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THE SECURITIES ARE NOT INTENDED TO BE OFFERED, SOLD OR OTHERWISE MADE AVAILABLE TO AND SHOULD NOT BE OFFERED, SOLD OR OTHERWISE MADE AVAILABLE TO ANY RETAIL INVESTOR IN THE EUROPEAN ECONOMIC AREA (“EEA”). FOR THESE PURPOSES, A “RETAIL INVESTOR” MEANS A PERSON WHO IS ONE (OR MORE) OF: (I) A RETAIL CLIENT AS DEFINED IN POINT (11) OF ARTICLE 4(1) OF DIRECTIVE 2014/65/EU (AS AMENDED, “MIFID II”); OR (II) A CUSTOMER WITHIN THE MEANING OF DIRECTIVE 2002/92/EC (AS AMENDED), WHERE THAT CUSTOMER WOULD NOT QUALIFY AS A PROFESSIONAL CLIENT AS DEFINED IN POINT (10) OF ARTICLE 4(1) OF MIFID II. CONSEQUENTLY NO KEY INFORMATION DOCUMENT REQUIRED BY REGULATION (EU) NO 1286/2014 (AS AMENDED, THE “PRIIPS REGULATION”) FOR OFFERING OR SELLING THE SECURITIES OR OTHERWISE MAKING THEM AVAILABLE TO RETAIL INVESTORS IN THE EEA HAS BEEN PREPARED, AND THEREFORE OFFERING OR SELLING THE SECURITIES OR OTHERWISE MAKING THEM AVAILABLE TO ANY RETAIL INVESTOR IN THE EEA MAY BE UNLAWFUL UNDER THE PRIIPS REGULATION.

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Korea Railroad Corporation

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

HK\$631,000,000 3.375% Notes due 2023

The HK\$631,000,000 3.375% Notes due 2023 (the “Notes”) are issued by Korea Railroad Corporation (the “Issuer”), a statutory entity established under The Korea Railroad Corporation Act of 2005, as amended (the “KRC Act”). The Notes will be issued in registered form only in a minimum denomination of HK\$1,000,000 and integral multiples of HK\$1,000,000 in excess thereof. The Notes will bear interest at the rate of 3.375% per annum from and including June 7, 2018 to and including June 7, 2023. Interest will be payable annually in arrears on June 7 of each year, commencing on June 7, 2019. The Notes will be redeemable at the option of the Issuer at any time in whole (but not in part) at their principal amount plus accrued interest in the event of certain tax changes, as set forth in “*Terms and Conditions of the Notes—Redemption Due to Changes in Tax Treatment*”. Upon the occurrence of a Change of Control, a holder of the Notes may require the Issuer to redeem all or part of the Notes at 100% of their principal amount plus accrued interest, as set forth in “*Terms and Conditions of the Notes—Change of Control Redemption*”.

The Notes are expected to be rated Aa2 by Moody’s Investors Service, Inc. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organization.

The Notes will be unsecured and will be the direct, unconditional and unsubordinated obligations of the Issuer and will rank *pari passu* among themselves and at least equally with all of the Issuer’s other outstanding unsecured and unsubordinated obligations, except as may be required by mandatory provisions of law.

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

See “**Risk Factors**” beginning on page 8 for a discussion of certain factors to be considered in connection with an investment in the Notes.

Issue Price: 100.00%

The Notes have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the “Securities Act”), or any state securities laws, and may not be offered or sold within the United States unless an exemption from the registration requirements of the Securities Act is available. The Notes are being offered and sold only outside the United States in reliance on Regulation S under the Securities Act (“Regulation S”). For a further description of certain restrictions on the offering and sale of the Notes and on distribution of this Offering Circular, see “*Subscription and Sale*” and “*Transfer Restrictions*”.

The Notes will initially be represented by a global note (the “Global Note”) which will be registered in the name of a nominee of, and deposited with, a common depositary for Euroclear Bank S.A./N.V. (“Euroclear”) and Clearstream Banking, société anonyme (“Clearstream”) on or about June 7, 2018 (the “Issue Date”). Beneficial interests in the Global Note will be shown on, and transfers thereof will be effected only through, the records maintained by Euroclear or Clearstream and their respective accountholders. Except in the limited circumstances set out herein, individual certificates for the Notes will not be issued in exchange for beneficial interests in the Global Note.

Sole Bookrunner and Sole Lead Manager

Nomura

The date of this Offering Circular is May 30, 2018.

IN CONNECTION WITH THIS OFFERING, NOMURA INTERNATIONAL PLC (THE “STABILIZING MANAGER”) MAY OVER-ALLOT NOTES OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE NOTES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, THERE IS NO ASSURANCE THAT THE STABILIZING MANAGER (OR PERSON(S) ACTING ON BEHALF OF THE STABILIZING MANAGER) WILL UNDERTAKE STABILIZING ACTION. ANY STABILIZING ACTION MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE TERMS OF THIS OFFERING IS MADE AND, IF BEGUN, MAY BE ENDED AT ANY TIME, BUT IT MUST END NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE ISSUE DATE OF THE NOTES AND 60 DAYS AFTER THE DATE OF THE ALLOTMENT OF THE NOTES. ANY STABILIZING ACTION OR OVER-ALLOTMENT MUST BE CONDUCTED BY THE STABILIZING MANAGER (OR PERSON(S) ACTING ON BEHALF OF THE STABILIZING MANAGER) IN ACCORDANCE WITH ALL APPLICABLE LAWS AND RULES.

THE NOTES ARE NOT INTENDED TO BE OFFERED, SOLD OR OTHERWISE MADE AVAILABLE TO AND SHOULD NOT BE OFFERED, SOLD OR OTHERWISE MADE AVAILABLE TO ANY RETAIL INVESTOR IN THE EUROPEAN ECONOMIC AREA (“EEA”). FOR THESE PURPOSES, A “RETAIL INVESTOR” MEANS A PERSON WHO IS ONE (OR MORE) OF: (I) A RETAIL CLIENT AS DEFINED IN POINT (11) OF ARTICLE 4(1) OF DIRECTIVE 2014/65/EU (AS AMENDED, “MIFID II”); OR (II) A CUSTOMER WITHIN THE MEANING OF DIRECTIVE 2002/92/EC (AS AMENDED), WHERE THAT CUSTOMER WOULD NOT QUALIFY AS A PROFESSIONAL CLIENT AS DEFINED IN POINT (10) OF ARTICLE 4(1) OF MIFID II. CONSEQUENTLY NO KEY INFORMATION DOCUMENT REQUIRED BY REGULATION (EU) NO 1286/2014 (AS AMENDED, THE “PRIIPS REGULATION”) FOR OFFERING OR SELLING THE NOTES OR OTHERWISE MAKING THEM AVAILABLE TO RETAIL INVESTORS IN THE EEA HAS BEEN PREPARED, AND THEREFORE OFFERING OR SELLING THE NOTES OR OTHERWISE MAKING THEM AVAILABLE TO ANY RETAIL INVESTOR IN THE EEA MAY BE UNLAWFUL UNDER THE PRIIPS REGULATION.

THE NOTES HAVE NOT BEEN AND WILL NOT BE REGISTERED WITH THE FINANCIAL SERVICES COMMISSION OF KOREA UNDER THE FINANCIAL INVESTMENT SERVICES AND CAPITAL MARKETS ACT OF KOREA. THE NOTES HAVE NOT BEEN OFFERED, SOLD OR DELIVERED AND WILL NOT BE OFFERED, SOLD OR DELIVERED, DIRECTLY OR INDIRECTLY, IN KOREA OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, ANY RESIDENT OF KOREA (AS DEFINED IN THE FOREIGN EXCHANGE TRANSACTIONS ACT OF KOREA AND THE REGULATIONS THEREUNDER), OR TO ANY OTHER PERSON FOR REOFFERING, RESALE OR RE-DELIVERY, DIRECTLY OR INDIRECTLY, IN KOREA OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, ANY RESIDENT OF KOREA, EXCEPT AS OTHERWISE PERMITTED BY APPLICABLE KOREAN LAWS AND REGULATIONS.

The Issuer, having made all reasonable inquiries, confirms that this Offering Circular contains or incorporates all information which is material in the context of the issue and offering of Notes, that the information contained or incorporated by reference in this Offering Circular is true and accurate in all material respects and is not misleading in any material respect, that the opinions and intentions expressed in this Offering Circular are honestly held and have been reached after considering all relevant circumstances and are based on reasonable assumptions and that there are no other facts the omission of which would, in the context of the issue and offering of the Notes, make this Offering Circular as a whole or any information or the expression of any opinions or intentions in this Offering Circular misleading in any material respect. The Issuer accepts responsibility accordingly.

This Offering Circular is based on information provided by the Issuer and by other sources the Issuer believes are reasonable. No representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Manager (as defined in “*Subscription and Sale*”) as to the accuracy or completeness of the information contained or incorporated by reference in this Offering Circular. To the fullest extent permitted by law, the Manager does not accept liability in relation to the information contained or incorporated by reference in this Offering Circular or any other information provided by the Issuer or for any other statement, made or purported to be made by the Manager or on its behalf in connection with the Issuer, the issue of the Notes or their distribution. The Manager accordingly disclaims all and any liability whether arising in tort or contract or otherwise which it might otherwise have in respect of this Offering Circular or any such information or

statement.

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

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

Neither the delivery of this Offering Circular nor the offering, sale or delivery of any Notes shall in any circumstances imply that the information contained herein concerning the Issuer is correct at any time subsequent to the date hereof or that any other information supplied in connection with the issue of the Notes is correct as of any time subsequent to the date indicated in the document containing the same.

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

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

Neither the Manager or the Issuer makes any representation to any investor in the Notes regarding the legality of its investment under any applicable laws. Any investor in the Notes should be able to bear the economic risk of an investment in the Notes for an indefinite period of time.

ENFORCEMENT OF CIVIL LIABILITIES

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

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

The financial information as of and for the years ended December 31, 2015, 2016 and 2017 is presented on a consolidated basis under the Korean International Financial Reporting Standards (“K-IFRS”) and Korean Government-owned and Quasi-government Accounting Regulation and Standards.

Unless otherwise specified or the context requires, all financial and other information in the Offering Circular regarding the Issuer’s activities, financial condition and results of operations are presented on a consolidated basis.

All references in this document to “Korea” refer to the Republic of Korea, those to the “Government” refer to the Government of Korea, those to the “MOLIT” refer to the Ministry of Land, Infrastructure and Transport of Korea and those to the “MOSF” refer to the Ministry of Strategy and Finance of Korea.

All references to the “Issuer” or the “Company” herein are references to Korea Railroad Corporation. All references to “we”, “our” or “us” herein are references to the Company or to the Company and its subsidiaries, as the context requires.

Unless otherwise specified or the context requires, references in this Offering Circular to “Korean Won”, “Won” and “₩” are to the currency of Korea, and references to “U.S. dollars”, “US\$” and “U.S.\$” are to the currency of the United States of America. References to “HK\$” and “Hong Kong dollars” are to the currency of the Hong Kong Special Administrative Region of the People’s Republic of China.

For convenience only, certain Won amounts have been translated into U.S. dollars. Unless otherwise specified, all such conversions were made at the market average exchange rate announced by Seoul Money Brokerage Services, Ltd. in Seoul between Won and the U.S. dollars or the Won and the Hong Kong dollars (as applicable, the “Market Average Exchange Rate”). Where applicable, the translations of Won into U.S. dollars as of December 31, 2017 have been made at the Market Average Exchange Rate in effect as of December 31, 2017, which was ₩1,071.4 to U.S.\$1.00. The translations of Hong Kong dollars into Won as of December 31, 2017 have been made at the Market Average Exchange Rate in effect as of December 31, 2017, which was ₩137.07 to HK\$1.00. No representation is made that the Won, U.S. dollar or Hong Kong dollar amounts referred to herein could have been or could be converted into U.S. dollars, Won or Hong Kong dollars, as the case may be, at any particular rate or at all. The Market Average Exchange Rate on May 30, 2018 was ₩1,076.1 to U.S.\$1.00 and ₩137.16 to HK\$1.00. Any discrepancies in any table between totals and the sums of the amounts listed are due to rounding. See “*Exchange Rates*”.

FORWARD LOOKING STATEMENTS

Certain statements in this Offering Circular constitute “forward-looking statements”, including statements regarding the Issuer’s expectations and projections for future operating performance and business prospects. The words “believe”, “expect”, “anticipate”, “estimate”, “project”, “will”, “aim”, “will likely result”, “will continue”, “intend”, “plan”, “contemplate”, “seek to”, “future”, “objective”, “goal”, “should”, “will pursue” and similar expressions or variations of these expressions identify forward-looking statements. In addition, all statements other than statements of historical facts included in this Offering Circular, including, without limitation, those regarding the Issuer’s financial position and results, business strategy, plans and objectives of management for future operations, including development plans and objectives relating to the Issuer’s products and services, are forward-looking statements. Such forward-looking statements and any other projections contained in this Offering Circular (whether made by the Issuer or any third party) involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements to be materially different from the future results, performance or achievements expressed or implied by forward-looking statements. Such forward-looking statements are based on current beliefs, assumptions, expectations, estimates and projections regarding the Issuer’s present and future business strategies and the environment in which the Issuer will operate in the future. Among the important factors that could cause some or all of those assumptions not to occur or cause the Issuer’s actual results, performance or achievements to differ materially from those in the forward-looking statements include, among other things, the Issuer’s ability to successfully implement its business strategy, the condition of and changes in the Korean, Asian or global economies, future levels of non-performing assets, the Issuer’s growth and expansion, including whether the Issuer succeeds in its consumer financing strategy, changes in interest rates and changes in government regulation and licensing of its businesses in Korea and in other jurisdictions where the Issuer may

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

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SUMMARY

The following summary does not purport to be complete and is taken from, and is qualified in its entirety by, the remainder of this Offering Circular.

THE ISSUER

Business Overview

We are the sole Government-owned national railroad operator, providing passenger and freight railroad transportation services across national network connecting major cities, ports and regions throughout Korea. We also provide subway rail services encompassing the Seoul metropolitan area, as well as tourist railways to certain popular tourist destinations. In addition, we provide Government-consignment services and other related services, such as property development, overseas consulting, tourism services and retail business.

We were established by the Government as a statutory entity for the primary purpose of operating national railroad services, pursuant to the KRC Act on January 1, 2005 in connection with Restructuring Plan (as defined elsewhere in this Offering Circular). The Korea Railway Network Authority (“KRNA”) constructs and maintains the Government-owned railroad facilities. The Government, through the Ministry of Land, Infrastructure and Transport of Korea (“MOLIT”), our primary regulator, and the Ministry of Strategy and Finance (“MOSF”), regulates our activities and owns all of our equity and, as such, exerts significant influence on our policies and operations.

We are mandated by the Government to promote efficiency of railroad operations. We aim to fulfill the mandate through the following policy objectives:

- Development of railroad as a key means of transportation in order to promote long-term economic and social development throughout various regions of Korea;
- Improvement of efficiency of railroad services by maximizing allocation of resources, such as transformation of an unprofitable train station into an unmanned station to reduce operating costs and development of train station area as a multi-purpose complex offering shopping and retail services, tourist assistance centers and transportation services;
- Provision of environmentally-responsible rail services; and
- Fulfillment of public service obligations such as fare discounts for certain disadvantaged groups or provision of rail services to less populated or remote areas despite unprofitability of such services.

As a Government-owned entity charged with executing public policy objectives, our business objective is not the maximization of our profitability. Our business scope is subject to extensive regulation and our operations rely heavily on financial support from the Government. As part of our financial strategy, we will seek to continue to rely on support from the Government, such as capital support for public service obligations (“PSO”) services and compensation for railroad facility usage fees while striving to increase our financial sustainability by improving our operational capacity and service quality.

We serve seven of Korea’s most populated cities, Seoul, Busan, Daegu, Incheon, Daejeon, Gwangju and Ulsan, which together account for nearly half of the country’s population. All of the rail track is national property and managed by the KRNA. The KRNA, on the Government’s behalf and under its license, levies an annual charge for usage of the facilities it manages.

Our conventional and KTX rail networks comprise a total of 96 lines throughout Korea (and 15 lines linking Korea’s most populated metropolitan areas) and our metropolitan rail transit network comprises 12 main lines connecting Seoul and the greater metropolitan area. Our consolidated subsidiary SR Co., Ltd. (“SR”) operates a separate high-speed line from Suseo that joins the two KTX lines connecting Seoul and Busan and Seoul and Mokpo. Our passenger railroad networks extend over the total operating distance of 3,857.8 kilometers, which

include the operating distance of 596.3 kilometers for our KTX railroad network. In 2017, approximately 60 million, 68 million and 1,166 million passengers used our KTX, conventional and metropolitan railroad services, respectively. In the same year, our annual freight transportation volume amounted to 32 million tons. A majority of our sales revenue consists of proceeds from passenger fares.

We recorded revenue of ₩5,516 billion, ₩5,694 billion and ₩5,787 billion for the years ended December 31, 2015, 2016 and 2017, respectively. For the same years, we recorded operating income of ₩114 billion and ₩122 billion in 2015 and 2016, respectively, and operating loss of ₩470 billion in 2017. As of December 31, 2017, our total assets and total equity amounted to ₩19,878 billion and ₩4,998 billion, respectively.

Government Ownership, Control and Support

We were established by the Government as a statutory entity pursuant to the KRC Act on January 1, 2005. To strengthen the competitiveness of the railroad industry pursuant to the Framework Act on the Development of the Railroad Industry, the Government segregated the operation of the national railroad-related business into two: (i) operation of the national railroad network, which is performed by us, and (ii) construction and maintenance of the Government-owned railroad facilities, which is performed by the KRNA.

The Government is required under the KRC Act to contribute all of our authorized capital of ₩22 trillion. Currently, we are wholly-owned by the Government. We can only be privatized through passage by the National Assembly of an amendment to Article 4 of the KRC Act, which states that the Government owns 100% of our authorized capital.

The Government, through the MOLIT, our primary regulator, and the MOSF, regulates our activities and owns all of our equity and, as such, exerts significant influence on our policies and operations. Pursuant to the Act on the Operation of Public Institutions, the President of Korea appoints, and has the authority to remove, our President and our Statutory Auditor. Our Standing Directors are appointed by our President and the Non-Standing Directors are appointed by the MOSF.

We are entrusted by the Government to operate and maintain the national railroad network pursuant to a legal framework that governs all railroad-related matters. Our business operations and management policy are subject to strict regulation by the Government and are supervised and evaluated by different Government bodies, principally the MOLIT. We function as a public arm of the MOLIT in executing national railroad operations and policies under its direct supervision, and in accordance with its policy direction. In addition to working closely with the MOLIT in performing the operation of the railroad network, we are also under the indirect purview of the MOSF, the Board of Audit and Inspection of Korea (“BAI”) and the National Assembly, the main legislative body of Korea.

Pursuant to the KRC Act, the MOLIT approves our plan for bond issuances and supervises us on matters related to the management and operation of railroads to enhance the soundness of our financial structure and the safety and public good of railroads.

Based on the Act on the Operation of Public Institutions, the MOSF is responsible for overseeing the establishment of our business objectives, monitoring and evaluating our operational and financial performance, overseeing our budget and approving revisions to our operating plans.

As the Government-owned entity mandated by the Government to operate and maintain the national railroad system, we receive support from the Government both financially and operationally. The KRC Act provides for various forms of discretionary Government support available to us.

Recent Developments

On February 6, 2018, Oh, Young-sik, a former member of the National Assembly, was appointed as President and Chief Executive Officer (“CEO”) of the Company, following the resignation of the former President and CEO Hong, Soon-man in July 2017. Mr. Oh will serve a term of three years until 2021.

THE OFFERING

The following is only a summary description of the Notes, which are more fully described in “Terms and Conditions of the Notes” included elsewhere in this Offering Circular. The provisions in “Terms and Conditions of the Notes” prevail to the extent of any inconsistency with the terms set out in this section. Terms used and not otherwise defined in this section have the meaning given to them in the “Terms and Conditions of the Notes” and “Form of the Notes.”

