIR LINES CO., LTD. AND ITS SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (CONTINUED)

AS OF SEPTEMBER 30, 2016, AND DECEMBER 31, 2015

LIABILITIES AND SHAREHOLDERS' EQUITY	NOTES	Korean won 2016	Korean won 2015	Translation into U.S. dollars (Note 2) 2016	Translation into U.S. dollars (Note 2) 2015
		(In millions)		(In thousands)	
CURRENT LIABILITIES:					
Trade and other payables	21	₩ 1,023,697	₩ 870,087	$ 933,775	$ 793,658
Short-term borrowings	16,22	1,109,366	869,438	1,011,919	793,066
Short-term debentures	22	186,155	-	169,803	-
Current portion of long-term borrowings	16,22	2,249,421	3,926,166	2,051,830	3,581,288
Current portion of finance lease obligations	16,23	1,513,769	1,234,471	1,380,798	1,126,034
Current portion of financial derivative liabilities	27,41	457	35,729	417	32,590
Current portion of provisions	25	-	16,795	-	15,319
Amount due to customers for contract work	46	67,319	94,297	61,405	86,014
Current tax liabilities		40,144	4,052	36,617	3,697
Other current liabilities	26,28	1,432,680	1,399,346	1,306,832	1,276,426
Total current liabilities		7,623,008	8,450,381	6,953,396	7,708,092
NON-CURRENT LIABILITIES:					
Long-term trade and other payables	21	28,830	41,103	26,298	37,493
Long-term borrowings	16,22	1,029,729	1,095,490	939,276	999,261
Debentures	22	1,150,125	693,001	1,049,097	632,127
Asset-backed securitization ("ABS") loans	19,20,22	1,784,325	1,181,066	1,627,588	1,077,320
Guaranteed loans	6,16,22	-	13,030	-	11,886
Finance lease obligation	16,23	6,491,574	7,155,363	5,921,348	6,526,829
Net defined benefit obligation	24	1,231,580	1,027,681	1,123,397	937,408
Provisions	25	168,092	171,187	153,327	156,150
Deferred revenue	26	1,828,466	1,701,781	1,667,852	1,552,295
Financial derivative liabilities	27,41	66,228	34,053	60,410	31,062
Deferred tax liabilities		37,695	56,989	34,384	51,982
Other non-current liabilities	28	67,765	60,191	61,813	54,904
Total non-current liabilities		13,884,409	13,230,935	12,664,790	12,068,717
Total liabilities		21,507,417	21,681,316	19,618,186	19,776,809
SHAREHOLDERS' EQUITY:					
Capital stock	1,29	369,753	369,753	337,273	337,273
Other capital surplus	30	821,873	817,783	749,679	745,948
Other capital components	15,32	308,435	405,311	281,342	369,708
Retained earnings	31	749,147	794,265	683,341	724,497
NON-CONTROLLING INTERESTS		114,017	111,923	104,002	102,092
Total shareholders' equity		2,363,225	2,499,035	2,155,637	2,279,518
Total liabilities and shareholders' equity		₩ 23,870,642	₩ 24,180,351	$ 21,773,823	$ 22,056,327

(Concluded)

See accompanying notes to condensed consolidated financial statements.

KOREAN AIR LINES CO., LTD. AND ITS SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2016 AND 2015

	NOTES	Korean won			
		Three months ended September 30, 2016	Nine months ended September 30, 2016	Three months ended September 30, 2015	Nine months ended September 30, 2015
		(In millions except for earnings (loss) per share)			
SALES	4,33	₩ 3,117,942	₩ 8,802,612	₩ 2,972,616	₩ 8,629,807
COST OF SALES	38	2,367,797	6,989,034	2,350,585	7,121,814
GROSS PROFIT		750,145	1,813,578	622,031	1,507,993
Selling and administrative expenses	34,38	290,147	871,112	280,547	838,375
OPERATING INCOME		459,998	942,466	341,484	669,618
Financial income	35	24,823	62,383	8,334	50,605
Financial expenses	35	178,234	490,538	185,613	388,507
Gain (loss) on valuation of equity method	13	(8,270)	(121,766)	30,016	89,550
Other non-operating income	36	717,381	1,048,873	130,515	303,283
Other non-operating expenses	36	410,152	1,298,576	942,545	1,388,662
INCOME (LOSS) BEFORE INCOME TAX EXPENSE (BENEFIT)		605,546	142,842	(617,809)	(664,113)
INCOME TAX EXPENSE (BENEFIT)	37	94,722	57,752	(110,317)	(131,204)
NET INCOME (LOSS) FROM CONTINUING OPERATIONS		510,824	85,090	(507,492)	(532,909)
NET LOSS FROM DISCONTINUED OPERATIONS	48	-	-	-	(162,098)
NET INCOME (LOSS)		₩ 510,824	₩ 85,090	₩ (507,492)	₩ (695,007)
OTHER COMPREHENSIVE INCOME (LOSS) AFTER INCOME TAX:					
Items not to be reclassified subsequently to income or loss:					
Remeasurement of net defined benefit liabilities	24	₩ (107,660)	₩ (107,974)	₩ 208	₩ (87,215)
Change in retained earnings – equity method – accounted investments	13	-	(82)	(261)	97
Revaluation surplus		(397)	(1,235)	-	(21)
		(108,057)	(109,291)	(53)	(87,139)

(Continued)

KOREAN AIR LINES CO., LTD. AND ITS SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (CONTINUED)

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2016 AND 2015

	NOTES	Korean won			
		Three months ended September 30, 2016	Nine months ended September 30, 2016	Three months ended September 30, 2015	Nine months ended September 30, 2015
		(In millions except for earnings (loss) per share)			
Items to be reclassified subsequently to income or loss:					
Loss on AFS financial assets, net		₩ (1,884)	₩ (9,713)	₩ (23,328)	₩ (8,793)
Change in capital adjustments – equity method – accounted investments	13	(49,391)	(42,229)	9,507	75,911
Loss on financial derivatives, net	27,32	-	-	(1,651)	(1,651)
Gain (loss) on foreign operation translation	32	(40,245)	(44,165)	11,451	14,546
		(91,520)	(96,107)	(4,021)	80,013
COMPREHENSIVE INCOME (LOSS)		₩ 311,247	₩ (120,308)	₩ (511,566)	₩ (702,133)
NET INCOME (LOSS) ATTRIBUTABLE TO:					
Owners of the Company		₩ 508,103	₩ 77,727	₩ (509,879)	₩ (694,854)
Non-controlling interests		2,721	7,363	2,387	(153)
COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO:					
Owners of the Company		309,184	(127,121)	(512,239)	(703,545)
Non-controlling interests		2,063	6,813	673	1,412
EARNINGS (LOSS) PER SHARE:	39				
Continuing and discontinued operations:					
Attributable to common stock		6,870	1,050	(6,896)	(9,941)
Attributable to preferred stock		6,920	1,100	(6,846)	(9,891)
Continuing operations:					
Attributable to common stock		6,870	1,050	(6,896)	(7,654)
Attributable to preferred stock		6,920	1,100	(6,846)	(7,604)

(Concluded)

See accompanying notes to condensed consolidated financial statements.

KOREAN AIR LINES CO., LTD. AND ITS SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2016 AND 2015

	NOTES	Translation into U.S. dollars (Note 2) Three months ended September 30, 2016	Nine months ended September 30, 2016	Three months ended September 30, 2015	Nine months ended September 30, 2015
		(In thousands except for earnings (loss) per share)			
SALES	4,33	$ 2,844,059	$ 8,029,382	$ 2,711,499	$ 7,871,756
COST OF SALES	38	2,159,808	6,375,110	2,144,107	6,496,227
GROSS PROFIT		684,251	1,654,272	567,392	1,375,529
Selling and administrative expenses	34,38	264,660	794,593	255,905	764,731
OPERATING INCOME		419,591	859,679	311,487	610,798
Financial income	35	22,643	56,904	7,602	46,159
Financial expenses	35	162,578	447,449	169,308	354,380
Gain (loss) on valuation of equity method	13	(7,544)	(111,070)	27,379	81,684
Other non-operating income	36	654,366	956,739	119,050	276,643
Other non-operating expenses	36	374,124	1,184,508	859,751	1,266,681
INCOME (LOSS) BEFORE INCOME TAX EXPENSE (BENEFIT)		552,354	130,295	(563,541)	(605,777)
INCOME TAX EXPENSE (BENEFIT)	37	86,401	52,680	(100,627)	(119,680)
NET INCOME (LOSS) FROM CONTINUING OPERATIONS		465,953	77,615	(462,914)	(486,097)
NET LOSS FROM DISCONTINUED OPERATIONS	48	-	-	-	(147,860)
NET INCOME (LOSS)		$ 465,953	$ 77,615	$ (462,914)	$ (633,957)
OTHER COMPREHENSIVE INCOME (LOSS) AFTER INCOME TAX:					
Items not to be reclassified subsequently to income or loss:					
Remeasurement of net defined benefit liabilities	24	$ (98,203)	$ (98,490)	$ 190	$ (79,554)
Change in retained earnings – equity method – accounted investments	13	-	(75)	(238)	89
Revaluation surplus		(362)	(1,125)	-	(20)
		(98,565)	(99,690)	(48)	(79,485)

(Continued)

KOREAN AIR LINES CO., LTD. AND ITS SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (CONTINUED)

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2016 AND 2015

		Translation into U.S. dollars (Note 2)			
	NOTES	Three months ended September 30, 2016	Nine months ended September 30, 2016	Three months ended September 30, 2015	Nine months ended September 30, 2015
		(In thousands except for earnings (loss) per share)			
Items to be reclassified subsequently to income or loss:					
Loss on AFS financial assets, net		$ (1,719)	$ (8,860)	$ (21,279)	$ (8,021)
Change in capital adjustments – equity method – accounted investments	13	(45,052)	(38,519)	8,672	69,243
Gain on financial derivatives, net	27,32	-	-	(1,506)	(1,506)
Loss on foreign operation translation	32	(36,710)	(40,286)	10,445	13,269
		(83,481)	(87,665)	(3,668)	72,985
COMPREHENSIVE INCOME (LOSS)		$ 283,907	$ (109,740)	$ (466,630)	$ (640,457)
NET INCOME (LOSS) ATTRIBUTABLE TO:					
Owners of the Company		$ 463,471	$ 70,899	$ (465,090)	$ (633,818)
Non-controlling interests		2,482	6,716	2,176	(139)
COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO:					
Owners of the Company		282,025	(115,954)	(467,244)	(641,745)
Non-controlling interests		1,882	6,214	614	1,288
EARNINGS (LOSS) PER SHARE:	39				
Continuing and discontinued operations:					
Attributable to common stock		6	1	(6)	(9)
Attributable to preferred stock		6	1	(6)	(9)
Continuing operations:					
Attributable to common stock		1	1	(6)	(7)
Attributable to preferred stock		1	1	(6)	(7)

(Concluded)

See accompanying notes to condensed consolidated financial statements.

KOREAN AIR LINES CO., LTD. AND ITS SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2016 AND 2015

	Korean won								
	Owners of the Company								
		Other capital surplus							
	Capital stock	Additional paid-up capital	Others	Other capital components	Retained earnings	Amounts recognized in other comprehensive income and accumulated in equity relating to assets held for sale	Subtotal	Non-controlling interests	Total
	(In millions)								
January 1, 2015	₩ 298,931	₩ 174,907	₩ (122,345)	₩ 411,347	₩ 1,389,468	₩ (61,364)	₩ 2,090,944	₩ 110,215	₩ 2,201,159
Dividends	-	-	-	-	-	-	-	(617)	(617)
Net loss	-	-	-	-	(694,854)	-	(694,854)	(153)	(695,007)
Other comprehensive income (loss)	-	-	-	17,153	(87,209)	61,364	(8,692)	1,566	(7,126)
Increase in paid-up capital	70,822	423,381	-	-	-	-	494,203	-	494,203
Dividends from hybrid securities	-	-	-	-	(10,080)	-	(10,080)	-	(10,080)
Disposal of assets held for sale	-	-	-	-	46,678	-	46,678	654	47,332
Others	-	4,567	(2,612)	-	8,725	-	10,680	1,637	12,317
September 30, 2015	₩ 369,753	₩ 602,855	₩ (124,957)	₩ 428,500	₩ 652,728	₩ -	₩ 1,928,879	₩ 113,302	₩ 2,042,181
January 1, 2016	₩ 369,753	₩ 602,855	₩ 214,928	₩ 405,311	₩ 794,265	₩ -	₩ 2,387,112	₩ 111,923	₩ 2,499,035
Dividends	-	-	-	-	-	-	-	(991)	(991)
Net income	-	-	-	-	77,727	-	77,727	7,363	85,090
Other comprehensive income (loss)	-	-	-	(96,876)	(107,972)	-	(204,848)	(549)	(205,397)
Dividends from hybrid securities	-	-	-	-	(16,513)	-	(16,513)	-	(16,513)
Change in retained earnings of associates and subsidiaries	-	-	-	-	3,031	-	3,031	(302)	2,729
Others	-	-	4,090	-	(1,391)	-	2,699	(3,427)	(728)
September 30, 2016	₩ 369,753	₩ 602,855	₩ 219,018	₩ 308,435	₩ 749,147	₩ -	₩ 2,249,208	₩ 114,017	₩ 2,363,225

(Continued)

KOREAN AIR LINES CO., LTD. AND ITS SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (CONTINUED)

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2016 AND 2015

	Translation into U.S. dollars (Note 2)								
	Owners of the Company								
		Other capital surplus							
	Capital stock	Additional paid-up capital	Others	Other capital components	Retained earnings	Amounts recognized in other comprehensive income and accumulated in equity relating to assets held for sale	Subtotal	Non-controlling interests	Total
					(In thousands)				
January 1, 2015	$ 272,673	$ 159,543	$ (111,598)	$ 375,214	$ 1,267,415	$ (55,974)	$ 1,907,273	$ 100,534	$ 2,007,807
Dividends	-	-	-	-	-	-	-	(563)	(563)
Net loss	-	-	-	-	(633,818)	-	(633,818)	(139)	(633,957)
Other comprehensive income (loss)	-	-	-	15,646	(79,548)	55,974	(7,928)	1,427	(6,501)
Increase in paid-up capital	64,600	386,191	-	-	-	-	450,791	-	450,791
Dividends from hybrid securities	-	-	-	-	(9,195)	-	(9,195)	-	(9,195)
Disposal of assets held for sale	-	-	-	-	42,578	-	42,578	596	43,174
Others	-	4,166	(2,382)	-	7,958	-	9,742	1,494	11,236
September 30, 2015	$ 337,273	$ 549,900	$ (113,980)	$ 390,860	$ 595,390	$ -	$ 1,759,443	$ 103,349	$ 1,862,792
January 1, 2016	$ 337,273	$ 549,900	$ 196,048	$ 369,708	$ 724,497	$ -	$ 2,177,426	$ 102,092	$ 2,279,518
Dividends	-	-	-	-	-	-	-	(904)	(904)
Net income	-	-	-	-	70,899	-	70,899	6,716	77,615
Other comprehensive income (loss)	-	-	-	(88,366)	(98,488)	-	(186,854)	(502)	(187,356)
Dividends from hybrid securities	-	-	-	-	(15,063)	-	(15,063)	-	(15,063)
Change in retained earnings of associates and subsidiaries	-	-	-	-	2,765	-	2,765	(275)	2,490
Others	-	-	3,731	-	(1,269)	-	2,462	(3,125)	(663)
September 30, 2016	$ 337,273	$ 549,900	$ 199,779	$ 281,342	$ 683,341	$ -	$ 2,051,635	$ 104,002	$ 2,155,637

(Concluded)

See accompanying notes to condensed consolidated financial statements.

KOREAN AIR LINES CO., LTD. AND ITS SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2016 AND 2015

	Korean won		Translation into U.S. dollars (Note 2)	
	2016	2015	2016	2015
	(In millions)		(In thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:				
Cash flows from operations:				
Net income (loss)	₩ 85,090	₩ (695,007)	$ 77,615	$ (633,957)
Adjustments to reconcile net loss to net cash provided by operating activities:				
Provision for leased aircraft maintenance	22,034	20,116	20,099	18,349
Retirement benefit costs	113,856	126,250	103,855	115,160
Depreciation	1,285,368	1,193,159	1,172,460	1,088,351
Amortization	38,855	31,011	35,442	28,287
Bad debt expenses	1,431	413	1,305	377
Interest expense	297,246	281,964	271,136	257,196
Loss on valuation of derivatives	103,472	70,456	94,383	64,268
Loss on valuation of equity method	121,766	-	111,070	-
Loss on foreign currency translation	137,719	864,448	125,622	788,514
Loss on foreign currency transaction	35,208	61,334	32,116	55,946
Other bad debt expenses	20,024	756	18,264	689
Loss on disposal of property, aircraft and equipment	102,690	144,253	93,670	131,582
Loss on disposal of intangible assets	459	-	419	-
Impairment loss on intangible assets	7,873	-	7,181	-
Loss on disposal of assets held for sale	19,311	92,003	17,615	83,922
Impairment loss on property, aircraft and equipment	72,886	72,364	66,483	66,007
Revaluation loss on property, aircraft and equipment	2	-	2	-
Loss on disposal of AFS securities	109	-	99	-
Impairment loss on AFS securities	252,637	8	230,445	7
Loss on disposal of investments in associates	8,505	-	7,757	-
Loss on disposal of investments in subsidiaries	-	2,169	-	1,979
Impairment loss on investments in associates	333,798	-	304,477	-
Income tax expenses	57,752	-	52,680	-
Other expenses	19,798	9,526	18,059	8,688
Interest income	(24,683)	(34,323)	(22,515)	(31,308)
Dividend income	(3,865)	(3,883)	(3,526)	(3,541)
Gain on valuation of derivatives	(19,876)	(3,304)	(18,130)	(3,013)
Gain on valuation of equity method	-	(89,550)	-	(81,684)
Gain on foreign currency translation	(773,239)	(96,170)	(705,317)	(87,722)
Reversal of allowance for other doubtful accounts	(608)	(45)	(555)	(41)
Gain on disposal of AFS securities	-	(1,704)	-	(1,555)
Gain on disposal of property, aircraft and equipment	(13,282)	(3,760)	(12,115)	(3,429)
Gain on disposal of assets held for sale	(955)	-	(871)	-
Gain on disposal of intangible assets	(80)	(13)	(73)	(11)
Reversal of negative goodwill	-	(5,244)	-	(4,783)
Income tax benefit	-	(125,528)	-	(114,502)
Other income	(9)	(4,850)	(7)	(4,426)
	2,216,202	2,601,856	2,021,530	2,373,307

(Continued)

KOREAN AIR LINES CO., LTD. AND ITS SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2016 AND 2015

	Korean won		Translation into U.S. dollars (Note 2)	
	2016	2015	2016	2015
	(In millions)		(In thousands)	
Changes in assets and liabilities resulting from operations:				
Increase in trade receivables	₩ (15,693)	₩ (11,100)	$ (14,314)	$ (10,125)
Increase in other receivables	(1,435)	(15,961)	(1,309)	(14,559)
Increase in amount due from customers for contract work	(15,687)	(42,148)	(14,309)	(38,446)
Increase in inventories	(31,007)	(48,581)	(28,283)	(44,314)
Decrease in financial derivative assets	-	1,791	-	1,634
Increase in advance payments	(37,249)	(22,067)	(33,977)	(20,129)
Decrease in prepaid expenses	33,045	21,852	30,143	19,932
Decrease in trade payables	(24,712)	(7,827)	(22,541)	(7,140)
Decrease in non-trade payables	(2,237)	(66,052)	(2,041)	(60,250)
Increase (decrease) in accrued expenses	174,361	(59,946)	159,045	(54,680)
Increase (decrease) in advances	(15,781)	37,496	(14,395)	34,203
Decrease in amount due to customers for contract work	(26,979)	(69,917)	(24,609)	(63,775)
Decrease in financial derivative liabilities	(86,373)	(107,587)	(78,786)	(98,136)
Decrease in plan assets	17,524	18,971	15,984	17,304
Payment of severance benefit	(71,101)	(63,113)	(64,855)	(57,569)
Succession of defined benefit obligation	645	517	589	471
Decrease in provisions	(26,441)	(1,770)	(24,118)	(1,614)
Increase in deferred revenue	126,685	59,572	115,557	54,339
Others	26,283	163,850	23,972	149,458
	23,848	(212,020)	21,753	(193,396)
Interest received	14,855	38,371	13,550	35,001
Dividend received	3,625	6,259	3,307	5,709
Income taxes paid	(9,763)	(10,401)	(8,906)	(9,488)
Net cash provided by operating activities	2,333,857	1,729,058	2,128,849	1,577,176

(Continued)

KOREAN AIR LINES CO., LTD. AND ITS SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2016 AND 2015

	Korean won		Translation into U.S. dollars (Note 2)	
	2016	2015	2016	2015
	(In millions)		(In thousands)	
CASH FLOWS FROM INVESTING ACTIVITIES:				
Net decrease in short-term financial instruments	₩ (15,325)	₩ (97,795)	$ (13,979)	$ (89,205)
Recovery of finance lease receivables	11,291	10,444	10,299	9,526
Decrease in current portion of held-to-maturity investments	38	15	35	14
Net decrease in long-term financial instruments	(970)	(5,508)	(885)	(5,024)
Purchase of AFS financial assets	(37,830)	(3,000)	(34,507)	(2,736)
Disposal of AFS financial assets	266	6,966	243	6,354
Purchase of held-to-maturity investments	(19,615)	(12)	(17,892)	(11)
Disposal of investment in subsidiaries	-	1,184	-	1,080
Increase in short-term loans	(60,000)	(9)	(54,730)	(9)
Decrease in short-term loans	-	12	-	11
Increase in long-term loans	(20)	-	(18)	-
Decrease in long-term loans	7	-	6	-
Disposal of property, aircraft, equipment and investment property	187,145	129,870	170,706	118,462
Acquisition of property, aircraft, equipment and investment property	(948,309)	(1,152,704)	(865,009)	(1,051,450)
Disposal of assets held for sale	45,086	1,982,982	41,126	1,808,795
Disposal of intangible assets	752	84	686	77
Acquisition of intangible assets	(672)	(32)	(613)	(29)
Decrease in guarantee deposits	129,118	37,628	117,776	34,323
Increase in guarantee deposits	(114,209)	(86,100)	(104,176)	(78,536)
Others	(225)	-	(205)	-
Net cash provided by (used in) investing activities	(823,472)	824,025	(751,137)	751,642

(Continued)

KOREAN AIR LINES CO., LTD. AND ITS SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2016 AND 2015

	Korean won		Translation into U.S. dollars (Note 2)	
	2016	2015	2016	2015
	(In millions)		(In thousands)	
CASH FLOWS FROM FINANCING ACTIVITIES:				
Net increase (decrease) in short-term borrowings	₩ 285,622	₩ (944,438)	$ 260,532	$ (861,478)
Proceeds from short-term debentures	188,783	-	172,200	-
Repayment of current portion of long-term borrowings	(2,704,864)	(2,446,435)	(2,467,266)	(2,231,538)
Repayment of current portion of finance lease obligations	(1,041,479)	(763,483)	(949,995)	(696,418)
Repayment from long-term borrowings	(1,000)	-	(912)	-
Proceeds from long-term borrowings	348,119	517,664	317,540	472,192
Proceeds from debentures	486,859	286,460	444,092	261,297
Proceeds from ABS loans	1,230,635	600,000	1,122,535	547,295
Increase in paid-up capital	439	494,202	400	450,791
Repayment of guaranteed loans	(913)	-	(833)	-
Dividends paid	(952)	(617)	(869)	(563)
Dividends from hybrid securities paid	(14,552)	(10,080)	(13,274)	(9,195)
Interest paid	(293,785)	(305,966)	(267,978)	(279,090)
Others	58,047	(3,851)	52,951	(3,512)
Net cash used in financing activities	(1,459,041)	(2,576,544)	(1,330,877)	(2,350,219)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	51,344	(23,461)	46,835	(21,401)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF PERIOD	967,481	796,604	882,497	726,629
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(26,687)	32,328	(24,345)	29,489
CASH AND CASH EQUIVALENTS AT THE END OF PERIOD	₩ 992,138	₩ 805,471	$ 904,987	$ 734,717

(Concluded)

See accompanying notes to condensed consolidated financial statements.