Issuer	Korea Railroad Corporation
Offering	The HK\$631,000,000 3.375% Notes due 2023 (the “Notes”) are being offered outside of the United States to non-U.S. persons in reliance on Regulation S (“Regulation S”) under the Securities Act. We have not registered, and will not register, under the securities laws of the United States or otherwise, the Notes. See “Subscription and Sale” and “Transfer Restrictions”.
Offering Price	100% of the principal amount of the Notes, plus accrued interest, if any, from June 7, 2018 (the “Issue Date”).
Size of Offering	The aggregate principal amount of the Notes to be issued in this Offering is HK\$631,000,000.
Denomination	The Notes will be issued in minimum denominations of HK\$1,000,000 and integral multiples in excess of HK\$1,000,000 thereof.
Interest	The Notes will bear interest from and including the Issue Date up to and including June 7, 2023 (the “Maturity Date”), at the rate of 3.375% per annum. Interest on the Notes will be payable annually in arrears on June 7 in each year, beginning June 7, 2019.
Negative Pledge	The terms of the Notes will contain a negative pledge provision as further described in Condition 9.
Additional Amounts	All payments by the Issuer in respect of the Notes will be made without deduction or withholding for or on account of Korean Tax unless such deduction or withholding is required by law. In such event, the Issuer will pay Additional Amounts (subject to certain exceptions) in respect of Korean Tax as will result in the payment of amounts otherwise receivable absent any deduction or withholding on account of such Korean Tax.
Redemption at Maturity	The Notes will be redeemed on the Maturity Date at 100.0% of their principal amount (plus accrued but unpaid interest, if any).
Redemption at the Option of the Holders of Notes	The holder of any Note, at its election, may require the Issuer to redeem all or any part of its Notes at the Change of Control Redemption Price equal to 100.0% of the principal amount (together with accrued and unpaid interest, if any) upon the occurrence of a Change of Control in accordance with “Terms and Conditions of the Notes – Change of Control Redemption”.
Tax Redemption	The Issuer may redeem the Notes in whole but not in part at 100% of their principal amount (plus accrued but unpaid interest, if any), if the Issuer has or will become obliged to pay Additional Amounts in respect of any Korean Tax in respect of any payments on the Notes. The Issuer will give not less than 30 nor more than

	60 days' notice to holders of Notes of such redemption.
Ranking.....	The Notes will constitute direct, unconditional, unsubordinated and unsecured obligations of the Issuer, ranking <i>pari passu</i> and without any preference among themselves. The payment obligations of the Issuer under the Notes will rank at least equally (save for certain obligations required to be preferred by law) with all other unsecured and unsubordinated obligations of the Issuer, from time to time outstanding.
Form of the Notes	The Notes will be represented by the Global Note, which will be registered in the name of a nominee of, and deposited on the Issue Date with, a common depositary for, Euroclear and Clearstream. Beneficial interests in the Global Note will be shown on, and transfers thereof will be effected only through records maintained by, Euroclear and Clearstream. Except as described herein, individual certificates evidencing the Notes will not be issued in exchange for beneficial interests in the Global Note.
Fiscal Agent and Paying Agent	The Bank of New York Mellon, London Branch
Registrar and Transfer Agent.....	The Bank of New York Mellon SA/NV, Luxembourg Branch
Governing Law	The Notes and the Fiscal Agency Agreement will be governed by New York law.
Clearance and Settlement	The Notes are expected to be accepted for clearance through Euroclear and Clearstream under the following codes: ISIN: XS1832541897 Common Code: 183254189
Listings and Trading.....	Application will be made to the SGX-ST for the listing and quotation of the Notes on the SGX-ST. For so long as the Notes are listed on the SGX-ST and the rules of the SGX-ST so require, the Notes, if traded on the SGX-ST, will be traded in a minimum board lot size of S\$200,000 (or its equivalent in foreign currencies).
Legal Entity Identifier	988400HIXNKLSIY4ND32
Use of Proceeds	The net proceeds from the sale of the Notes will be used by the Issuer to refinance its existing debt and for general corporate purposes.
Credit Risk.....	The holder of the Notes will be exposed to the credit risk of the Issuer.
Exit Risk	The secondary market price of the Notes will depend on numerous factors including interest rates, interest rate volatility, perceptions of issuer credit quality and time remaining to maturity. In addition, 100% of the principal amount of the Notes is only protected at maturity. There is a risk that investors in the Notes may receive substantially less than 100% should such investors wish to redeem prior to maturity.

USE OF PROCEEDS

The net proceeds from the issue of Notes, which are expected to be approximately HK\$631,000,000, after deducting the commissions to the Manager (as defined herein), if any, but before certain out-of-pocket expenses related to this Offering, will be used by the Issuer to refinance its existing debt and for general corporate purposes.

EXCHANGE RATES

The table below sets forth, for the periods and dates indicated, information concerning the Market Average Exchange Rate for translations of Won amounts into U.S. dollars. The Issuer does not intend to imply that the Won or U.S. dollar amounts referred to herein could have been or could be converted into U.S. dollars or Won, as the case may be, at any particular rate, or at all.

Period	At End of Period	Average ⁽¹⁾	High	Low
<i>(Won per US\$1.00)</i>				
2013.....	1,055.3	1,095.0	1,159.1	1,051.5
2014.....	1,099.2	1,053.2	1,118.3	1,008.9
2015.....	1,172.0	1,131.5	1,203.1	1,068.1
2016.....	1,208.5	1,160.5	1,240.9	1,093.2
2017.....	1,071.4	1,130.8	1,208.5	1,071.4
2018 (through May 30).....	1,076.1	1,072.1	1,094.3	1,057.6
January	1,071.5	1,066.7	1,071.5	1,061.3
February	1,071.0	1,079.6	1,094.3	1,068.0
March	1,066.5	1,071.9	1,081.9	1,064.3
April	1,076.2	1,067.8	1,079.7	1,057.6
May (through May 30)	1,076.1	1,076.1	1,083.8	1,066.6

Source: Seoul Money Brokerage Services, Ltd.

Note:

(1) Represents the average of the daily Market Average Exchange Rates over the relevant period.

RISK FACTORS

Investing in the Notes involves risks and uncertainties. Prospective purchasers of the Notes are advised to review carefully all of the information contained elsewhere in this Offering Circular and should consider, in particular, the following risk factors before purchasing the Notes. The risks described below are not the only ones that may be relevant to us or the Notes.

Risks Relating to Us

The Government is not an obligor or guarantor of the Notes and is not legally required to provide us with financial support to meet our debt obligations.

Our outstanding indebtedness, including the Notes, is not backed by the full faith and credit of the Government. The Government is not an obligor under the Notes and is not a guarantor of interest and principal payments of the Notes. There is no statutory or other legal requirement for the Government to provide us with direct financial support to meet our outstanding debt obligations, including the Notes.

We currently benefit from certain forms of financial support provided by the Government which might not always be available.

We are a statutory entity wholly-owned by the Government with the mandate to execute the Government's public policy objectives in respect of the railroad industry pursuant to the KRC Act. Revenues from our transportation services have historically been insufficient to cover our operating expenses due to limitations on our ability to raise our railway tariffs, which are subject to tariff ceilings determined by the MOLIT. Hence, we have historically relied on significant financial support from the Government to conduct our business. The Government has provided such support in the form of contributions of operating assets as investments-in-kind, capital injections, cost reimbursements for PSO services performed by us, assumption by the Government of the cost associated with maintenance of conventional railroads and construction of high-speed railway, commonly referred as "KTX", railroads, financing our investment, and reimbursement of our railroad facility maintenance, repair and upgrade work performed on behalf of the Government. See "Relationship with the Government — Government Support". In 2017, we received financial support in various forms from the Government in the amount of ₩687 billion.

However, actual financial support we receive from the Government is subject to prior authorization by the National Assembly of Korea as part of the Government's annual budget approval process. We may cease to benefit from the Government support to the extent that any amendment, modification or repeal of the KRC Act affects the legal basis for such Government support. Inability of the Government to continue to provide financial support in the future or any decrease in such financial support could materially adversely affect our results of operations. See "Relationship with the Government — Government Support".

Our activities are heavily regulated by the Government as we were established to fulfill public policy objectives. As a result, we are required to engage in certain activities and businesses which are not always in our best commercial interests.

The Government, as our shareholder, elects our board of directors and influences the management of our operations. Although we have autonomy over our day-to-day operations, the Government exerts significant influence over our strategy, management and operations and may determine material policies affecting us. Furthermore, we were established under the KRC Act, and we are subject to the rules and regulations thereunder and other acts governing us and the railroad industry. As a result, we are heavily regulated by the Government in terms of the permitted scope of our business activities, our budgets and railway tariff ceilings. In addition, our public policy mandate requires us to undertake certain activities in furtherance of public policy considerations for the railroad and transportation industry as a whole, which may not be in our best commercial interests. For example, our conventional and freight transportation businesses and PSO services, including discounted fares to senior citizens and those with disability and provision of railway services to remote, underpopulated areas of Korea, have historically been unprofitable. However, because of the Government mandates, we expect to continue to provide these unprofitable services in the future. Although we are seeking to reduce inefficiencies and boost profitability, we may not be able to do so successfully or the Government's current and future policy initiatives may have an adverse

effect on our business prospects, results of operations and financial condition.

We rely significantly on external sources of financing, which may not always be available at commercially reasonable terms or at all.

Our business is capital intensive, and as a result we have historically made, and are expected to continue to make, significant capital expenditures. Our capital expenditure amounted to ₩780 billion, ₩603 billion and ₩615 billion in 2015, 2016 and 2017, respectively. The biggest portion of our capital expenditure over those periods was spent for the acquisition of new rolling stock.

We have historically relied on support from the Government and debt financings to meet our capital needs. In 2017, we received financial support in various forms from the Government in the amount of ₩687 billion, consisting of ₩296 billion for reimbursements of our PSO services, ₩142 billion for purchases of new rolling stock and ₩249 billion for payments to contractors for purposes of facility maintenance, facility improvement and traffic control system operation. We also issued bonds in the aggregate principal amount of ₩1,833 billion and ₩2,723 billion in 2016 and 2017, respectively (we did not issue any bonds in 2015). As of December 31, 2017, our net long-term debt, consisting of long-term borrowings and bonds, excluding the current portion thereof and net of present value discounts and bond issuance discounts, amounted to ₩9,509 billion, representing 207.6% of owner's equity. If we are unable to obtain financing for our capital expenditure or to refinance our existing debt on commercially reasonable terms, we could be forced to suspend, curtail or reduce certain aspects of our operations, which could adversely affect our business, financial condition and results of operations, as well as our ability to make interest or principal payments on the Notes.

We do not have any control over the Government's plans to develop and expand the national railroad system and related risks they may bring.

The continued profitability of our KTX business, which historically has made positive contributions to our operating margins, partially offsetting losses generated by our conventional passenger and freight transportation operations, depends to an extent on the Government's plans to increase KTX rail tracks. Our other transportation business segments may also benefit from the expansion of the KTX network through the alleviation of a transportation bottleneck that currently exists on rail tracks shared by our conventional rail and KTX services owing to an insufficient number of rail tracks to meet demand. However, large infrastructure projects involve many potential risks, including natural disasters, regulatory issues, construction problems, project design and configuration changes, and opposition by neighboring communities or special interest groups, which could give rise to delays or other adverse developments, including lawsuits and regulatory restrictions, and result in loss of revenue and cost overruns. Furthermore, we do not own or control the rail tracks that we operate, are not involved in the construction of new rail tracks and do not make policy decisions with respect to development of railroad infrastructure. Therefore, we do not have control of the Government's plans to expand KTX rail tracks. In addition, we negotiate the charges we pay to the Government over the use of the rail tracks from time to time. If the Government abandons or cancels its plans to expand KTX rail tracks or increases the charges over our usage of rail tracks, we will not be able to expand or efficiently operate our business and our results of operations, financial condition and ability to service our debt obligations, including the Notes, may be adversely affected.

Moreover, following the third inter-Korean summit in April 2018, the Government announced its intention to repair and connect the railways between the two Koreas. Given the political, economic and logistical complexities involved in collaborating with the North Korean government, however, there can be no assurance that the initiative will materialize in a timely manner or at all, as a construction project of such scale and nature may present geopolitical, social or technical challenges and could incur substantial costs. Furthermore, if the initiative is implemented, we may not be able to generate profit from the services we provide through the new rail tracks. The Government's plans to pursue the expansion of our railway system into North Korea are preliminary and subject to a number of risks and uncertainties that are beyond our control, and may thus materially and adversely affect our business, results of operations and financial condition.

Technological problems attributable to accidents, human error, severe weather or natural disasters could affect the performance or perception of our business and result in decreases in customers and revenue and unexpected expenses.

Our operations may be affected from time to time by equipment failures, delays, collisions and derailments attributable to accidents, human error or natural disasters, such as typhoons or floods.

As our high-speed train service becomes technologically more complex, it may become more difficult for us to upkeep and repair our equipment and facilities as well as to maintain our service and safety standards. In addition to potential technical complications, natural disasters could interrupt our rail services, thus leading to decreased revenue, increased maintenance and higher engineering costs. If we experience any equipment failures, delays, temporary cancellations of schedules, collisions and derailments, or any deterioration in the performance or quality of any of our services, it could result in personal injuries, damage of goods, customer claims of damages, customer refunds and loss of goodwill. These problems may lead to decreases in customers and revenue, damage to our reputation, unexpected expenses, loss of passengers and freight customers, incurrence of significant warranty and repair costs, diversion of our attention from our transportation service efforts or strained customer relations, any one of which could materially adversely affect our business. We maintain insurance, including group casualty, general railroad operating liability, property and terrorism. Our current insurance policies cover some, but not all, of the events described above and no assurance can be given that such insurance will be adequate to cover any direct or indirect losses or liabilities we may suffer.

Labor unrest may adversely affect our operations.

We have experienced labor unrest from time to time. As of December 31, 2017, approximately 68.1% of our employees belonged to labor unions. In the second half of 2016, our unionized employees engaged in a strike for 74 days, the longest rail strike in Korea. See “*Business – Employees and Labor Relations*”. There can be no assurance that we will not experience additional strikes or other labor disruptions in the future which could halt or impede our railway operations or require us to acquiesce to certain terms and conditions which could increase our costs and materially and adversely affect our business prospects, results of operations and financial condition.

There is a risk that we may be privatized and such privatization may involve a reduction of the Government’s ownership interest in us, which may require us to redeem the Notes.

Article 4 of the KRC Act states that the Government owns 100% of our authorized capital, and we can only be privatized through the National Assembly’s passage of an amendment to the KRC Act. While no plans for privatization involving us have been announced, press reports have indicated that if privatization plans involving us are implemented, such plans could include a divestiture of our freight transportation business. There can be no assurance that such privatization plans will not include us, and if they do include us, that the price of our Notes will not be adversely affected.

Furthermore, there can be no assurance that any such privatization efforts will not include a reduction in the Government’s ownership interest in us below 51%. In the event that the Government reduces its ownership interest in us to a level below 51% of our issued and outstanding capital stock, a “Change of Control” will have occurred under the Terms and Conditions of the Notes. See “*Terms and Conditions of the Notes – Change of Control Redemption*”. Upon the occurrence of a Change of Control, each holder of Notes will have the right to require us to redeem all or any part of such holder’s Notes at a redemption price equal to 100% of their principal amount plus accrued and unpaid interest, if any, to the date of redemption. The failure to redeem any Notes required to be so redeemed would constitute an event of default under the Terms and Conditions of the Notes. We cannot assure you that we would have sufficient funds available at the time of a Change of Control event to make any debt repayment (including a redemption of the Notes) as described above.

We may be adversely affected by volatility in energy costs.

Electricity and diesel expenses are significant components of our operating expenses. Fluctuations in the prices of electricity and diesel will impact our financial performance. Although we mitigate rising electricity costs by entering into fixed term contracts with Korea Electric Power Corporation, these measures may not be sufficient to mitigate sudden and wide fluctuations in prices. We obtain our diesel fuel for our diesel powered trains from major domestic diesel providers under annual contracts, subject to monthly adjustments. However, such measures also carry inherent risks, are not foolproof and may not fully mitigate the diesel cost risk.

We are subject to cyber security risk.

Recently, our activities have been subject to an increasing risk of cyber-attacks, the nature of which is continually evolving. Like other Government-owned entities in Korea, our computer networks are exposed to hacking attempts allegedly carried out by North Korea. For example, in May 2015, we became subject to a cyber terror incident allegedly carried out by hackers affiliated with North Korea. In response to such incident, we and our subsidiaries have further bolstered anti-hacking and other preventive and remedial measures in relation to potential cyber terror. However, there is no assurance that a similar or more serious hacking or other forms of cyber terror will not happen with respect to us and our, which could have a material adverse impact on our business, financial condition and results of operations.

Demographic trends are expected to have a long-term adverse effect upon our business.

Changes in demographic trends in Korea may materially affect our business. Korea's overall population is on a declining trend due to Korea's declining birth rate and decreasing working population. These demographic factors are likely in the long term to negatively affect demand for our businesses and services. Korea's demographic makeup is ageing considerably, which indicates that the number of persons between the ages of 15 and 64 (referred to as working-age population) has already peaked for Korea as a whole. Senior citizens typically do not commute regularly for work or study. Senior citizens also do not spend on leisure as much as working population. Additionally, we offer fare discounts to senior citizens. Accordingly, Korea's demographic trend is expected to have a long-term adverse effect on our ability to increase or maintain our operating revenues.

Our operations are dependent on our ability to obtain railcars, locomotives and other critical railroad items from suppliers.

Due to the capital intensive nature and industry-specific requirements of the rail industry, there are high barriers to entry for potential new suppliers of core railroad items such as railcars, locomotives and track materials. If the number of available railcars is insufficient or if the cost of obtaining these railcars either through lease or purchase increases, we might not be able to obtain railcars on favorable terms, or at all, and our customers may seek alternate forms of transportation. Even if purchased, there is no guarantee that railcars would be available for delivery without significant delay. The availability of new railcars may sometimes be limited, with long lead times for delivery. Changes in the competitive landscapes of these limited-supplier markets could result in equipment shortages that could have a material adverse effect on our results of operations, financial condition and liquidity in a particular year or quarter and could limit our ability to support new projects and achieve our growth strategy.

We could incur significant costs for violations of applicable environmental laws and regulations.

Our railroad operations and real estate ownership are subject to extensive national and local environmental laws and regulations concerning, among other things, gas emissions, wastewater discharge, disposal of solid waste and noise control. In addition, environmental liabilities may arise from claims asserted by adjacent landowners or other third parties. We may also be required to incur significant expenses to remediate any violation of applicable environmental laws and regulations.

Following from the recent decision of the Supreme Court of Korea, we are exposed to actual and potential claims made by current or previous employees for unpaid wages under the expanded scope of ordinary wages, and we may experience higher labor costs arising from the broader interpretation of ordinary wages under such decision.

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

In December 2013, the Supreme Court of Korea ruled that regular bonuses fall under the category of ordinary wages on the condition that those bonuses are paid regularly and uniformly on a fixed basis, and that any agreement which excludes such regular bonuses from ordinary wage is invalid. One of the key rulings provides that

bonuses that are given to employees (i) on a regular and continuous basis and (ii) calculated according to the actual number of days worked (iii) that are not incentive-based must be included in the calculation of “ordinary wages.” The Supreme Court further ruled that in spite of invalidity of such agreements, employees shall not retroactively claim additional wages incurred due to such court decision, in case that such claims bring to employees unexpected benefits which substantially exceeds the wage level agreed by employers and employees and cause an unpredicted increase in expenditures for their company, which would lead the company to material managerial difficulty or would be a threat to the existence of the company. In that case, the claim is not acceptable since it is unjust and is in breach of the principle of good faith.

In tandem with the Supreme Court ruling, as of the date of this Offering Circular, we are subject to ongoing lawsuits filed by over 47,000 employees based on claims that ordinary wages had been paid without including certain items that should have been included as ordinary wage. In January 2018, the trial court decided on a lawsuit filed by over 20,000 employees, ordering us to pay such employees about ₩188 billion out of ₩204 billion originally claimed by the employees. We appealed the trial court’s decision, and the case is currently pending before the appeals court. The rest of the lawsuits are still pending before the trial court. In addition, we cannot presently assure you that there will not be additional lawsuits in relation to ordinary wages. Although we have set up reserves for possible lawsuits by the entire employees (taking account of the statute of limitations of the salary claim), if we are finally and conclusively required to pay a significant amount as a result of the above and/or additional litigations, such a result may have an adverse effect on our financial condition and results of operation.

Risks Relating to Korea

Korea is our primary market, and our current business and future growth could be materially and adversely affected if economic conditions in Korea deteriorate.

We are incorporated in Korea and substantially all of our operations, customers and assets are located in Korea. Accordingly, the performance and successful fulfillment of our operational strategies are necessarily dependent on the overall Korean economy and the resulting impact on the demand for our services. The economic indicators in Korea in recent years have shown mixed signs of growth and uncertainty, and future growth of the Korean economy is subject to many factors beyond our control, including developments in the global economy. In particular, as our business relies substantially on our passenger and freight customers in Korea, adverse changes in economic and market conditions that impact customers, such as increases in unemployment levels or interest rates, decreases in real estate or stock prices and decreases in consumer spending could lead to reduced demand for our services. As a result, our business, results of operations and financial condition may be adversely affected by such changes.

Furthermore, the Korean economy is closely tied to developments in the global economy. Global financial markets have experienced several unexpected volatility shifts over the past couple of decades because of economic, political, social and cultural issues in various parts of the world. In light of the high level of interdependence of the global economy, any future deterioration of the global economy could have a material adverse effect on the Korean economy and financial markets, and in turn on our business, results of operations and financial condition.

Other developments that could have an adverse impact on Korea’s economy in the future include:

- continued volatility or deterioration in Korea’s credit and capital markets;
- increased sovereign default risks in selected countries and the resulting adverse effects on the global financial markets;
- global market volatility in connection with “Brexit,” the United Kingdom’s vote to leave the European Union in a referendum held in June 2016;
- 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 Japanese Yen exchange rates or revaluation of the Chinese Renminbi), interest rates, inflation rates or stock markets;
- a continuing rise in the level of household debt and increasing delinquencies and credit defaults by

- retail and small- and medium-sized enterprise borrowers in Korea;
- continuing adverse conditions in the economies of countries and regions that are important export markets for Korea, such as the United States, Europe, Japan and China, or in emerging market economies in Asia or elsewhere;
 - decreases in the market prices of Korean real estate;
 - declines in consumer confidence and a slowdown in consumer spending;
 - social and labor unrest;
 - increases in social expenditures to support an aging population in Korea or decreases in economic productivity due to the declining population size in Korea;
 - a substantial increase in the Government's expenditures for fiscal stimulus measures, unemployment compensation and other economic and social programs that would lead to an increased government budget deficit;
 - financial problems or lack of progress in the restructuring of Korean business groups, other large troubled companies (including those in the shipbuilding and shipping sectors), their suppliers or the financial sector;
 - investigations of large Korean business groups and their senior management for bribery, embezzlement and other possible misconduct;
 - loss of investor confidence arising from corporate accounting irregularities or corporate governance issues at certain Korean companies;
 - the economic impact of any pending or future free trade agreements or changes in existing free trade agreements;
 - geo-political uncertainty and risk of further attacks by terrorist groups around the world;
 - the occurrence of severe health epidemics in Korea or other parts of the world, such as the Middle East Respiratory Syndrome outbreak in Korea in 2015;
 - 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, such as the controversy between Korea and China regarding the deployment of a Terminal High Altitude Area Defense (THAAD) system in Korea by the United States commencing in March 2017 and the ensuing economic and other retaliation measures imposed by China against Korea;
 - political uncertainty or increasing strife among or within political parties in Korea, and political gridlock within the Government or in the legislature, which prevent or disrupt timely and effective policy making;
 - 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;
 - hostilities or political or social tensions involving countries in the Middle East and North Africa and any material disruption in the supply of oil or significant decrease or 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.

Escalations in tensions with North Korea could have an adverse effect on us.

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, 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:

- North Korea renounced its obligations under the Nuclear Non-Proliferation Treaty in January 2003 and conducted six rounds of nuclear tests since October 2006, including claimed detonations of hydrogen bombs, which are more powerful than plutonium bombs, and warheads that can be mounted on ballistic missiles. Over the years, North Korea has also conducted a series of ballistic missile tests, including missiles launched from submarines and intercontinental ballistic missiles that it claims can reach the United States mainland. In response, the Government has repeatedly condemned the provocations and flagrant violations of relevant United Nations Security Council resolutions. In February 2016, the Government also closed the inter-Korea Gaesong Industrial Complex in response to North Korea's fourth nuclear test in January 2016. Internationally, the United Nations Security Council has passed a series of resolutions condemning North Korea's actions and significantly expanding the scope of sanctions applicable to North Korea, most recently in December 2017 in response to North Korea's intercontinental ballistic missile test in November 2017. Over the years, the United States and the European Union have also expanded their sanctions applicable to North Korea.
- In August 2015, two Korean soldiers were injured in a landmine explosion near the South Korean demilitarized zone. Claiming the landmines were set by North Koreans, the South Korean army re-initiated its propaganda program toward North Korea utilizing loudspeakers near the demilitarized zone. In retaliation, the North Korean army fired artillery rounds on the loudspeakers, resulting in the highest level of military readiness for both Koreas. High-ranking officials from North and South Korea subsequently met for discussions and entered into an agreement on August 25, 2015 intending to deflate 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.

A series of recent diplomatic activity hints at positive developments in North Korea's relations with Korea as well as with the United States. Korean President Moon Jae-in and North Korean leader Kim Jong Un met on April 27, 2018 for the third inter-Korean summit. The three main agenda items for the inter-Korean summit announced by the Blue House were the denuclearization of the Korean Peninsula, the establishment of permanent peace and progress on inter-Korean relations. Furthermore, on May 10, 2018, U.S. President Donald Trump announced his decision to meet with Kim in Singapore on June 12, 2018, which represents the first meeting between a sitting U.S. president and a North Korean leader. Although Trump cancelled the meeting on May 24, 2018, talks about reinstating the meeting are ongoing between U.S. and North Korean officials as of the date of this Offering Circular.

Despite such developments, 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 our business, financial condition and results of operations.

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

As we are a Korean company operating in a business and cultural environment that is different from that of other countries, there are risks associated with investing in securities that are not typical for investments in securities of companies in other jurisdictions.

Under the Foreign Exchange Transactions Act of Korea and the Presidential Decree and regulations under the Act and Decree (collectively referred to as the “Foreign Exchange Transactions Laws”), if the government deems that certain emergency circumstances, including sudden fluctuations in interest rates or exchange rates, extreme difficulty in stabilizing the balance of payments or substantial disturbance in the Korean financial and capital markets, are likely to occur, it may impose any necessary restriction such as requiring Korean or foreign investors to obtain prior approval from the Minister of Strategy and Finance for the acquisition of Korean securities or for the repatriation of interest, dividends or sales proceeds arising from Korean securities or from disposition of such securities or other transactions involving foreign exchange. Moreover, if the government deems it necessary on account of war, armed conflict, natural disaster or grave and sudden changes in domestic or foreign economic circumstances or similar events or circumstances, the Minister of Strategy and Finance may temporarily suspend performance under any or all foreign exchange transactions, in whole or in part, to which the Foreign Exchange Transactions Laws apply (including suspension of payment and receipt of foreign exchange) or impose an obligation to deposit or sell any means of payment to the Bank of Korea or certain other governmental agencies or financial institutions.

Risks Relating to the Notes

The Notes are unsecured obligations.

Because the Notes, when issued, will be unsecured obligations, our ability to pay interest or principal on the Notes may be adversely affected if we enter into bankruptcy, liquidation, reorganization or other similar proceedings, we default under our future secured indebtedness or other unsecured indebtedness, or our indebtedness becomes accelerated. If any of the foregoing events occurs, our assets may not be sufficient to pay all the amounts due upon the occurrence of such event and holders of the Notes will be our unsecured creditors. The Notes are not guaranteed nor is the payment of their principal and interest otherwise supported by the Government.

The Notes are subject to transfer restrictions.

The Notes will not be registered under the Securities Act or any state securities laws and may not be offered or sold in reliance on Regulation S, or, if available, pursuant to another exemption from, or in another transaction not subject to, the registration requirements of the Securities Act and, in each case, in accordance with applicable state securities laws. In addition, subject to the conditions set forth in the Fiscal Agency Agreement, a Note may be transferred only if the principal amount of Notes transferred is at least HK\$1,000,000.

In addition, the Notes have not been and will not be registered with the Financial Services Commission of Korea under the Financial Investment Services and Capital Markets Act of Korea. The Notes have not been offered, sold or delivered and will not be offered, sold or delivered, directly or indirectly, in Korea or to, or for the account or benefit of, any resident of Korea (as defined in the Foreign Exchange Transactions Act and the regulations thereunder), or to any other person for reoffering, resale or re-delivery, directly or indirectly, in Korea or to, or for the account or benefit of, any resident of Korea, except as otherwise permitted by applicable Korean laws and regulations.

For a further discussion of the transfer restrictions applicable to the Notes, see “*Subscription and Sale*” and “*Transfer Restrictions*”.

The Notes are not protected by restrictive covenants.

The Notes contain certain negative covenants such as limitations on the incurrence of liens. However, the

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

No trading market for the Notes currently exists and, therefore, the Notes offer limited liquidity.

The Notes constitute a new issue of securities for which there is currently no existing trading market. Application will be made to the SGX-ST for the listing and quotation of the Notes on the SGX-ST. Although the Manager may make a market in the Notes, it is not obligated to do so, and any market-making activity with respect to the Notes, if commenced, may be discontinued at any time without notice.

No assurances can be given that a market for the Notes will develop in the future. If such a market were to develop, the Notes could trade at prices that may be higher or lower than the offering price depending on many factors, including, among others:

- prevailing interest rates;
- our financial condition, performance and prospects;
- the rate of exchange between the Won and the U.S. dollar;
- political and economic developments in Korea and other regions;
- the market conditions for similar securities; and
- the financial condition and stability of the Korean financial and other sectors.

CAPITALIZATION

The following table sets out our capitalization, consisting of long-term debt (consisting of long-term borrowings and bonds but each excluding current portion thereof and net of present value discounts and bond issuance discounts, respectively) and equity, as of December 31, 2017 and as adjusted to give effect to the issuance of the Notes (before deducting the Manager's commissions and estimated offering expenses payable by us and on the assumption that the proceeds from the issuance of the Notes will not be used for the immediate repayment of outstanding borrowings). This information has been derived from the audited consolidated statements of financial position as of December 31, 2017, included elsewhere in this Offering Circular.

The table below should be read in conjunction with our financial statements, including the notes thereto, included elsewhere in this Offering Circular.

As of December 31, 2017 ⁽¹⁾								
Actual			As Adjusted ⁽²⁾					
(in billions of Won and millions of U.S. dollar ⁽³⁾)								
Long-term debt:								
Long-term borrowings, net.....	₩	61	U.S.\$	57	₩	61	U.S.\$	57
Bonds, net.....		10,316		9,628		10,316		9,628
Notes offered hereby ⁽⁴⁾		-		-		86		81
Total long-term debt.....		10,376		9,685		10,463		9,766
Equity:								
Total equity		4,998		4,665		4,998		4,665
Total capitalization⁽⁵⁾	₩	15,374	US\$	14,349	₩	15,460	US\$	14,430

Notes:

- (1) Except as disclosed herein and for (i) the incurrence of long-term borrowings in the aggregate amount of ₩200 billion and (ii) the issuance of Won-denominated bonds in the aggregate amount of ₩ 120 billion, each in March 2018, there has been no material changes in the capitalization of the Issuer since December 31, 2017.
- (2) As adjusted amounts reflect the issuance of the Notes.
- (3) Won amounts as of December 31, 2017 have been converted into U.S. dollars solely for the convenience of the readers at the Market Average Exchange Rate of ₩1,071.4 to US\$1.00 in effect on such date.
- (4) The aggregate principal amount of the Notes has been translated into Won at the Market Average Exchange Rate of ₩137.07 to HK\$1.00 in effect on December 31, 2017.
- (5) Long-term debt (excluding current portion and net of present value discounts and bond issuance discounts) plus equity.

SELECTED FINANCIAL DATA

The following tables set forth selected our financial data on a consolidated basis. The selected financial information and other data set forth below has been derived from and should be read in conjunction with our audited consolidated financial statements and the notes thereto as of and for the years ended December 31, 2015, 2016 and 2017, all of which are included elsewhere in this Offering Circular.

STATEMENT OF COMPREHENSIVE INCOME DATA:

	For the Year Ended December 31,		
	2015	2016	2017
	<i>(in billions of Won)</i>		
Revenue	₩ 5,516	₩ 5,694	₩ 5,787
Cost of sales	(5,109)	(5,232)	(5,918)
Gross profit	407	461	(131)
Selling, general and administrative expenses	(294)	(340)	(339)
Operating profit	114	122	(470)
Other revenue	23	34	15
Other expenses	(34)	(53)	(90)
Other income (loss), net	70	56	(140)
Finance income	103	45	132
Finance expense	(572)	(454)	(528)
Gains on valuation of investments in associates	21	19	10
Losses on valuation of investments in associates	-	(2)	(91)
Loss before income tax benefit from continuing operation ..	(276)	(232)	(1,163)
Income tax benefit from continuing operation	219	5	307
Loss from continuing operation	(57)	(226)	(856)
Income from discontinued operation	143	-	-
Income (loss) for the year	₩ 86	₩ (226)	₩ (856)
Other comprehensive income (loss), net of tax			
Asset revaluation gain	-	36	953
Defined benefit plan actuarial gain (loss), net of tax in the fair value of cash flow hedges, net of tax	52	96	(13)
Unrealized net changes in the effective portion of changes in the fair value of cash flow hedges, net of tax	21	1	4
Unrealized net changes in the fair value of available-for-sale financial assets	1	(3)	0
Changes in equity of equity method investments	1	1	1
Other comprehensive income (loss) for the year, net of tax	76	132	945
Total comprehensive income (loss) for the year	₩ 162	₩ (94)	₩ 90
Profit (loss) attributable to:			
Owners of the Company	82	(206)	(874)
Non-controlling interests	4	(21)	19
Profit (Loss) for the year	₩ 86	₩ (226)	₩ (856)
Total comprehensive income (loss) attributable to:			
Owners of the Company	158	(73)	72
Non-controlling interests	4	(21)	18
Total comprehensive income (loss) for the year	₩ 162	₩ (94)	₩ 90

STATEMENT OF FINANCIAL POSITION DATA:

	As of December 31,					
	2015		2016		2017	
			<i>(in billions of won)</i>			
Assets						
Cash and cash equivalents.....	₩	209	₩	374	₩	482
Short-term financial instruments		33		17		15
Short-term loans		0		0		0
Current derivative instrument assets.....		11		45		-
Trade receivables and other receivables		449		358		886
Inventories.....		199		232		248
Prepaid income taxes.....		9		1		1
Current non-financial assets		37		45		43
Non-current assets held for sale		7		25		39
Total current assets		953		1,096		1713
Long-term financial instruments		0		0		0
Non-current available-for-sale financial assets.....		34		38		42
Long-term loans, net		45		42		40
Non-current derivative instrument assets		52		22		8
Long-term trade receivables and other receivables		566		541		235
Property, plant and equipment, net.....		15,958		16,296		17,358
Investment property		303		167		278
Goodwill		4		4		4
Intangible assets, net		61		70		61
Investment in associates.....		205		210		117
Deferred tax assets		8		18		16
Non-current non-financial assets		9		9		7
Total non-current assets		17,246		17,417		18,165
Total assets	₩	18,199	₩	18,513	₩	19,878
Liabilities						
Trade payables and other payables.....	₩	646	₩	619	₩	747
Short-term borrowings		222		10		8
Current portion of long-term borrowings, net		31		31		55
Current portion of bonds, net		1,524		1,862		1,372
Current derivative instrument liabilities.....		1		-		24
Current tax liabilities.....		1		1		1
Current non-financial liabilities.....		219		178		259
Current provisions.....		163		207		390
Non-current liabilities held for sale.....		-		-		-
Total current liabilities		2,807		2,909		2,854
Long-term trade payables and other payables		2		33		39
Long-term borrowings, net.....		133		116		61
Bonds, net		9,376		9,556		10,318
Non-current derivative instrument liabilities.....		7		4		54
Other non-current non-financial liabilities		96		148		148
Non-current non-financial liabilities		18		15		14
Employee benefits.....		794		747		864
Deferred tax liabilities.....		7		21		23
Provisions.....		211		196		509
Total non-current liabilities		10,644		10,835		12,026
Total liabilities	₩	13,450	₩	13,744	₩	14,881

	As of December 31,		
	2015	2016	2017
	<i>(in billions of won)</i>		
Equity			
Share capital.....	9,989	10,104	10,246
Accumulated deficit.....	(8,283)	(8,388)	(9,228)
Other equity components	2,951	2,930	3,839
Equity attributable to owners of the Company	4,657	4,647	4,858
Non-controlling interests	92	122	140
Total equity.....	4,749	4,769	4,998
Total liabilities and equity	₩ 18,199	₩ 18,513	₩ 19,878

OTHER FINANCIAL DATA:

	For the Year Ended December 31,		
	2015	2016	2017
	<i>(in billions of Won)</i>		
Depreciation ⁽¹⁾	₩ 451	₩ 491	₩ 525
Amortization.....	8	10	13
Net cash provided by operating activities.....	938	743	509
Net cash used in investing activities.....	684	(810)	(464)
Net cash used in financing activities	(1,813)	147	120

Note:

(1) Includes depreciation and depreciation of investment property.

RELATIONSHIP WITH THE GOVERNMENT

Government Ownership and Control

Government Ownership

We were established by the Government as a statutory entity pursuant to the KRC Act on January 1, 2005. To strengthen the competitiveness of the railroad industry pursuant to the Framework Act on the Development of the Railroad Industry, the Government segregated the operation of the national railroad-related business into two: (i) operation of the national railroad network, which is performed by us, and (ii) construction and maintenance of the Government-owned railroad facilities, which is performed by the KRNA.

The Government is required under the KRC Act to contribute all of our authorized capital of ₩22 trillion. Currently, we are wholly-owned by the Government. We can only be privatized through passage by the National Assembly of an amendment to Article 4 of the KRC Act, which states that the Government owns 100% of our authorized capital.

Government Control and Regulation

The Government, through the MOLIT, our primary regulator, and the MOSF, regulates our activities and owns all of our equity. Therefore, the Government exerts significant influence on our policies and operations. Pursuant to the Act on the Operation of Public Institutions, the President of Korea appoints, and has the authority to remove, our President and Statutory Auditor. Our Standing Directors are appointed by our President and the Non-Standing Directors are appointed by the MOSF.

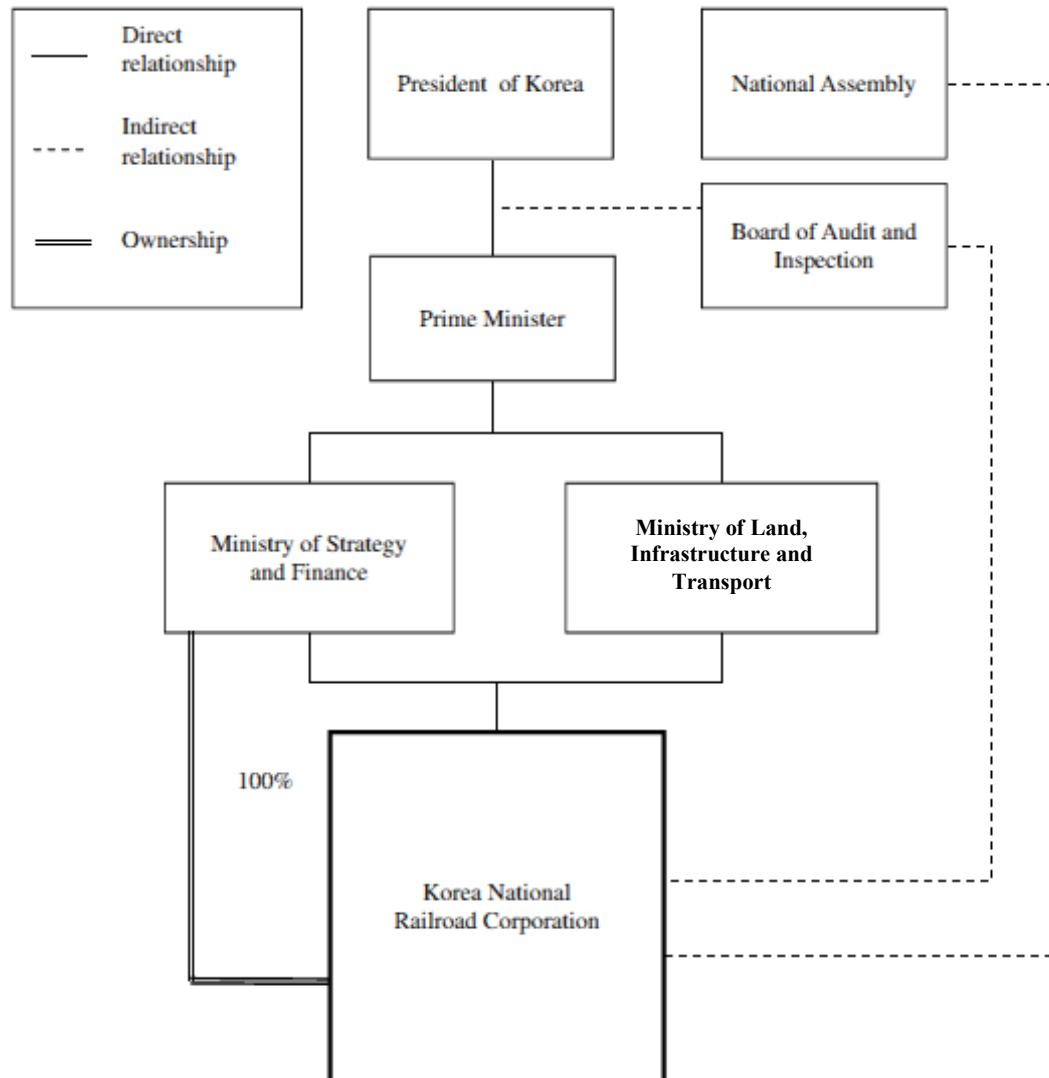
We are entrusted by the Government to operate and maintain the national railroad network pursuant to a legal framework that governs all railroad-related matters. Our business operations and management policy are subject to strict regulation by the Government and are supervised and evaluated by different Government bodies, principally the MOLIT. We function as a public arm of the MOLIT in executing national railroad operations and policies under its direct supervision, and in accordance with its policy direction. In addition to working closely with the MOLIT in performing the operation of the railroad network, we are also under the indirect purview of the MOSF, the BAI and the National Assembly, the main legislative body of Korea.

Pursuant to the KRC Act, the MOLIT approves our plan for bond issuances and supervises us on matters related to the management and operation of railroads to enhance the soundness of our financial structure and safety of railroads.

Based on the Act on the Operation of Public Institutions, the MOSF is responsible for overseeing establishment of our business objectives, monitoring and evaluating our operational and financial performance and overseeing our budget and approving revisions to our operating plans. We seek to develop execution plans to implement the broad policy objectives established by the MOSF.

We are audited on an ad hoc basis by the BAI which is an independent government agency that audits all governmental agencies and Government-controlled entities. Matters covered in the audit include a review of our budget, an audit of our financial statements and an inspection of our business operations and performance. The BAI reports its audit results to the National Assembly of Korea and the President. In addition, we report our budget to the MOSF. We are also subject to inspections and investigations from time to time by the National Assembly pursuant to the Act on Inspection and Investigation of Government Administration of 1988, as amended.