1. GENERAL:

Korean Air Lines Co., Ltd. (the "Company"), which is the controlling entity in accordance with Korean International Financial Reporting Standards ("K-IFRS") 1110, *Consolidated Financial Statements*, was established on June 19, 1962, and is engaged in the business of domestic and international airline services, manufacture of aircraft parts, maintenance of aircraft and catering of in-flight meals. The Company has been a publicly traded company upon listing its common stock on the Korea Exchange since 1966.

Total capital stock of the Company as of September 30, 2016, amounted to ₩369,753 million in par value (including ₩5,554 million of preferred stock). The principal shareholders of the Company's common shares are Hanjin Kal Co., Ltd. (31.46%) and its affiliates (4.10%).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Basis of Condensed Consolidated Financial Statement Presentation
The Company and its subsidiaries (the "Group") maintain their official accounting records in Korean won and prepare condensed consolidated financial statements in conformity with Korean statutory requirements and K-IFRS, in Korean language (Hangul). Accordingly, these condensed consolidated financial statements are intended for use by those who are informed about K-IFRS and Korean practices. Certain information included in the Korean language condensed consolidated financial statements, but not required for a fair presentation of the Group's consolidated financial position, operating results, changes in shareholders' equity or cash flows is not presented in the accompanying condensed consolidated financial statements.

The accompanying condensed consolidated financial statements are stated in Korean won, the currency of the country in which the Group is incorporated and operates. The translation of Korean won amounts into U.S. dollar amounts is included solely for the convenience of readers outside of the Republic of Korea and has been made at the rate of ₩1,096.30 to USD 1.00 on September 30, 2016, the base rate announced by Seoul Money Brokerage Services, Ltd. Such translations should not be construed as representations that the Korean won amounts could be converted into U.S. dollars at that or any other rate.

(1) Basis of Consolidation

The Group's interim condensed consolidated financial statements as of and for the three and nine months ended September 30, 2016, are prepared in accordance with K-IFRS 1034, *Interim Financial Reporting.* In order to understand these interim condensed consolidated financial statements, users should use annual consolidated financial statements that are prepared in accordance with K-IFRS as of December 31, 2015.

The Group's accounting policies applied for the accompanying interim condensed consolidated financial statements are the same as the policies applied for the preparation of consolidated financial statements as of December 31, 2015, except for the effects from the introduction of new and revised accounting standards or interpretations as described below:

1) Accounting standards and interpretations that were newly applied for the nine months ended September 30, 2016, and changes in the Group's accounting policies are as follows:

Amendments to K-IFRS 1001 – *Presentation of Financial Statements*
The amendments to K-IFRS 1001 clarify the concept of applying materiality in practice and restrict an entity reducing the understandability of its financial statements by obscuring material information with immaterial information or by aggregating material items that have different natures or functions. The application of these amendments has no significant impact on the Group's condensed consolidated financial statements.

Amendments to K-IFRS 1016 – *Property, Plant and Equipment*
The amendments to K-IFRS 1016 prohibit the Group from using a revenue-based depreciation method for items of property, plant and equipment. The application of these amendments has no significant impact on the Group's condensed consolidated financial statements.

Amendments to K-IFRS 1038 – *Intangible Assets*
The amendments to K-IFRS 1038 do not allow presumption that revenue is an appropriate basis for the amortization of intangible assets; the presumption can only be limited when an intangible asset is expressed as a measure of revenue or when it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated. The application of these amendments has no significant impact on the Group's condensed consolidated financial statements.

Amendments to K-IFRS 1016 – *Property, Plant and Equipment* and K-IFRS 1041 – *Agriculture: Bearer Plants*
The amendments to K-IFRS 1016 and K-IFRS 1041 define a bearer plant and require biological assets that meet the definition of a bearer plant to be accounted for as property, plant and equipment in accordance with K-IFRS 1016, instead of K-IFRS 1041. The application of these amendments has no significant impact on the Group's condensed consolidated financial statements.

Amendments to K-IFRS 1110 – *Consolidated Financial Statements,* K-IFRS 1112 – *Disclosure of Interests in Other Entities* and K-IFRS 1028 – *Investment in Associates*
The amendments clarify that in applying the equity method of accounting to an associate or a joint venture that is an investment entity, an investor may retain the fair value measurements that the associate or the joint venture used for its subsidiaries. The application of these amendments has no significant impact on the Group's condensed consolidated financial statements.

Amendments to K-IFRS 1111 – *Accounting for Acquisitions of Interests in Joint Operations*
The amendments to K-IFRS 1111 provide guidance on how to account for the acquisition of a joint operation that constitutes a business as defined in K-IFRS 1103, *Business Combinations*. A joint operator is also required to disclose the relevant information required by K-IFRS 1103 and other standards for business combinations. The application of these amendments has no significant impact on the Group's condensed consolidated financial statements.

Annual Improvements to K-IFRS 2012-2014 Cycle
The annual improvements include amendments to a number of K-IFRSs. The amendments introduce a 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, but 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 significant impact on the Group's condensed consolidated financial statements.

2) The Company has not applied the following new and revised K-IFRSs that have been issued, but are not yet effective:

Enactment of 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 the change in the hedge effectiveness test. The amendments are effective for annual periods beginning on or after January 1, 2018.

Enactment of 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.

3. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY:

In the application of the Group's accounting policies, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. Actual results may differ from those estimates.

The application of the Group's accounting policies and the judgments by management on sources of estimation uncertainty are the same as those of the condensed consolidated financial statements as of December 31, 2015.

4. SEGMENT INFORMATION:

(1) The Group's segment information is prepared for the purpose of resource allocation and assessment of segment performance. The Group's reportable segments are as follows:

Segment	Type of goods and services	Customers' information
Air transport	Passenger and cargo transportation	Individual, enterprises, government, etc.
Aerospace	Maintenance of aircraft and manufacture of aircraft parts	Department of defense, etc.
Flight meals	Catering of in-flight meals	Foreign airlines, etc.
Hotel/limousine, etc.	Hotel services, limousine transportation, etc.	Individual, etc.

(2) Operating results by reportable segment for the nine months ended September 30, 2016, are as follows:

	Korean won						
	Air transport	Aerospace	In-flight meals	Hotel/ limousine	Others	Adjustment for consolidation	Total
				(In millions)			
Total sales	₩ 8,275,785	₩ 654,073	₩ 73,720	₩ 34,667	₩ 135,825	₩ (371,458)	₩ 8,802,612
Internal sales	(274,602)	-	-	(2,095)	(94,761)	371,458	-
Net sales	8,001,183	654,073	73,720	32,572	41,064	-	8,802,612
Operating income	832,923	69,145	24,296	6,128	10,132	(158)	942,466
Depreciation and amortization	(1,286,284)	(29,233)	(4,237)	(1,012)	(3,284)	(172)	(1,324,222)
Total assets	21,959,454	1,209,469	66,048	1,504,410	348,698	(1,217,437)	23,870,642
Total liabilities							21,507,417

	Translation into U.S. dollars (Note 2)						
	Air transport	Aerospace	In-flight meals	Hotel/ limousine	Others	Adjustment for consolidation	Total
				(In thousands)			
Total sales	$ 7,548,833	$ 596,619	$ 67,245	$ 31,622	$ 123,892	$ (338,829)	$ 8,029,382
Internal sales	(250,481)	-	-	(1,911)	(86,437)	338,829	-
Net sales	7,298,352	596,619	67,245	29,711	37,455	-	8,029,382
Operating income	759,758	63,071	22,162	5,590	9,242	(144)	859,679
Depreciation and amortization	(1,173,296)	(26,666)	(3,865)	(923)	(2,996)	(157)	(1,207,903)
Total assets	20,030,515	1,103,228	60,246	1,372,261	318,068	(1,110,495)	21,773,823
Total liabilities							19,618,186

(3) Operating results by geographical area for the nine months ended September 30, 2016, are as follows:

	Korean won					
	Local companies		Overseas companies		Adjustment for consolidation	Total
	Domestic	International	Americas	Asia		
			(In millions)			
Total sales	₩ 1,596,544	₩ 7,545,735	₩ 8,423	₩ 23,368	₩ (371,458)	₩ 8,802,612
Internal sales		(344,572)	(8,399)	(18,487)	371,458	-
Net sales		8,797,707	24	4,881	-	8,802,612
Operating income		936,221	3,516	2,887	(158)	942,466
Total assets		23,588,699	1,475,995	23,384	(1,217,436)	23,870,642
Total liabilities						21,507,417

	Translation into U.S. dollars (Note 2)					
	Local companies		Overseas companies		Adjustment for consolidation	Total
	Domestic	International	Americas	Asia		
			(In thousands)			
Total sales	$ 1,456,302	$ 6,882,910	$ 7,683	$ 21,316	$ (338,829)	$ 8,029,382
Internal sales		(314,304)	(7,661)	(16,864)	338,829	-
Net sales		8,024,908	22	4,452	-	8,029,382
Operating income		853,982	3,207	2,634	(144)	859,679
Total assets		21,516,646	1,346,342	21,331	(1,110,496)	21,773,823
Total liabilities						19,618,186

(4) There is no single customer who accounted for more than 10% of the Group's revenue for the nine months ended September 30, 2016 and 2015.

5. CASH AND CASH EQUIVALENTS:

Cash and cash equivalents as of September 30, 2016, and December 31, 2015, consist of the following:

	Korean won		Translation into U.S. dollars (Note 2)	
	2016	2015	2016	2015
	(In millions)		(In thousands)	
Cash on hand	₩ 153	₩ 160	$ 140	$ 146
Bank deposits	991,985	967,321	904,847	882,351
	₩ 992,138	₩ 967,481	$ 904,987	$ 882,497

6. RESTRICTED DEPOSITS:

Restricted deposits as of September 30, 2016, and December 31, 2015, consist of the following:

	(In millions of Korean won and in thousands of U.S. dollars)				
	2016		2015		Remark
Cash and cash equivalents	$	184,883	$	185,172	Pledged for Hanjin Int'l Corp.'s borrowings and others
	₩	495	₩	460	Pledged for industrial facility fund loans
Short-term financial instruments	₩	4,000	₩	4,000	Collateral on the joint security with Export-Import Bank of Korea
	₩	5,320	₩	5,450	Performance guarantee deposit on the mail delivery contract with Korea Post
	₩	24,918	₩	-	Pledged for the Floating Rate Note contract extension amounting to $100 million
	₩	2,400	₩	2,400	Government project deposits
	$	374	$	-	Guarantee deposit on newly opened North America L/C
Held-to-maturity investments	₩	690	₩	809	Performance guarantee deposit on the mail delivery contract with Korea Post
AFS financial assets (*)	₩	69,776	₩	78,772	Pledged for hybrid securities and Hanjin Int'l Corp.'s borrowings
	₩	423	₩	423	Performance guarantee for Korea Software Financial Cooperative and others
Long-term financial instruments	₩	4,920	₩	4,630	Performance guarantee deposit on the mail delivery contract with Korea Post and for the U.S. Air Force delivery service
	₩	5,522	₩	5,522	Pledged for guaranteed loans
	₩	17	₩	17	Bank account deposit
	₩	1,700	₩	1,200	Rental guarantee for Incheon International Airport terminal
	₩	1,131	₩	1,070	Accident compensation for employees and guarantee for X-RAY of Incheon International Airport
	₩	56	₩	67	Receivables attachment for employees
	$	50,000	$	50,000	Pledged for Hanjin Int'l Corp.'s borrowings
	$	35,000	$	35,000	Pledged for hybrid securities
	$	-	$	371	Guarantee deposit on newly opened North America L/C
	₩	121,368	₩	104,820	
	$	270,257	$	270,543	

(*) 81,496,169 shares of Hanjin Shipping Co., Ltd. held by the Group is provided as collateral for Hanjin Int'l Corp's borrowings and others.

7. TRADE AND OTHER RECEIVABLES:

Trade and other receivables as of September 30, 2016, and December 31, 2015, consist of the following:

2016

	Korean won		Translation into U.S. dollars (Note 2)	
	Current	Non-current	Current	Non-current
	(In millions)		(In thousands)	
Trade receivables	₩ 580,278	₩ 5	$ 529,305	$ 5
Allowance for doubtful accounts	(5,773)	-	(5,266)	-
Discount on present value	-	-	-	-
	574,505	5	524,039	5
Short-term loans	60,048	53	54,773	48
		-		
Non-trade receivables	123,716	-	112,849	-
Allowance for doubtful accounts	(51,132)	-	(46,640)	-
	72,584	-	66,209	-
Accrued revenues	68,644	-	62,615	-
Allowance for doubtful accounts	(11,785)	-	(10,750)	-
	56,859	-	51,865	-
	₩ 763,996	₩ 58	$ 696,886	$ 53

2015

	Korean won		Translation into U.S. dollars (Note 2)	
	Current	Non-current	Current	Non-current
	(In millions)		(In thousands)	
Trade receivables	₩ 576,442	₩ 8	$ 525,806	$ 7
Allowance for doubtful accounts	(5,383)	-	(4,910)	-
Discount on present value	(1)	-	(1)	-
	571,058	8	520,895	7
Short-term loans	220,020	35	200,694	32
Non-trade receivables	140,431	-	128,095	-
Allowance for doubtful accounts	(43,153)	-	(39,362)	-
	97,278	-	88,733	-
Accrued revenues	63,691	-	58,096	-
Allowance for doubtful accounts	(626)	-	(571)	-
	63,065	-	57,525	-
	₩ 951,421	₩ 43	$ 867,847	$ 39

8. AFS FINANCIAL ASSETS:

AFS financial assets as of September 30, 2016, and December 31, 2015, consist of the following:

	Korean won		Translation into U.S. dollars (Note 2)	
	2016	2015	2016	2015
	(In millions)		(In thousands)	
Equity securities:				
Listed securities (*1)	₩ 95,914	₩ 108,505	$ 87,489	$ 98,974
Unlisted securities	51,542	51,917	47,015	47,356
Beneficiary certificates	2,100	-	1,916	-
Debt securities:				
Corporate bonds	-	-	-	-
Others	6	6	6	6
Investments in other equity securities (*2)	15,086	11,746	13,761	10,714
	₩ 164,648	₩ 172,174	$ 150,187	$ 157,050

(*1) Listed securities amounting to ₩69,776 million ($63,647 thousand) are pledged for hybrid securities as of September 30, 2016 (see Note 6).

(*2) As of September 30, 2016, ₩423 million ($386 thousand) of investments in other equity securities were provided to Korea Software Financial Cooperative and others as collateral related to the performance payment guarantee (see Note 6).

The Group recognized an impairment loss of ₩252,637 million ($230,445 thousand) and ₩8 million ($7 thousand), respectively, for the nine months ended September 30, 2016 and 2015. There was no reversal of impairment loss recognized on AFS financial assets for the nine months ended September 30, 2016 and 2015.

9. HELD-TO-MATURITY INVESTMENTS:

Held-to-maturity investments as of September 30, 2016, and December 31, 2015, consist of the following:

	Korean won			
	2016		2015	
	Current	Non-current	Current	Non-current
	(In millions)			
Government and public bonds (*)	₩ 118	₩ 1,023	₩ 71	₩ 900

	Translation into U.S. dollars (Note 2)			
	2016		2015	
	Current	Non-current	Current	Non-current
	(In thousands)			
Government and public bonds (*)	$ 108	$ 933	$ 65	$ 822

(*) Government and public bonds amounting to ₩690 million ($629 thousand) are pledged for performance guarantee as of September 30, 2016 (see Note 6).

There were no held-to-maturity investments overdue or impaired for the nine months ended September 30, 2016 and 2015.

10. INVENTORIES:

Inventories as of September 30, 2016, and December 31, 2015, consist of the following:

	Korean won					
	2016			2015		
	Acquisition cost	Valuation allowance	Book value	Acquisition cost	Valuation allowance	Book value
	(In millions)					
Merchandise	₩ 21,097	₩ -	₩ 21,097	₩ 20,096	₩ -	₩ 20,096
Finished goods	10,895	-	10,895	10,372	-	10,372
Raw materials	94,723	-	94,723	88,934	-	88,934
Supplies	358,961	-	358,961	327,641	-	327,641
Materials in transit	36,854	-	36,854	43,605	-	43,605
	₩ 522,530	₩ -	₩ 522,530	₩ 490,648	₩ -	₩ 490,648

	Translation into U.S. dollars (Note 2)					
	2016			2015		
	Acquisition cost	Valuation allowance	Book value	Acquisition cost	Valuation allowance	Book value
	(In thousands)					
Merchandise	$ 19,244	$ -	$ 19,244	$ 18,331	$ -	$ 18,331
Finished goods	9,938	-	9,938	9,461	-	9,461
Raw materials	86,402	-	86,402	81,122	-	81,122
Supplies	327,430	-	327,430	298,861	-	298,861
Materials in transit	33,617	-	33,617	39,774	-	39,774
	$ 476,631	$ -	$ 476,631	$ 447,549	$ -	$ 447,549

11. FINANCE LEASE RECEIVABLES:

(1) The Group has offered the finance leases of the aircraft, and the minimum lease payments and present value of the finance leases as of September 30, 2016, and December 31, 2015, are as follows:

	Korean won		Translation into U.S. dollars (Note 2)	
Description	2016	2015	2016	2015
	(In millions)		(In thousands)	
Less than one year	₩ 20,832	₩ 10,479	$ 19,002	$ 9,558
One year to five years	54,633	28,996	49,834	26,449
	75,465	39,475	68,836	36,007
Present value of discounts	(7,440)	(5,636)	(6,787)	(5,140)
	68,025	33,839	62,049	30,867
Less: current portion of finance lease receivables	(16,637)	(7,474)	(15,175)	(6,818)
	₩ 51,388	₩ 26,365	$ 46,874	$ 24,049

(2) Finance lease receivables were not impaired for the nine months ended September 30, 2016 and 2015.