The chart below illustrates our ownership and supervisory structure.



The MOLIT guides and supervises our overall operations pursuant to the KRC Act. As our primary regulator, the MOLIT is tasked with the overall administration, guidance, supervision, planning, design, construction and development of the national railroad industry. Under the KRC Act, the Railroad Business Act and the Railroad Safety Act, the MOLIT is responsible for:

- designation and publication of, among other things, the number of rail lines, names of rail lines, terminal stations, major transit points (including stoppage stations) of the railroad business;
- designation and publication of ceilings on passenger railway tariffs in prior consultation with the MOSF. We are required to make a report to the MOLIT prior to setting our railway tariffs;
- approval of our railroad safety management policies; and
- approval of plans for the issuance and management of bonds prepared by us on an annual basis.

In addition, when it is deemed necessary to ensure the smooth operation of the railroad transportation

system, improve services, ensure the safety of transportation and promote public welfare, the MOLIT may require us to implement the following:

- changes in the railroad business plan submitted by us to the MOLIT when we applied for the license to operate our business;
- improvements in railroad cars, transport equipment and facilities;
- improvements in the method of collecting freight rates and passenger fares;
- changes in the contractual terms of the railroad business;
- execution of a joint transport agreement;
- subscription of insurance against any accident involving railroad cars and railroad damage;
- measures necessary to ensure the safety of transportation and the upgrade services; and
- education and training of workforce in railroad transportation.

Government Support

As the Government-owned entity mandated by the Government to operate and maintain the national railroad system, we receive support from the Government both financially and operationally. The KRC Act provides for various forms of discretionary Government support available to us, including:

- contribution by the Government of all of our operating assets as investments-in-kind (Article 4);
- contribution by the Government of 100% of our authorized capital of ₩22 trillion (Article 4);
- guarantees in respect of our repayment obligations on bonds issued by us (Article 11). To date, the Government has not provided any such guarantees pursuant to this Article;
- special financial assistance, including subsidizing our operating costs, extending loans and underwriting our bonds, for the purpose of fostering our long-term business normalization (Article 12);
- financial and administrative support in relation to the development of property and land adjacent or in proximity to railroad stations (Article 13); and
- lease of Government-owned property to us or permit us to use or to gain profit from such property without any consideration (Article 14, Clause 1) or allowing us to construct buildings and any other facilities on Government-owned properties (Article 14, Clause 2).

Since our establishment, we have received continued capital support from the Government, including:

- our initial paid-in capital of ₩8,486 billion was provided by the Government in 2005, and our paid-in capital (before issuance discount) has since increased to ₩10,251 billion as of December 31, 2017.
- the Government has to date contributed all of our operating assets, comprising mainly rolling stock, as investments-in-kind. The Government's financial support amounted to ₩1,012 billion, ₩737 billion and ₩687 billion in 2015, 2016 and 2017, respectively.
- Articles 32 and 33 of the Framework Act on the Development of the Railroad Industry provide that the Government shall enter into a contract with us to provide compensation for the cost of PSO services

provided by us and the amount of such compensation is determined to the extent agreed under the contract made between us and the Government. The Government provided ₩351 billion, ₩351 billion and ₩296 billion in capital support in respect of these obligations in each of 2015, 2016 and 2017, respectively. For the years between 2005 and 2016 (inclusive), the Government has generally compensated for approximately 78.6% of the cost incurred for PSO services provided by us.

- All railroad infrastructure in Korea, including the rail track which we utilize for our services, is owned by the Government and managed by the KRNA. The KRNA, on the Government's behalf, levies an annual charge for usage of such facilities. In order to use high-speed and conventional rail tracks, we pay stipulated amounts to the KRNA pursuant to the then-current facility usage agreements. In 2015, 2016 and 2017, our total usage fee payments to the KRNA for use of high-speed and conventional rail tracks amounted to ₩879 billion, ₩951 billion and ₩1,097 billion, representing 16.3%, 17.1% and 17.5% of our operating expenses for such years, respectively. The total usage fees paid in 2015, 2016 and 2017 consisted of (i) our facility usage fees paid for the use of high-speed rail tracks in the amount of ₩499 billion, ₩569 billion and ₩727 billion in 2015, 2016 and 2017, respectively and (ii) our facility usage fees for the use of conventional rail tracks amounted to ₩381 billion, ₩382 billion and ₩370 billion in 2015, 2016 and 2017, respectively. In connection with our usage of high-speed rail tracks, we are required to pay 34% of our operating revenue from our high-speed railroad business as usage fee. With respect to our usage of conventional rail tracks, we are required to pay a fixed usage fee, which generally represents 60% to 70% of the Government's reimbursement for our consignment services with respect to conventional rail tracks. The Government is currently considering a reform of the railroad usage fee structure into a "per-unit" usage fee system, which will be based on a formula that factors in actual railway and facility usage amounts.
- To enhance our operational efficiency, the Government is authorized to provide us with financing, from time to time, such as capital support for purchases of new rolling stocks. In 2015, 2016 and 2017, the Government provided ₩390 billion, ₩115 billion and ₩142 billion as capital support for purchases of new rolling stocks.
- The Government also compensates us annually for all costs associated with railroad maintenance and repair work consigned to us. Government consignment business revenues derived from such railroad maintenance and repair work consigned to us amounted to ₩1,046 billion, ₩1,031 billion and ₩936 billion in 2015, 2016 and 2017, respectively.

We also benefit from certain other Government initiatives and activities, such as:

- fostering of professional workforce for the railroad industry;
- development of railroad technology and improvement of the railroad operation system;
- promotion, implementation and management of a railroad transport database;
- policy and institutional support regarding rate increases; and
- nation-wide promotion of railroad-related businesses.

Government Railroad Policy and Restructuring of Korean Railroad Industry

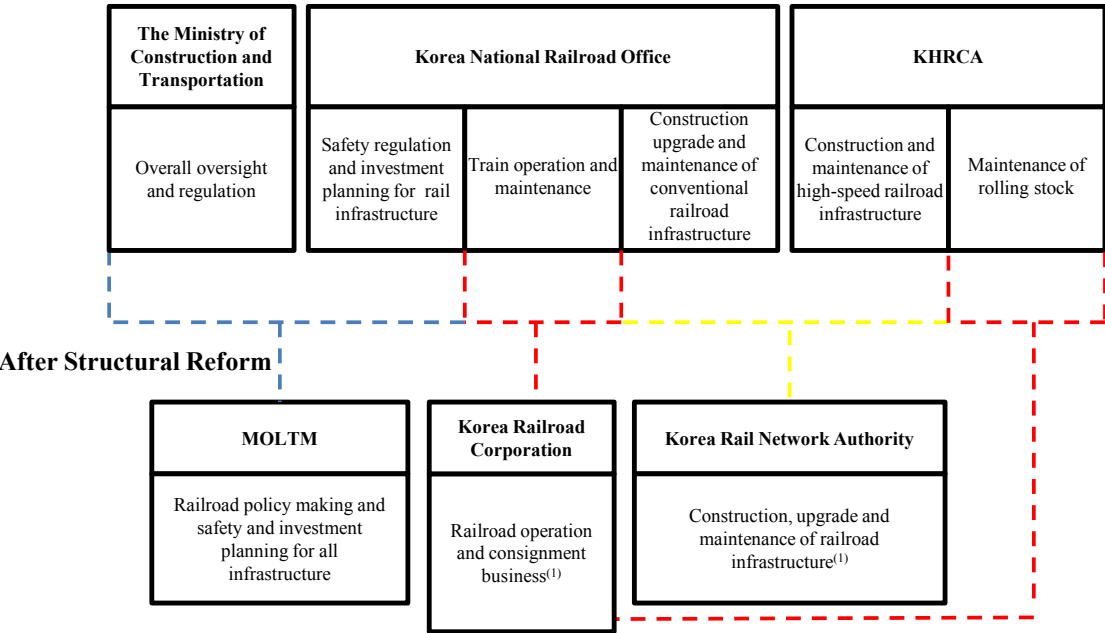
Until the 1970s, railroads were a major mode of transportation in Korea. However, with the introduction and development of other means of transport, in particular the rapid development of, and the Government's significantly greater investment in, road transportation, demand for rail services fell and the railroad industry gradually lost its market share to other means of transportation. The Government recognized the untapped potential of railroad transportation as a cost-effective, fast, reliable, safe and environmentally-friendly means of transport of both passengers and freight and the vital strategic role that railroad transportation can play in the further social and economic development of Korea. To increase the competitiveness and efficiency of the railroad industry and

improve the standards of the industry, such as safety regulation, the Government commenced structural reforms in 1999, introducing the Framework Act on the Development of the Railroad Industry, which sets out the framework for the structural reform and sets the foundation for the development of the national railroad industry (the “Restructuring Plan”).

The Restructuring Plan separated each of the operations, infrastructure, construction and regulatory functions and was intended to achieve the long-term business and operational stability and financial viability of national railroad operations through the revitalization and expansion of national railroad services as an important mode of transportation throughout the country. Further to the Restructuring Plan, the Korea High-Speed Rail Construction Authority (the “KHRCA”) was dissolved and a new wholly Government-owned entity, the KRNA, was established as the new authority responsible for the construction and maintenance of all railroad infrastructure (including both conventional and KTX rail). All infrastructure and rail facilities-related assets and liabilities of the KHRCA were accordingly transferred to the KRNA. In 2005, the Korea National Railroad Office (the “KNRO”) was dissolved, and we were established in the same year pursuant to the KRC Act for the primary purpose of operating national railroad services. All transportation-related assets of the KNRO and all operational assets and liabilities of the KHRCA were transferred to us accordingly.

The diagram below illustrates the roles and functions within the Korean railroad industry of the various entities before and after the structural reform.

Before Structural Reform



Note:

⁽¹⁾ Our railroad facility maintenance, repair and upgrade work is consigned by the Government.

Budget and Financing Plan Formulation Process

We fund our operations through our internal annual budget and a portion of the Government’s annual budget allocated to us, which together, form our total annual budget.

Our internal budget is determined by our board of directors in accordance with guidelines set by the MOSF and following consultation with the MOLIT and the MOSF. Each year, we initially prepare a draft budget plan

based on the previous year's guidelines and our medium-to-long term business plan. Once the new guidelines by the MOSF are set, the draft budget plan is approved by our Management Strategy Committee and is subsequently reported to the MOSF and the MOLIT for consultation. The final draft budget plan for a following year is approved by our board of directors before the end of the preceding year. In accordance with the Act on the Operation of the Public Institutions, the finalized internal budget is then reported to the MOLIT, the MOSF and the BAI.

The National Assembly allocates a portion of the Government's annual budget to us to cover the cost of our operations to be borne by the Government, such as compensation relating to PSO services undertaken by us and Government-mandated operations and facility modernizations. At the beginning of each calendar year, we submit a draft plan for Government-funded operations to the MOLIT and the MOSF. The MOLIT then sets the guidelines for the allocation of the Government's annual budget to us. Based on the guidelines, we prepare and submit a request for allocation of the Government budget (the "KRC Budget Plan") to the MOLIT and, after their consideration and adjustments, the KRC Budget Plan is then passed onto the MOSF for their further consideration and adjustments. The MOSF then submits the KRC Budget Plan to the National Assembly together with the draft Government budget. Following consultation with the Construction and Transportation Committee and the Special Committee on Budget and Accounts within the National Assembly, the final KRC Budget Plan is approved at the main session of the National Assembly together with the approval of the Government budget.

For the years ended December 31, 2015, 2016 and 2017, our total annual budget amounted to ₩7,404 billion, ₩7,267 billion and ₩6,989 billion, respectively.

Railway Tariffs

Our railway tariffs, consisting of fares and fees charged on passenger and freight transport, are determined in accordance with Article 9 of the Railroad Business Act. Article 9 provides that our railway tariffs must take into account factors such as the cost basis and equitableness with respect to rates of other transport means and be set within the maximum limits prescribed by the MOLIT. The MOLIT determines the maximum limits on railway tariffs and any adjustments thereto after consultation with the MOSF, taking into account the aforementioned factors. We are required to set our tariff structure within such maximum tariff limits and report our tariff structure and any adjustment thereto to the MOLIT.

On March 28, 2008, the Government promulgated the amended Railroad Business Act to eliminate the railway tariff ceiling applicable to our railway tariffs for freight transport. The amended Railroad Business Act, while eliminating the railway tariff ceiling applicable to freight transport, retains the existing railway tariff ceiling on "direct consideration" charged for passenger transport. The amended Railroad Business Act, however, has eliminated the railway tariff ceiling on "consideration for facility and service" charged for passenger transport. It is generally understood that such elimination of the railway tariff ceiling on "consideration for facility and service" charged for passenger transport has removed the ceiling on first class tariffs for KTX transport. This amendment became effective as of June 28, 2008.

Regulations

Below is a summary of regulations applicable to us and the railroad industry in Korea. Discussion of Korean corporate or tax law is not included.

The KRC Act

Under the KRC Act, we were established as a statutory entity to enhance efficiency of railroad operations. To achieve these objectives, the KRC Act provides that we may engage in the following activities, among others:

- passenger and freight transportation services as well as other transportation services linking railroad and any other mode of transportation;
- manufacturing, sale, maintenance and lease of railroad equipment and railroad goods;

- maintenance and lease of railroad cars;
- services consigned by governmental organizations or other public institutions such as maintenance and repair of railroad facilities; and
- property development around stations for convenience of passengers, including construction of general office facilities, shopping malls, parking lots, passenger vehicle terminals and cargo terminals.

In addition, the KRC Act provides that we may issue bonds up to five times our paid-in capital and reserves upon resolution of our board of directors. The KRC Act further provides that we shall formulate a plan on issuance and management of bonds within two months of the date on which our budget is determined pursuant to the Act on the Operation of Public Institutions and shall obtain approval for such plan from the MOLIT. The KRC Act provides that the Government may guarantee repayment of principal and interest payments on bonds issued by us.

The KRC Act provides that, if we record profit for any fiscal year, we are required to allocate such profit in the following order: (i) set-off of any previous losses carried forward; (ii) establishment of profit reserves in an amount equal to or greater than two-tenths of the profit (until such time as the total reserves reach the amount equal to one half of our paid-in capital); (iii) establishment of business expansion reserves in an amount equal to or greater than two-tenths of profit (until such time as the total reserves reach the amount equal to our paid-in capital); and (iv) contribution to the national treasury. In the event that we record loss in any fiscal year, such loss is offset from our business expansion reserves. If our business expansion reserves are insufficient to make up for the loss, then the remaining loss is to be offset from profit reserves. In case of insufficient profit reserves, the remaining loss is to be carried forward to the next fiscal year.

The MOLIT may guide and supervise our business to the extent required to facilitate achievement of our management objectives.

Act on the Operation of Public Institutions

The Act on the Operation of Public Institutions governs all Government-controlled enterprises. We are subject to the Act on the Operation of Public Institutions as the Government owns more than 50% of our paid-in capital. The Act on the Operation of Public Institutions regulates general matters such as obligations to report business performance, procedures for enacting and amending articles of incorporation, process of forming boards of directors and issuing resolutions, appointment and removal of management personnel, duties of officers, budgeting, submission of financial statement, disclosure of business operations, and inspection of operations and management of Government-controlled institutions, including us.

Other Regulations

We are subject to the following and other laws and regulations that regulate our business and operations:

- Under the Framework Act on the Development of the Railroad Industry, the MOLIT formulates a five-year framework plan on railroad industry development. Also, the Railroad Industry Committee was established to discuss material issues relating to the railroad industry.
- The Railroad Business Act was enacted to manage railroad operation in furtherance of development of Korea's national economy, by promoting operational efficiency and development. This Act imposes a tariff ceiling on "direct consideration" charged for passenger transport with which we must comply. The ceiling on freight fare and "consideration for facility and service" charged for passenger transport has been eliminated by an amendment to this Act, which became effective as of June 29, 2008.
- Under the Railroad Safety Act, the Government manages railroad safety standards and safety system for passengers.

- Under the Industrial Safety and Health Act, the Government regulates safety of railway employees.
- Under the Railroad Construction Act, the Government manages construction of railroad network and station facilities.

BUSINESS

Overview

We are the sole Government-owned national railroad operator, providing passenger and freight railroad transportation services across national network connecting major cities, ports and regions throughout Korea. We also provide subway rail services encompassing the Seoul metropolitan area, as well as tourist railways to certain popular tourist destinations. In addition, we provide Government-consignment services and other related services, such as property development, overseas consulting, tourism services and retail business.

We were established by the Government as a statutory entity for the primary purpose of operating national railroad services, pursuant to the KRC Act on January 1, 2005 in connection with Restructuring Plan. The KRNA constructs and maintains the Government-owned railroad facilities. The Government, through the MOLIT, our primary regulator, and the MOSF, regulates our activities and owns all of our equity. Therefore, the Government exerts significant influence on our policies and operations. For further details on the restructuring of the railroad industry, see *“Relationship with the Government — Government Railroad Policy and Restructuring of the Korean Railroad Industry”*.

We are mandated by the Government to promote efficiency of railroad operations. We aim to fulfill the mandate through the following policy objectives:

- Development of railroad as a key means of transportation in order to promote long-term economic and social development throughout various regions of Korea;
- Improvement of efficiency of railroad services by maximizing allocation of resources, such as transformation of an unprofitable train station into an unmanned station to reduce operating costs and development of train station area as a multi-purpose complex offering shopping and retail services, tourist assistance centers and transportation services;
- Provision of environmentally-responsible rail services; and
- Fulfillment of public service obligations such as fare discounts for certain disadvantaged groups or provision of rail services to less populated or remote areas despite unprofitability of such services.

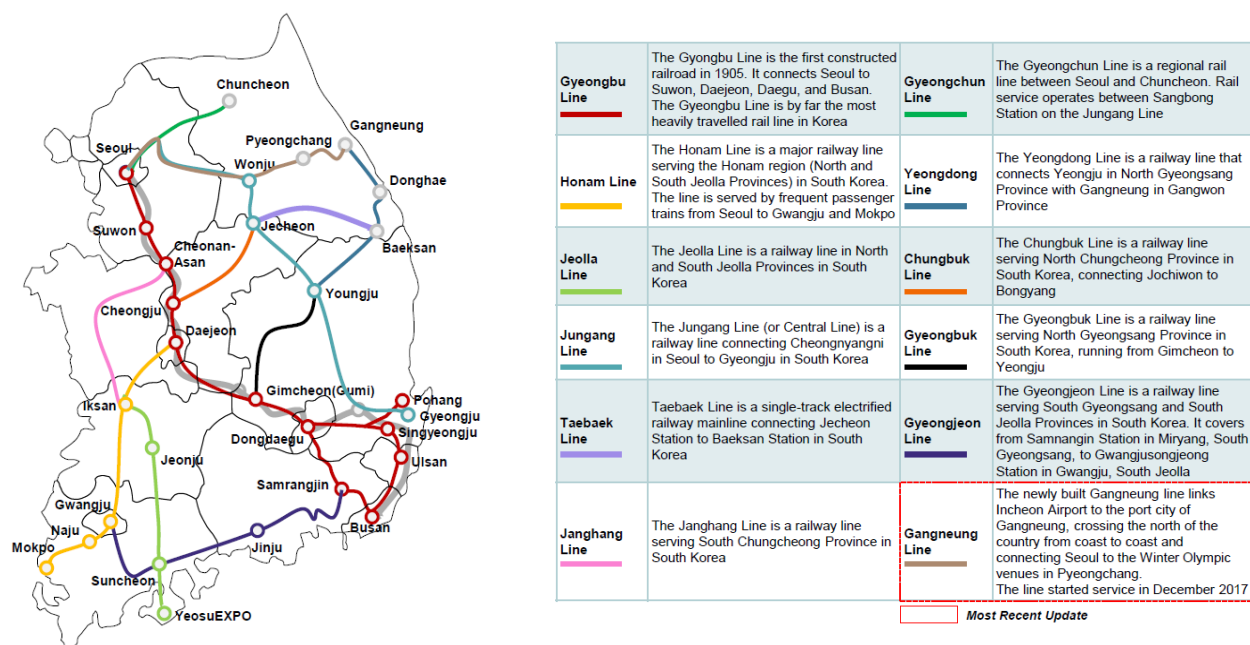
As a Government-owned entity charged with executing public policy objectives, our business objective is not the maximization of our profitability. Our business scope is subject to extensive regulation and our operations rely heavily on financial support from the Government. For a discussion on our relationship with the Government, see *“Relationship with the Government”*. As part of our financial strategy, we will seek to continue to rely on support from the Government, such as capital support for PSO services and compensation for railroad facility usage fees while striving to increase our financial sustainability by improving our operational capacity and service quality.

We serve seven of Korea’s most populated cities, Seoul, Busan, Daegu, Incheon, Daejeon, Gwangju and Ulsan, which together account for nearly half of the country’s population. All of the rail track is national property and managed by the KRNA. The KRNA, on the Government’s behalf and under its license, levies an annual charge for usage of the facilities it manages. See *“Relationship with the Government — Government Support”*.