12. INVESTMENTS IN SUBSIDIARIES:

(1) Investments in subsidiaries as of September 30, 2016, and December 31, 2015, consist of the following:

Description	Principal business	Location	Ownership of Group 2016	Ownership of Group 2015
			(%)	
Korea Airport Service Co., Ltd.	Airport support service	Korea	59.54	59.54
Hanjin Information Systems & Telecommunication Co., Ltd.	Software development and supply	Korea	99.35	99.35
Air Total Service Co., Ltd.	Labor supply	Korea	100.00	100.00
Hanjin International Corp.	Hotel and rental service	USA	100.00	100.00
Hanjin Central Asia MChJ.	Hotel business	Uzbekistan	100.00	100.00
IAT Co., Ltd.	Aircraft engine repair service	Korea	90.00	90.00
WLD Co., Ltd.	Sports and leisure service	Korea	100.00	100.00
Korea Global Logistics System Co., Ltd.	Telecommunication service	Korea	95.00	95.00
Air Korea Co., Ltd.	Airport support service	Korea	100.00	100.00
Hanjin Int'l Japan Co., Ltd. (*)	Airport support service	Japan	50.00	50.00
TAS	Seconding personnel service	USA	100.00	100.00
Cyber Sky Co., Ltd	Online sales	Korea	100.00	100.00
KAL 7 Asset Securitization Specialty Company (*)	Issuance and repayment of ABS loans	Korea	0.50	0.50
KAL 9 Asset Securitization Specialty Company (*)	Issuance and repayment of ABS loans	Korea	0.50	0.50
KAL 10 Asset Securitization Specialty Company (*)	Issuance and repayment of ABS loans	Korea	0.50	0.50
KAL 11 Asset Securitization Specialty Company (*)	Issuance and repayment of ABS loans	Korea	0.50	0.50
KAL 11B Asset Securitization Specialty Company (*)	Issuance and repayment of ABS loans	Korea	0.50	0.50
KAL 11C Asset Securitization Specialty Company (*)	Issuance and repayment of ABS loans	Korea	0.50	0.50
KAL 12 Asset Securitization Specialty Company (*)	Issuance and repayment of ABS loans	Korea	0.50	0.50
KAL 13 Asset Securitization Specialty Company (*)	Issuance and repayment of ABS loans	Korea	0.50	0.50
KAL 14 Asset Securitization Specialty Company (*)	Issuance and repayment of ABS loans	Korea	0.50	0.50
KAL 15 Asset Securitization Specialty Company (*)	Issuance and repayment of ABS loans	Korea	0.50	0.50
KAL 16 Asset Securitization Specialty Company (*)	Issuance and repayment of ABS loans	Korea	0.50	0.50
KAL 17 Asset Securitization Specialty Company (*)	Issuance and repayment of ABS loans	Korea	0.50	-
KAL 18 Asset Securitization Specialty Company (*)	Issuance and repayment of ABS loans	Korea	0.50	-
KAL 19 Asset Securitization Specialty Company (*)	Issuance and repayment of ABS loans	Korea	0.50	-

(*) The Company classified KAL Asset Securitization Specialty companies as investments in subsidiaries because the Company controls an investee when it is exposed or has the rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

(2) Financial positions of the Group's major subsidiaries as of September 30, 2016, are as follows:

	Korean won			
	Korea Airport Service Co., Ltd.	Hanjin Information Systems & Telecommunication Co., Ltd.	Korea Global Logistics System Co., Ltd.	Hanjin International Corp.
	(In millions)			
Current assets	₩ 167,853	₩ 52,901	₩ 2,889	₩ 326,557
Non-current assets	213,186	34,419	76	1,149,438
	₩ 381,039	₩ 87,320	₩ 2,965	₩ 1,475,995
Current liabilities	₩ 50,899	₩ 14,507	₩ 293	₩ 50,786
Non-current liabilities	54,628	5,516	77	722,514
	₩ 105,527	₩ 20,023	₩ 370	₩ 773,300
Owners of the Company	₩ 275,512	₩ 67,297	₩ 2,595	₩ 702,695
Non-controlling interests	-	-	-	-
	₩ 275,512	₩ 67,297	₩ 2,595	₩ 702,695

	Translation into U.S. dollars (Note 2)			
	Korea Airport Service Co., Ltd.	Hanjin Information Systems & Telecommunication Co., Ltd.	Korea Global Logistics System Co., Ltd.	Hanjin International Corp.
	(In thousands)			
Current assets	$ 153,109	$ 48,254	$ 2,635	$ 297,872
Non-current assets	194,459	31,395	69	1,048,471
	$ 347,568	$ 79,649	$ 2,704	$ 1,346,343
Current liabilities	$ 46,428	$ 13,233	$ 267	$ 46,325
Non-current liabilities	49,829	5,031	71	659,048
	$ 96,257	$ 18,264	$ 338	$ 705,373
Owners of the Company	$ 251,311	$ 61,385	$ 2,366	$ 640,970
Non-controlling interests	-	-	-	-
	$ 251,311	$ 61,385	$ 2,366	$ 640,970

(3) Financial performances of the Group's major subsidiaries for the nine months ended September 30, 2016, are as follows:

	Korean won			
	Korea Airport Service Co., Ltd.	Hanjin Information Systems & Telecommunication Co., Ltd.	Korea Global Logistics System Co., Ltd.	Hanjin International Corp.
	(In millions)			
Sales	₩ 333,123	₩ 94,755	₩ 2,325	₩ 8,423
Operating income	20,650	7,778	1,007	3,516
Net income	13,913	6,325	853	20,317

	Translation into U.S. dollars (Note 2)			
	Korea Airport Service Co., Ltd.	Hanjin Information Systems & Telecommunication Co., Ltd.	Korea Global Logistics System Co., Ltd.	Hanjin International Corp.
	(In thousands)			
Sales	$ 303,861	$ 86,431	$ 2,121	$ 7,683
Operating income	18,836	7,095	918	3,207
Net income	12,690	5,769	779	18,532

(4) Cash flows of the Group's major subsidiaries for the nine months ended September 30, 2016, are as follows:

	Korean won			
	Korea Airport Service Co., Ltd.	Hanjin Information Systems & Telecommunication Co., Ltd.	Korea Global Logistics System Co., Ltd	Hanjin International Corp.
	(In millions)			
Cash flows from operating activities	₩ 39,276	₩ 8,961	₩ 684	₩ 5,723
Cash flows from investing activities	(45,493)	(1,513)	5,954	(366,672)
Cash flows from financing activities	(10,440)	(1,750)	7,085	491,357
Net changes in cash and cash equivalents	(16,657)	5,698	13,723	130,408
Changes in cash and cash equivalents due to foreign currency translation	(3)	-	(14,170)	(21,381)
Beginning balance	18,949	1,707	1,024	217,526
Ending balance	₩ 2,289	₩ 7,405	₩ 577	₩ 326,553

	Translation into U.S. dollars (Note 2)			
	Korea Airport Service Co., Ltd.	Hanjin Information Systems & Telecommunication Co., Ltd.	Korea Global Logistics System Co., Ltd	Hanjin International Corp.
	(In thousands)			
Cash flows from operating activities	$ 35,826	$ 8,174	$ 624	$ 5,220
Cash flows from investing activities	(41,497)	(1,380)	5,431	(334,463)
Cash flows from financing activities	(9,523)	(1,596)	6,463	448,196
Net changes in cash and cash equivalents	(15,194)	5,198	12,518	118,953
Changes in cash and cash equivalents due to foreign currency translation	(3)	-	(12,925)	(19,503)
Beginning balance	17,285	1,557	934	198,419
Ending balance	$ 2,088	$ 6,755	$ 527	$ 297,869

(5) The ownership ratio of non-controlling interests' financial position as of September 30, 2016, financial performances for the nine months ended September 30, 2016, and dividend paid to non-controlling interests of major subsidiaries are as follows:

	Korean won		
	Korea Airport Service Co., Ltd.	Hanjin Information Systems & Telecommunication Co., Ltd.	Korea Global Logistics System Co., Ltd.
		(In millions)	
Ownership ratio (*)	40.46%	0.65%	5.00%
Non-controlling interests	₩ 106,247	₩ 454	₩ 130
Net income attributable to non-controlling interests	5,537	41	43
Dividend paid to non-controlling interests	587	11	354

	Translation into U.S. dollars (Note 2)		
	Korea Airport Service Co., Ltd.	Hanjin Information Systems & Telecommunication Co., Ltd.	Korea Global Logistics System Co., Ltd.
		(In thousands)	
Ownership ratio (*)	40.46%	0.65%	5.00%
Non-controlling interests	$ 96,914	$ 414	$ 118
Net income attributable to non-controlling interests	5,051	38	39
Dividend paid to non-controlling interests	535	10	323

(*) Ownership of non-controlling interest is not included, whether directly or indirectly, in the ownership of the Company. It may differ from percentage of shares that is deducted by simply adding up each subsidiary's share.

13. INVESTMENTS IN ASSOCIATES:

(1) Investments in associates as of September 30, 2016, and December 31, 2015, consist of the following:

2016

Description	Principal business	Location	Ownership	Korean won	
				Acquisition cost	Book value
			(%)	(In millions)	
Hanjin Shipping Co., Ltd. (*1)	Shipping company	Korea	-	₩ -	₩ -
EIGHT CITY Co., Ltd. (*2)	Real estate	Korea	23.81	1,500	-
Czech Airlines j.s.c. (*2)	Airline services	Czech	44.00	3,905	-
				₩ 5,405	₩ -

Description	Principal business	Location	Ownership	Translation into U.S. dollars (Note 2)	
				Acquisition cost	Book value
			(%)	(In thousands)	
Hanjin Shipping Co., Ltd. (*1)	Shipping company	Korea	-	$ -	$ -
EIGHT CITY Co., Ltd. (*2)	Real estate	Korea	23.81	1,368	-
Czech Airlines j.s.c. (*2)	Airline services	Czech	44.00	3,562	-
				$ 4,930	$ -

2015

Description	Principal business	Location	Ownership	Korean won	
				Acquisition cost	Book value
			(%)	(In millions)	
Hanjin Shipping Co., Ltd. (*1)	Shipping company	Korea	33.23	₩ 444,829	₩ 519,975
EIGHT CITY Co., Ltd. (*2)	Real estate	Korea	23.81	1,500	-
Czech Airlines j.s.c. (*2)	Airline services	Czech	44.00	3,905	-
				₩ 450,234	₩ 519,975

Description	Principal business	Location	Ownership	Translation into U.S. dollars (Note 2)	
				Acquisition cost	Book value
			(%)	(In thousands)	
Hanjin Shipping Co., Ltd. (*1)	Shipping company	Korea	33.23	$ 405,755	$ 474,299
EIGHT CITY Co., Ltd. (*2)	Real estate	Korea	23.81	1,368	-
Czech Airlines j.s.c. (*2)	Airline services	Czech	44.00	3,562	-
				$ 410,685	$ 474,299

(*1) Investment in associates of Hanjin Shipping Co., Ltd. was reclassified as AFS financial assets due to the decision of the rehabilitation procedure for the nine months ended September 30, 2016, and was pledged as collateral for Hanjin Int'l Corp's borrowings and others (see Note 6).
(*2) Investments in EIGHT CITY Co., Ltd. and Czech Airlines j.s.c. were fully impaired prior to 2015.

(2) Changes in investments in associates for the nine months ended September 30, 2016 and 2015, are as follows:

2016

	Korean won					
	Beginning balance	Acquisition	Loss on valuation of equity method	Net change in interests of equity method	Others (*)	Ending balance
	(In millions)					
Hanjin Shipping Co., Ltd.	₩ 519,975	₩ -	₩ (121,766)	₩ (55,722)	₩ (342,487)	₩ -
EIGHT CITY Co., Ltd.	-	-	-	-	-	-
Czech Airlines j.s.c.	-	-	-	-	-	-
	₩ 519,975	₩ -	₩ (121,766)	₩ (55,722)	₩ (342,487)	₩ -

	Translation into U.S. dollars (Note 2)					
	Beginning balance	Acquisition	Loss on valuation of equity method	Net change in interests of equity method	Others (*)	Ending balance
	(In thousands)					
Hanjin Shipping Co., Ltd.	$ 474,299	$ -	$ (111,070)	$ (50,827)	$ (312,402)	$ -
EIGHT CITY Co., Ltd.	-	-	-	-	-	-
Czech Airlines j.s.c.	-	-	-	-	-	-
	$ 474,299	$ -	$ (111,070)	$ (50,827)	$ (312,402)	$ -

(*) Other increase (decrease) was due to recognition of an impairment loss of ₩333,798 million ($ 304,477 thousand) and others related to the shares of Hanjin Shipping Co., Ltd.

2015

	Korean won					
	Beginning balance	Acquisition	Gain on valuation of equity method	Net change in interests of equity method	Others (*)	Ending balance
	(In millions)					
Hanjin Shipping Co., Ltd.	₩ 467,574	₩ -	₩ 89,550	₩ 36,136	₩ 1,066	₩ 594,326
EIGHT CITY Co., Ltd.	-	-	-	-	-	-
Czech Airlines j.s.c.	-	-	-	-	-	-
	₩ 467,574	₩ -	₩ 89,550	₩ 36,136	₩ 1,066	₩ 594,326

	Translation into U.S. dollars (Note 2)					
	Beginning balance	Acquisition	Gain on valuation of equity method	Net change in interests of equity method	Others (*)	Ending balance
	(In thousands)					
Hanjin Shipping Co., Ltd.	$ 426,502	$ -	$ 81,684	$ 32,962	$ 972	$ 542,120
EIGHT CITY Co., Ltd.	-	-	-	-	-	-
Czech Airlines j.s.c.	-	-	-	-	-	-
	$ 426,502	$ -	$ 81,684	$ 32,962	$ 972	$ 542,120

(*) Other changes are mainly due to the share exchange of Hanjin Shipping Co., Ltd. and the reversal of negative goodwill arising from exercise of bonds with warrants.

(3) Financial information of the Group's investments in associates as of December 31, 2015, is as follows:

2015

	Korean won		Translation into U.S. dollars (Note 2)	
	Hanjin Shipping Co., Ltd.		Hanjin Shipping Co., Ltd.	
	(In millions)		(In thousands)	
Current assets	₩	1,039,650	$	948,326
Non-current assets		6,383,852		5,823,089
	₩	7,423,502	$	6,771,415
Current liabilities	₩	4,071,635	$	3,713,979
Non-current liabilities		2,568,606		2,342,977
	₩	6,640,241	$	6,056,956
Owners of the Company	₩	778,393	$	710,018
Non-controlling interests		4,868		4,441
	₩	783,261	$	714,459
Sales	₩	7,735,467	$	7,055,977
Operating income	₩	36,934	$	33,690
Net loss attributable to owners of the Company	₩	(24,246)	$	(22,117)
Net income attributable to non-controlling interests	₩	27,288	$	24,891

(4) Adjustments from equity of associates to book value of shares owned as of December 31, 2015, are as follows:

2015

	Korean won		Translation into U.S. dollars (Note 2)	
	Hanjin Shipping Co., Ltd.		Hanjin Shipping Co., Ltd.	
	(In millions)		(In thousands)	
Net assets (A) (*1)	₩	622,472	$	567,793
Ownership ratio (B) (*2)		41.77%		41.77%
(A)×(B)		260,014		237,174
Investment difference and others		259,961		237,125
Book value	₩	519,975	$	474,299

(*1) Hanjin Shipping Co., Ltd.'s hybrid securities were excluded from net assets.
(*2) Hanjin Shipping Co., Ltd.'s treasury stocks were excluded in the calculation of ownership ratio.

14. INTERESTS IN JOINT OPERATIONS:

The Group owns a joint investment building, which has the significant joint arrangement. Under the joint arrangement, the Group has 70% ownership of the building, INHA International Medical Center, which is located at Jung-gu, Incheon. The Group recognized income and expenses in relation to its interest.

15. PROPERTY, AIRCRAFT AND EQUIPMENT:

(1) Changes in property, aircraft and equipment for the nine months ended September 30, 2016 and 2015, are as follows:

2016

	Korean won					
	Beginning balance	Acquisition	Disposal	Depreciation	Others (*)	Ending balance
	(In millions)					
Land	₩ 1,957,074	₩ 15,294	₩ (1,659)	₩ -	₩ (6,909)	₩ 1,963,800
Leased land	21,460	-	-	-	-	21,460
Buildings	519,278	10,415	-	(16,560)	23,817	536,950
Structures	77,995	550	-	(3,444)	-	75,101
Machinery	88,957	8,818	(4)	(11,945)	56	85,882
Aircraft	2,186,987	50,417	(39,753)	(253,754)	12,967	1,956,864
Engines	821,887	-	(96,122)	(176,625)	178,114	727,254
Leased aircraft	7,807,500	58,227	(32,770)	(502,408)	780,172	8,110,721
Leased engines	1,961,370	151,633	(45,807)	(282,052)	393,781	2,178,925
Aircraft parts	119,253	17,315	(496)	(9,291)	(6,900)	119,881
Others	126,623	52,482	(376)	(28,482)	4,191	154,438
Construction in progress	2,162,319	1,672,334	(461)	-	(1,661,899)	2,172,293
	₩ 17,850,703	₩ 2,037,485	₩ (217,448)	₩ (1,284,561)	₩ (282,610)	₩ 18,103,569

	Translation into U.S. dollars (Note 2)					
	Beginning balance	Acquisition	Disposal	Depreciation	Others (*)	Ending balance
	(In thousands)					
Land	$ 1,785,163	$ 13,950	$ (1,514)	$ -	$ (6,302)	$ 1,791,297
Leased land	19,575	-	-	-	-	19,575
Buildings	473,664	9,500	-	(15,106)	21,725	489,783
Structures	71,144	502	-	(3,142)	-	68,504
Machinery	81,143	8,044	(4)	(10,895)	51	78,339
Aircraft	1,994,880	45,988	(36,261)	(231,464)	11,828	1,784,971
Engines	749,692	-	(87,679)	(161,110)	162,468	663,371
Leased aircraft	7,121,682	53,112	(29,892)	(458,276)	711,641	7,398,267
Leased engines	1,789,081	138,314	(41,783)	(257,276)	359,191	1,987,527
Aircraft parts	108,777	15,794	(453)	(8,475)	(6,293)	109,350
Others	115,500	47,872	(343)	(25,980)	3,825	140,874
Construction in progress	1,972,379	1,525,435	(420)	-	(1,515,917)	1,981,477
	$ 16,282,680	$ 1,858,511	$ (198,349)	$ (1,171,724)	$ (257,783)	$ 16,513,335

(*) Other increase or decrease was mainly due to the transfer of construction in progress and consisted of the transfer of property, aircraft and equipment to investment properties, the transfer of assets held for sale, impairment loss on property, aircraft and equipment and others.

2015

	Korean won					
	Beginning balance	Acquisition	Disposal	Depreciation	Others (*)	Ending balance
	(In millions)					
Land	₩ 1,955,231	₩ -	₩ (48)	₩ -	₩ 3,548	₩ 1,958,731
Leased land	21,460	-	-	-	-	21,460
Buildings	493,014	16,072	(4)	(15,714)	31,261	524,629
Structures	82,221	126	-	(3,485)	(48)	78,814
Machinery	90,867	5,329	(6)	(11,897)	1,556	85,849
Aircraft	2,301,382	2,566	(160,836)	(245,475)	194,573	2,092,210
Engines	848,492	-	(93,819)	(189,948)	236,960	801,685
Leased aircraft	6,636,575	105,784	-	(448,789)	1,249,229	7,542,799
Leased engines	1,579,568	50,525	-	(242,959)	471,048	1,858,182
Aircraft parts	108,542	24,885	(771)	(9,256)	(4,889)	118,511
Others	125,992	23,842	(257)	(25,004)	(534)	124,039
Construction in progress	1,534,730	2,604,598	-	-	(2,275,967)	1,863,361
	₩ 15,778,074	₩ 2,833,727	₩ (255,741)	₩ (1,192,527)	₩ (93,263)	₩ 17,070,270

	Translation into U.S. dollars (Note 2)					
	Beginning balance	Acquisition	Disposal	Depreciation	Others (*)	Ending balance
	(In thousands)					
Land	$ 1,783,482	$ -	$ (44)	$ -	$ 3,236	$ 1,786,674
Leased land	19,575	-	-	-	-	19,575
Buildings	449,707	14,660	(4)	(14,334)	28,515	478,544
Structures	74,999	115	-	(3,178)	(44)	71,892
Machinery	82,885	4,861	(5)	(10,852)	1,419	78,308
Aircraft	2,099,226	2,340	(146,708)	(223,912)	177,482	1,908,428
Engines	773,960	-	(85,578)	(173,263)	216,145	731,264
Leased aircraft	6,053,612	96,491	-	(409,367)	1,139,495	6,880,231
Leased engines	1,440,818	46,087	-	(221,617)	429,670	1,694,958
Aircraft parts	99,008	22,699	(703)	(8,443)	(4,459)	108,102
Others	114,924	21,748	(234)	(22,808)	(487)	113,143
Construction in progress	1,399,918	2,375,807	-	-	(2,076,044)	1,699,681
	$ 14,392,114	$ 2,584,808	$ (233,276)	$ (1,087,774)	$ (85,072)	$ 15,570,800

(*) Other increase or decrease was mainly due to the transfer of construction in progress and consisted of the transfer of property, aircraft and equipment and intangible assets to investment property, contribution in kind and others.

(2) The Group capitalized borrowing costs of ₩29,211 million ($26,645 thousand) into construction in progress for the nine months ended September 30, 2016. For the determination of borrowing costs, the Group used the interest rate on funds specifically for the purpose of obtaining a qualifying asset and other general funds whose interest rates are 3.03% and 3.16%, respectively. In addition, the subsidiaries used the interest rate of 3M LIBOR + 1.80%–3.30% and 4.12% on funds specifically for the purpose of obtaining a qualifying asset for the nine months ended September 30, 2016.

(3) The Group has been applying asset revaluation model to land, and as of June 30, 2013, the Group revaluated land by using value that was appraised by an independent and professional appraiser, Hana Appraisal & Consulting Co., Ltd. The revaluation method is appraised using value of land basis method that uses standard land price that is near by the land similar to utility value considering the ratio of changing land price, the ratio of increasing producer price index, location, shape, environment, state of usage of land and other factors of valuation from the date of public announcement of land value to June 30, 2013. The book values of land by revaluation model and cost model are as follows:

	Korean won		Translation into U.S. dollars (Note 2)	
	Revaluation model	Cost model	Revaluation model	Cost model
	(In millions)		(In thousands)	
Land	₩ 1,963,800	₩ 1,606,882	$ 1,791,297	$ 1,465,732
Leased land	21,460	13,385	19,575	12,210
	₩ 1,985,260	₩ 1,620,267	$ 1,810,872	$ 1,477,942

The Group recognized revaluation surplus of ₩422,946 million ($385,794 thousand before income tax) and recognized accumulated revaluation loss of ₩57,954 million ($52,863 thousand) for the period from June 30, 2013, to September 30, 2016.

(4) Fair value measurements of land and leased land by fair value hierarchy levels as of September 30, 2016, are as follows:

	Korean won			
	Level 1	Level 2	Level 3	Total
	(In millions)			
Land	₩ -	₩ -	₩ 1,963,800	₩ 1,963,800
Leased land	-	-	21,460	21,460
	₩ -	₩ -	₩ 1,985,260	₩ 1,985,260

	Translation into U.S. dollars (Note 2)			
	Level 1	Level 2	Level 3	Total
	(In thousands)			
Land	$ -	$ -	$ 1,791,297	$ 1,791,297
Leased land	-	-	19,575	19,575
	$ -	$ -	$ 1,810,872	$ 1,810,872

(5) There was no movement between Level 1 and Level 2 for the nine months ended September 30, 2016.

16. PLEDGED ASSETS AND GUARANTEES (NON-FINANCIAL ASSETS):

(1) Significant pledged assets provided as collateral and guarantees for the Group as of September 30, 2016, are as follows (in millions of Korean won, except for share data):

Pledged assets	Book value	Collateralized amount/shares	Provided to	In relation to
Land/buildings (*1)	₩ 3,204,149	3,105,444	Korea Development Bank ("KDB") and others	Short-term and long-term borrowings and borrowings of Hanjin Int'l Corp., etc.
Aircraft and engines (*2)	2,230,116	3,188,964		
Machinery	13,080	10,957		
Facility usage rights	67,309	208,074		
Investment in subsidiaries — Hanjin Int'l Corp. (*3)	-	91,440,000 Shares	Industrial Bank of Korea and others	Borrowings of Hanjin Int'l Corp.
	₩ 5,514,654			

(*1) The book value of land and buildings consists of property and investment properties.
(*2) The aircraft and engines provided as collateral are composed of tangible assets and assets held for sale.
(*3) Investments in subsidiaries (Hanjin Int'l Corp.) provided as collateral are part of the Group and, therefore, carry no book value in the condensed consolidated financial statements.
(*4) The collateralized amounts of the pledged assets provided as collateral and guarantees in foreign currency are translated into Korean won at the exchange rate on September 30, 2016.

(2) The Group has provided leased aircraft and leased engines as collateral to the lessor for the finance lease obligations and mileage receivables as collateral for the long-term borrowings. Also, the Group has provided property, including land, buildings, machinery and mining rights (collateralized amount of ₩24,044 million ($21,932 thousand)), as collateral for borrowings of ₩412 million ($376 thousand) from Korea Resources Corporation and deferment of corporate tax collection (see Note 22).

17. INVESTMENT PROPERTIES:

(1) Changes in the carrying amount of investment properties for the nine months ended September 30, 2016 and 2015, are as follows:

2016

	Korean won				
	Beginning balance	Acquisition	Depreciation	Others (*)	Ending balance
			(In millions)		
Land	₩ 63,173	₩ -	₩ -	₩ (660)	₩ 62,513
Buildings	19,583	-	(807)	5,379	24,155
Construction in progress	226,764	77,828	-	(106,455)	198,137
	₩ 309,520	₩ 77,828	₩ (807)	₩ (101,736)	₩ 284,805

	Translation into U.S. dollars (Note 2)				
	Beginning balance	Acquisition	Depreciation	Others (*)	Ending balance
			(In thousands)		
Land	$ 57,624	$ -	$ -	$ (602)	$ 57,022
Buildings	17,863	-	(736)	4,907	22,034
Construction in progress	206,845	70,992	-	(97,106)	180,731
	$ 282,332	$ 70,992	$ (736)	$ (92,801)	$ 259,787

(*) Other increase or decrease was due to the transfer of property, aircraft and equipment to investment property and exchange rate fluctuations.

2015

	Korean won				
	Beginning balance	Acquisition	Depreciation	Others (*)	Ending balance
			(In millions)		
Land	₩ 60,973	₩ -	₩ -	₩ 1,808	₩ 62,781
Buildings	19,931	-	(633)	360	19,658
Construction in progress	94,666	102,804	-	-	197,470
	₩ 175,570	₩ 102,804	₩ (633)	₩ 2,168	₩ 279,909

	Translation into U.S. dollars (Note 2)				
	Beginning balance	Acquisition	Depreciation	Others (*)	Ending balance
			(In thousands)		
Land	$ 55,617	$ -	$ -	$ 1,649	$ 57,266
Buildings	18,180	-	(577)	328	17,931
Construction in progress	86,351	93,773	-	-	180,124
	$ 160,148	$ 93,773	$ (577)	$ 1,977	$ 255,321

(*) Other increase or decrease was due to the transfer of property, aircraft and equipment to investment property and exchange rate fluctuations.

(2) Revenue and cost related to investment properties for the nine months ended September 30, 2016 and 2015, are as follows:

	Korean won		Translation into U.S. dollars (Note 2)	
	2016	2015	2016	2015
	(In millions)		(In thousands)	
Rental income	₩ 2,289	₩ 1,612	$ 2,088	$ 1,471
Rental cost	807	633	736	577

18. INTANGIBLE ASSETS:

Changes in the carrying amount of intangible assets for the nine months ended September 30, 2016 and 2015, are as follows:

2016

	Korean won						
	Beginning balance	Acquisition	Disposal	Amortization	Impairment loss	Others (*)	Ending balance
				(In millions)			
Goodwill	₩ 4,320	₩ 19,595	₩ -	₩ -	₩ -	₩ -	₩ 23,915
Facility usage rights	94,458	-	-	(7,531)	-	-	86,927
Research and development costs	67,340	-	-	(12,956)	-	-	54,384
Other intangibles	128,626	672	(1,131)	(18,368)	(7,873)	153,593	255,519
	₩ 294,744	₩ 20,267	₩ (1,131)	₩ (38,855)	₩ (7,873)	₩ 153,593	₩ 420,745

	Translation into U.S. dollars (Note 2)						
	Beginning balance	Acquisition	Disposal	Amortization	Impairment loss	Others (*)	Ending balance
				(In thousands)			
Goodwill	$ 3,941	$ 17,874	$ -	$ -	$ -	$ -	$ 21,815
Facility usage rights	86,161	-	-	(6,870)	-	-	79,291
Research and development costs	61,425	-	-	(11,818)	-	-	49,607
Other intangibles	117,326	613	(1,031)	(16,754)	(7,181)	140,100	233,073
	$ 268,853	$ 18,487	$ (1,031)	$ (35,442)	$ (7,181)	$ 140,100	$ 383,786

(*) Other increase or decrease was mainly due to the exchange rate fluctuations and others.

2015

	Korean won					
	Beginning balance	Acquisition	Disposal	Amortization	Others (*)	Ending balance
			(In millions)			
Goodwill	₩ 4,890	₩ -	₩ (2,169)	₩ -	₩ -	₩ 2,721
Facility usage rights	104,500	-	-	(7,531)	-	96,969
Research and development costs	84,389	-	-	(17,062)	4,332	71,659
Other intangibles	137,449	32	(72)	(6,418)	65	131,056
	₩ 331,228	₩ 32	₩ (2,241)	₩ (31,011)	₩ 4,397	₩ 302,405

	Translation into U.S. dollars (Note 2)					
	Beginning balance	Acquisition	Disposal	Amortization	Others (*)	Ending balance
			(In thousands)			
Goodwill	$ 4,461	$ -	$ (1,979)	$ -	$ -	$ 2,482
Facility usage rights	95,321	-	-	(6,870)	-	88,451
Research and development costs	76,976	-	-	(15,563)	3,951	65,364
Other intangibles	125,375	29	(65)	(5,854)	60	119,545
	$ 302,133	$ 29	$ (2,044)	$ (28,287)	$ 4,011	$ 275,842

(*) Other increase or decrease was mainly due to the transfer of construction in progress.

19. OTHER FINANCIAL ASSETS:

Other financial assets as of September 30, 2016, and December 31, 2015, consist of the following:

	Korean won		Translation into U.S. dollars (Note 2)	
	2016	2015	2016	2015
	(In millions)		(In thousands)	
Guarantee deposits	₩ 308,288	₩ 330,675	$ 281,207	$ 301,628

The Group provides guarantee deposits of JPY 4,210,217 thousand, $25,593 thousand or HKD 73,449 thousand for ABS loans (see Note 22). There were no overdues or impaired other financial assets for the nine months ended September 30, 2016 and 2015.

20. OTHER ASSETS:

Other assets as of September 30, 2016, and December 31, 2015, consist of the following:

	Korean won							
	2016				2015			
	Current		Non-current		Current		Non-current	
	(In millions)							
Advance payments (*)	₩	421,739	₩	3,164	₩	384,609	₩	58
Prepaid expenses		135,594		264,726		157,581		327,336
Others		16,376		3,157		8,086		3,161
	₩	573,709	₩	271,047	₩	550,276	₩	330,555

	Translation into U.S. dollars (Note 2)							
	2016				2015			
	Current		Non-current		Current		Non-current	
	(In thousands)							
Advance payments (*)	$	384,693	$	2,886	$	350,825	$	53
Prepaid expenses		123,683		241,472		143,738		298,583
Others		14,938		2,880		7,376		2,884
	$	523,314	$	247,238	$	501,939	$	301,520

(*) The Group provides advance payments of ₩141,116 million ($128,720 thousand), JPY 359,750 thousand, $27,207 thousand or HKD 119,388 thousand for ABS loans (see Note 22).

21. TRADE AND OTHER PAYABLES:

Trade and other payables as of September 30, 2016, and December 31, 2015, consist of the following:

	Korean won							
	2016				2015			
	Current		Non-current		Current		Non-current	
	(In millions)							
Trade payables	₩	89,698	₩	-	₩	123,749	₩	-
Non-trade payables		239,684		17,876		233,180		28,803
Accrued expenses		691,378		10,954		512,174		12,300
Dividends payable		2,937		-		984		-
	₩	1,023,697	₩	28,830	₩	870,087	₩	41,103

	Translation into U.S. dollars (Note 2)							
	2016				2015			
	Current		Non-current		Current		Non-current	
	(In thousands)							
Trade payables	$	81,819	$	-	$	112,879	$	-
Non-trade payables		218,630		16,306		212,698		26,273
Accrued expenses		630,647		9,992		467,184		11,220
Dividends payable		2,679		-		897		-
	$	933,775	$	26,298	$	793,658	$	37,493

22. BORROWINGS AND DEBENTURES:

(1) Short-term borrowings as of September 30, 2016, and December 31, 2015, consist of the following:

		Korean won		Translation into U.S. dollars (Note 2)	
Lender	Annual interest rate	2016	2015	2016	2015
		(In millions)		(In thousands)	
KDB	4.01%–4.28%	₩ 5,918	₩ -	$ 5,400	$ -
Shinhan Bank	2.49%	8,000	7,000	7,297	6,385
NongHyup Bank	3.04% 3M CD + 1.86%	220,000	220,000	200,675	200,675
Hana Bank and others	-	-	50,000	-	45,608
KDB	3M London InterBank Offered Rate ("LIBOR") + 1.95%–2.80%	361,779	57,641	330,000	52,577
KDB (Singapore branch)	3M LIBOR + 2.40%	49,333	58,600	45,000	53,453
Dandelion Aviation Limited	3M LIBOR + 2.40%	80,835	-	73,734	-
Hana Bank and others	2.50%–4.45%	383,501	476,197	349,813	434,368
		₩ 1,109,366	₩ 869,438	$ 1,011,919	$ 793,066

The Company has provided payment guarantees of $74 million to the creditor of Dandelion Aviation Limited (PK Air Finance S.a.r.l.) as of September 30, 2016.

(2) Long-term borrowings as of September 30, 2016, and December 31, 2015, consist of the following:

Lender	Annual interest rate	Maturity	Korean won 2016	Korean won 2015	Translation into U.S. dollars (Note 2) 2016	Translation into U.S. dollars (Note 2) 2015
			(In millions)		(In thousands)	
KDB	-	-	₩ -	₩ 600	$ -	$ 547
	4.01%–4.28%	2022-12-15	79,376	87,600	72,403	79,905
Korea Resource	-	-	-	12	-	11
Corporation	2.60%	2019-12-15	412	4,507	375	4,111
Standard Chartered Bank Korea Limited and others (*)	2.50%–5.41%	2023-12-15	80,883	11,642	73,778	10,619
KDB	3M LIBOR + 0.57%–3.05%	2025-09-30	416,895	813,617	380,275	742,148
	1.79%–1.84	2019-09-26	233,761	-	213,227	-
	3M JPY LIBOR + 2.00%	2018-04-09	56,893	72,901	51,896	66,497
The Export-Import Bank of Korea	3M LIBOR + 2.51%	2024-06-27	141,346	200,263	128,930	182,672
NongHyup Bank	-	-	-	9,962	-	9,087
Woori Bank	-	-	-	148,223	-	135,203
Industrial Bank of Korea	LIBOR + 3.3%	2017-10-24	164,445	117,200	150,000	106,905
Bank of Communications	3M LIBOR + 2.70%	2023-08-28	207,421	245,502	189,201	223,937
Hana Bank and others	3M LIBOR + 2.20%–4.00%	2020-06-27	185,737	376,015	169,422	342,986
			1,567,169	2,088,044	1,429,507	1,904,628
Less: current portion of long-term borrowings			(537,440)	(992,554)	(490,231)	(905,367)
			₩ 1,029,729	₩ 1,095,490	$ 939,276	$ 999,261

(*) The Group has provided mileage receivables for the long-term borrowings (see Note 16).

(3) Debentures as of September 30, 2016, and December 31, 2015, consist of the following:

Series	Issue date	Maturity	Annual interest rate	Korean won 2016	Korean won 2015	Translation into U.S. dollars (Note 2) 2016	Translation into U.S. dollars (Note 2) 2015
				(In millions)		(In thousands)	
43-2nd	2011-08-08	2016-08-08	-	₩ -	₩ 297,471	$ -	$ 271,341
44-2nd	2012-02-08	2016-02-08	-	-	150,000	-	136,824
46-2nd	2012-07-19	2017-07-19	3.98%	247,989	250,000	226,205	228,040
47-2nd	2012-10-08	2019-10-08	4.16%	250,000	250,000	228,040	228,040
49-3rd	2012-12-13	2019-12-13	4.36%	170,000	170,000	155,067	155,067
50th	2013-02-25	2016-02-25	-	-	82,621	-	75,363
51st	2013-02-26	2016-02-26	-	-	97,201	-	88,663
54th	2013-03-19	2016-03-19	-	-	117,200	-	106,905
55th	2014-06-30	2016-06-30	-	-	117,200	-	106,905
56-1st	2014-09-16	2016-03-16	-	-	100,000	-	91,216
56-2nd	2014-09-16	2016-09-16	-	-	100,000	-	91,216
57-1st	2014-11-20	2016-05-20	-	-	80,000	-	72,973
57-2nd	2014-11-20	2016-11-20	4.10%	70,000	70,000	63,851	63,851
58th (*1)	2015-02-27	2018-02-27	3M JPY LIBOR + 2.00%	108,368	97,201	98,849	88,663
59th	2015-08-31	2018-08-31	4.75%	200,000	200,000	182,432	182,432
60th	2016-02-17	2018-02-17	4.80%	150,000	-	136,824	-
61st (*2)	2016-02-25	2017-02-25	3M JPY LIBOR + 2.00%	73,690	-	67,217	-
63-1st (*3)	2016-03-21	2017-03-21	3M LIBOR + 0.80%	32,889	-	30,000	-
63-2nd (*3)	2016-03-21	2018-03-21	3M LIBOR + 1.10%	32,889	-	30,000	-
63-3rd (*3)	2016-03-21	2019-03-21	3M LIBOR + 1.20%	43,852	-	40,000	-
62nd	2016-04-12	2018-04-12	4.90%	250,000	-	228,040	-
64th	2016-04-20	2017-04-20	4.09%	50,000	-	45,608	-
65th	2016-06-10	2017-06-10	4.05%	30,000	-	27,365	-
66th	2016-06-15	2017-12-15	4.45%	10,000	-	9,122	-
Arirang bond	2012-11-02	2017-11-02	3M LIBOR+2.76%	230,273	246,174	210,046	224,549
Kexim (*4)	2014-10-30	2017-10-30	3M LIBOR+0.88%	328,890	351,600	300,000	320,715
				2,278,840	2,776,668	2,078,666	2,532,763
Present value of discounts				(5,998)	(4,797)	(5,471)	(4,376)
				2,272,842	2,771,871	2,073,195	2,528,387
Less: short-term debentures				(186,579)	-	(170,190)	-
Present value of discounts				424	-	387	-
Less: current portion of debentures				(937,989)	(2,081,693)	(855,595)	(1,898,835)
Present value of discounts, less current portion				1,427	2,823	1,300	2,575
				₩ 1,150,125	₩ 693,001	$ 1,049,097	$ 632,127

(*1) Kookmin Bank has provided guarantee at a maximum of JYP 10,639,117 thousand for the 58th guaranteed debenture.
(*2) Kookmin Bank has provided guarantee at a maximum of JYP 6,937,714 thousand for the 61st guaranteed debenture.
(*3) Shinhan Bank has provided guarantee at a maximum of $100,000 thousand for the 63rd guaranteed debenture.
(*4) The Export-Import Bank of Korea provides up to $300,000 thousand as payment guarantee associated with the debenture.

(4) ABS loans as of September 30, 2016, and December 31, 2015, consist of the following:

Description	Maturity	Annual interest rate	Korean won 2016	Korean won 2015	Translation into U.S. dollars (Note 2) 2016	Translation into U.S. dollars (Note 2) 2015
			(In millions)		(In thousands)	
KAL-7th ABS	2016-11-08	4.75%	₩ 20,000	₩ 110,000	$ 18,243	$ 100,337
KAL-9th ABS	2018-04-25	3.15%	210,000	300,000	191,553	273,648
KAL-10th ABS	2016-11-28	0.84%	25,163	123,717	22,953	112,850
KAL-11th ABS	2019-02-14	5.11%	260,000	350,000	237,161	319,256
KAL-12th ABS	2019-05-09	4.74%	83,000	105,000	75,709	95,777
KAL-13th ABS	2017-07-27	0.69%	36,953	63,375	33,707	57,808
KAL-14th ABS	2018-08-27	1M Hong Kong InterBank Offered Rate ("HIBOR") + 3.50%	68,696	99,799	62,662	91,032
KAL-15th ABS	2017-11-20	1M LIBOR + 0.65%	153,482	269,560	140,000	245,882
KAL-16th ABS	2020-01-28	3.98%	510,000	600,000	465,201	547,295
KAL-17th ABS	2019-04-29	1M LIBOR + 3.00%	188,807	-	172,222	-
KAL-18th ABS	2020-06-01	3M HIBOR + 3.74%	92,133	-	84,040	-
KAL-19th ABS	2021-07-11	4.24%	900,000	-	820,943	-
			2,548,234	2,021,451	2,324,394	1,843,885
Less: current portion of ABS loans			(763,909)	(840,385)	(696,806)	(766,565)
			₩ 1,784,325	₩ 1,181,066	$ 1,627,588	$ 1,077,320

The Group provides guarantee deposits of JPY 4,210,217 thousand, $25,593 thousand and HKD 73,449 thousand and advance payments of ₩141,116 million ($128,720 thousand), JPY 359,750 thousand, $27,207 thousand and HKD 119,388 thousand in connection with the above ABS loans (see Notes 19 and 20).

Meanwhile, the above ABS loans are borrowings to repay in a way to trust and right to future sales receivable that will be held at the time of selling the airline tickets and in the financial institution subject to the receivables and the period are as follows:

Description	Receivable	Period
KAL-7th ABS	Domestic passenger card sales receivable (Samsung card and Shinhan card)	2011.11.02–2016.11.08
KAL-9th ABS	Domestic passenger card sales receivable (Hyundai card, Hana (formerly Korea Exchange) card and Kookmin card)	2013.04.17–2018.04.25
KAL-10th ABS	Japan passenger card sales receivable	2013.12.12–Of the following conditions, until the earlier date (i) 2018.12.31 (ii) When the ABS loan's principal and interest have been redeemed in all
KAL-11th ABS	Domestic cargo indirect sales receivable	2014.02.06–2019.02.14
KAL-12th ABS	Domestic passenger card sales receivable (NongHyup card and Lotte card)	2014.04.24–2019.05.07
KAL-13th ABS	Japan cargo receivables	2014.08.07–Of the following conditions, until the earlier date (i) 2019.12.31 (ii) When the ABS loan's principal and interest have been redeemed in all
KAL-14th ABS	Hong Kong cargo receivables	2014.11.05–When the ABS loan's principal and interest have been redeemed in all
KAL-15th ABS	Passenger credit card (Visa/Master) dollar receivables	2014.11.25–Of the following conditions, until the earlier date (i) 2019.11.30 (ii) When the ABS loan's principal and interest have been redeemed in all
KAL-16th ABS	Domestic passenger card sales receivable (BC card)	2015.01.20–2020.01.28
KAL-17th ABS	North America region cargo receivables (settlement of Cargo Accounts Settlement Systems ("CASS"))	2016.04.11–When the ABS loan's principal and interest have been redeemed in all
KAL-18th ABS	Hong Kong and Singapore passenger sales receivable	2016.06.01–When the ABS loan's principal and interest have been redeemed in all
KAL-19th ABS	Korean passenger cash sales receivables	2016.07.11–When the ABS loan's principal and interest have been redeemed in all

(5) The Group took over the borrowings of Hanjin Shipping Co., Ltd. with Korea Exchange Bank and other financial institutions (guaranteed loans) equally for 20 years from 1988, pursuant to the Government Guidelines for the Rationalization of the Marine Industry in 1985. Meanwhile, the Group took over the borrowings payable equally in 15 years with a 15-year grace period without interest and recognized the difference between the nomial amount and present value of the borrowings as present value of discounts. Guaranteed loans as of September 30, 2016, and December 31, 2015, consist of the following:

Description	Korean won		Translation into U.S. dollars (Note 2)	
	2016	2015	2016	2015
	(In millions)		(In thousands)	
KDB	₩ 3,920	₩ 7,845	$ 3,576	$ 7,156
Woori Bank	-	5,156	-	4,703
Triumph II Investments (Ireland) Limited	-	323	-	294
B G.N Loan Co., Ltd. (*)	196	-	179	-
Hanshin Mutual Savings & Finance Co., Ltd. (*)	-	395	-	360
Kookmin Bank	140	288	128	263
Shinhan Bank	512	1,030	467	939
Daegu Bank	486	971	444	886
Hana Bank(formerly Korea Exchange Bank)	6,386	12,777	5,825	11,655
Tongyang Life Insurance Co., Ltd.	878	1,755	801	1,601
Lotte Insurance Co., Ltd.	126	263	115	239
	12,644	30,803	11,535	28,096
Present value of discounts	(1,136)	(3,414)	(1,036)	(3,114)
	11,508	27,389	10,499	24,982
Less: current portion of liabilities	(12,644)	(15,414)	(11,534)	(14,060)
Present value of discounts, current portion	1,136	1,055	1,035	964
	₩ -	₩ 13,030	$ -	$ 11,886

(*) The guaranteed loans of Hanshin Mutual Savings & Finance Co., Ltd. were succeeded by B G.N Loan Co., Ltd. for the nine months ended September 30, 2016.