Our organization includes six business headquarters consisting of Safety Innovation, Passenger Business, Logistics Business, Metropolitan Railroad, Business Development and Engineering, and 12 regional headquarters (covering major metropolitan regions). Our conventional and KTX rail networks comprise a total of 96 lines throughout Korea (and 15 lines linking Korea’s most populated metropolitan areas) and our metropolitan rail transit network comprises 12 main lines connecting Seoul and the greater metropolitan area. Our consolidated subsidiary SR operates a separate high-speed line from Suseo that joins the two KTX lines connecting Seoul and Busan and Seoul and Mokpo. Our passenger railroad networks extend over the total operating distance of 3,857.3 kilometers, which include the operating distance of 596.3 kilometers for our KTX railroad network. As of December 31, 2017,

we had 697 stations servicing our KTX, conventional, metropolitan and freight transportation operation. As of the same date, we had 531 passenger stations, of which 41 were KTX rail stations. We also owned 37 train signaling stations, seven train signal centers and two train depots. In addition, as of December 31, 2017, we owned a total of 16,840 railroad vehicles, including 1,530 KTX locomotives, 280 diesel locomotives, 920 ordinary passenger cars, 2,622 electric railroad vehicles, 10,865 freight cars and 15 other car types.

The following map shows our railroad network in Korea as of the date of this Offering Circular.



In 2017, approximately 60 million, 68 million and 1,166 million passengers used our KTX, conventional and metropolitan railroad services, respectively. Our annual freight transportation volume amounted to 32 million tons in 2017. A majority of our sales revenue consists of proceeds from passenger fares. Our tariff structure is determined by the MOLIT in accordance with Article 9 of the Railroad Business Act. See “*Relationship with the Government — Railway Tariffs*”.

We recorded revenue of ₩5,516 billion, ₩5,694 billion and ₩5,787 billion for the years ended December 31, 2015, 2016 and 2017, respectively. For the same years, we recorded operating income of ₩114 billion and ₩122 billion in 2015 and 2016, respectively, and operating loss of ₩470 billion in 2017. As of December 31, 2017, our total assets (consisting principally of passenger cars and rolling stock, land and buildings) amounted to ₩19,878 billion.

Our headquarter is located at 240 Jungang-ro, Dong-gu, Daejeon, Korea, 34618.

Business Segments

We have six main business segments in the areas of (i) high-speed rail passenger transportation, (ii) conventional rail passenger transportation, (iii) metropolitan railroad transportation, (iv) freight and logistics services, (v) other related business and (vi) Government-consignment services.

High-Speed Rail Passenger Transportation

We derive a substantial portion of our revenue from our high-speed rail passenger services, commonly referred to as “KTX”. We offer KTX services on six rail routes: (i) the Gyeongbu Line, which connects Seoul to Busan, (ii) the Honam Line, which runs from Yongsan to Mokpo, (iii) the Donghae Line, which runs from Seoul to Pohang, (iv) the Kyungjeon Line which runs from Seoul to Jinju, (v) the Jeolla Line which runs from Yongsan to

Yeosu EXPO and (vi) the Gangneung Line which runs from Incheon Airport to Gangneung. The current travel time between Seoul and Busan on KTX trains is approximately 2 hours and 15 minutes, compared to approximately 4 hours and 43 minutes by the first class conventional train. Likewise, the current travel time between Seoul and Mokpo on KTX trains is approximately 2 hours and 15 minutes, compared to approximately 4 hours and 29 minutes by the first class conventional train.

In June 2016, the Government announced its 10-year plan to expand KTX railroads that will shorten travel times between Seoul and other nearby cities including Songdo, Gunpo and Dongtan to less than thirty-minutes (which currently take 87 minutes, 53 minutes and 82 minutes, respectively). In addition, the plan will also seek to reduce travel time between a number of major cities in Korea to under two to three hours (currently, it can take up to 7.5 hours by conventional train depending on destinations). It is expected that the Government will invest roughly ₩70 trillion for the 10-year plan.

Since 2005, we have also developed and utilized a big-data driven sales system to predict demand and vacant seats, thereby making timely offer of promotion. The KTX ride rate (passenger-kilometer divided by seat distance) increased from 59.6% in 2013 to 62.8% in 2016 (excluding SR ride rate). In addition, the KTX ridership increased from 54,744 passengers in 2013 to 64,617 passengers in 2016 (excluding SR ridership).

In November 2016, we reintroduced the mileage system which we stopped offering in 2013. Under our mileage system, our KTX customers receive back 5% of ticket price in mileage points (and 10% for certain designated KTX rides) and may use the mileage points to purchase our rail tickets and make other purchases at convenience stores operated by our consolidated subsidiary, KORAIL Retail Co., Ltd. We plan to further expand the types of purchases that our customers may be allowed to make with their mileage points.

Our revenue from high-speed rail passenger services amounted to ₩1,927 billion, ₩2,087 billion and ₩2,378 billion, representing 34.9%, 36.6% and 41.1% of total revenue in 2015, 2016 and 2017, respectively.

Conventional Rail Passenger Transportation

We provide our conventional rail services through first class (called *Saemaeul*) and second class (called *Mugunghwa*) carriages. We provide conventional railroad passenger services on all of our 15 major rail routes linking the major cities of Korea. Most conventional railroad routes start from the Seoul Station located near downtown Seoul, which is the most important and busiest train station in our network. Our conventional rail passenger transportation is provided on the following lines:

- Gyeongbu Line (Seoul to and from Busan)
- Honam Line (Yongsan to and from Mokpo)
- Janghang Line (Cheonan to and from Iksan)
- Jeolla Line (Iksan to and from Yeosu Expo)
- Chungbuk Line (Jochiwon to and from Bongyang)
- Gyeongbuk Line (Gimcheon to and from Yeongju)
- Daegu Line (Gachon to and from Yeongcheon)
- Donghae Nambu Line (Busanjin to and from Pohang)
- Gyeongjeon Line (Samnangjin to and from Gwangjusongjeong)
- Jungang Line (Cheongnyangni to and from Gyeongju)

- Taebaek Line (Jecheon to and from Baeksan)
- Youngdong Line (Yeongju to and from Gangneung)
- Gyeongwon Line (Yongsan to and from Baengmagoji)
- Gyeongui Commuter Line (Munsan to and from Dorasan)
- Gangneung Line (Incheon Airport to and from Gangneung)

To promote ridership, we have also introduced five new railroad trip courses linking tourist destinations in Korea, such as the DMZ zone rail tour in the northwest region and the oceanic rail tour in the southern region. The ridership of these trip courses increased from 356,164 passengers in 2013 to 1,167,752 passengers in 2017. In addition, we develop rural flag stops into tourist attractions and operate temporary-chartered trains during peak tourist seasons.

The Government established a double-track railway connecting Sunnam and Yeosu for a total distance of 57.0 km in September 2016 and a double-track railway connecting Bujeon and Ilgwang for a total distance of 28.5 km in December 2016. Construction of the double-track railways is ongoing as of the date of this Offering Circular.

Our revenue from conventional rail passenger services amounted to ₩514 billion, ₩484 billion and ₩471 billion, representing 9.3%, 8.5% and 8.1% of total revenue in 2015, 2016 and 2017, respectively.

Metropolitan Railroad Transportation

We also operate subway commuter rail lines in the Seoul metropolitan area. Subway lines in the Seoul metropolitan area are currently being operated by us, as well as Seoul Metropolitan Subway (“Seoul Metro”) and other smaller operators. As of December 31, 2017, our metropolitan railroad transportation network extended over 619 kilometers and comprised a total of 261 metropolitan stations. In 2017, an average of 3.2 million passengers used our metropolitan rail services per day. Our metropolitan railroad transportation services are provided on the following commuter lines:

- Gyeongbu Line (Seoul to and from Cheonan, 96.6 kilometers)
- Gyeongin Line (Guro to and from Incheon, 27.0 kilometers)
- Gyeongwon Line (Cheongnyangni to and from Soyo Mountain, 42.9 kilometers)
- Gyeongui and Central Line (Munsan to and from Jipyeong, 122.3 kilometers; and Munsan to and from Seoul, 46.3 kilometers)
- Gwacheon and Ansan Line (Namsaeryeong to and from Oido, 40.4 kilometers)
- Suin Line (Oido to and from Incheon, 19.9 kilometers)
- Bundang Line (Wangsimni to and from Suwon, 52.9 kilometers)
- Ilsan Line (Jichuk to and from Daehwa, 19.2 kilometers)
- Janghang Line (Cheonan to and from Sinchang, 19.4 kilometers)
- Gyeongchun Line (Sangbong to and from Chuncheon, 81.3 kilometers; and Mangu to and from Chuncheon, 80.7 kilometers)

The Gyeongbu Line regularly carries the highest number of passengers. The Gyeongbu, Gyeongin, Gyeongwon, Gyeongui, Central, Ansan and Bundang Lines also operate express rail car trains.

As of December 31, 2017, Seoul Metro's transit operation network comprised eight lines for a total distance of 300.1 kilometers, connecting 277 stations. In 2017, an average of 7.3 million passengers used Seoul Metro's services.

On August 17, 2015, the Government announced its plan to construct additional 46.9 kilometers of metropolitan railway (tentatively called the New Ansan Line) by 2023. Upon completion, the New Ansan Line will connect Ansan and Yoeuido in approximately 30 minutes, a third of the current travel time between the two destinations. The Government will finance the New Ansan Line under the "BTO-rs" model—a mode of public-private partnership whereby expenses, risks and profits of the expansion are shared between the Government and the private funding partner.

Our revenue from metropolitan railroad services amounted to ₩828 billion, ₩934 billion and ₩886 billion, representing 15.0%, 16.4% and 15.3% of total revenue in 2015, 2016 and 2017, respectively.

Freight and Logistics Services

We provide commercial freight transportation services via our railroad routes, through an operating distance of 3,064.3 kilometers. Like our passenger railroad services, our freight rail system is computerized including computerized cargo tracking. We also have co-operative arrangements with freight transportation providers in other countries, such as Japan where we offer three-day delivery service between Korea and Japan utilizing railroad and sea transportation.

For the years ended December 31, 2015, 2016 and 2017, freight volume amounted to 37.1 million tons, 32.6 million tons and 31.7 million tons, respectively. Freight cargo consists primarily of bulk traffic such as cement and container freight, which collectively accounted for approximately 68.5% of the total volume of cargo transported for the year ended December 31, 2017. As part of our efforts to improve efficiency, we have increased the maximum freight transportation speed from 90 km/h to 120 km/h, thereby reducing up to 72 minutes of transportation time. We introduced the concept of "Closing-Time", our initiatives for timely departure and real-time monitoring of railroad traffic.

In recent years, we have expanded our operations of large-scale freight trains and high-speed freight trains to bolster our freight transportation services. We plan to enhance operational flexibility of such trains by accommodating volume fluctuations based on seasons and days of the week.

Our revenue from freight and logistics services amounted to ₩386 billion, ₩333 billion and ₩334 billion, representing 7.0%, 5.8% and 5.8% of total revenue in 2015, 2016 and 2017, respectively.

Other Related Business

We utilize properties in, adjacent to or above our rail stations, including by means of property lease and property development based on the Government-granted development right over such properties. We seek to position our stations as multi-purpose commercial complexes that attract visitors and boost rail ridership. Our third-party developers, who are selected through a bidding process, provide property development services in accordance with our specifications. Typically, the developers are responsible for all development costs (including payment of premium on Government-owned land as well as construction, marketing and financial expenses), and bear risks associated with the property development. We share with the developers profits from sale or lease of completed development projects. We also provide railway maintenance and consulting services overseas. The range of our services include (i) sale of used locomotives and engines in conjunction with provision of maintenance and consulting services relating to such locomotives and engines, (ii) employee training and (iii) consultation for railroad signal system improvement. As of December 31, 2017, we have outstanding business orders for our services from various countries, including Tanzania, Myanmar, Vietnam and the Philippines.

Our revenue from related services amounted to ₩178 billion, ₩167 billion and ₩178 billion, representing 3.2%, 2.9% and 3.1% of total revenue in 2015, 2016 and 2017, respectively.

Yongsan Development Project

One of our key property development projects included the development of surrounding areas of Yongsan station into a comprehensive multi-purpose complex (the “Yongsan Development Project”). The Yongsan Development Project was initiated in 2006 by the Government to diversify its revenue sources and improve the management of its railroad system. As part of a consortium comprising 17 construction companies, four financial companies and five other service companies, we won the Government bid to carry out the Yongsan Development Project. However, in 2013, due to financial difficulties, the project was cancelled. Prior to the cancellation, we had sold approximately 356,449 square meters of land to be used for the Yongsan Development Project. We reclaimed approximately 39% of such land and subsequently won a lawsuit to reclaim the rest. See “*Business – Litigation – Litigations Regarding Yongsan Station Area*”.

Government-Consignment Services

The KRNA consigns us to maintain, repair and upgrade (i) all railroad infrastructure, comprising primarily of rail tracks, electric supply infrastructure, railway traffic control centers, stations and buildings, (ii) rolling stocks, and (iii) railroad facilities such as bridges, tunnels and embankments in Korea. We enter into consignment contracts with the KRNA to provide such maintenance, repair and improvement services. The Government compensates us annually for all costs associated with railroad maintenance and repair work consigned to us.

Our revenue from consignment business amounted to ₩1,046 billion, ₩1,031 billion and ₩936 billion, representing 19.0%, 18.1% and 16.2% of total revenue in 2015, 2016 and 2017, respectively.

Facility Usage Arrangement with the KRNA

All railroad infrastructure in Korea, including the rail track which we utilize for our services, is owned by the Government and managed by the KRNA. The KRNA, on the Government’s behalf, levies an annual charge for usage of such facilities. In order to use high-speed and conventional rail tracks, we pay stipulated amounts to the KRNA pursuant to the then-current facility usage agreements. In 2015, 2016 and 2017, our total usage fee payments to the KRNA for use of high-speed and conventional rail tracks amounted to ₩879 billion, ₩951 billion and ₩1,097 billion, representing 16.3%, 17.1% and 17.5% of our operating expenses for such years, respectively. The total usage fees paid in 2015, 2016 and 2017 consisted of (i) our facility usage fees paid for the use of high-speed rail tracks in the amount of ₩499 billion, ₩569 billion and ₩727 billion in 2015, 2016 and 2017, respectively and (ii) our facility usage fees for the use of conventional rail tracks amounted to ₩381 billion, ₩382 billion and ₩370 billion in 2015, 2016 and 2017, respectively. In connection with our usage of high-speed rail tracks, we are required to pay 34% of our operating revenue from our high-speed railroad business as usage fee. With respect to our usage of conventional rail tracks, we are required to pay a fixed usage fee, which generally represents 60% to 70% of the Government’s reimbursement for our consignment services with respect to conventional rail tracks. The Government is currently considering a reform of the railroad usage fee structure into a “per-unit” usage fee system, which will be based on a formula that factors in actual railway and facility usage amounts.

Public Service Obligations

As required under the Framework Act on the Development of the Railroad Industry, we provide conventional railroad, metropolitan railroad and freight and logistics transport services that discharge our PSO obligations. The PSO services we provide include fare discounts on our conventional and metropolitan railroad services for certain disadvantaged groups such as the elderly and other population, provision of conventional railroad services in less populated or remote areas and operation of special purpose trains for high-level Government delegations. These services are not undertaken to generate profit but as part of our Government mandate to promote the social good. Revenue generated from our PSO services amounted to ₩351 billion, ₩351 billion and ₩296 billion, representing 6.4%, 6.2% and 5.1% of total revenue in 2015, 2016 and 2017, respectively.

Government Funding for PSO Services

Articles 32 and 33 of the Framework Act on the Development of the Railroad Industry provide that the Government shall enter into a contract with us to reimburse cost of our PSO services. We enter into a contract with the MOLIT on an annual basis for provision and reimbursement of our PSO services. The Government determines amount of reimbursements, based on the national budget allotted for the overall funding of PSO services offered by all Government-owned entities including us. On average, for the years between 2005 and 2016, approximately 78.6% of the cost incurred for the PSO services we provide has been recovered. See “*Relationship with the Government*”.

In 2015 and 2016, aggregate PSO funding received from the Government as partial reimbursement amounted to ₩351 billion and ₩351 billion, representing approximately 79.3% and 78.0% of our incurred costs. For the year ended December 31, 2017, 49.7%, 49.3% and 1.0% of the total reimbursement amount were granted for fare discounts, provision of railroad operations to remote areas and operation of special purpose trains, respectively.

Determination of Railway Tariffs

Our railway tariffs, or fares and fees charged to our passengers and freight customers, are subject to strict regulation by the MOLIT pursuant to Article 9 of the Railroad Business Act, which requires the MOLIT, in consultation with the MOSF, to set the railway tariff ceiling. See “*Relationship with Government — Railway Tariffs*”. Accordingly, we may not recover all of our operating and other costs. In general, our management reviews our tariffs annually and sets the tariff levels within the railway tariff ceiling prescribed by the MOLIT.

Individual passenger fares for both railroad and metropolitan subway services are ordinarily charged according to travel distance, type of railroad service (whether KTX, conventional or metropolitan transportation) and quality of service offered. Pursuant to a change in regulation that went into effect on June 30, 2016, we operate a separate fare system for freight fares taking into account factors such as competition with other modes of transportation and market conditions.

Procurement

Approximately 72% of our railroad network, by track miles, is electrified. We purchase electricity from Korea Electric Power Corporation on fixed term contracts. We obtain our diesel fuel in respect of diesel powered trains from major domestic diesel providers under annual contracts, subject to monthly adjustments.

To date, the Government has contributed all of our operating assets, comprising mainly rolling stock, as investments-in-kind in accordance with the KRC Act. The Government’s capital support for purchases of rolling stock amounted to ₩390 billion, ₩115 billion and ₩142 billion in 2015, 2016 and 2017, respectively. Rolling stock is sourced by the Government from domestic and overseas suppliers.

Property, Trains and Equipment

The following table sets out details of our property, trains and equipment as of December 31, 2017.

(In billions of Korean Won)

	Acquisition cost	Government grants ⁽¹⁾	Accumulated depreciation	Accumulated impairment loss	Book value
Land ⁽²⁾	₩ 9,849	(7)	-	-	9,842
Buildings	1,988	(104)	(453)	-	1,431
Structures	305	(10)	(116)	(1)	179
Machinery	1,165	(73)	(718)	-	374
Servers	8	-	(2)	-	6
Trains	8,295	(340)	(2,672)	-	5,283
Vehicles	57	0	(39)	-	18
Furniture and fixtures	18	0	(14)	-	3
Tools	139	0	(105)	-	34
Construction-in- progress	169	(12)	-	-	157
Financial lease assets	2	-	(2)	-	0
Other tangible assets	32	-	(1)	-	31
Total	₩ 22,025	(544)	(4,123)	(652)	17,358

Notes:

- (1) In accordance with the Korean Government-owned and Quasi-government Accounting Regulation and Standards, government grants used for acquisition of certain assets are deducted from the acquisition cost of the acquired assets and such grants are offset against depreciation expenses of the acquired assets during the useful lives of such assets.
- (2) In 2017, we undertook a revaluation of our land in accordance with K-IFRS, which resulted in an increase of the land value by ₩1,271 billion.

Safety Standards and Environmental Matters

The Industrial Safety and Health Act regulates safety of railway employees and the Railroad Safety Act regulates safety of railway passengers. The Industrial Safety and Health Act established safety and health standards for accident prevention and promotion of safe working environment. In addition, under the Railroad Safety Act, we are required to ensure soundness of rail infrastructure that we utilize as well as to formulate and implement safety regulations under the guidance of the MOLIT. Under the Railroad Safety Act, the MOLIT conducts a comprehensive review of our safety protocol and operational practice, and we are required to operate passenger cars or rolling stocks that satisfy safety standards set forth by the MOLIT. All managerial staff with responsibilities for railroad infrastructure or train maneuvers are given defined safety functions. Employees are also required to observe our general safety policy tailored to their particular functions. We regularly review and update our safety standards and carry out periodic safety audits of our operation.

We, our Directors and our employees may incur civil and/or criminal liability if we fail to comply with safety requirements applicable to our operations, including the above-mentioned legislations. Through our safety management practice, we seek to take preventative measures against accidents. In case of an accident, independent investigations are carried out and certain safety improvements may be recommended. Our policy is to implement such recommendations to the extent that they are reasonably practicable and cost-effective.

Our operations are subject to environmental laws and regulations in the areas of air and noise pollution and hazardous substances. We have environmental management systems in place to monitor our environmental performance and believe that we are in compliance with all applicable environmental laws and regulations.

Operational and Information Systems

We consider information management crucial to our operation. We use specialized information systems of varying complexity to manage and monitor our operation such as scheduling departure/arrival timetable and maintaining our physical assets. Our information system staff operate as a single service provider for all of our operations. Our centralized traffic control centers manage traffic flows of our rail network. Train routes are set by our computer system directly from the working timetable on a real-time basis, taking account of actual train movements and on-the-ground variables, such as maintenance or train failure.

Employees and Labor Relations

As of December 31, 2017, we employed a total of 26,352 employees. We are committed to ensuring that all of our employees possess the required skills and knowledge to undertake their responsibilities. We provide a comprehensive program of on-going job education and training, including formal courses at external training centers, in-house training as well as on-the-job training.

Union membership is not compulsory for our employees. There are five labor unions and as of December 31, 2017, approximately 76.2% of our employees were members of the unions. We and the unions negotiate a collective bargaining agreement every two years and a wage agreement annually. The current collective bargaining agreement expired on May 12, 2018, and we are currently negotiating a renewal. The wage agreement for 2018 is expected to be negotiated and finalized in the fourth quarter of 2018, and upon execution, it will retrospectively apply to the calendar year 2018.

Although we aim to maintain effective communications with our employees, we have, from time to time, experienced disagreements with certain of our employees and strikes organized by the labor unions. The last major

organized labor dispute was in the second half of 2016 whereby our unionized workers conducted a strike which lasted for 74 days, the longest rail strike in Korea, in response to our plan to implement a performance-based pay system. We dismissed the workers in connection with the strike and are currently in a lawsuit against the Korea Railroad Industry Workers' Union for alleged illegal business interruption.

Litigation

As of December 31, 2017, we were involved in 198 different court proceedings, out of which 88 were claims made against us amounting to approximately ₩233 billion in the aggregate. Such claims generally alleged operational mismanagement and negligence. The remainder of the claims are mostly related to contractual disputes arising in connection with construction or property development projects.

While we are unable to predict the ultimate disposition of these claims, we believe that these claims are not expected to have a material adverse effect on our operations. As of the date of this Offering Circular, we are not and none of our subsidiaries are involved in any litigation or arbitration proceedings which are material in the context of the issue of the Notes and we are not aware of any pending or threatened litigation or arbitration.

Litigations Regarding Yongsan Station Area

In 2007, we established the Dream Hub Project Financial Investment Co., Ltd. ("DHPFI"). We held 25% interest in DHPFI, while City of Seoul and Dream Hub Consortium held 4.9% and 70.1% interest, respectively. We, together with the Dream Hub Consortium, proceeded with the development of the Yongsan Station area. Due to an economic recession in Korea and financing difficulty, however, the project was cancelled in 2013.

In July 2013, the members of DHPFI and other stakeholders brought a claim against us alleging our contractual obligation for ₩240 billion under a contract performance bond for the project agreements and land disposal contracts. We won the trial and the plaintiffs appealed the trial court's decision. The appeals court affirmed the trial court's decision, which the plaintiffs subsequently appealed, and the case is currently pending before the Supreme Court. Furthermore, as a result of the project's cancellation, we recognized business cancellation losses of ₩4,662 billion, primarily composed of uncollected proceeds from the original sale of the land that was to be developed into the Yongsan Station area.

In 2013, we returned the payment of ₩2,417 billion and regained the ownership on part of the land disposed to DHPFI (138,908.4 m², 38.97% of the total area disposed), which had been placed into a trust according to the real estate collateral trust agreement with Daehan Real Estate Trust Ltd. We regained the land equivalent to the amount of the special buyback registration that expired during the year ended December 31, 2015 (1,288.3 m², 0.36% of the total area disposed). In January 2014, we filed a lawsuit against DHPFI over the ownership of the remaining area in Yongsan (217,582.0 m², 60.28% of total area disposed). We won the trial and DHPFI appealed the trial court's decision in November 2015. Thereafter, in April 18, 2018, the appeals court affirmed the trial court's decision on the ownership of the remaining area, and the judgment became final on May 11, 2018, which allowed us to regain such ownership.

In June 2013, we demanded the National Tax Service Daejeon District Office (the "NTS DDO") to refund the corporate tax paid in the amount of ₩870 billion in connection with cancellation of the disposal of the land in Yongsan, but the NTS DDO rejected such demand. Upon a decision by the Board of Audit and Inspection of Korea, a partial amount of ₩170 billion was refunded, and we filed a lawsuit against the NTS DDO over the remaining ₩700 billion. In January 2015, we won the trial and the NTS DDO appealed the trial court's decision, but the appeals court affirmed the trial court's decision in March 2016. The NTS DDO subsequently appealed, and the case is currently pending before the Supreme Court.

Litigations Regarding Ordinary Wages

Under the Labor Standards Act, an employee is legally entitled to "ordinary wages." Under the guidelines previously issued by the Ministry of Employment and Labor, ordinary wages include base salary and certain fixed monthly allowances for work performed overtime during night shifts and holidays. Prior to the Supreme Court decision described below, many companies in Korea had typically interpreted these guidelines as excluding from

the scope of ordinary wages fixed bonuses that are paid other than on a monthly basis, namely on a bi-monthly, quarterly or semi-annual basis, although such interpretation had been a subject of controversy and had been overruled in a few court cases.

In December 2013, the Supreme Court of Korea ruled that regular bonuses fall under the category of ordinary wages on the condition that those bonuses are paid regularly and uniformly on a fixed basis, and that any agreement which excludes such regular bonuses from ordinary wage is invalid. One of the key rulings provides that bonuses that are given to employees (i) on a regular and continuous basis and (ii) calculated according to the actual number of days worked (iii) that are not incentive-based must be included in the calculation of “ordinary wages.” The Supreme Court further ruled that in spite of invalidity of such agreements, employees shall not retroactively claim additional wages incurred due to such court decision, in case that such claims bring to employees unexpected benefits which substantially exceeds the wage level agreed by employers and employees and cause an unpredicted increase in expenditures for their company, which would lead the company to material managerial difficulty or would be a threat to the existence of the company. In that case, the claim is not acceptable since it is unjust and is in breach of the principle of good faith.

In tandem with the Supreme Court ruling, as of the date of this Offering Circular, we are subject to ongoing lawsuits filed by over 47,000 employees based on claims that ordinary wages had been paid without including certain items that should have been included as ordinary wage. In January 2018, the trial court decided on a lawsuit filed by over 20,000 employees, ordering us to pay such employees about ₩188 billion out of ₩204 billion originally claimed by the employees. We appealed the trial court’s decision, and the case is currently pending before the appeals court. The rest of the lawsuits are still pending before the trial court. However, we have set up reserves for possible lawsuits by the entire employees (taking account of the statute of limitations of the salary claim). In 2017, we recognized provisions in the aggregate amount of ₩498 billion for potential obligations with respect to the ordinary wage claims.

Research and Development

The Government and the Korea Railroad Research Institute (“KRRRI”) conducts most of our research and development (“R&D”) activities. KRRRI is a Government-funded national rail research institution and is a member institute of the Korea Research Council of Public Science & Technology under the Office of the Prime Minister. As a Government-funded research institute, KRRRI also advises and assists the Government on railway policy. Its core R&D focuses include, among others: (i) high-speed, general, urban, and subway rail systems, (ii) next-generation public transportation and (iii) railroad safety and logistics. KRRRI has a team of over 318 R&D personnel responsible for developing rail infrastructure and railway technology research. This team also conducts quality assurance and safety checks. KRRRI’s R&D team is also responsible for the investigation and resolution of construction, maintenance and operational problems in our rail operations.

Subsidiaries

In December 2013, our subsidiary SR was established as an independent high-speed train operator in order to boost competition in the Korean rail industry. As of the date of this Offering Circular, we own 41.0% interest in SR, and each of the Teacher’s Pension Fund of Korea, the Industrial Bank of Korea and The Korea Development Bank owns 31.5%, 15.0% and 12.5%, respectively. SR began its high-speed train service, named SRT, in December 2016 and operates a separate line from Suseo that joins the two KTX lines connecting Seoul and Busan and Seoul and Mokpo. For the year ended December 31, 2017, SR recorded revenue of ₩580 billion and operating income of ₩42 billion. As of December 31, 2017, it had total assets of ₩485 billion.

Recently, there have been discussions regarding the potential integration of SR into our company. In early 2018, the MOLIT ordered a study to evaluate the public benefits of the railway industry and announced its intention to pursue the integration initiative based on the research findings. As of the date of this Offering Circular, integration plans are still under review, with further developments expected within the year.

Our other subsidiaries provide the following services to enhance, supplement and support our core rail transportation business:

- *Retail business.* KORAIL Retail Co., Ltd. currently operates convenience stores and shops at most stations and also provides food and beverage for sale on board trains. KORAIL Retail Co., Ltd. also generates advertising revenue through media sources located in trains and at railway stations.
- *Tourism services.* Through KORAIL Tourism Development Co., Ltd., we offer a wide range of tourist services, including development of railway tour packages, provision of crew services on our trains, development of themed attractions in cooperation with local governments. One of our latest introductions is the “Haerang”, a high-end train with cruise ship-type accommodation, connecting Seoul with major tourist destinations in Korea.

A brief description of the principal business activity and other selected information on our subsidiaries is set out in the table below:

Name of Subsidiary	Principal Business Activity	% of Shares Directly Owned by Us as of December 31, 2017	Revenue for the Year Ended December 31, 2017 (in billions of Won)	Revenue as % of Our Consolidated Revenue in 2017
KORAIL Retail Co., Ltd.	Operation of retail channels such as convenience and specialty stores and vending machines in our subway stations and buildings	100.0%	₩ 284	4.9%
KORAIL Networks Co., Ltd.	Information technology and facility management services	99.0	85	1.5
KORAIL Logis Co., Ltd.	Freight transportation and forwarding services	97.2	53	0.9
KORAIL Tourism Development Co., Ltd.	Tourism promotion and rail crew services	60.8	56	1.0
KORAIL Tech Co., Ltd.	Railway track construction and maintenance	98.0	37	0.6
SR Co., Ltd.	Railroad transportation	41.0 ⁽¹⁾	580	10.0
Korean Insurance Brokerage Co., Ltd.	Insurance brokerage business	99.0	1	0.0

Notes:

- (1) Despite our less than a majority ownership interest, we exercise control over the management of our company pursuant to the terms of our governance documents.

Competition

General

Although we are the sole passenger and freight service provider in Korea with a nationwide rail network, we face competition from alternative modes of transportation such as buses, private cars and airlines in respect our inter-regional operations, and from buses, private cars and taxis in respect of our metropolitan passenger operations. We face competition from trucks in our inter-regional freight operations. Bus, taxi and minibus operators that compete against us can often offer services at lower prices and, in some cases, at higher frequencies than we are able to offer. Trucks may be able to offer lower prices or more flexible cargo configurations.

Passenger and Freight Railroad Services

Prior to its restructuring in 2005, the Government had monopoly over the railroad operation. Subsequent to the restructuring, we may face competition from third parties which seek to enter the railroad industry by obtaining approval from the MOLIT under the Framework Act on the Development of the Railroad Industry. However, third parties face high entry barrier as their services must utilize Government-owned railroad infrastructure which are not utilized by us.

Subway Services

Subway lines in the Seoul metropolitan area are operated by us, Seoul Metro and a few other smaller

operators. As of December 31, 2017, our subway transit operation network extended over 619 kilometers, whereas Seoul Metro's subway transit operation network extended over 300.1 kilometers.

MANAGEMENT

Board of Directors

Under the Act on the Operation of Public Institutions and our Articles of Incorporation, our overall management and supervision is vested in our Board of Directors (“Board”). The Board is composed of Standing Directors and Non-Standing Directors (together, “Directors”) and the number of Standing Directors in the Board should be less than half of the total number of Directors, including our CEO. Currently, our Board consists of seven Standing Directors and eight Non-Standing Directors. We have one Statutory Auditor.

Pursuant to our Articles of Incorporation, our Senior Non-Standing Director also serves as the Chairman of the Board. The appointment and removal of our CEO is determined by the President of Korea. When a new CEO is to be appointed, our Director Recommendation Committee recommends more than one candidate for the position to the Public Institution Management Committee (the “Management Committee”), which is an organization within the MOSF. The Management Committee reviews the recommendations and passes a resolution for the candidates and the Minister of the MOLIT then recommends one of the candidates to the President of Korea, who will appoint the CEO. The Director Recommendation Committee is our internal committee organized solely to determine the recommendation of the appointment of new Directors including our CEO. The Director Recommendation Committee consists of our Non-Standing Directors and persons appointed by the Board. More than half of the seats on the committee must be taken by Non-Standing Directors. Our CEO can be removed by the President of Korea at the recommendation of the Minister of the MOLIT or the Minister of MOSF. Such recommendation for removal of our CEO is subject to the Management Committee’s resolution and certain prescribed removal conditions.

Our Statutory Auditor audits our operations and accounting and provides his or her opinion to the Board. Our Statutory Auditor is appointed through the same process as our CEO except that while a final candidate for the CEO is recommended by the Minister of the MOLIT, a final candidate for the Statutory Auditor is recommended by the Minister of the MOSF. The President of Korea appoints the Statutory Auditor based on such recommendation by the Minister of the MOSF. Our Statutory Auditor can be removed by the President of Korea at the recommendation of the Minister of the MOSF. In order to remove the Statutory Auditor, however, the Management Committee is required to issue a resolution approving such removal, and certain prescribed removal conditions have to be met.

Our Non-Standing Directors are appointed by the Minister of the MOSF. In order to be appointed by the Minister of the MOSF, candidates for the Non-Standing Director positions must be first recommended by the Director Recommendation Committee and then secure a resolution of the Management Committee approving their appointment. The Minister of the MOSF can remove our Non-Standing Directors if (i) the Management Committee issues a resolution approving such removal and (ii) certain prescribed removal conditions are met.

Our Standing Directors are appointed by our CEO. Our CEO has the authority to remove our Standing Directors if there is a specific cause, which satisfies one of certain prescribed removal conditions, justifying such removal.

The names, titles, and outside occupations, if any, of the Standing Directors and Non-Standing Directors, and the respective dates on which they took office, are set forth below, as of April 23, 2018. The business address of our Directors is 240 Jungang-ro, Dong-gu, Daejeon, Korea, 34618.

Name	Title/Position	Other Activities, If Any	Position Held Since
Oh, Young-sik	Standing Director, President and CEO	N/A	February 6, 2018
Park, Chong-jun	Standing Director and Statutory Auditor	N/A	February 14, 2017
Chung, In-soo	Standing Director and Vice President	N/A	March 5, 2018
Yang, Dai-kwon	Standing Director and Director of Safety Innovation	N/A	April 23, 2018

Name	Title/Position	Other Activities, If Any	Position Held Since
	Headquarter		
Cho, Hyung-ik	Standing Director and Director of Passenger Business Headquarter	N/A	April 23, 2018
Kwon, Tae-myeong	Standing Director and Director of Metropolitan Railroad Headquarter	N/A	August 1, 2016
Park, Kuy-han	Standing Director and Director of Engineering Headquarter	N/A	April 23, 2018
Jo, Seok-hong	Senior Non-Standing Director	Professor of University of Ulsan	March 5, 2014
Sohn, Bong-gyun	Non-Standing Director	N/A	April 9, 2014
Kim, Young-ja	Non-Standing Director	N/A	August 6, 2014
Joo, Young-eun	Non-Standing Director	N/A	January 23, 2015
Lee, Young-keun	Non-Standing Director	N/A	July 8, 2016
Ahn, Jin-hong	Non-Standing Director	Certified Public Accountant of Daesung Accounting Corporation	July 8, 2016
Hwang, Young-will	Non-Standing Director	Managing Partner of Yeonwoo Legal Professional Association	July 8, 2016
Kim, Moo-hwan	Non-Standing Director	N/A	October 14, 2016

Standing Directors

Oh, Young-sik has been our CEO and President since February 6, 2018. Mr. Oh received a Bachelor's degree in Law, a Master's degree in Business Administration and a Ph.D. degree in Business Administration from Korea University. He previously served as a member of the Supreme Council of the New Politics Alliance for Democracy, administrator of the National Assembly's Trade, Industry, Energy, SMEs, and Startups Committee and vice-chairman of the policy committee of the United New Democratic Party, among other positions in the Government.

Chung, In-soo has been a Standing Director since August 1, 2016 and Vice President since March 5, 2018. Mr. Chung received a Bachelor's degree in Mechanical Engineering from Ajou University, a Master's degree in Mechanical Engineering from Oregon State University and a Ph.D. degree in Mechanical Engineering from Seoul National University of Science and Technology. He previously served as Director of Engineering Headquarter, director of Research Department, director of Gangwon Office, manager of Rolling Stock Engineering Division and manager of Rail Maintenance Department.

Yang, Dai-kwon has been a Standing Director and Director of Safety Innovation Headquarter since April 23, 2018. Mr. Yang received a Bachelor's degree in Railroad Operation from Korea National Railroad College, another Bachelor's Degree in Public Administration from Korea National Open University and a Master's Degree in Industrial Engineering from Chungnam National University. He previously served as manager of Train Operation Division, director of Chungbuk Office, head of safety investigation under Safety Innovation Headquarter and head of driving license center under Human Resources Development Institute.

Cho, Hyung-ik has been a Standing Director and Director of Passenger Transport Headquarter since April 23, 2018. Mr. Cho received a Bachelor's Degree in Railroad Management from Korea National Railroad College. He previously served as director of Gyeongnam Office, manager of Business Management Department, director of Daejeon-Chungnam Office and manager of tourist business under Passenger Transport Headquarter.

Kwon, Tae-myeong has been a Standing Director and Director of Metropolitan Railroad Headquarter since August 1, 2016. Mr. Kwon received a Bachelor's degree in Business Administration from Korea National Railroad

College, another Bachelor's degree in Public Administration from Korea National Open University and a Master's degree in Business Administration from DaeJeon University. He previously served as director of Seoul Office, manager of Business Management Department, director of Busan-Gyeongnam Office, manager of Customer Service Department and director of Daegu Office.

Park, Kuy-han has been a Standing Director and Director of Engineering Headquarter since April 23, 2018. Mr. Park received a Bachelor's degree in Mechanical Engineering from Korea National Railroad College, another Bachelor's Degree in Mechanical Engineering from Hanbat National University and a Master's degree in Automotive Engineering from Seoul National University of Science and Technology. He previously served as manager of Rolling Stock Engineering Division, manager of Busan Rail Maintenance Department and head of rail planning under Rolling Stock Engineering Division.

Non-Standing Directors

Jo, Seok-hong has been our senior Non-Standing Director since March 5, 2016. Mr. Jo received a Bachelor's degree in Political Science and International Relations from Youngnam University, a Master's degree in Business Administration from Hanyang University and a Ph.D. degree in Economics from Kookmin University. He is currently a professor of University of Ulsan, and has previously served as director of the National Project Bureau of the Prime Minister's Office, as well as professor at Andong National University and Korea Advanced Institute for Science and Technology.

Sohn, Bong-gyun has been a Non-Standing Director since April 9, 2016. Mr. Sohn received a Bachelor's degree in Law from Seoul National University. He previously served as administrative director of Economics Department at the Blue House, director of Seoul Aviation Department at Ministry of Construction and Transportation and advisor at Yulchon LLC.

Kim, Young-ja has been a Non-Standing Director since August 6, 2016. Ms. Kim received a Bachelor's degree in History from Sookmyung Women's University. She previously served as Co-President of Civil Society Organization and was a member of the Saenuri Party.

Joo, Young-eun has been a Non-Standing Director since January 23, 2016. Mr. Joo received a Bachelor's degree, a Master's degree and a Ph.D. degree in Law from Yonsei University. He previously served as lecturer, associate professor, professor, and the dean of the School of Political Science and Economics at Yonsei University. He previously served as a legal advisor to the naval prosecutor of the Republic of Korea Navy.

Lee, Young-keun has been a Non-Standing Director since July 8, 2016. Mr. Lee received a Bachelor's degree in Law from Korea University, a Master's degree in Economics from Washington State University and a Ph.D. degree in Accounting from Chung-Ang University. He previously served as vice president of the Anti-Corruption and Civil Rights Commission.

Ahn, Jin-hong has been a Non-Standing Director since July 8, 2016. Mr. Ahn received a Bachelor's degree in Business Administration from Korea University. He is a certified accountant at Daesung Accounting Corporation, and has previously worked for Younghwa and Samil Accounting firms.

Hwang, Young-will has been a Non-Standing Director since July 8, 2016. Mr. Hwang received a Bachelor's degree in Psychology from Yonsei University and a Master's in Political Science from Yonsei University. He is currently the Managing Partner at Yeonwoo Legal Professional Association.

Kim, Moo-hwan has been a Non-Standing Director since October 14, 2016. Mr. Kim received a Bachelor's degree in Theology from Seoul Christian University and a Master's degree in Business Administration from Korea University. He has previously served as Head of National Youth Center of Korea, governor of Buyeo and researcher for National Assembly's Policy Research Committee.

Statutory Auditor

Park, Chong-jun has been a Standing Director and Statutory Auditor since February 14, 2017. Mr. Park received a Bachelor's degree in Public Administration from Korean National Police University and a Master's degree in Public Administration from Syracuse University. He has previously served as the Deputy Head of the Office of the Presidential Security for the Government.

Compensation of Directors and Executive Officers

The aggregate amount of remuneration paid and accrued to our CEO, Standing Directors and Statutory Auditor, as a group, was ₩631 million, ₩570 million and ₩527 million in 2015, 2016 and 2017, respectively.

Board Practices

The terms of office of our Directors and our Statutory Auditor are two years. The term of our CEO is three years. We have an audit committee.

TERMS AND CONDITIONS OF THE NOTES

The following are the terms and conditions of the Notes, to be issued by the Issuer under the Fiscal Agency Agreement, substantially in the form in which they (other than the text in italics) will be endorsed on the definitive Certificates and referred to in the Global Notes. The following statements do not purport to be a complete description of the Notes and the Fiscal Agency Agreement and are qualified in their entirety by reference to the provisions of the Notes and the Fiscal Agency Agreement.