Hanjin Shipping Co., Ltd.'s 476,436 shares and ₩5,522 million ($5,037 thousand) of long-term financial instruments were provided as collateral for the guaranteed loans to Hana Bank (formerly Korea Exchange Bank) as of September 30, 2016 (see Note 6).

23. FINANCE LEASE OBLIGATIONS:

(1) Finance lease obligations as of September 30, 2016, and December 31, 2015, consist of the following:

Lender	Annual interest rate	Korean won 2016	Korean won 2015	Translation into U.S. dollars (Note 2) 2016	Translation into U.S. dollars (Note 2) 2015
		(In millions)		(In thousands)	
DOOLEY Aviation Limited	3M LIBOR + 2.16%	₩ 100,820	₩ 127,258	$ 91,964	$ 116,079
ECA-2014B Limited	3M Euro Interbank Offered Rate (“EURIBOR”) + 0.32%				
	3M LIBOR + 2.85%	203,112	230,052	185,270	209,844
ECA-2014C Limited	3M LIBOR + 0.88%	121,408	140,232	110,744	127,914
ECA-2015A Limited	3M EURIBOR + 0.31%				
	3M LIBOR + 2.85%–3.00%	250,483	282,001	228,480	257,229
ECA-2015B Limited	3M JPY LIBOR + 0.30%				
	3M LIBOR + 3.00%	149,923	147,400	136,753	134,452
Export Leasing (2015) LLC	3M LIBOR + 0.50%	156,815	179,768	143,040	163,977
Export Leasing (2015)-B	3M LIBOR + 0.75%	193,829	222,608	176,803	203,054
Export Leasing (2015-A) LLC	3M LIBOR + 0.73%–0.75%	377,437	432,966	344,282	394,934
Export Leasing (2015-B) LLC	3M LIBOR + 0.75%	188,928	217,394	172,332	198,298
Export Leasing (2015-C)	3M LIBOR + 0.77%	195,087	224,132	177,951	204,444
Ji Yoo Aviation Ltd.	3M LIBOR + 3.50%	180,689	180,131	164,817	164,308
KALECA11 Aviation Ltd.	3M LIBOR + 0.91%–0.99%	550,918	667,751	502,525	609,095
KALECA11-2 Aviation Ltd.	3M LIBOR + 0.93%	141,319	170,118	128,905	155,175
KALECA12 Aviation Ltd.	3M JPY LIBOR + 0.71%				
	3M LIBOR + 2.80%	155,601	162,580	141,933	148,299
KALECA13 Aviation Ltd.	3M EURIBOR + 0.63%				
	3M LIBOR + 2.55%	179,891	207,030	164,089	188,845
KE Export Leasing (2009) Ltd.	3M LIBOR + 1.25%	139,128	170,387	126,907	155,420
KE Export Leasing (2010) Ltd.	3M LIBOR + 0.30%	248,229	296,700	226,424	270,637
KE Export Leasing (2011) Ltd.	3M LIBOR + 0.33%–0.38%	293,002	351,695	267,265	320,802
KE Export Leasing (2011-II) Ltd.	3M LIBOR + 0.43%–0.48%	210,584	251,054	192,086	229,001
KE Export Leasing (2012) Ltd.	3M LIBOR + 1.24%–1.26%	328,179	391,359	299,352	356,981
KE Export Leasing (2013-A)	3M LIBOR + 0.37%	122,980	143,332	112,177	130,741
KE Export Leasing (2013-B)	3M LIBOR + 0.36%	128,202	149,431	116,940	136,305
KE Export Leasing (2013-C)	3M LIBOR + 0.66%	138,132	160,598	125,998	146,491
KE Export Leasing (2013-D) LLC	3M LIBOR + 0.36%–0.66%	297,672	342,464	271,524	312,382
KE Export Leasing 2014 LLC	3M LIBOR + 0.65%–1.06%	421,073	483,903	384,086	441,396
KE2013 B777	3M LIBOR + 2.62%	117,606	143,130	107,275	130,557
KEXPORT Leasing 2015	3M LIBOR + 1.22%–1.23%	326,574	380,323	297,887	346,915
Kosmo Suites / Yun Aviation Limited	3M LIBOR + 1.95%	131,556	187,520	120,000	171,048
SKY HIGH LIV Leasing Company Limited	3M LIBOR + 2.20%	170,595	-	155,610	-
Yian Limited	3M LIBOR + 2.13%	179,806	208,650	164,012	190,322
Export Leasing 2016-A	3M LIBOR + 2.78%	136,486	-	124,497	-
Export Leasing 2016-B	3M JPY LIBOR + 0.85%	148,706	-	135,643	-
Export Leasing 2016-C	3M LIBOR + 0.90%	147,218	-	134,287	-
RAY Aviation Limited	3M LIBOR + 1.70%				
	5.20%	181,125	-	165,216	-

Lender	Annual interest rate	Korean won 2016	Korean won 2015	Translation into U.S. dollars (Note 2) 2016	Translation into U.S. dollars (Note 2) 2015
		(In millions)		(In thousands)	
RBS and others	1.22%–5.38%	992,230	1,137,867	905,072	1,037,918
		8,005,343	8,389,834	7,302,146	7,652,863
Less: current portion of obligation under finance leases, net of present value of discounts		(1,513,769)	(1,234,471)	(1,380,798)	(1,126,034)
		₩ 6,491,574	₩ 7,155,363	$ 5,921,348	$ 6,526,829

The Export-Import Bank of the United States and others have provided payment guarantees of $4,761 million for above finance lease obligations as of September 30, 2016. Meanwhile, the Company has provided payment guarantees of $138 million to Bank of China, the beneficiary of the financial lease obligations due to Yian Limited, as of September 30, 2016.

(2) Minimum lease payments and present value of long-term finance lease obligations as of September 30, 2016, consist of the following:

	Korean won	Translation into U.S. dollars (Note 2)
	(In millions)	(In thousands)
Less than one year	₩ 1,647,292	$ 1,502,592
One year to five years	4,206,224	3,836,746
More than five years	2,639,976	2,408,078
	8,493,492	7,747,416
Present value of discounts	(488,149)	(445,270)
	₩ 8,005,343	$ 7,302,146

24. EMPLOYEE BENEFITS:

(1) The net defined benefit liabilities as of September 30, 2016, and December 31, 2015, consist of the following:

	Korean won 2016	Korean won 2015	Translation into U.S. dollars (Note 2) 2016	Translation into U.S. dollars (Note 2) 2015
	(In millions)		(In thousands)	
Present value of defined benefit obligations	₩ 1,557,286	₩ 1,367,582	$ 1,420,492	$ 1,247,452
Fair value of plan assets	(325,706)	(339,901)	(297,095)	(310,044)
	₩ 1,231,580	₩ 1,027,681	$ 1,123,397	$ 937,408

(2) Changes in carrying amount of the net defined benefit liabilities for the nine months ended September 30, 2016 and 2015, are as follows:

2016

	Korean won			Translation into U.S. dollars (Note 2)		
	Present value of defined benefit obligations	Fair value of plan assets	Total	Present value of defined benefit obligations	Fair value of plan assets	Total
		(In millions)			(In thousands)	
Beginning balance	₩ 1,367,582	₩ (339,901)	₩ 1,027,681	$ 1,247,452	$ (310,044)	$ 937,408
Current service cost	95,389	-	95,389	87,010	-	87,010
Interest expense	22,924	(3,909)	19,015	20,911	(3,566)	17,345
Remeasurement of the net defined benefit liabilities	141,636	762	142,398	129,195	695	129,890
Benefits paid	(71,101)	17,524	(53,577)	(64,856)	15,984	(48,872)
Succession of defined benefit obligation	645	-	645	588	-	588
Others	211	(182)	29	192	(164)	28
Ending balance	₩ 1,557,286	₩ (325,706)	₩ 1,231,580	$ 1,420,492	$ (297,095)	$ 1,123,397

2015

	Korean won			Translation into U.S. dollars (Note 2)		
	Present value of defined benefit obligations	Fair value of plan assets	Total	Present value of defined benefit obligations	Fair value of plan assets	Total
		(In millions)			(In thousands)	
Beginning balance	₩ 1,188,148	₩ (337,077)	₩ 851,071	$ 1,083,780	$ (307,467)	$ 776,313
Current service cost	107,304	-	107,304	97,879	-	97,879
Interest expense	25,747	(6,010)	19,737	23,486	(5,482)	18,004
Remeasurement of the net defined benefit liabilities	114,486	1,160	115,646	104,429	1,058	105,487
Benefits paid	(63,113)	18,884	(44,229)	(57,569)	17,225	(40,344)
Succession of defined benefit obligation and others	517	87	604	471	79	550
Ending balance	₩ 1,373,089	₩ (322,956)	₩ 1,050,133	$ 1,252,476	$ (294,587)	$ 957,889

25. PROVISIONS:

Changes in the provision liabilities for the nine months ended September 30, 2016 and 2015, are as follows:

2016

	Korean won				
	Beginning balance	Charged to income or loss	Utilization	Others	Ending balance
			(In millions)		
Current:					
Provision for construction loss (*1)	₩ 15,479	₩ 686	₩ (13,324)	₩ (2,841)	₩ -
Liabilities of greenhouse gas emissions (*2)	1,316	722	-	(2,038)	-
	16,795	1,408	(13,324)	(4,879)	-
Non-current:					
Provision for leased aircraft maintenance (*3)	135,124	22,034	(26,438)	-	130,720
Provision for coupon for passenger flight tickets (*4)	27,521	-	(171)	986	28,336
Provision for construction warranties (*5)	2,039	-	-	-	2,039
Others (*6)	6,503	497	(4,881)	4,878	6,997
	171,187	22,531	(31,490)	5,864	168,092
	₩ 187,982	₩ 23,939	₩ (44,814)	₩ 985	₩ 168,092

	Translation into U.S. dollars (Note 2)				
	Beginning balance	Charged to income or loss	Utilization	Others	Ending balance
			(In thousands)		
Current:					
Provision for construction loss (*1)	$ 14,119	$ 626	$ (12,154)	$ (2,591)	$ -
Liabilities of greenhouse gas emissions (*2)	1,200	659	-	(1,859)	-
	15,319	1,285	(12,154)	(4,450)	-
Non-current:					
Provision for leased aircraft maintenance (*3)	123,254	20,099	(24,116)	-	119,237
Provision for coupon for passenger flight tickets (*4)	25,104	-	(156)	900	25,848
Provision for construction warranties (*5)	1,860	-	-	-	1,860
Others (*6)	5,932	453	(4,453)	4,450	6,382
	156,150	20,552	(28,725)	5,350	153,327
	$ 171,469	$ 21,837	$ (40,879)	$ 900	$ 153,327

2015

	Korean won							
	Beginning balance		Charged to income or loss		Utilization		Ending balance	
	(In millions)							
Provision for construction loss (*1)	₩	-	₩	4,258	₩	-	₩	4,258
Provision for leased aircraft maintenance (*3)		108,914		20,116		(1,770)		127,260
Provision for coupon for passenger flight tickets (*4)		27,521		-		-		27,521
Others (*6)		6,015		378		-		6,393
	₩	142,450	₩	24,752	₩	(1,770)	₩	165,432

	Translation into U.S. dollars (Note 2)							
	Beginning balance		Charged to income or loss		Utilization		Ending balance	
	(In thousands)							
Provision for construction loss (*1)	$	-	$	3,884	$	-	$	3,884
Provision for leased aircraft maintenance (*3)		99,346		18,349		(1,614)		116,081
Provision for coupon for passenger flight tickets (*4)		25,104		-		-		25,104
Others (*6)		5,487		345		-		5,832
	$	129,937	$	22,578	$	(1,614)	$	150,901

(*1) The Group includes expected future construction loss of aerospace segment as provision for construction loss (see Note 46).

(*2) The Group has recognized provisions for greenhouse gases emission cost by measuring the expected quantity of emission of the performing period in excess of emission allowance in possession at the end of the reporting period and borrowed the shortage of emission allowance from that of next year and submitted it to the government. In addition, the Group recognizes unearned revenues of ₩2,038 million ($1,859 thousand), which it borrows from emission allowance of next year.

(*3) The Group has maintenance obligations related to the operating leases. In order to fulfill the obligations, the Company has recognized a provision for leased aircraft maintenance by estimating future maintenance costs as it is probable that an outflow of resources embodying economic benefits will be required to settle the obligations (see Note 43).

(*4) The Group agreed to distribute $26,000 thousand of flight ticket coupons to the plaintiff in relation to the U.S. court class action on airline ticket price collusion of flights to America, and has recognized ₩28,336 million as a provision for passenger flight ticket coupons as of September 30, 2016 (see Note 45).

(*5) The Group has recognized provisions for the maintenance expenses expected to incur from aerospace segment's sales.

(*6) The Group has recognized ₩6,933 million ($6,324 thousand) as a provision for the restoration of forest due to the production of limestone, and is provided with performance guarantees by Seoul Guarantee Insurance Company (see Note 45).

26. DEFERRED REVENUE:

The Group manages its frequent flyer program, “SKYPASS,” a customer loyalty program that provides incentives through accrued mileage, such as bonus flight tickets and seat class upgrades, in addition to other benefits to its customers and its alliance companies. The Group allocates the fair value of the consideration received in respect of the sales into the award credits and service revenue. The award credits portion of sales price is not recognized as revenue until the obligation has been performed. The Group’s deferred income in connection with the SKYPASS system recognized in the condensed consolidated statement of financial position as of September 30, 2016, amounted to ₩1,859,923 million ($1,696,546 thousand), including ₩31,457 million ($28,694 thousand) of advance receipts from customers and ₩1,828,466 million ($1,667,852 thousand) of deferred revenue.

27. DERIVATIVE INSTRUMENTS AND HEDGE ACCOUNTING:

(1) As of September 30, 2016, the Group entered into derivative agreements with KDB and six other financial institutions for hedging purpose, and derivatives as of September 30, 2016, consist of the following:

Type of transactions	Accounting policy	Maturity	Contract amount	
Oil price option	Trading	2016.12.31	BBL	600 thousand
Interest rate swaps	Trading	2019.09.26	EUR	190,000 thousand
Cross-currency interest rate swaps	Trading	2023.06.12	JPY	32,603,931 thousand
	Trading	2017.11.02	KRW	230,000,000 thousand

(2) Impact on the condensed consolidated financial statements in relation to derivatives as of and for the nine months ended September 30, 2016, is as follows:

	Korean won					
	Condensed consolidated statement of financial position		Condensed consolidated statement of comprehensive loss			
Derivative instruments	Financial derivative assets	Financial derivative liabilities	Valuation gain	Valuation loss	Transaction gain	Transaction loss
	(In millions)					
Oil price option	₩ -	₩ 457	₩ 3,096	₩ -	₩ 13,667	₩ 10,496
Interest rate swaps	-	651	-	651	20	26
Cross-currency interest rate swaps	-	65,577	16,780	61,229	272	4,339
TRS (*)	-	-	-	41,592	-	74,959
	₩ -	₩ 66,685	₩ 19,876	₩ 103,472	₩ 13,959	₩ 89,820

	Translation into U.S. dollars (Note 2)					
	Condensed consolidated statement of financial position		Condensed consolidated statement of comprehensive loss			
Derivative instruments	Financial derivative assets	Financial derivative liabilities	Valuation gain	Valuation loss	Transaction gain	Transaction loss
	(In thousands)					
Oil price option	$ -	$ 417	$ 2,824	$ -	$ 12,466	$ 9,574
Interest rate swaps	-	594	-	594	18	23
Cross-currency interest rate swaps	-	59,816	15,306	55,850	249	3,958
TRS (*)	-	-	-	37,939	-	68,375
	$ -	$ 60,827	$ 18,130	$ 94,383	$ 12,733	$ 81,930

(*) The Company has entered into a total return swap ("TRS") contract based on the future value of Hanjin Shipping Co., Ltd.'s perpetual exchangeable bond in 30-year maturities and the contract was fully settled for the nine months ended September 30, 2016.

28. OTHER LIABILITIES:

Other liabilities as of September 30, 2016, and December 31, 2015, consist of the following:

	Korean won			
	2016		2015	
	Current	Non-current	Current	Non-current
	(In millions)			
Advances	₩ 903,334	₩ -	₩ 919,132	₩ -
Withholdings	116,846	58,679	111,564	53,357
Unearned revenues	412,500	-	367,624	-
Others	-	9,086	1,026	6,834
	₩ 1,432,680	₩ 67,765	₩ 1,399,346	₩ 60,191

	Translation into U.S. dollars (Note 2)			
	2016		2015	
	Current	Non-current	Current	Non-current
	(In thousands)			
Advances	$ 823,984	$ -	$ 838,395	$ -
Withholdings	106,582	53,525	101,764	48,670
Unearned revenues	376,266	-	335,332	-
Others	-	8,288	936	6,233
	$ 1,306,832	$ 61,813	$ 1,276,427	$ 54,903

29. CAPITAL STOCK:

Capital stock as of September 30, 2016, and December 31, 2015, consists of the following:

				Korean won		Translation into U.S. dollars (Note 2)	
	Number of shares authorized	Number of shares issued	Par value	2016	2015	2016	2015
				(In millions)		(In thousands)	
Common stock	250,000,000	72,839,744	₩ 5,000	₩ 364,199	₩ 364,199	$ 332,207	$ 332,207
Preferred stock (*)		1,110,794	₩ 5,000	5,554	5,554	5,066	5,066
	250,000,000	73,950,538		₩ 369,753	₩ 369,753	$ 337,273	$ 337,273

(*) As the non-voting preferred stock, in case of cash dividends, it gets additionally 1% more dividends than the common stock. If the Company cannot pay dividends, the preferred stock gets voting right from the resolution at the next general meeting of shareholders that the Company does not pay dividends until the resolution at the general meeting of shareholders that the Company pays dividends.

30. OTHER CAPITAL SURPLUS:

(1) Other capital surplus as of September 30, 2016, and December 31, 2015, consists of the following:

	Korean won		Translation into U.S. dollars (Note 2)	
	2016	2015	2016	2015
	(In millions)		(In thousands)	
Additional paid-up capital	₩ 602,855	₩ 602,855	$ 549,900	$ 549,900
Other capital	219,018	214,928	199,779	196,048
	₩ 821,873	₩ 817,783	$ 749,679	$ 745,948

(2) Hybrid securities as of September 30, 2016, and December 31, 2015, consist of the following:

	Date of issue	Maturity	Interest rate	Korean won		Translation into U.S. dollars (Note 2)	
				2016	2015	2016	2015
				(In millions)		(In thousands)	
Unsecured bearer debenture (*1)	2013-06-28	2043-06-28	6.40%	₩ 208,860	₩ 208,860	$ 190,514	$ 190,514
Registered guaranteed debenture (*2)	2015-11-25	2045-11-25	2.50%	341,551	341,551	311,549	311,549
				₩ 550,411	₩ 550,411	$ 502,063	$ 502,063

(*1) The interest rate is 6.40% for five years after issuance, and the increased interest rate (6.40%+ 3.50% + (benchmark yield after five years from the date of issue - 3.32%)) is applied after five years.
The Group can exercise the right of early repayment every year after five years of hybrid securities' issuance. If notice of willingness to extend maturity is given one month prior to the maturity date, maturity can be extended for 30 years under the same condition. In addition, the Company can choose not to pay the interest on the hybrid securities based on the decision to extend maturity. However, the Group cannot suspend payment of the interest if the decision on stock dividend, purchase and redemption of stocks and profit retirement occurred in the last 12 months.

(*2) The interest rate is 2.5% for three years after issuance and 4.0% from three to five years after issuance. After five years, the increased interest rate (6.5% + 3.0%) is applied. The Group can exercise the right of early repayment every six months after three years of the securities' issuance. If notice of willingness to extend maturity is given one month prior to the maturity date, maturity can be extended for 30 years under the same condition. In addition, the Group can choose not to pay the interest on securities based on the decision to extend maturity. However, the Group cannot suspend payment of the interest if the decision on stock dividend, purchase and redemption of stocks and profit retirement occurred in the last 12 months.

31. RETAINED EARNINGS AND DIVIDENDS:

(1) Retained earnings as of September 30, 2016, and December 31, 2015, consist of the following:

	Korean won				Translation into U.S. dollars (Note 2)			
	2016		2015		2016		2015	
	(In millions)				(In thousands)			
Legal reserve:								
Legal-appropriated retained earnings (*)	₩	3,452	₩	3,452	$	3,149	$	3,149
Voluntary reserve:								
Facility reserve		200,000		200,000		182,432		182,432
Unappropriated retained earnings		545,695		590,813		497,760		538,916
	₩	749,147	₩	794,265	$	683,341	$	724,497

(*) The Korean Commercial Code requires the Company to appropriate as legal reserve an amount equal to at least 10% of cash dividends paid for each accounting period, until the reserve equals 50% of the stated capital. The legal reserve may be used to reduce a deficit or transferred to capital stock.