1. General

(a) This Note is one of a duly authorized issue of Notes of the Issuer in the initial aggregate principal amount of HK\$631,000,000 known as its “3.375% Notes due 2023” (the “Notes”) issued or to be issued pursuant to a Fiscal Agency Agreement (as amended from time to time, the “Fiscal Agency Agreement”), dated as of June 7, 2018 (the “Issue Date”), among the Issuer, The Bank of New York Mellon, London Branch, as fiscal agent (such bank and its successors as such fiscal agent being hereinafter called the “Fiscal Agent”) and paying agent and The Bank of New York Mellon SA/NV, Luxembourg Branch, as registrar (such bank and its successors as such registrar being hereinafter called the “Registrar”) and transfer agent, the terms of which are hereby incorporated by reference. Capitalized terms used but not defined herein are used as defined in the Fiscal Agency Agreement. Copies of the Fiscal Agency Agreement are on file and available for inspection during normal business hours at the corporate trust office of the Fiscal Agent (the “Corporate Trust Office”), and reference thereto is made for a description of the rights and limitations of rights thereunder of the Holders of the Notes and the duties and immunities of the Fiscal Agent. In acting under the Fiscal Agency Agreement, the agents appointed by the Issuer thereunder are acting solely as agents for the Issuer and do not assume any obligation or relationship of agency or trust for or with the Holder of this Note except as specifically described below or in the Fiscal Agency Agreement with respect to the Fiscal Agent. The Holders of Notes will be entitled to the benefits of, and be bound by and deemed to have notice of, all of the provisions of the Fiscal Agency Agreement. As used herein, the term “Holder” means the person in whose name a Note is registered in the Note Register (as defined in Condition 8(h) below).

(b) The Notes are issuable only as Notes in fully registered form without coupons in denominations of HK\$1,000,000 and any integral multiple of HK\$1,000,000 in excess thereof.

(c) The Issuer covenants that until the earlier to occur of the date on which all of the Notes shall have been delivered to the Fiscal Agent for cancellation and the date on which all of the Notes have become due and payable and monies sufficient to pay the principal of and interest on all of the Notes shall have been made available for payment and either paid on the date that the payment is due or returned to the Issuer as provided herein, the Issuer will at all times maintain a Fiscal Agent (which in each case shall be a bank or trust company in good standing, legally qualified to act as Fiscal Agent and authorized under the laws of its place of incorporation to exercise corporate trust powers). Subject to the foregoing, the Issuer reserves the right at any time to vary or terminate the appointment of any of the Fiscal Agent and such additional agents as the Issuer may determine.

(d) The Notes are direct, unconditional, unsubordinated and (subject to Condition 9) unsecured obligations of the Issuer and shall at all times rank *pari passu*, without any preference among themselves and (save for certain obligations required to be preferred by law) equally with all other unsecured obligations (other than subordinated obligations, if any) of the Issuer, from time to time outstanding.

2. Payments

(a) Payments of principal of and interest on this Note will be made in the legal currency of Hong Kong Special Administrative Region of the People’s Republic of China.

(b) Payment of the principal of this Note shall be made, upon presentation and surrender hereof, at the option of the person to whom interest is payable as provided below, either (i) at the Corporate Trust Office of the Fiscal Agent or (ii) subject to any laws or regulations applicable thereto and to the right of the Issuer to terminate the appointment of any such paying agency, at such other paying agencies as the Issuer may designate.

(c) The interest so payable on any Interest Payment Date (as defined below) will be paid to the person in whose name this Note is registered at the close of business on the fifteenth day preceding such Interest Payment Date (each, a “Record Date”), whether or not a Business Day (as defined below), notwithstanding the cancellation, transfer or exchange of this Note subsequent to the Record Date and on or prior to such Interest Payment Date, and no interest otherwise so payable on any Interest Payment Date shall be paid on this Note if the name of its Holder was entered as such on the Note Register after the close of business on the Record Date next preceding such Interest Payment Date, except if and to the extent the Issuer shall default in the payment of the interest due on such Interest Payment Date, in which case such defaulted interest shall (unless paid together with principal of this Note in full other than on an Interest Payment Date) be paid to the person in whose name this Note is registered at the close of business on a subsequent record date (which shall be not less than five Business Days prior to the date of payment of such defaulted interest) established by notice given by mail by or on behalf of the Issuer to the Holders of Notes not less than 15 days preceding such subsequent record date. If interest is paid together with principal in full on a date that is not an Interest Payment Date, such interest shall be paid upon presentation and surrender of this Note to the Fiscal Agent or to a paying agent.

(d) Notwithstanding paragraphs (b) and (c) of this Condition, the Holder of a Note if it is a Global Note shall receive, and any Holder of at least HK\$100,000,000 in aggregate principal amount of Notes may by notice to the Fiscal Agent at least ten days prior to any Interest Payment Date elect to receive, payments of principal (upon presentation and surrender of this Note), and payments of interest due on and subsequent to such Interest Payment Date by wire transfer in immediately available funds to such bank account as such Holder may direct in writing.

(e) In any case where the date for the payment of any principal of or interest on any Note is not a day on which banking institutions at any place of payment are open for business in Seoul, New York, London and Hong Kong (a “Business Day”), then payment of such principal or interest need not be made on such date at such place of payment but may be made on the next succeeding day at such place of payment which is a Business Day with the same force and effect as if made on the date for such payment of principal or interest, and no interest shall accrue for the period after such date.

(f) Any monies paid by the Issuer to the Fiscal Agent for the payment of the principal of or interest on any Notes and remaining unclaimed at the end of two years after such principal or interest shall have become due and payable and shall have been paid to the Fiscal Agent by the Issuer shall then be repaid to the Issuer, and upon such repayment, all liability of the Fiscal Agent with respect to such monies shall thereupon cease and the Holder of any Note representing a claim therefor shall thereafter look only to the Issuer for payment thereof.

Notwithstanding the foregoing, so long as the Global Note is held on behalf of Euroclear, Clearstream or any other clearing system, each payment in respect of the Global Note will be made to the person shown as the Holder in the register at the close of business of the relevant clearing system on the Clearing System Business Day before the due date for such payments, where “Clearing System Business Day” means a weekday (Monday to Friday, inclusive) except December 25 and January 1.

3. Principal and Interest

(a) Unless previously redeemed or converted or purchased and cancelled, the Issuer will redeem the Notes at 100.0% of their principal amount (plus accrued but unpaid interest, if any) on June 7, 2023 (the “Maturity Date”). The Notes may be redeemed in whole or in part prior to the Maturity Date only as provided in Condition 4 and Condition 5 below.

(b) The Notes will bear interest from and including the Issue Date up to and including the Maturity Date, at the rate of 3.375% per annum. Interest is payable annually in arrears on June 7 in each year (each an “Interest Payment Date”), with the first interest payment to be made on June 7, 2019. Each Note will cease to bear interest (i) when such Note has been repaid or redeemed in accordance with these Conditions; (ii) when the date for redemption with respect to such Note has occurred and redemption moneys and accrued interest with respect to such Note have been deposited with the Paying Agent; and (iii) from the date that claims on such Note have been prescribed. Notwithstanding the foregoing, if a Note is due for redemption or repayment and upon due presentation, payment of the principal and premium (if any) is withheld or refused or default is otherwise made in respect of any

such payment, interest will continue to accrue at the rate aforesaid (both after as well as before any judgment) up to but excluding the date on which payment in full of the principal amount thereof, as applicable, and premium (if any) is made or (if earlier) the day after notice is duly given to the holder of such Note (in accordance with Condition 12) that upon further presentation of such Note being duly made such payment will be made, provided that upon further presentation thereof being duly made such payment is in fact made. Interest on the Notes will be calculated on the actual number of days in the Interest Period divided by 365. "Interest Period" shall mean the period from (and including) an Interest Payment Date (or the Issue Date) to (but excluding) the next (or first) Interest Payment Date, each date being subject to adjustment according to the modified following business day convention.

4. Redemption Due to Changes in Tax Treatment

The Notes may be redeemed at the option of the Issuer, in whole, but not in part, upon not less than 30 nor more than 60 days' notice, at any time at a redemption price equal to 100% of the principal amount thereof plus accrued but unpaid interest, if any, to (but excluding) the date fixed for redemption if the Issuer has or will become obliged to pay Additional Amounts (as defined in Condition 7 below) as provided or referred to in Condition 7 as a result of (a) any change in or amendment to the tax laws or treaties of Korea (or of any political subdivision or taxing authority thereof or therein) or any regulations or rulings promulgated thereunder or (b) any change in position regarding the application, administration or interpretation of such laws, treaties, regulations or rulings (including a holding, judgment or order by a court of competent jurisdiction), or any change in the application or official interpretation of, or any execution of or amendment to, any treaty or treaties affecting in taxation to which the government of Korea is a party, which change or amendment becomes effective on or after the Issue Date, the Issuer is or would be obligated on the next succeeding due date for a payment with respect to the Notes to pay Additional Amounts with respect to the Notes, and such obligation cannot be avoided by the use of reasonable measures available to the Issuer; *provided, however*, that (i) no such notice of redemption may be given earlier than 90 days prior to the earliest date on which the Issuer would be obligated to pay such Additional Amounts, and (ii) at the time such notice of redemption is given, such obligation to pay such Additional Amounts remains in effect. Before giving any notice of such redemption, the Issuer shall deliver to the Fiscal Agent a certificate of the Issuer to be made available for inspection by Holders stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of redemption have occurred, together with an opinion of counsel to the effect that such a change in, or amendment to, the laws or treaties of Korea (or of any political subdivision or taxing authority thereof or therein) or any regulations or rulings promulgated thereunder or any change in position regarding the application, administration or interpretation of such laws, treaties, regulations or rulings, has occurred.

5. Change of Control Redemption

(a) Upon the occurrence of a Change of Control, each Holder will have the option (the "Change of Control Put Option") (unless, prior to the giving of the Change of Control Put Event Notice (as defined below), the Issuer shall have given notice under Condition 4 in respect of the relevant Notes), exercisable during the Change of Control Put Period, to require the Issuer to redeem all or any part of its Notes at a redemption price (the "Change of Control Redemption Price") equal to 100% of the principal amount of such Notes, together with accrued and unpaid interest, if any, to but excluding the Change of Control Put Date (as defined below). Accrued and unpaid interest in respect of the period from (and including) an Interest Payment Date to (but excluding) the next Interest Payment Date shall be determined as if the Change of Control Put Date was an Interest Payment Date. Within 30 days following a Change of Control, the Issuer shall give notice (a "Change of Control Put Event Notice") to the Holders in accordance with Condition 12 stating (a) that a Change of Control has occurred and that such Holder has the right to require the Issuer to redeem such Holder's Notes at the Change of Control Redemption Price, (b) the date (the Change of Control Put Date) fixed by the Issuer for redemption under this Condition 5 (which shall be a Business Day within the fifth day after the expiry of the Change of Control Put Period) and (c) the procedures determined by the Issuer that a Holder must follow in order to have its Notes redeemed.

(b) To exercise the right to require redemption of such Note, the Holder must deliver, at the specified office of the Fiscal Agent (in the case of Global Notes) or the Registrar (in the case of Registered Notes), at any time during normal business hours of such Fiscal Agent or, as the case may be, the Registrar falling within the Change of Control Put Period, such Note (except for a Global Note) together with a duly signed and completed notice of exercise in the form (for the time being current) obtainable from any specified office of the relevant Paying

Agent or, as the case may be, the Registrar (a “Put Notice”) and in which the Holder must specify a bank account to which payment is to be made under this Condition or evidence satisfactory to the Fiscal Agent concerned or, as the case may be, the Registrar that the Note will, following delivery of the Put Notice, be held to its order or under its control and, in the case of Registered Notes, the nominal amount thereof to be redeemed and, if less than the full nominal amount of the Registered Notes so surrendered is to be redeemed, an address to which a new Registered Note in respect of the balance of such Registered Notes is to be sent subject to and in accordance with the provisions of Condition 8. If this Note is in definitive form, the Put Notice must be accompanied by this Note or evidence satisfactory to the relevant Paying Agent concerned that this Note will, following delivery of the Put Notices, be held to its order or under its control.

(c) Any Put Notice or other notice given in accordance with the standard procedures of Euroclear and/or Clearstream given by a Holder pursuant to this Condition 5 shall be irrevocable except where, prior to the due date of redemption, an Event of Default (as defined in Condition 10) has occurred and is continuing, in which event, such Holder, at its option, may elect by notice to the Issuer to withdraw the notice given pursuant to this Condition 5 and instead to declare such Note forthwith due and payable pursuant to Condition 10.

(d) All Notes which are redeemed will forthwith be cancelled. All Notes so cancelled and the Notes purchased shall be forwarded to the Agent and cannot be reissued or resold.

(e) In this Condition:

“Change of Control” means the government of Korea, directly or indirectly (including through local governments), ceasing to own and control at least 51% of the issued share capital of the Issuer.

“Change of Control Put Period” means the period fixed by the Issuer, which shall end on a Business Day no earlier than 25 days nor later than 55 days after a Change of Control Put Event Notice is given.

The Agents shall not be required to monitor or to take any steps to ascertain whether a Change of Control or any event which could lead to a Change of Control event has occurred or may occur and none of them shall have any obligation or duty to verify the accuracy, validity and/or genuineness of any documents in relation to or connection with the Change of Control, and none of them shall be liable to Holders, the Issuer or any other person for not doing so.

6. Purchases; Cancellation; Further Issues

The Issuer may at any time purchase Notes by tender (available to all Holders alike) or in the open market at any price. If purchases are made by tender, tenders must be available to all Holders alike. Such Notes may be held, reissued, resold or, at the option of the Issuer, surrendered to any Paying Agent and/or the Registrar for cancellation. All Notes which are redeemed will forthwith be cancelled. All Notes so cancelled and the Notes purchased and cancelled pursuant to Condition 4 and Condition 5 shall be forwarded to the Fiscal Agent and cannot be reissued or resold.

Notes purchased or otherwise acquired by the Issuer may be held, resold or, at its discretion, surrendered to the Fiscal Agent for cancellation. If the Issuer shall acquire any Notes, such acquisition shall not operate as or be deemed for any purpose to be a satisfaction of the indebtedness represented by such Notes unless and until such Notes are delivered to the Fiscal Agent for cancellation and are cancelled and retired by the Fiscal Agent in accordance with the Conditions. The Notes so acquired, while held by or on behalf of the Issuer, shall not entitle the Holder to vote at any meeting of the Holders and shall not be deemed to be outstanding for the purpose of calculating the quorum at a meeting of the Holders or for the purposes of Condition 11.

The Issuer may from time to time, without the consent of the existing Holders, create and issue additional notes under the Fiscal Agency Agreement having the same terms and conditions in all respects except for issue date and issue price. Additional notes issued will be consolidated with and form a single series with the outstanding Notes, *provided* that such additional notes must be issued with no more than *de minimis* original issue discount for United States federal income tax purposes or constitute a qualified reopening for United States federal income tax purposes.

7. Taxation

All payments of principal of, and interest on, the Notes shall be made by the Issuer 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 the government of Korea or by or within any political subdivision thereof or any authority therein having power to tax ("Korean Tax"), unless deduction or withholding of such Korean Tax is required by law. In the event that the deduction or withholding of Korean Tax is required by law, the Issuer will pay such additional amounts ("Additional Amounts") as shall be necessary in order that the net amounts received by the Holders after such withholding or deduction shall equal the respective amounts of principal and interest which would otherwise have been receivable in respect of principal and interest in the absence of such deduction or withholding, except that no such Additional Amount shall be payable in respect of any Note:

(a) to or on behalf of a Holder or beneficial owner who is subject to such Korean Tax in respect of such Note by reason of such Holder or beneficial owner being or having been connected with Korea (or any political subdivision thereof) otherwise than merely by holding such Note or receiving principal or interest in respect thereof; or

(b) to or on behalf of a Holder or beneficial owner who would not be liable for or subject to such deduction or withholding by making a declaration of non-residence or other similar claim for exemption to the relevant tax authority if, after having been requested in writing by the Issuer to make such a declaration or claim, such Holder or beneficial owner fails to do so within 30 days; or

(c) to or on behalf of a Holder or beneficial owner who presents a Note (where presentation is required) more than 30 days after the relevant date except to the extent that the Holder or beneficial owner thereof would have been entitled to such Additional Amounts on presenting a Note for payment on the last day of such 30-day period; for this purpose the "relevant date" in relation to any payments of interest on, or principal of, any Note means: (i) the due date for payment thereof; or (ii) if the full amount of the monies payable on such date has not been received by the Fiscal Agent on or prior to such due date, the date on which, the full amount of such monies having been so received; notice to that effect is duly given to Holders of the Notes in accordance with the Fiscal Agency Agreement; or

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

The obligation of the Issuer to pay such Additional Amounts in respect of taxes, duties, assessments and governmental charges shall not apply to (a) any estate, inheritance, gift, sales, transfer, personal property or any similar tax, assessment or other governmental charge or (b) any tax, assessment or other governmental charge which is payable otherwise than by deduction or withholding from payments of principal of or interest on the Notes; *provided* that, except as otherwise set forth in the Notes and in the Fiscal Agency Agreement, the Issuer shall pay all stamp and other taxes and duties, if any, which may be imposed by Korea, the United States, the United Kingdom, Luxembourg or any respective political subdivision thereof or any taxing authority of or in the foregoing with respect to the Fiscal Agency Agreement or as a consequence of the initial issuance of the Notes.

Furthermore, no Additional Amounts shall be payable with respect to any payment of the principal of, or any interest on, any Note to any Holder who is a fiduciary or partnership or other than the sole beneficial owner of such payment to the extent such payment would be required by the laws of Korea (or any political subdivision or taxing authority thereof or therein) to be included in the income for tax purposes of a beneficiary or settlor with respect to such fiduciary or a member of such partnership or a beneficial owner who would not have been entitled to such Additional Amounts had it been the Holder of such Note.

References to principal or interest in respect of the Notes shall be deemed also to refer to any Additional Amounts which may be payable as set forth in the Notes.

8. Transfer, Exchange and Replacement

(a) The transfer of this Note is registrable (upon the terms and subject to the conditions set forth in the Fiscal Agency Agreement and subject to the requirements of the Issuer, the Fiscal Agent and the Registrar) on the Note Register upon surrender of this Note for registration at the specified office of the Registrar (or

such other subsequent office which the Registrar may maintain, the “Registrar’s Office”), duly endorsed by, or accompanied by a written instrument of transfer in a form approved by the Issuer and the Registrar duly executed by, the Holder hereof or his attorney duly authorized in writing.

(b) In the manner and subject to the limitations and upon payment of the charges (if any) provided in the Fiscal Agency Agreement, Notes may be exchanged for a like aggregate principal amount of Notes of other authorized denominations or for a beneficial interest in a Global Note.

(c) No service charge shall be made for any exchange or registration of transfer provided for in Conditions 8(a) and 8(b) hereof, but the Issuer may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith.

(d) No registrations of transfers or exchanges of Notes shall be made after notice of redemption of the Notes has been given.

(e) All Notes issued upon any registration of transfer or exchange of Notes shall be the valid obligations of the Issuer, evidencing the same debt, and entitled to the same benefits, as the Notes surrendered upon such registration of transfer or exchange. Any new Note delivered pursuant to this Condition 8 shall be so dated that neither gain nor loss of interest shall result from such transfer or exchange.

(f) If any Note shall at any time become mutilated or destroyed or stolen or lost, then, *provided* that such Note, or evidence of the destruction, theft or loss thereof (together with the indemnity hereinafter referred to and such other documents or proof as may be required in the premises) shall be delivered during business hours to the Registrar’s Office, a replacement Note of like tenor and principal amount will be issued by the Issuer and, at its request, authenticated by the Registrar, in exchange for the Note so mutilated, or in lieu of the Note so destroyed or stolen or lost; *provided, further*, that, in the case of destroyed, stolen or lost Notes, (i) neither the Issuer nor the Fiscal Agent nor the Registrar shall have notice that such Notes have been acquired by a *bona fide* purchaser, and (ii) the Issuer and the Registrar shall have received evidence satisfactory to them that such Notes were destroyed, stolen or lost, and the Issuer and the Registrar shall have received an indemnity satisfactory to each of them. All expenses and properly incurred charges associated with procuring such indemnity, and the cost of the preparation and issue of a replacement for any Note mutilated, destroyed, stolen or lost, shall be paid by the Holder of such Note. In case such mutilated, destroyed, stolen or lost Note has become or is about to become due and payable, the Issuer in its discretion may, instead of issuing a new Note, pay or cause to be paid such Note. Every new Note issued pursuant to this paragraph (f) in exchange for or in lieu of any mutilated, destroyed, stolen or lost Note, shall constitute an additional original contractual obligation of the Issuer, whether or not the mutilated, destroyed, stolen or lost Note shall be at any time enforceable by anyone. Any new Note delivered pursuant to this paragraph (f) shall be so dated that neither gain nor loss of interest shall result from such replacement. To the extent permitted by law, the provisions of this paragraph (f) are exclusive and shall preclude (to the extent lawful) all other rights and remedies with respect to the replacement or payment of mutilated, destroyed, stolen or lost Notes.

(g) The Issuer, the Fiscal Agent and the Registrar may deem and treat the registered Holder hereof as the absolute owner hereof (notwithstanding any notice of ownership or other writing hereon) for the purposes of receiving payment hereon or on account hereof and for all other purposes, whether or not this Note shall be overdue.