(2) There is no dividend payment (except for the dividend from hybrid securities) for nine months ended September 30, 2016 and 2015.

32. OTHER CAPITAL COMPONENTS:

(1) Other capital components as of September 30, 2016, and December 31, 2015, consist of the following:

	Korean won				Translation into U.S. dollars (Note 2)			
	2016		2015		2016		2015	
	(In millions)				(In thousands)			
Gain on valuation of AFS financial assets, net	₩	37,267	₩	46,383	$	33,993	$	42,309
Change in retained earnings – equity method – accounted investments		-		42,229		-		38,519
Cumulative effect of foreign currency translation		(41,805)		2,888		(38,133)		2,634
Revaluation surplus		312,973		313,811		285,482		286,246
	₩	308,435	₩	405,311	$	281,342	$	369,708

(2) Changes in other capital components for the nine months ended September 30, 2016 and 2015, are as follows:

	Korean won				Translation into U.S. dollars (Note 2)			
	2016		2015		2016		2015	
	(In millions)				(In thousands)			
Beginning balance	₩	405,311	₩	411,347	$	369,708	$	375,214
Gain on valuation of AFS financial assets, net		(9,116)		(9,205)		(8,316)		(8,396)
Change in retained earnings – equity method – accounted investments		(42,229)		13,810		(38,519)		12,597
Gain on valuation of derivative instruments		-		(1,651)		-		(1,506)
Cumulative effect of foreign currency translation		(44,693)		14,212		(40,767)		12,964
Revaluation surplus		(838)		(14)		(764)		(12)
Ending balance	₩	308,435	₩	428,499	$	281,342	$	390,861

33. SALES:

Sales classified as operating income or loss resulting from the Group's continuing operations for the three and nine months ended September 30, 2016 and 2015, consist of the following:

	Korean won			
	Three months ended September 30, 2016	Nine months ended September 30, 2016	Three months ended September 30, 2015	Nine months ended September 30, 2015
	(In millions)			
Air transport revenue	₩ 2,914,328	₩ 8,001,183	₩ 2,679,038	₩ 7,718,129
Other revenues	203,614	801,429	293,578	911,678
	₩ 3,117,942	₩ 8,802,612	₩ 2,972,616	₩ 8,629,807

	Translation into U.S. dollars (Note 2)			
	Three months ended September 30, 2016	Nine months ended September 30, 2016	Three months ended September 30, 2015	Nine months ended September 30, 2015
	(In thousands)			
Air transport revenue	$ 2,658,331	$ 7,298,352	$ 2,443,709	$ 7,040,162
Other revenues	185,728	731,030	267,790	831,594
	$ 2,844,059	$ 8,029,382	$ 2,711,499	$ 7,871,756

34. SELLING AND ADMINISTRATIVE EXPENSES:

Selling and administrative expenses for the three and nine months ended September 30, 2016 and 2015, are as follows:

	Korean won			
	Three months ended September 30, 2016	Nine months ended September 30, 2016	Three months ended September 30, 2015	Nine months ended September 30, 2015
	(In millions)			
Salaries	₩ 74,402	₩ 226,436	₩ 69,825	₩ 215,145
Retirement and severance benefits	7,137	24,421	7,780	24,483
Depreciation	3,035	8,838	2,895	8,334
Amortization	17,340	28,077	5,363	20,214
Rental	4,887	14,267	4,803	13,985
Sales commission	75,201	223,427	75,706	221,130
Advertising	22,188	75,308	25,521	72,005
Welfare	17,722	50,182	16,079	45,440
Training	1,999	5,942	2,013	6,153
Communications	4,754	15,465	5,786	17,772
Taxes and dues	3,039	17,141	3,086	17,103
Facility maintenance	2,572	7,737	1,912	5,750
Commission	38,434	125,826	41,873	120,070
Others	17,437	48,045	17,905	50,791
	₩ 290,147	₩ 871,112	₩ 280,547	₩ 838,375

	Translation into U.S. dollars (Note 2)			
	Three months ended September 30, 2016	Nine months ended September 30, 2016	Three months ended September 30, 2015	Nine months ended September 30, 2015
	(In thousands)			
Salaries	$ 67,866	$ 206,546	$ 63,691	$ 196,247
Retirement and severance benefits	6,510	22,276	7,096	22,332
Depreciation	2,769	8,061	2,641	7,602
Amortization	15,817	25,610	4,892	18,439
Rental	4,458	13,014	4,381	12,757
Sales commission	68,595	203,801	69,056	201,706
Advertising	20,239	68,692	23,279	65,679
Welfare	16,166	45,774	14,666	41,447
Training	1,823	5,420	1,836	5,613
Communications	4,336	14,107	5,278	16,211
Taxes and dues	2,772	15,635	2,815	15,601
Facility maintenance	2,346	7,058	1,745	5,245
Commission	35,058	114,774	38,196	109,522
Others	15,905	43,825	16,333	46,330
	$ 264,660	$ 794,593	$ 255,905	$ 764,731

35. FINANCIAL INCOME AND EXPENSES:

(1) Financial income for the three and nine months ended September 30, 2016 and 2015, is as follows:

	Korean won			
	Three months ended September 30, 2016	Nine months ended September 30, 2016	Three months ended September 30, 2015	Nine months ended September 30, 2015
	(In millions)			
Interest income	₩ 7,789	₩ 24,683	₩ 8,069	₩ 31,531
Dividend income	59	3,865	37	3,883
Gain on valuation of derivatives	13,327	19,876	-	3,304
Gain on derivative transactions	3,648	13,959	228	11,887
	₩ 24,823	₩ 62,383	₩ 8,334	₩ 50,605

	Translation into U.S. dollars (Note 2)			
	Three months ended September 30, 2016	Nine months ended September 30, 2016	Three months ended September 30, 2015	Nine months ended September 30, 2015
	(In thousands)			
Interest income	$ 7,104	$ 22,515	$ 7,361	$ 28,762
Dividend income	55	3,526	33	3,541
Gain on valuation of derivatives	12,156	18,130	-	3,013
Gain on derivative transactions	3,328	12,733	208	10,843
	$ 22,643	$ 56,904	$ 7,602	$ 46,159

(2) Financial expenses for the three and nine months ended September 30, 2016 and 2015, are as follows:

	Korean won			
	Three months ended September 30, 2016	Nine months ended September 30, 2016	Three months ended September 30, 2015	Nine months ended September 30, 2015
	(In millions)			
Interest expense	₩ 100,609	₩ 297,246	₩ 87,911	₩ 280,225
Loss on valuation of derivatives	-	103,472	75,971	70,456
Loss on derivative transactions	77,625	89,820	21,731	37,826
	₩ 178,234	₩ 490,538	₩ 185,613	₩ 388,507

	Translation into U.S. dollars (Note 2)			
	Three months ended September 30, 2016	Nine months ended September 30, 2016	Three months ended September 30, 2015	Nine months ended September 30, 2015
	(In thousands)			
Interest expense	$ 91,772	$ 271,136	$ 80,189	$ 255,609
Loss on valuation of derivatives	-	94,383	69,297	64,268
Loss on derivative transactions	70,806	81,930	19,822	34,503
	$ 162,578	$ 447,449	$ 169,308	$ 354,380

36. OTHER NON-OPERATING INCOME AND EXPENSES:

(1) Other non-operating income for the three and nine months ended September 30, 2016 and 2015, is as follows:

	Korean won			
	Three months ended September 30, 2016	Nine months ended September 30, 2016	Three months ended September 30, 2015	Nine months ended September 30, 2015
	(In millions)			
Gain on foreign currency transaction	₩ 100,539	₩ 254,595	₩ 81,310	₩ 185,402
Gain on foreign currency translation	608,663	773,239	42,955	96,170
Reversal of allowance for doubtful accounts	250	608	22	45
Gain on disposal of AFS financial asset	-	-	-	1,704
Gain on disposal of property, aircraft and equipment	5,824	13,282	1,497	3,760
Gain on disposal of assets held for sale	66	955	-	-
Gain on disposal of intangible asset	16	80	2	13
Reversal of allowance for negative goodwill	-	-	-	5,244
Miscellaneous income	2,023	6,114	4,729	10,945
	₩ 717,381	₩ 1,048,873	₩ 130,515	₩ 303,283

	Translation into U.S. dollars (Note 2)			
	Three months ended September 30, 2016	Nine months ended September 30, 2016	Three months ended September 30, 2015	Nine months ended September 30, 2015
	(In thousands)			
Gain on foreign currency transaction	$ 91,708	$ 232,231	$ 74,168	$ 169,116
Gain on foreign currency translation	555,198	705,317	39,182	87,722
Reversal of allowance for doubtful accounts	228	555	20	41
Gain on disposal of AFS financial asset	-	-	-	1,555
Gain on disposal of property, aircraft and equipment	5,312	12,115	1,366	3,429
Gain on disposal of assets held for sale	60	871	-	-
Gain on disposal of intangible asset	15	73	2	11
Reversal of allowance for negative goodwill	-	-	-	4,783
Miscellaneous income	1,845	5,577	4,312	9,986
	$ 654,366	$ 956,739	$ 119,050	$ 276,643

(2) Other non-operating expenses for the three and nine months ended September 30, 2016 and 2015, are as follows:

	Korean won			
	Three months ended September 30, 2016	Nine months ended September 30, 2016	Three months ended September 30, 2015	Nine months ended September 30, 2015
	(In millions)			
Other bad debt expenses	₩ 15,337	₩ 20,024	₩ 574	₩ 756
Loss on foreign currency transaction	67,914	303,017	157,173	262,013
Loss on foreign currency translation	3,199	137,719	638,502	864,448
Loss on disposal of AFS securities	1	109	-	-
Impairment loss on AFS securities	142,630	252,637	8	8
Impairment loss on investments in associates	85,261	333,798	-	-
Loss on disposal of investments in associates	-	8,505	-	-
Loss on disposal of investments in subsidiaries	-	-	-	2,169
Loss on disposal of property, aircraft and equipment	67,498	102,690	69,248	144,253
Loss on disposal of assets held for sale	-	19,311	-	-
Loss on disposal of intangible assets	313	459	-	-
Impairment loss on property, aircraft and equipment	7,585	72,886	72,364	72,364
Impairment loss on intangible assets	7,873	7,873	-	-
Revaluation loss on property, aircraft and equipment	-	2	-	-
Donation	2,366	12,754	4,676	19,466
Miscellaneous loss	10,175	26,792	-	23,185
	₩ 410,152	₩ 1,298,576	₩ 942,545	₩ 1,388,662

	Translation into U.S. dollars (Note 2)			
	Three months ended September 30, 2016	Nine months ended September 30, 2016	Three months ended September 30, 2015	Nine months ended September 30, 2015
	(In thousands)			
Other bad debt expenses	$ 13,989	$ 18,264	$ 523	$ 689
Loss on foreign currency transaction	61,948	276,400	143,367	238,998
Loss on foreign currency translation	2,918	125,622	582,415	788,514
Loss on disposal of AFS securities	-	99	-	-
Impairment loss on AFS securities	130,102	230,445	7	7
Impairment loss on investments in associates	77,772	304,477	-	-
Loss on disposal of investments in associates	-	7,757	-	-
Loss on disposal of investments in subsidiaries	-	-	-	1,979
Loss on disposal of property, aircraft and equipment	61,569	93,670	63,165	131,582
Loss on disposal of assets held for sale	-	17,615	-	-
Loss on disposal of intangible assets	286	419	-	-
Impairment loss on property, aircraft and equipment	6,919	66,483	66,007	66,007
Impairment loss on intangible assets	7,181	7,181	-	-
Revaluation loss on property, aircraft and equipment	-	2	-	-
Donation	2,158	11,634	4,267	17,756
Miscellaneous loss	9,282	24,440	-	21,149
	$ 374,124	$ 1,184,508	$ 859,751	$ 1,266,681

37. INCOME TAX EXPENSE (BENEFIT):

(1) Income tax expense was recognized as current tax expense adjusted to current adjustments for prior periods, deferred tax income by origination and reversal of temporary differences, and income tax is recognized in other comprehensive income. The effective tax rate is 40.43% for the nine months ended September 30, 2016. The effective tax rate was not computed due to income tax benefit and net loss before income tax benefit for the nine months ended September 30, 2015.

(2) Deferred tax assets have been recognized to the extent the Group has determined the probability that future profits will be available against which the Group can utilize the related benefit, and if future profits change, deferred tax assets will be changed.

38. CLASSIFICATION OF EXPENSES BY NATURE:

Expenses classified by nature for the three and nine months ended September 30, 2016 and 2015, consist of the following:

	Korean won			
	Three months ended September 30, 2016	Nine months ended September 30, 2016	Three months ended September 30, 2015	Nine months ended September 30, 2015
	(In millions)			
Salaries, retirement and severance benefit	₩ 442,722	₩ 1,332,812	₩ 428,283	₩ 1,320,499
Welfare	88,577	246,877	84,187	233,827
Depreciation and amortization	450,595	1,324,223	415,210	1,224,170
Rental	73,468	209,994	61,160	163,657
Fuel and oil charges	582,165	1,586,647	676,436	2,071,334
Airport-related costs	284,177	824,255	265,040	759,302
Sales commission	75,201	223,427	75,706	221,130
Others	661,039	2,111,911	625,110	1,966,270
	₩ 2,657,944	₩ 7,860,146	₩ 2,631,132	₩ 7,960,189

	Translation into U.S. dollars (Note 2)			
	Three months ended September 30, 2016	Nine months ended September 30, 2016	Three months ended September 30, 2015	Nine months ended September 30, 2015
	(In thousands)			
Salaries, retirement and severance benefit	$ 403,833	$ 1,215,736	$ 390,662	$ 1,204,505
Welfare	80,797	225,191	76,792	213,288
Depreciation and amortization	411,014	1,207,902	378,738	1,116,638
Rental	67,015	191,548	55,787	149,282
Fuel and oil charges	531,027	1,447,275	617,017	1,889,386
Airport-related costs	259,214	751,852	241,758	692,604
Sales commission	68,595	203,801	69,056	201,706
Others	602,973	1,926,398	570,202	1,793,549
	$ 2,424,468	$ 7,169,703	$ 2,400,012	$ 7,260,958

(*) The amount is the sum of cost of sales and selling and administrative expenses from continuing operations.

39. EARNINGS (LOSS) PER SHARE:

Basic loss per share for the three and nine months ended September 30, 2016 and 2015, is as follows (in millions of Korean won and in thousands of U.S. dollars, except for share data and earnings (loss) per share):

(1) Common shares

	Korean won			
	Three months ended September 30, 2016	Nine months ended September 30, 2016	Three months ended September 30, 2015	Nine months ended September 30, 2015
	(In millions)			
Gain attributable to owners of the parent company:	₩ 508,103	₩ 77,727	₩ (509,879)	₩ (694,854)
Continuing operation	508,103	77,727	(509,879)	(534,993)
Discontinued operation	-	-	-	(159,862)
Gain attributable to common shares:	500,416	76,504	(502,274)	(683,867)
Continuing operation	500,416	76,504	(502,274)	(526,546)
Discontinued operation	-	-	-	(157,321)
Weighted-average number of common shares outstanding	72,839,744	72,839,744	72,839,744	68,792,799
Earnings (loss) per common share (*):	6,870	1,050	(6,896)	(9,941)
Continuing operation	6,870	1,050	(6,896)	(7,654)
Discontinued operation	-	-	-	(2,287)

	Translation into U.S. dollars (Note 2)			
	Three months ended September 30, 2016	Nine months ended September 30, 2016	Three months ended September 30, 2015	Nine months ended September 30, 2015
	(In thousands)			
Gain attributable to owners of the parent company:	$ 463,471	$ 70,899	$ (465,090)	$ (633,818)
Continuing operation	463,471	70,899	(465,090)	(487,999)
Discontinued operation	-	-	-	(145,819)
Gain attributable to common shares:	456,459	69,784	(458,154)	(623,796)
Continuing operation	456,459	69,784	(458,154)	(480,294)
Discontinued operation	-	-	-	(143,502)
Weighted-average number of common shares outstanding	72,839,744	72,839,744	72,839,744	68,792,799
Earnings (loss) per common share (*):	6	1	(6)	(9)
Continuing operation	6	1	(6)	(7)
Discontinued operation	-	-	-	(2)

(*) Diluted earnings (loss) per share for the three and nine months ended September 30, 2016 and 2015, is the same as the basic earnings (loss) per share, as there are no dilutive potential common shares and dilutive effect.

(2) Preferred shares

	Korean won			
	Three months ended September 30, 2016	Nine months ended September 30, 2016	Three months ended September 30, 2015	Nine months ended September 30, 2015
	(In millions)			
Gain attributable to owners of the parent company:	₩ 7,687	₩ 1,222	₩ (7,604)	₩ (10,987)
Continuing operation	7,687	1,222	(7,604)	(8,447)
Discontinued operation	-	-	-	(2,540)
Weighted-average number of preferred shares outstanding	1,110,794	1,110,794	1,110,794	1,110,794
Earnings (loss) per preferred share:	6,920	1,100	(6,846)	(9,891)
Continuing operation	6,920	1,100	(6,846)	(7,604)
Discontinued operation	-	-	-	(2,287)

	Translation into U.S. dollars (Note 2)			
	Three months ended September 30, 2016	Nine months ended September 30, 2016	Three months ended September 30, 2015	Nine months ended September 30, 2015
	(In thousands)			
Gain attributable to owners of the parent company:	$ 7,012	$ 1,115	$ (6,936)	$ (10,022)
Continuing operation	7,012	1,115	(6,936)	(7,705)
Discontinued operation	-	-	-	(2,317)
Weighted-average number of preferred shares outstanding	1,110,794	1,110,794	1,110,794	1,110,794
Earnings (loss) per preferred share:	6	1	(6)	(9)
Continuing operation	6	1	(6)	(7)
Discontinued operation	-	-	-	(2)

(3) The contents of weighted-average common shares for the three and nine months ended September 30, 2016 and 2015, are as follows:

	Number of shares			
	Three months ended September 30, 2014	Nine months ended September 30, 2014	Three months ended September 30, 2013	Nine months ended September 30, 2013
Cumulative number of weighted-average common shares	6,701,256,448	19,958,089,856	6,701,256,448	18,780,434,127
Cumulative number of weighted-average preferred shares	102,193,048	304,357,556	102,193,048	303,246,762
Number of days	92	274	92	273
Weighted-average number of common shares outstanding	72,839,744	72,839,744	72,839,744	68,792,799
Weighted-average number of preferred shares outstanding	1,110,794	1,110,794	1,110,794	1,110,794

40. FINANCIAL RISK MANAGEMENT:

(1) Capital risk management:

The purpose of capital risk management is to protect the ability to continuously provide profits with shareholders and maintain optimum capital structure to reduce capital expenses. The Group's capital risk management objectives and policies are consistent with those disclosed in the separate financial statements as of and for the year ended December 31, 2015.

(2) Financial risk management

1) Financial risk

The Group is exposed to various financial risks, such as market (foreign exchange rate, interest rate, oil price fluctuation and price), credit and liquidity, related to its financial instruments. The purpose of risk management of the Group is to identify potential risks related to financial performance and reduce, eliminate and evade those risks to an acceptable level of risks to the Group.

The Group's financial risk management objectives and policies are consistent with those disclosed in the separate financial statements as of and for the year ended December 31, 2015.

2) Risk aversion

The Group has made contracts for derivative instruments to avoid the change of exchange rate risk, oil price risk and interest rate risk.

3) Credit risk management

There is no significant change in the degree of exposure of the maximum credit risk in comparison with the previous period, except for the maximum amount of ₩247,293 million ($225,571 thousand), which is to be paid by the warrantee claims under the financial guarantee contracts.

4) Liquidity risk management

There is no significant change in undiscounted net cash inflows and outflows in comparison with the previous period.

41. FAIR VALUE OF FINANCIAL INSTRUMENTS:

(1) Financial instruments that are measured subsequent to initial recognition at fair value are categorized into Level 1 to Level 3, and fair value measurements of financial instruments by fair value hierarchy level as of September 30, 2016, and December 31, 2015, are as follows:

2016

Classification	Korean won			
	Level 1	Level 2	Level 3	Total
	(In millions)			
AFS:				
Listed securities	₩ 95,914	₩ -	₩ -	₩ 95,914
Unlisted securities	-	-	20,739	20,739
Beneficiary certificates	-	-	2,100	2,100
Investments in other equity securities	-	-	17	17
	₩ 95,914	₩ -	₩ 22,856	₩ 118,770
Derivative financial liabilities	₩ -	₩ 66,685	₩ -	₩ 66,685

Classification	Translation into U.S. dollars (Note 2) Level 1	Level 2	Level 3	Total
	(In thousands)			
AFS:				
Listed securities	$ 87,489	$ -	$ -	$ 87,489
Unlisted securities	-	-	18,917	18,917
Beneficiary certificates	-	-	1,916	1,916
Investments in other equity securities	-	-	15	15
	$ 87,489	$ -	$ 20,848	$ 108,337
Derivative financial liabilities	$ -	$ 60,827	$ -	$ 60,827

2015

Classification	Korean won Level 1	Level 2	Level 3	Total
	(In millions)			
AFS:				
Listed securities	₩ 108,505	₩ -	₩ -	₩ 108,505
Unlisted securities	-	-	21,113	21,113
Investments in other equity securities	-	-	17	17
	₩ 108,505	₩ -	₩ 21,130	₩ 129,635
Derivative financial liabilities	₩ -	₩ 69,781	₩ -	₩ 69,781

Classification	Translation into U.S. dollars (Note 2) Level 1	Level 2	Level 3	Total
	(In thousands)			
AFS:				
Listed securities	$ 98,974	$ -	$ -	$ 98,974
Unlisted securities	-	-	19,258	19,258
Investments in other equity securities	-	-	15	15
	$ 98,974	$ -	$ 19,273	$ 118,247
Derivative financial liabilities	$ -	$ 63,652	$ -	$ 63,652

There is no significant movement between Level 1 and Level 2 for the three months ended September 30, 2016, and for the year ended December 31, 2015.

(2) The management of the Group considers that the carrying amounts of financial assets and financial liabilities recognized at amortized cost in the condensed consolidated financial statements approximate their fair values.

(3) The following table gives information about how the fair values of financial instruments categorized into Levels 2 and 3 are determined, in particular, the valuation techniques and relationship of significant unobservable inputs to fair value.

Description	Fair value: Korean won	Fair value: Translation into U.S. dollars (Note 2)	Valuation techniques	Significant unobservable inputs	Description of relationships
	(In millions)	(In thousands)			
Derivative financial liabilities (Note 27)	₩ 66,685	$ 60,827	DISCOUNTED CASH FLOW AND OTHERS	N/A	N/A
AFS financial assets (Note 8)	22,856	20,848		Sales growth rate Pretax operating income ratio Weighted-average cost of capital	Fair value of non-listed shares will increase if the weighted-average cost of capital is reduced, along with the increase in pretax operating margin and sales growth rate.

(4) Changes in financial instruments that are measured at fair value on a recurring basis and classified as Level 3 for the nine months ended September 30, 2016, are as follows. There is no change for the nine months ended September 30, 2015.

Description	Korean won: Beginning balance	Purchase	Disposal	Ending balance
		(In millions)		
AFS financial assets	₩ 21,130	₩ 2,100	₩ (374)	₩ 22,856

Description	Translation into U.S. dollars (Note 2): Beginning balance	Purchase	Disposal	Ending balance
		(In thousands)		
AFS financial assets	$ 19,274	$ 1,916	$ (341)	$ 20,849

(5) The Group recognizes transfers between levels of the fair value hierarchy at the time of the event or change in circumstances that caused the transfer. In addition, there is no change of the valuation techniques that have been used to measure the fair value of financial instruments classified as Level 2 and Level 3 for the nine months ended September 30, 2016.

(6) Though principle of subsequent measurement to financial assets and liabilities is fair value, the Group could not measure reliable fair value. The list and amount of financial assets and liabilities that do not have disclosed fair value information are as follows:

Category	Description (*)	Korean won 2016	Korean won 2015	Translation into U.S. dollars (Note 2) 2016	Translation into U.S. dollars (Note 2) 2015
		(In millions)		(In thousands)	
AFS financial assets	Unlisted securities and investments in other equity securities	₩ 45,872	₩ 42,532	$ 41,843	$ 38,796
	Corporate bond and government bond	6	6	6	6

(*) AFS financial assets are measured at cost because they are hard to obtain reliable financial information required for the measurement of fair value, or even if the financial information was obtained, the range of fair value measurements is significant and it is impossible to reliably evaluate the occurrence probability of various estimates.

42. TRANSACTIONS AND BALANCES WITH RELATED PARTIES:

(1) The list of related parties of the Group as of September 30, 2016, is as follows:

Relationship	Related parties
Significant influence over the Company	Hanjin Kal Co., Ltd.
Associates	EIGHT CITY Co., Ltd., Czech Airlines j.s.c.
Affiliated companies of a conglomerate and others (*2)	Hanjin Transportation Co., Ltd., Hanjin Shipping Co., Ltd. (*1), Topas Co., Ltd., KAL Hotel Network Co., Ltd., Hanjin Travel Service Co., Ltd., Jungseok Enterprise Co., Ltd., Jedong Leisure Co., Ltd., Jin Air Co., Ltd., Uniconverse Co., Ltd., Jungseok-Inha School's Foundation, etc.

(*1) Hanjin Shipping Co., Ltd. was reclassified from associates to affiliated companies of a conglomerate and others for the nine months ended September 30, 2016.
(*2) These companies are not related parties as defined in paragraph 9 of K-IFRS 1024. However, affiliated companies of a conglomerate designated by the Fair Trade Commission are classified as related parties, in accordance with the resolution of the Securities and Futures Commission that these companies are related parties according to the substance of the relationship defined in paragraph 9 of K-IFRS 1024.

(2) Significant transactions with related parties (except for treasury and equity transactions) for the nine months ended September 30, 2016 and 2015, are as follows:

2016

Description		Korean won	
		Sales and others	Purchases and others
		(In millions)	
Significant influence over the Company	Hanjin Kal Co., Ltd.	₩ 206	₩ 22,993
Associates	Czech Airlines j.s.c.	17,017	14,858
	Others	3,072	5,926
Affiliated companies of a conglomerate and others	Jin Air Co., Ltd.	191,747	3,212
	Topas Co., Ltd.	4,474	39
	KAL Hotel Network Co., Ltd.	19,057	27,623
	Hanjin Travel Service Co., Ltd.	763	4,548
	Jungseok Enterprise Co., Ltd.	167	12,966
	Hanjin Transportation Co., Ltd.	11,510	28,747
	Jungseok-Inha School's Foundation	11	6,246
	Uniconverse Co., Ltd.	618	8,394
	Others	833	3,569

Description		Translation into U.S. dollars (Note 2) Sales and others	Purchases and others
		(In thousands)	
Significant influence over the Company	Hanjin Kal Co., Ltd.	$ 188	$ 20,973
Associates	Czech Airlines j.s.c.	15,522	13,553
	Others	2,802	5,405
Affiliated companies of a conglomerate and others	Jin Air Co., Ltd.	174,903	2,929
	Topas Co., Ltd.	4,081	35
	KAL Hotel Network Co., Ltd.	17,383	25,196
	Hanjin Travel Service Co., Ltd.	696	4,148
	Jungseok Enterprise Co., Ltd.	153	11,827
	Hanjin Transportation Co., Ltd.	10,499	26,222
	Jungseok-Inha School's Foundation	10	5,697
	Uniconverse Co., Ltd.	563	7,656
	Others	760	3,255

2015

Description		Korean won Sales and others	Purchases and others
		(In millions)	
Significant influence over the Company	Hanjin Kal Co., Ltd.	₩ 263	₩ 22,185
Associates and jointly controlled entities	Czech Airlines j.s.c.	23,684	20,353
	Others	2,070	34
Affiliated companies of a conglomerate and others	Jin Air Co., Ltd.	114,170	2,663
	Topas Co., Ltd.	5,002	2,407
	KAL Hotel Network Co., Ltd.	19,825	25,941
	Hanjin Travel Service Co., Ltd.	900	4,457
	Jungseok Enterprise Co., Ltd.	215	1,402
	Hanjin Transportation Co., Ltd.	11,546	31,734
	Cyber Sky Co., Ltd.	253	3,290
	Jungseok-Inha School's Foundation	19	6,641
	Uniconverse Co., Ltd.	1,210	16,919
	S-Oil Corp. (*)	-	14,758
	Others	590	2,866

Description		Translation into U.S. dollars (Note 2) Sales and others	Purchases and others
		(In thousands)	
Significant influence over the Company	Hanjin Kal Co., Ltd.	$ 240	$ 20,236
Associates and jointly controlled entities	Czech Airlines j.s.c.	21,603	18,565
	Others	1,888	31
Affiliated companies of a conglomerate and others	Jin Air Co., Ltd.	104,142	2,429
	Topas Co., Ltd.	4,563	2,195
	KAL Hotel Network Co., Ltd.	18,084	23,662
	Hanjin Travel Service Co., Ltd.	821	4,065
	Jungseok Enterprise Co., Ltd.	196	1,279
	Hanjin Transportation Co., Ltd.	10,532	28,946
	Cyber Sky Co., Ltd.	231	3,001
	Jungseok-Inha School's Foundation	18	6,057
	Uniconverse Co., Ltd.	1,104	15,433
	S-Oil Corp. (*)	-	13,461
	Others	538	2,614

(*) It was disposed for the nine months ended September 30, 2015, and the amount above represents transaction amounts up to the disposal date.

(3) Significant receivables and payables to the related parties (except for loan, borrowing and related interest) as of September 30, 2016, and December 31, 2015, are as follows:

2016

Description		Korean won: Trade and other receivables	Korean won: Trade and other payables
		(In millions)	
Significant influence over the Company	Hanjin Kal Co., Ltd.	₩ 2,232	₩ 7,125
Associates	Czech Airlines j.s.c.	399	13,887
	Others	-	-
Affiliated companies of a conglomerate and others	Jin Air Co., Ltd.	60,354	37,265
	Topas Co., Ltd.	744	1,190
	KAL Hotel Network Co., Ltd.	4,264	3,412
	Hanjin Travel Service Co., Ltd.	95	1,999
	Jungseok Enterprise Co., Ltd.	412	1,417
	Hanjin Transportation Co., Ltd.	2,024	6,541
	Uniconverse Co., Ltd.	82	188
	Jungseok-Inha School's Foundation	677	1,087
	Others	815	2,488

Description		Translation into U.S. dollars (Note 2): Trade and other receivables	Translation into U.S. dollars (Note 2): Trade and other payables
		(In thousands)	
Significant influence over the Company	Hanjin Kal Co., Ltd.	$ 2,036	$ 6,499
Associates	Czech Airlines j.s.c.	363	12,667
	Others	-	-
Affiliated companies of a conglomerate and others	Jin Air Co., Ltd.	55,052	33,992
	Topas Co., Ltd.	678	1,086
	KAL Hotel Network Co., Ltd.	3,889	3,112
	Hanjin Travel Service Co., Ltd.	86	1,823
	Jungseok Enterprise Co., Ltd.	376	1,292
	Hanjin Transportation Co., Ltd.	1,846	5,967
	Uniconverse Co., Ltd.	75	171
	Jungseok-Inha School's Foundation	618	991
	Others	743	2,269

2015

Description		Korean won: Trade and other receivables	Korean won: Trade and other payables
		(In millions)	
Significant influence over the Company	Hanjin Kal Co., Ltd.	₩ 2,485	₩ 6,445
Associates	Czech Airlines j.s.c.	1,607	11,998
	Others	451	-
Affiliated companies of a conglomerate and others	Jin Air Co., Ltd.	25,972	33,317
	Topas Co., Ltd.	425	117
	KAL Hotel Network Co., Ltd.	4,223	6,192
	Hanjin Travel Service Co., Ltd.	90	1,646
	Jungseok Enterprise Co., Ltd.	569	18
	Hanjin Transportation Co., Ltd.	2,590	8,889
	Uniconverse Co., Ltd.	151	2,116
	Others	72	250

Description		Translation into U.S. dollars (Note 2) Trade and other receivables	Trade and other payables
		(In thousands)	
Significant influence over the Company	Hanjin Kal Co., Ltd.	$ 2,267	$ 5,879
Associates	Czech Airlines j.s.c.	1,465	10,944
	Others	412	-
Affiliated companies of a conglomerate and others	Jin Air Co., Ltd.	23,691	30,391
	Topas Co., Ltd.	387	107
	KAL Hotel Network Co., Ltd.	3,852	5,648
	Hanjin Travel Service Co., Ltd.	82	1,502
	Jungseok Enterprise Co., Ltd.	519	17
	Hanjin Transportation Co., Ltd.	2,362	8,108
	Uniconverse Co., Ltd.	137	1,930
	Others	66	228

(4) Loan and borrowing transactions with related parties for the nine months ended September 30, 2016, and for the year ended December 31, 2015, are as follows:

2016

	Account	Beginning balance	Increase	Decrease	Ending balance
		(In millions of Korean won)			
Affiliated companies of a conglomerate and others:					
Hanjin Shipping Co., Ltd. (*)	Short-term loans	₩ 220,000	₩ 60,000	₩ (220,000)	₩ 60,000

	Account	Beginning balance	Increase	Decrease	Ending balance
		(In thousands of U.S. dollars)			
Affiliated companies of a conglomerate and others:					
Hanjin Shipping Co., Ltd. (*)	Short-term loans	$ 200,675	$ 54,730	$ (200,675)	$ 54,730

(*) ₩220,000 million ($200,675 thousand) of short-term loans have been converted to unsecured bearer bonds (hybrid securities) issued by Hanjin Shipping Co., Ltd. and the Group provided additional support of ₩60,000 million ($54,730 thousand) for the purpose of operating loans for the nine months ended September 30, 2016. In relation to the hybrid securities, the Group recognized accrued interest and interest income amounting to ₩11,219 million ($10,234 thousand), and recognized accrued interest and interest income amounting to ₩16 million ($15 thousand) and ₩2,012 million ($1,835 thousand), respectively, in relation to the short-term loans. Meanwhile, the Group recognized the impairment loss on AFS financial assets in relation to the hybrid securities and the allowance for bad debts in relation to accrued interest amounting to ₩220,000 million ($200,675 thousand) and ₩11,219 million ($10,234 thousand), respectively, for the nine months ended September 30, 2016 (see Note 7). In addition, the Group established the collateral for the trade receivable accounts subordinated priority beneficiary right of the employee's apartment colletral trust and the Atlanta office in the United States of Hanjin Shipping Co., Ltd. in relation to short-term loans.

2015

Description	Account	Beginning balance	Increase	Decrease	Ending balance
		(In millions of Korean won)			
Associates:					
Hanjin Shipping Co., Ltd. (*)	Short-term loans	₩ 220,000	₩ -	₩ -	₩ 220,000

Description	Account	Beginning balance	Increase	Decrease	Ending balance
		(In thousands of U.S. dollars)			
Associates:					
Hanjin Shipping Co., Ltd. (*)	Short-term loans	$ 200,675	$ -	$ -	$ 200,675

(*) The Group has received 13,800,000 treasury shares of Hanjin Shipping Co., Ltd., trademark held by Hanjin Shipping Co., Ltd., 526,316 shares of H-Line Co., Ltd. and overseas property (appraised value of ₩40 billion) as collateral as of December 31, 2015. In relation to the above short-term loans, the Group recognized interest income amounting to ₩13,212 million ($12,051 thousand) for the year ended December 31, 2015, and accrued income amounting to ₩2,291 million ($2,090 thousand) as of December 31, 2015.

(5) Stock trading with the special relevant parties for the nine months ended September 30, 2016 and 2015, is as follows:

2016

Description	Company	Transaction	Korean won	Translation into U.S. dollars (Note 2)
			(In millions)	(In thousands)
Acquisition of business (*)	Uniconverse Co., Ltd.	Acquisition of business	₩ 20,700	$ 18,882

(*) Hanjin Information Communication Co., Ltd. acquired the call center business of Uniconverse Co., Ltd. for the nine months ended September 30, 2016.

2015

Description	Company	Transaction	Korean won	Translation into U.S. dollars (Note 2)
			(In millions)	(In thousands)
Capital increase	Hanjin KAL Co., Ltd. (*Significant influence over the Company)*	Increase in paid-up capital	₩ 128,588	$ 117,293
Purchase of investment securities	Key management personnel	Purchase of Cyber Sky Co., Ltd.	6,267	5,717
Disposal of investment securities	Hanjin Transportation Co., Ltd. (*) *(Affiliated companies of a conglomerate and others)*	Disposal of Hanjin Int'l Japan Co., Ltd. stocks	36	33
Disposal of investment securities	Uniconverse Co., Ltd. *(Affiliated companies of a conglomerate and others)*	Disposal of stocks	1,658	1,512

(*) The Group has sold part of its shares in Hanjin Int'l Japan to Hanjin Transportation Co., Ltd. for ₩313 million ($286 thousand).

(6) The remuneration of registered directors and unregistered directors for the nine months ended September 30, 2016 and 2015, is as follows:

Transaction	Korean won 2016	Korean won 2015	Translation into U.S. dollars (Note 2) 2016	Translation into U.S. dollars (Note 2) 2015
	(In millions)		(In thousands)	
Wages and salaries	₩ 3,471	₩ 3,360	$ 3,166	$ 3,065
Accrued severance benefits	1,678	18,485	1,530	16,861
	₩ 5,149	₩ 21,845	$ 4,696	$ 19,926

(7) Guarantees that the Group has provided for related parties as of September 30, 2016, consist of the following (in millions of Korean won and in thousands of U.S. dollars and Chinese yuan):

Transaction	Currency	Guaranteed amounts	Financial institutions	Description
Jungseok Enterprise Co., Ltd.	KRW	2,785	Hana Bank (formerly, Korea Exchange Bank) and others	Guaranteed loans (*)
Hanjin Transportation Co., Ltd.	KRW	2,081		
Hanjin Heavy Industries & Construction Holdings Co., Ltd.	KRW	2,159	KDB and others	
	KRW	7,025		

(*) Related to guaranteed loans as of September 30, 2016, Jungseok Enterprise Co., Ltd., Hanjin Transportation Co., Ltd. and Hanjin Heavy Industries & Construction Holdings Co., Ltd. also have guaranteed payment for the same amount.

(8) Guarantees that have been provided to the Group by related parties as of September 30, 2016, are as follows:

Financial institutions	Korean won: Guaranteed amounts	Jungseok Enterprise Co., Ltd.	Hanjin Transportation Co., Ltd.	Hanjin Shipping Co., Ltd. (*)	Hanjin Heavy Industries & Construction Holdings
			(In millions)		
Hana Bank (formerly, Korea Exchange Bank)	₩ 6,386	₩ 8,302	₩ 8,302	₩ 8,302	₩ 8,302
KDB	3,920	5,096	5,096	5,096	5,096
Woori Bank and others	2,338	2,582	2,582	2,671	2,582
	₩ 12,644	₩ 15,980	₩ 15,980	₩ 16,069	₩ 15,980

Financial institutions	Translation into U.S. dollars (Note 2): Guaranteed amounts	Jungseok Enterprise Co., Ltd.	Hanjin Transportation Co., Ltd.	Hanjin Shipping Co., Ltd. (*)	Hanjin Heavy Industries & Construction Holdings
			(In thousands)		
KDB	$ 5,825	$ 7,572	$ 7,572	$ 7,572	$ 7,572
Hana Bank (formerly, Korea Exchange Bank)	3,576	4,649	4,649	4,649	4,649
Woori Bank and others	2,133	2,355	2,355	2,436	2,355
	$ 11,534	$ 14,576	$ 14,576	$ 14,657	$ 14,576

(*) As Hanjin Shipping Co., Ltd. (a new company) was spun off from Eusu Holdings Co., Ltd. (a surviving company) as of December 1, 2009, Eusu Holdings Co., Ltd. jointly provides a guarantee for the long-term liabilities that were assumed by the companies above.

43. OPERATING LEASE:

(1) Breakdown of the usage of an operating lease

As of September 30, 2016, the Company has entered into operating lease agreements to lease 27 aircraft and certain aircraft parts from International Lease Finance Corporation and other lessors. The Company has also entered into an operating lease agreement to use the cargo terminal at JFK International Airport located in the United States, with the New York City Industrial Development Agency ("IDA").

The schedule of lease payments as of September 30, 2016, is summarized as follows:

Period	Korean won	Translation into U.S. dollars (Note 2)
	(In millions)	(In thousands)
Less than one year	₩ 205,129	$ 187,111
One year to five years	691,753	630,989
More than five years	573,288	522,930
	₩ 1,470,170	$ 1,341,030

Kookmin Bank has provided a guarantee up to $52 million for opening letters of credit in accordance with the IDA operating lease contract with the Company.

Also, the Group has entered into operating lease agreements to lease business computing equipment from Macquarie Finance Korea Ltd. and others. The schedule of lease payments as of September 30, 2016, is as follows:

Period	Korean won	Translation into U.S. dollars (Note 2)
	(In millions)	(In thousands)
Less than one year	₩ 858	$ 783
One year to five years	156	142
	₩ 1,014	$ 925

(2) Breakdown of the provision of an operating lease

The Company has entered into operating lease agreements to lease 16 aircraft and certain aircraft parts to Jin Air Co., Ltd. and others. The schedule of lease collection on this agreement is summarized as follows:

Period	Korean won	Translation into U.S. dollars (Note 2)
	(In millions)	(In thousands)
Less than one year	₩ 78,797	$ 71,876
One year to five years	209,564	191,156
More than five years	74,041	67,537
	₩ 362,402	$ 330,569

Furthermore, the Group has entered into operating lease agreements to lease data processing equipment to LG Sports Ltd., KAL Hotel Network Co., Ltd. and others. The schedule of lease collection on this agreement is summarized as follows:

Period	Korean won		Translation into U.S. dollars (Note 2)	
	(In millions)		(In thousands)	
Less than one year	₩	9,043	$	8,249
One year to five years		5,554		5,066
More than five years		6		5
	₩	14,603	$	13,320

44. NON-CASH TRANSACTIONS:

The significant non-cash transactions from investing and financing activities that are not included in the condensed consolidated statements of cash flows for the nine months ended September 30, 2016 and 2015, are as follows:

Description	Korean won			
	2016		2015	
	(In millions)			
Transfer of long-term borrowings to current portion of long-term borrowings	₩	1,001,576	₩	1,620,837
Transfer of debentures to current portion of debentures		974		2,096,502
Transfer of finance lease obligations to current portion of finance lease obligations		1,318,503		973,907
Transfer of construction in progress to property, aircraft, equipment		1,693,495		2,325,608
Acquisition of financial lease assets		1,156,141		1,756,861
Transfer of finance lease obligations to finance lease receivables		50,713		-
Transfer of short-term loans to AFS financial assets		220,000		-

Description	Translation into U.S. dollars (Note 2)			
	2016		2015	
	(In thousands)			
Transfer of long-term borrowings to current portion of long-term borrowings	$	913,597	$	1,478,462
Transfer of debentures to current portion of debentures		888		1,912,343
Transfer of finance lease obligations to current portion of finance lease obligations		1,202,684		888,358
Transfer of construction in progress to property, aircraft, equipment		1,544,737		2,121,324
Acquisition of financial lease assets		1,054,584		1,602,537
Transfer of finance lease obligations to finance lease receivables		46,258		-
Transfer of short-term loans to AFS financial assets		200,675		-

45. COMMITMENTS AND CONTINGENCIES:

(1) The guarantees provided as of September 30, 2016, are as follows (in millions of Korean won and in thousands of U.S. dollars):

Financial institution	Currency	Guaranteed amount	Details
Seoul Guarantee Insurance Co., Ltd.	KRW	3,097	Bids, performance, maintenance, payment guarantee and others
Korea Defense Industry Association	KRW	924,187	
HSBC Australia and others	KRW	15,483	
Engineering Financial Cooperative	KRW	31,158	
Korea Software Financial Cooperative	KRW	16,727	
Information & Communication Financial Cooperative	KRW	90	
BBCN BANK	USD	5,364	

As of September 30, 2016, the Group is provided with guarantees amounting to $3,000 thousand by Hana Bank in connection with the purchase of equipment and ₩16,588 million ($15,131 thousand) by Seoul Guarantee Insurance Company in relation to the restoration of forest due to the production of limestone.

(2) The Group provides a guarantee of ₩14,496 million ($13,223 thousand) in relation to the personal loan of flight training center trainees. The Group also provides a payment guarantee of $7,321 thousand to Bank of China for Grandstar Cargo International Airlines Co., Ltd.

(3) Credit line and details of credit agreements as of September 30, 2016, are as follows (in millions of Korean won and in thousands of U.S. dollars):

Description	Financial institution	Currency	Limit
Credit line agreement	Hana Bank and others		
	(formerly, Korea Exchange Bank)	USD	65,000
	and others	KRW	120,000
Letters of credit	KDB and others	USD	52,763
Ordinary loan	Shinhan Bank	KRW	10,000
Line of credit	NongHyup Bank	KRW	10,000
		USD	117,763
		KRW	140,000

(4) Promissory note pledged as collateral
As of September 30, 2016, the Company has an outstanding promissory note pledged as collateral to the Korea Defense Industry Association.

(5) Pending litigations and others
With regard to the alleged antitrust violation relating to the Company and other parties colluding on price fixing of air cargo services, the Company made a plea to the U.S. Department of Justice on August 1, 2007, for the payment of fines totaling $300,000 thousand to be paid in annual installments. Accordingly, the Company made fine payments of $275,000 thousand since 2007, and the rest will be paid by 2016 under an agreement with U.S. Department of Justice. The amounts of $25,000 thousand are included in non-trade payables as of September 30, 2016.

The Company has agreed with the plaintiff to settle the lawsuit with compensation of $39,000 thousand in cash and $26,000 thousand in passenger flight ticket coupons. The Company completed $39,000 thousand cash payment after 2013, and recognizes the coupon of passenger flight tickets amounting to ₩28,336 million in a provision for coupon for passenger flight ticket.

As of September 30, 2016, various claims, lawsuits and complaints arising from airline service operations are pending against the Company, and the ultimate outcome of these cases is unpredictable. Management believes that the ultimate outcome of these cases will not have any material adverse effect on the financial performance and position of the Company.

(6) Purchase plan of new aircraft
The Company has entered into various contracts with manufacturers, such as The Boeing Company, to purchase aircraft. The amount of such contracts is approximately $6,863 million as of September 30, 2016.

(7) Joint use agreement of passenger terminal
The Company and four other airlines, including Air France, entered into a joint use agreement with JFK Airport in New York and established Terminal One Group Association ("TOGA") to cooperate one of the new terminals of the JFK Airport. TOGA may have to repay bond issued by NYTDC (New York Transportation Development Corporation) based on terminal lease revenue, and they have provided TOGA with a joint guarantee up to $167 million for each terminal usage fee.

(8) The Seoul District Court decided to commence the rehabilitation procedures for Hanjin Shipping Co., Ltd. on September 1, 2016. The Group recognized ₩333,798 million ($304,477 thousand) of impairment losses on investments in associates and ₩252,630 million ($230,439 thousand) of impairment losses on AFS financial assets, respectively, relating to Hanjin Shipping Co., Ltd. for the nine months ended September 30, 2016. In addition, the Group recognized ₩41,592 million ($37,939 thousand) of loss on valuation of derivatives and ₩ 74,959 million ($68,375 thousand) of loss on trading of derivatives, respectively, relating to the TRS contracts (see Notes 26 and 42), which based on the future value of Hanjin Shipping Co., Ltd.'s exchangeable bond for the nine months ended September 30, 2016. Furthermore, 81,019,733 shares of Hanjin Shipping Co., Ltd. held by the Company is provided as a colletral for Hanjin Int'l Corp.'s borrowings of ₩723,608 million ($660,046 thousand).

(9) Financial Structure Improvement Agreement
As a part of a group of conglomerates, the Company is under close supervision and has signed an agreement with its main bank, KDB, to improve its financial structure by going under a financial structural reform in May 2009. Per the agreement, the Company pronounced plans to liquidate the shares of S-OIL Corp. held by its subsidiary (Hanjin Energy Co., Ltd.), used airplanes and other properties to secure ₩3.49 trillion. By December 31, 2015, the Company prepared approximately ₩3.55 trillion for financial structure improvement. The Company plans to further develop and implement plans to improve its business results in the future.

(10) The main agreements that the Group has entered into are as follows:

1) Korea Airport Service Co., Ltd. contributed certain ground-handling facilities constructed at the Incheon International Airport, in accordance with the agreement with the Ministry of Construction and Transportation dated March 9, 2001, in exchange for usage rights to the contributed facilities for 20 years.

Korea Airport Service Co., Ltd. owns a building for joint investment purpose pursuant to a joint arrangement. Under the joint arrangement, Korea Airport Service Co., Ltd. has 20% ownership of the INHA International Medical Center building, which is located at Jung-gu, Incheon, and recognized income and expenses in relation to its interest.

2) On March 30, 2011, WLD Co., Ltd. entered into an agreement on “Wang San Marina Business” with Incheon Metropolitan City and Yongyu-muui Project Management Co., Ltd. Details of the agreement are summarized as follows:

- Location: 980 Eulwang-dong, Jung-gu, Incheon, Korea
- Business content: Construction of yacht tournament course held in 2014 Incheon Asian Games
- Total amount of investment: Approximately, ₩177 billion
- Government subsidy: Incheon Metropolitan City government agreed to provide a total of ₩16.7 billion as financial subsidy depending on the construction progress.

WLD Co., Ltd. accomplished timely development of Wang San Marina Business, including construction of 2014 Incheon Asian Games yacht tournament course; cooperated for successful host and operation of yacht tournament at 2014 Incheon Asian Games; and invested rest of the amount after excluding Wang San Marina Business operating expenses granted by the government, construction costs of access road and other infrastructure costs. WLD Co., Ltd. is entitled to acquire business reclamation sites, excluding public sites at composition cost or below, and is granted at least 30 years of operating rights after completion of construction of Wang San Marina facilities.

Meanwhile, the Company made a commitment with KDB to participate in paid-up capital increase of Wangsan Leisure Development Co., Ltd. if Wangsan Leisure Development Co., Ltd. is short of financial resources to repay the borrowings provided by KDB. The outstanding balance of borrowings is ₩78,419 million ($71,531 thousand) as of September 30, 2016. The deposits, land and buildings acquired under the purpose of Wang San Marina Business are pledged to Korea Development Co., Ltd. as collateral.

3) On September 30, 2011, IAT Co., Ltd. entered into an agreement with Korea Land & Housing Corporation and Inchon Development & Tourism Corporation about a project related to the “Attraction of Incheon Free Economic Zone, Yeongjong Sky City Airways Airplane Engine Maintenance Centre.” Major terms of the agreement include investment of ₩120 billion ($104 million) by IAT Co., Ltd. for construction of an airplane engine maintenance center and acquisition of related land located at 779-11 Unbuk-dong, Jung-gu, Incheon, Korea. Meanwhile, IAT Co., Ltd. shall not provide land, etc., for collateral or guarantee, for a period of five years from the date it first entered into an agreement for land, which is recognized in construction in process as of September 30, 2016. In addition, IAT Co., Ltd. shall not dispose or rent out to third parties for the period of five years after transfer of ownership. IAT Co., Ltd. shall maintain the portion of its foreign investors’ ownership to be higher than 10% for at least five years after the engagement date under the Foreign Direct Investment Policy.

As of September 30, 2016, preferred shares of IAT Co., Ltd., as cumulative and non-participative, will be converted proportionately for one common stock per one preferred stock after five years and six months (conversion date) from the date of acquiring land. However, 6% of dividend is guaranteed for preferred shareholders until the conversion date, and in case of dividend in arrears, preferred shareholders have a right to refuse conversion until the dividend in arrears is paid. In accordance with the ones described above, the subsidiary classifies the amount asked by preferred shareholders at conversion date as a finance liability, which is discounted for present value.
Meanwhile, after five years from the first acquisition date of land, the Company has a call option for six months to buy the preferred shares held by United Technologies International Corporation-Asia Private Ltd., a preferred shareholder of Incheon Aviation Tech Co., Ltd., and the preferred shareholder of Incheon Aviation Tech Co., Ltd. also has a put option to sell the preferred shares to the Company during that period.

46. AMOUNT DUE FROM AND DUE TO CUSTOMERS FOR CONTRACT WORK:

(1) Changes in contract work for the nine months ended September 30, 2016, and the year ended December 31, 2015, are as follows:

Description	Revenues incurred to date (Korean won, in millions)	Costs incurred to date (Korean won, in millions)	Recognized profits to date (Korean won, in millions)	Ending balance of construction contracts (*) (Korean won, in millions)
Civil aircraft	₩ 89,733	₩ 75,303	₩ 14,430	₩ 144,927
Military aircraft	720,555	684,490	36,065	631,127
	₩ 810,288	₩ 759,793	₩ 50,495	₩ 776,054

Description	Revenues incurred to date (Translation into U.S. dollars (Note 2), in thousands)	Costs incurred to date (Translation into U.S. dollars (Note 2), in thousands)	Recognized profits to date (Translation into U.S. dollars (Note 2), in thousands)	Ending balance of construction contracts (*) (Translation into U.S. dollars (Note 2), in thousands)
Civil aircraft	$ 81,851	$ 68,688	$ 13,163	$ 132,197
Military aircraft	657,261	624,364	32,897	575,688
	$ 739,112	$ 693,052	$ 46,060	$ 707,885

(*) The balance as of September 30, 2016, does not include amounts for contracts that do not have the specific details (quantity, amount and others) confirmed despite being signed. The Company estimates above amount to be ₩2,287,506 million ($2,086,569 thousand).

(2) Amounts due from and due to customers for contract work as of September 30, 2016, and December 31, 2015, are as follows:

	Korean won		Translation into U.S. dollars (Note 2)	
	2016	2015	2016	2015
	(In millions)		(In thousands)	
Amount due from customers for contract work (*)	₩ 171,085	₩ 158,239	$ 156,057	$ 144,339
Amount due to customers for contract work	(67,319)	(94,297)	(61,405)	(86,014)

(*) Provision for construction loss contained in amount due from customers for contract work is ₩2,840 million ($2,591 thousand) as of September 30, 2016.

(3) The estimated gross contract costs for contracts as of December 31, 2015, changed as cost for power plant segment increased and cost for housing segment decreased during the current period. Details of its effects on profit and loss for the current and future years and gross amount due from customers for contract work are as follows:

	Korean won					
Description	Construction loss provisions (*)	Estimated increase (decrease) in contract revenue (*)	Estimated increase (decrease) in contract cost (*)	Influence on current profit (*)	Influence on future profit (*)	Increase (decrease) in due from customers for contract work (due to customers for contract work) (*)
	(in millions)					
Civil aircraft	₩ 2,840	₩ (10,352)	₩ (5,255)	₩ (3,035)	₩ (2,061)	₩ (3,036)
Military aircraft	-	(8,653)	(6,503)	(273)	(1,877)	(273)
	₩ 2,840	₩ (19,005)	₩ (11,758)	₩ (3,308)	₩ (3,938)	₩ (3,309)

	Translation into U.S. dollars (Note 2)					
Description	Construction loss provisions (*)	Estimated increase (decrease) in contract revenue (*)	Estimated increase (decrease) in contract cost (*)	Influence on current profit (*)	Influence on future profit (*)	Increase (decrease) in due from customers for contract work (due to customers for contract work) (*)
	(In thousands)					
Civil aircraft	$ 2,591	$ (9,443)	$ (4,794)	$ (2,769)	$ (1,880)	$ (2,769)
Military aircraft	-	(7,893)	(5,932)	(249)	(1,712)	(249)
	$ 2,591	$ (17,336)	$ (10,726)	$ (3,018)	$ (3,592)	$ (3,018)

(*) Contracts being signed newly and terminated are excluded from disclosure for the nine months ended September 30, 2016.

47. ASSETS HELD FOR SALE:

(1) Assets held for sale as of September 30, 2016, and December 31, 2015, are summarized as follows:

	Korean won	
	2016	2015
Assets held for sale	(In millions)	
Current assets:	₩ 17,830	₩ 45,543
Aircraft	7,226	19,621
Engines	10,604	25,922
Non-current assets	-	-
	₩ 17,830	₩ 45,543

	Translation into U.S. dollars (Note 2)	
	2016	2015
Assets held for sale	(In thousands)	
Current assets:	$ 16,264	$ 41,542
Aircraft	6,592	17,898
Engines	9,672	23,644
Non-current assets	-	-
	$ 16,264	$ 41,542

(2) The Company reclassified a portion of aircraft and engines to assets held for sale and disposed of it according to the aircraft sales plan. The Company accordingly recognized an impairment loss of ₩53,388 million ($48,698 thousand), a gain on disposal of assets held for sale of ₩955 million ($871 thousand) and a loss on disposal of assets held for sale of ₩19,311 million ($17,615 thousand).

48. DISCONTINUED OPERATIONS:

(1) Hanjin Energy Co., Ltd., a subsidiary, was liquidated on March 19, 2015, at the extraordinary general meeting of shareholders after resolution of dissolution. The continuing operation and discontinued operation are stated separately in the income statements, and the comparative income statements for the past period are restated and the cash flows from discontinued operation are stated below.

(2) The gain (loss) of discontinued operation included in consolidated comprehensive income (loss) statement for the three and nine months ended September 30, 2015, is as follows:

	Korean won		Translation into U.S. dollars (Note 2)	
	Three months ended September 30, 2015	Nine months ended September 30, 2015	Three months ended September 30, 2015	Nine months ended September 30, 2015
	(In millions)		(In thousands)	
Sales	₩ -	₩ -	$ -	$ -
Cost of sales	-	-	-	-
Gross profit	-	-	-	-
Selling and administrative expenses	-	554	-	506
Operating income	-	(554)	-	(506)
Financial income	-	2,792	-	2,547
Financial expenses	-	2,704	-	2,466
Other non-operating income	-	-	-	-
Other non-operating expenses	-	92,003	-	83,922
Loss before income tax expenses	-	(92,469)	-	(84,347)
Income tax expenses	-	69,629	-	63,513
Net loss from discontinued operations	₩ -	₩ (162,098)	$ -	$ (147,860)

(3) The cash flows from discontinued operation for the nine months ended September 30, 2015, are as follows:

Description	Korean won 2015	Translation into U.S. dollars (Note 2) 2015
	(In millions)	(In thousands)
Cash flows from operating activities	₩ (11,725)	$ (10,695)
Cash flows from investing activities	1,985,777	1,811,345
Cash flows from financing activities	(1,974,053)	(1,800,651)
Net cash flows	₩ (1)	$ (1)

49. SUBSEQUENT EVENTS:

(1) The Company acquired 760,000 shares of Wangsan Leisure Development Co., Ltd. amounting to ₩3,800 million ($3,466 thousand) on October 14, 2016.

(2) The Company has issued the 68th unresistered and unsecured bearer public offering debenture amounting to ₩150,000 million ($136,824 thousand).

50. REVISED FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2015:

The Group revised the accounting for oil price derivative contracts of the condensed consolidated financial statements for the nine months ended September 30, 2015, and the revision effect on the consolidated financial statements for the nine months ended September 30, 2015, are as follows:

	Korean won					
	Before revision		Revision		After revision	
	Three months ended September 30, 2015	Nine months ended September 30, 2015	Three months ended September 30, 2015	Nine months ended September 30, 2015	Three months ended September 30, 2015	Nine months ended September 30, 2015
	(In millions)					
SALES	₩ 2,972,616	₩ 8,629,807	₩ -	₩ -	₩ 2,972,616	₩ 8,629,807
COST OF SALES	2,402,616	7,314,640	(52,031)	(192,826)	2,350,585	7,121,814
GROSS PROFIT	570,000	1,315,167	52,031	192,826	622,031	1,507,993
Selling and administrative expenses	280,547	838,375	-	-	280,547	838,375
OPERATING INCOME	289,453	476,792	52,031	192,826	341,484	669,618
Financial income	11,032	39,057	(2,698)	11,548	8,334	50,605
Financial expenses	117,002	316,264	68,611	72,243	185,613	388,507
Gain on valuation of equity method	30,016	89,550	-	-	30,016	89,550
Other non-operating income	130,515	303,283	-	-	130,515	303,283
Other non-operating expenses	942,545	1,388,662	-	-	942,545	1,388,662
LOSS BEFORE INCOME TAX BENEFIT	(598,531)	(796,244)	(19,278)	132,131	(617,809)	(664,113)
INCOME TAX BENEFIT	(105,651)	(163,180)	(4,666)	31,976	(110,317)	(131,204)
NET LOSS FROM CONTINUING OPERATIONS	(492,880)	(633,064)	(14,612)	100,155	(507,492)	(532,909)
NET LOSS FROM DISCONTINUED OPERATIONS	-	(162,098)	-	-	-	(162,098)
NET LOSS	(492,880)	(795,162)	(14,612)	100,155	(507,492)	(695,007)
OTHER COMPREHENSIVE INCOME (LOSS) AFTER INCOME TAX	(18,686)	93,029	14,612	(100,155)	(4,074)	(7,126)
COMPREHENSIVE LOSS	(511,566)	(702,133)	-	-	(511,566)	(702,133)
NET LOSS ATTRIBUTABLE TO:						
Owners of the Company	(495,266)	(795,009)	(14,612)	100,155	(509,879)	(694,854)
Non-controlling interests	2,386	(153)	-	-	2,387	(153)

	Korean won					
	Before revision		Revision		After revision	
	Three months ended September 30, 2015	Nine months ended September 30, 2015	Three months ended September 30, 2015	Nine months ended September 30, 2015	Three months ended September 30, 2015	Nine months ended September 30, 2015
	(In millions)					
COMPREHENSIVE LOSS ATTRIBUTABLE TO:						
Owners of the Company	(512,239)	(703,545)	-	-	(512,239)	(703,545)
Non-controlling interests	673	1,412	-	-	673	1,412

	Translation into U.S. dollars (Note 2)					
	Before revision		Revision		After revision	
	Three months ended September 30, 2015	Nine months ended September 30, 2015	Three months ended September 30, 2015	Nine months ended September 30, 2015	Three months ended September 30, 2015	Nine months ended September 30, 2015
	(In thousands)					
SALES	$ 2,711,499	$ 7,871,756	$ -	$ -	$ 2,711,499	$ 7,871,756
COST OF SALES	2,191,568	6,672,115	(47,461)	(175,888)	2,144,107	6,496,227
GROSS PROFIT	519,931	1,199,641	47,461	175,888	567,392	1,375,529
Selling and administrative expenses	255,905	764,731	-	-	255,905	764,731
OPERATING INCOME	264,026	434,910	47,461	175,888	311,487	610,798
Financial income	10,063	35,626	(2,461)	10,533	7,602	46,159
Financial expenses	106,724	288,483	62,584	65,897	169,308	354,380
Gain on valuation of equity method	27,379	81,684	-	-	27,379	81,684
Other non-operating income	119,050	276,643	-	-	119,050	276,643
Other non-operating expenses	859,751	1,266,681	-	-	859,751	1,266,681
LOSS BEFORE INCOME TAX BENEFIT	(545,957)	(726,301)	(17,584)	120,524	(563,541)	(605,777)
INCOME TAX BENEFIT	(96,372)	(148,846)	(4,255)	29,166	(100,627)	(119,680)
NET LOSS FROM CONTINUING OPERATIONS	(449,585)	(577,455)	(13,329)	91,358	(462,914)	(486,097)
NET LOSS FROM DISCONTINUED OPERATIONS	-	(147,860)	-	-	-	(147,860)
NET LOSS	(449,585)	(725,315)	(13,329)	91,358	(462,914)	(633,957)
OTHER COMPREHENSIVE INCOME (LOSS) AFTER INCOME TAX	(17,045)	84,858	13,329	(91,358))	(3,716)	(6,500)
COMPREHENSIVE LOSS	(466,630)	(640,457)	-	-	(466,630)	(640,457)

	Translation into U.S. dollars (Note 2)					
	Before revision		Revision		After revision	
	Three months ended September 30, 2015	Nine months ended September 30, 2015	Three months ended September 30, 2015	Nine months ended September 30, 2015	Three months ended September 30, 2015	Nine months ended September 30, 2015
	(In thousands)					
NET LOSS ATTRIBUTABLE TO:					-	-
Owners of the Company	(451,761)	(725,176)	(13,329)	91,358	(465,090)	(633,818)
Non-controlling interests	2,176	(139)	-	-	2,176	(139)
COMPREHENSIVE LOSS ATTRIBUTABLE TO						
Owners of the Company	(467,244)	(641,745)	-	-	(467,244)	(641,745)
Non-controlling interests	614	1,288	-	-	614	1,288

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