(h) The Issuer has appointed the Registrar as its agent for transfers, and for exchanges and replacements, of Notes and has agreed to cause to be kept at the Registrar’s Office a register (the “Note Register”) in which, subject to such reasonable regulations as it may prescribe, the Issuer shall provide for such registration and registration of transfers.

(i) All Notes issued as a result of any transfer, exchange or replacement of Notes shall be delivered to the Holder by the Registrar (at the risk of the Holder) by mail to such address as is specified by the Holder in the request for transfer, exchange or replacement.

9. **Negative Pledge**

(a) So long as any Note remains outstanding (as defined in the Fiscal Agency Agreement), the Issuer will not, and will ensure that none of its Principal Subsidiaries will, create or permit to be outstanding any mortgage, charge, pledge or other security interest upon or over the whole or any part of its property, assets or revenues (whether present or future) to secure for the benefit of the holders of any International Investment Securities (as defined below):

- (i) payment of any sum due in respect of any such International Investment Securities;
- (ii) payment under any guarantee in respect of any such International Investment Securities; or
- (iii) payment under any indemnity or other like obligations in respect of any such International Investment Securities,

without, in any such case and at the same time, according to the Notes either the same security as is available for the benefit of the holders of such International Investment Securities or such other security as shall be approved for the purpose by not less than 75% in aggregate principal amount of Notes then outstanding.

(b) In these Conditions:

“International Investment Securities” means notes, bonds, debentures, certificates of deposit or investment securities of any Person which (1) by their terms either are payable, or confer a right to receive payment, in any currency other than Won or are denominated in Won and more than 50% of the aggregate principal amount of which is initially distributed outside Korea by or with the authorization of the Issuer and (2) are for the time being, or are intended to be, quoted, listed, ordinarily dealt in or traded on any stock exchange or over-the-counter or other securities market outside Korea.

“Person” means any individual, company, corporation, firm, partnership, joint venture, association, organization, state, agency of a state or other entity, whether or not having a separate legal personality.

“Principal Subsidiary” means:

(a) any Subsidiary (as defined below) of the Issuer, under the Korean International Financial Reporting Standards (or any other successor generally accepted accounting principles in Korea):

- (i) whose operating revenue, as shown by the then latest audited accounts (consolidated where applicable) of such Subsidiary, constitute at least ten per cent. (10%) of the consolidated operating revenue of the Issuer as shown by the then latest audited consolidated accounts of the Issuer; or
- (ii) whose total assets, as shown by the then latest audited accounts (consolidated where applicable) of such Subsidiary, constitute at least ten per cent. (10%) of the total consolidated assets of the Issuer as shown by the then latest audited consolidated accounts of the Issuer;

provided that:

- (A) in the case of a Subsidiary acquired, or a company becoming a Subsidiary, after the end of the financial period to which the latest audited consolidated accounts of the Issuer relate, the reference to the then latest audited consolidated accounts of the Issuer for the purposes of the calculation above shall, until audited consolidated accounts of the Issuer for the financial period in which the acquisition is made or, as the case may be, in which the relevant company becomes a Subsidiary are published, be deemed to be a reference to the then latest audited consolidated accounts of the Issuer adjusted to consolidate the last

audited accounts (consolidated where applicable) of such Subsidiary in such accounts;

- (B) if at any relevant time in relation to the Issuer or any Subsidiary in respect of which financial consolidation is relevant, no consolidated accounts are prepared and audited, operating revenue and total assets of the Issuer and/or any such Subsidiary shall be determined on the basis of pro-forma consolidated accounts prepared for this purpose by the auditors for the time being of the Issuer;
- (C) if at any relevant time in relation to any Subsidiary no accounts are audited, its operating revenue and total assets (consolidated where applicable) shall be determined on the basis of pro-forma accounts (consolidated where applicable) of the relevant Subsidiary prepared for this purpose by the auditors for the time being of the Issuer; and
- (D) if the accounts of any Subsidiary (not being a Subsidiary referred to in proviso (A) above) are not consolidated with those of the Issuer, then the determination of whether or not such Subsidiary is a Principal Subsidiary shall be based on a pro-forma consolidation of its accounts (consolidated where applicable) with the then latest consolidated audited accounts (determined on the basis of the foregoing) of the Issuer; or

(b) any Subsidiary of the Issuer to which is transferred all or substantially all of the assets of a Subsidiary which immediately prior to such transfer was a Principal Subsidiary, provided that the Principal Subsidiary which so transfers its assets shall forthwith upon such transfer cease to be a Principal Subsidiary.

“Subsidiary” of any person means (a) any company or other business entity of which that person owns or controls (either directly or indirectly through one or more other Subsidiaries) more than 50% of the issued share capital or other ownership interest having ordinary voting power to elect directors, managers or trustees of such company or other business entity, or (b) any company or other business entity which at any time has its accounts consolidated with those of that person or which, under the laws, regulations or generally accepted accounting principles of the jurisdiction of incorporation of such person from time to time, should have its accounts consolidated with those of that person.

10. **Events of Default**

The term “Event of Default” means any of the following events (whatever the reason for such Event of Default and whether it shall be voluntary or involuntary or be effected by operation of law or pursuant to any judgment, decree or order of any court or any order, rule or regulation of any administrative or governmental body) which shall have occurred and be continuing:

(a) default in the payment of any amount of principal of (or premium, if any, on), or interest in respect of, any of the Notes on the due date for payment thereof and such default remains unremedied for, in the case of default in the payment of interest, 15 days thereafter; or

(b) default in the performance or observance of any other obligation of the Issuer under or in respect of the Notes and these Conditions and (except in any case where the failure is incapable of remedy, when no continuation or notice as is hereinafter mentioned will be required) such default remains unremedied for ten days after written notice thereof, addressed to the Issuer by any holder of a Note, has been delivered to the Issuer or to the specified office of the Paying Agent; or

(c) any Indebtedness for Borrowed Money (as defined below) of the Issuer or any of its Principal Subsidiaries (as defined herein) in the aggregate outstanding principal amount of US\$10,000,000 (or its equivalent in any currency) or more either (i) becoming due and payable prior to the due date for payment thereof by reason of acceleration thereof following default by the Issuer or (ii) not being repaid at, and remaining unpaid after, maturity as extended by the period of grace, if any, applicable thereto, or any guarantee given by the Issuer in respect of External Indebtedness of any other Person not being honored when, and remaining dishonored after becoming, due and called; provided that, in the case of (i) above, if any such default under any such External Indebtedness shall be cured or waived, then the default hereunder by reason thereof shall be deemed to have been

cured and waived; or

(d) if (i) proceedings are initiated against the Issuer or any of its Principal Subsidiaries under any applicable liquidation, insolvency, composition, reorganization or other similar laws or an application is made (or documents filed with a court) for the appointment of an administrative or other receiver, manager, administrator or other similar official, or an administrative or other receiver, manager, administrator or other similar official is appointed, in relation to the Issuer or any of its Principal Subsidiaries or, as the case may be, in relation to the whole or any part of the undertaking or assets of any of them or an encumbrancer takes possession of the whole or any part of the undertaking or assets of any of them, or a distress, execution, attachment, sequestration or other process is levied, enforced upon, sued out or put in force against the whole or any part of the undertaking or assets of any of them, and (ii) in any such case (other than the appointment of an administrator) unless initiated by the relevant company, is not discharged within 14 days; or

(e) if the Issuer or any of its Principal Subsidiaries (or their respective directors or shareholders) initiates or consents to judicial proceedings relating to itself under any applicable liquidation, insolvency, composition, reorganization or other similar laws (including the obtaining of a moratorium) or makes a conveyance or assignment for the benefit of, or enters into any composition or other arrangement with, its creditors generally (or any class of its creditors) or any meeting is convened to consider a proposal for an arrangement or composition with its creditors generally (or any class of its creditors); or

(f) all or any substantial part of the undertaking, assets and revenues of the Issuer is condemned, seized or otherwise appropriated by any person acting or purporting to act under the authority of any national, regional or local government of Korea or the Issuer is prevented by any such person from exercising normal control over all or any substantial part of its undertaking, assets and revenues; or

(g) an order is made by any competent court or resolution is passed for the winding-up, liquidation or dissolution of the Issuer or any of its Principal Subsidiaries; or

(h) if the Issuer or any of its Principal Subsidiaries ceases or threatens to cease to carry on the whole or a substantial part of its business, save for the purposes of reorganization on terms approved by the Holders, or the Issuer or any of its Principal Subsidiaries stops or threatens to stop payment of, or is unable to, or admits inability to, pay, its debts (or any class of its debts) as they fall due or is deemed unable to pay its debts pursuant to or for the purposes of any applicable law, or is adjudicated or found bankrupt or insolvent; or

(i) any event occurs which under the laws of Korea has an analogous effect to any of the events referred to in paragraphs (d) to (h) above;

then the Holder of any Note may, by written notice to the Issuer at the specified office of the Fiscal Agent, effective upon the date of receipt thereof by the Fiscal Agent, declare such Note held by that Holder to be forthwith due and payable together with premium (if any) and accrued interest (if any) to the date of repayment, without presentment, demand, protest or other notice of any kind.

(j) In these Conditions:

“Indebtedness for Borrowed Money” means any indebtedness (whether being principal, premium, interest or other amounts) for or in respect of any notes, bonds, debentures, debenture stock, loan stock or other securities or any money borrowed (including any guarantees or indemnities thereof) or any liability under or in respect of any acceptance or acceptance credit; and

11. Meetings of Holders; Modifications and Amendments

(a) The Issuer may at any time, and the Fiscal Agent shall at any time after the Notes shall have become immediately due and payable due to a default upon a request in writing made by Holders holding not less than 10% of the aggregate outstanding principal amount of the Notes, convene a meeting of Holders of the Notes. Any such request in writing by the Holders shall be delivered to the Fiscal Agent. Further provisions

concerning meetings of the Holders are set forth in the Fiscal Agency Agreement.

(b) Modifications and amendments to the Fiscal Agency Agreement or the Notes requiring consent of Holders may be made, and future compliance therewith or past defaults by the Issuer may be waived, with the consent of the Issuer and the Holders of more than 50% in aggregate principal amount of the Notes at the time outstanding, or of such lesser percentage as may act at a meeting of the Holders held in accordance with the provisions of the Fiscal Agency Agreement; *provided* that no such modification, amendment or waiver of the Fiscal Agency Agreement or any Note may, without the consent of each Holder affected thereby, (i) change the maturity of the principal of, or any date for the payment of interest or Additional Amounts payable on, any Note; (ii) reduce the principal amount of, or any interest or Additional Amounts payable on, any Note; (iii) change the manner of calculation of interest or principal with respect to any Note; (iv) change the place of payment, or currency of denomination or payment, of the principal of or any interest or Additional Amounts payable on any Note; (v) change the Issuer's obligation to pay Additional Amounts; (vi) impair the right to institute suit for the enforcement of any payment on or with respect to any Note; or (vii) reduce the percentage of the principal amount of the outstanding Notes, the consent of the Holders of which is required for any such supplemental agreement. Any modifications, amendments or waivers consented to or approved at a meeting will be conclusive and binding on all Holders whether or not they have given such consent or were present at such meeting, and on all future Holders whether or not notation of such modifications, amendments or waivers is made upon the Notes. Any instrument given by or on behalf of any Holder of a Note in connection with any consent to any such modification, amendment or waiver will be irrevocable once given and will be conclusive and binding on all subsequent Holders of such Note.

(c) At a meeting of the Holders of the Notes called for any of the above purposes, persons entitled to vote more than 50% in aggregate principal amount of the Notes at the time outstanding shall constitute a quorum. In the absence of a quorum at any such meeting, the meeting may be adjourned for a period of not less than ten days; in the absence of a quorum at any such adjourned meeting, such adjourned meeting may be further adjourned for a period of not less than ten days; at the reconvening of any meeting further adjourned for lack of a quorum, the persons entitled to vote 25% in aggregate principal amount of the Notes at the time outstanding shall constitute a quorum for the taking of any action set forth in the notice of the original meeting. At a meeting or an adjourned meeting duly convened and at which a quorum is present as aforesaid, any resolution to modify or amend, or to waive compliance with, any of the covenants or conditions referred to above (other than those set forth in Clauses (i) through (vii) of Condition 11(b) hereof) shall be effectively passed if passed by the lesser of (i) more than 50% in aggregate principal amount of Notes then outstanding or (ii) 75% in aggregate principal amount of the Notes represented and voting at the meeting.

(d) The Fiscal Agency Agreement and the terms and conditions of the Notes may be modified, supplemented or amended, without the consent of the Holders, for one or more of the following purposes: (i) to convey, transfer, assign, mortgage or pledge to a security agent (which may be the Fiscal Agent) to be separately appointed by the Issuer (and separately accepted by such security agent), as security for the Notes any property or assets; (ii) to add to the covenants of the Issuer such further covenants, restrictions, conditions or provisions as the Issuer shall consider to be for the protection of the Holders of Notes, and to make the occurrence, or the occurrence and continuance, of a default in any such additional covenants, restrictions, conditions or provisions an Event of Default permitting the enforcement of all or any of the several remedies provided in this Note as herein set forth; *provided*, that in respect of any such additional covenant, restriction, condition or provision such supplemental agreement may provide for a particular period of grace after default (which period may be shorter or longer than that allowed in the case of other defaults) or may provide for an immediate enforcement upon such an Event of Default or may limit the remedies available to the Fiscal Agent or the Holders upon such an Event of Default or may limit the right of the Holders of more than 50% in aggregate principal amount of the Notes to waive such an Event of Default; and (iii) to cure any ambiguity or to correct or supplement any provision contained herein or in any supplemental agreement which may be defective or inconsistent with any other provision contained herein or in any supplemental agreement; or to make such other provisions in regard to matters or questions arising under this Note or the Fiscal Agency Agreement or under any supplemental agreement as the Issuer may deem necessary or desirable and which shall not adversely affect the interests of the Holders. Any determination as to adverse effect on the interests of the Holders pursuant to these Conditions (including this Condition 11(d)) shall be made by the Issuer and none of the Agents shall have any responsibility or liability whatsoever with respect to such determination. In all other cases, amendment of the Fiscal Agency Agreement will require consent of the Holders pursuant to a resolution of the Holders of the Notes adopted pursuant to Section 13 of the Fiscal Agency Agreement

and the Notes.

12. Notices

(a) Except as otherwise expressly provided herein or the Fiscal Agency Agreement, whenever the Fiscal Agency Agreement or this Note provides for notice to Holders, such notice shall be sufficiently given if (a) sent by first class mail or (if posted to an address overseas) by airmail to the Holders (or the first named of joint holders) at their respective addresses recorded in the Register and will be deemed to have been given on the fourth day after mailing, and (b) in addition, if and for so long as the Notes are listed on a stock exchange or are admitted to trading by another relevant authority and the rules of that stock exchange or relevant authority so require, such notice will be published in a daily newspaper of general circulation in the place or places required by those rules.

(b) In the event that the Notes are held in their entirety on behalf of Euroclear and/or Clearstream, notice may be deemed given upon delivery of the relevant notice to Euroclear and/or Clearstream for communication by them to the Holders and, in addition, for so long as any Notes are listed on a stock exchange or are admitted to trading by another relevant authority and the rules of that stock exchange or any other relevant authority so require, such notice will be published in a manner specified by those rules. Any such notice shall be deemed to have been given to the Holders one day after the day on which the said notice was given to Euroclear and/or Clearstream.

(c) Notices to be given by any Holder shall be in writing and given by lodging the same, together with the relative Note or Notes, with the Fiscal Agent or the Registrar. Whilst any of the Notes are represented by a Global Note, such notice may be given by any Holder to the Fiscal Agent or the Registrar through Euroclear and/or Clearstream, as the case may be, in such manner as the Fiscal Agent, the Registrar and Euroclear and/or Clearstream, as the case may be, may approve for this purpose.

(d) In case, by reason of the suspension of or irregularities in regular mail service, it shall be impracticable to mail notice to the Holders when such notice is required to be given pursuant to any provision of the Fiscal Agency Agreement or this Note, then any manner of giving such notice as shall be satisfactory to the Fiscal Agent shall be deemed to be a sufficient giving of such notice.

13. Valid Obligations

The Issuer hereby certifies and declares that all acts, conditions and things required to be done and performed and to have happened precedent to the creation and issuance of this Note, and to constitute the same the valid and legally binding obligation of the Issuer enforceable in accordance with its terms, have been done and performed and have happened in due and strict compliance with the applicable laws of the State of New York.

14. Currency Indemnity

Any amount received or recovered in a currency other than the currency in which payment under the Notes is due (whether as a result of, or of the enforcement of, a judgment or order of a court of any jurisdiction, in the insolvency, winding-up or dissolution of the Issuer or otherwise) by any Holder in respect of any sum expressed to be due to it from the Issuer shall only constitute a discharge to the Issuer to the extent of the amount in the currency of payment under the Note that the recipient is able to purchase with the amount so received or recovered in that other currency on the date of that receipt or recovery (or, if it is not practicable to make that purchase on that date, on the first date on which it is practicable to do so). If the amount received or recovered is less than the amount expressed to be due to the recipient under any Note, the Issuer shall indemnify such Holder against any loss sustained by it as a result. In any event, the Issuer shall indemnify the recipient against the cost of making any such purchase. For the purposes of this Condition, it shall be sufficient for the Holder to demonstrate that it would have suffered a loss had an actual purchase been made. These indemnities constitute a separate and independent obligation from the Issuer's other obligations, shall give rise to a separate and independent cause of action, shall apply irrespective of any indulgence granted by any Holder and shall continue in full force and effect despite any other judgment, order, claim or proof for a liquidated amount in respect of any sum due under any Note or any other judgment or order.

15. **Governing Law**

(a) The Fiscal Agency Agreement and the Notes are governed by, and shall be construed in accordance with, the law of the State of New York.

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

(c) The Issuer has in the Fiscal Agency Agreement submitted to the jurisdiction of the courts of the State of New York and appointed an agent for service of process in terms substantially similar to those set out above.

(d) The Issuer hereby irrevocably and unconditionally waives and agrees not to raise with respect to the Notes (including a dispute relating to any non-contractual obligations arising out of or in connection thereunder) any right to claim sovereign or other immunity from jurisdiction or execution and any similar defense, and irrevocably and unconditionally consents to the giving of any relief or the issue of any process, including, without limitation, the making, enforcement or execution against any property whatsoever (irrespective of its use or intended use) of any order or judgment made or given in connection with any Proceedings.

FORM OF THE NOTES

Capitalized terms used in this section and not otherwise defined shall have the meanings given to them in “Terms and Conditions of the Notes.”

The Notes will initially be represented by a Global Note. The Global Note will be deposited with and registered in the name of The Bank of New York Depository (Nominees) Limited as nominee for, and deposited with, a common depository for Euroclear and Clearstream (the “Common Depository”), and Euroclear and Clearstream will credit their respective account holders with the respective principal amounts of the individual interests represented by such Global Note. Such accounts will be designated initially by or on behalf of the representative of the Manager. Ownership of beneficial interests in the Global Note will be limited to persons who have accounts with Euroclear or Clearstream or persons who hold interests through such account holders. Ownership of beneficial interests in the Global Note will be shown on, and the transfer of that ownership will be effected only through, the records maintained by Euroclear and Clearstream (with respect to interests of their respective account holders) and the records of such account holders (with respect to interests of persons other than such account holders).

Each Global Note (and any Notes issued in exchange thereof) will be subject to certain restrictions on transfer set forth therein and described under “*Transfer Restrictions*”. Except in the limited circumstances described in the terms and conditions of the Notes, owners of beneficial interests in the Global Note will not be entitled to receive physical delivery of certificates representing their Notes. The laws of certain jurisdictions require that certain purchasers of the Notes take physical delivery of such Notes in certificated form. Accordingly, the ability of beneficial owners to own, transfer or pledge beneficial interests in the Global Note may be limited by such laws.

So long as the Notes are represented by the Global Note, each payment in respect of the Global Note will be made to the person shown as the Holders of the Notes in the register of Notes at the close of business (of the relevant clearing system) on the Clearing System Business Day before the due date for such payments, where “Clearing System Business Day” means a weekday (Monday to Friday, inclusive) except December 25 and January 1. Payments of principal, interest and premium (if any) in respect of Notes evidenced by the Global Note held through Euroclear or Clearstream will be credited, to the extent received by the Paying Agent or such other Paying Agent, to the cash accounts of Euroclear and Clearstream participants in accordance with the relevant system’s rules and procedures and will be made without presentation for endorsement by the Paying Agent or such other Paying Agent and, if no further payment falls to be made in respect of the Notes, against presentation and surrender of the Global Note to or to the order of the Paying Agent, or to the order of such other Paying Agent as shall have been notified to the relevant Holder for such purpose. No person shall however be entitled to receive any payment on the Global Note (or such part of the Global Note which is required to be exchanged) falling due after any date of exchange into individual definitive Certificates unless exchange of the Global Note for such individual definitive Certificates is improperly withheld or refused by or on behalf of the Issuer or the Issuer does not perform or comply with any one or more of what are expressed to be its obligations under any such individual definitive Certificates. Neither the Issuer nor the Fiscal Agent, the Paying Agent, the Registrar, the Transfer Agent, the Common Depository nor any of its other agents will have any responsibility or liability for the accuracy of any of the records relating to, or payments made on account of, ownership interests in the Global Note or for any notice permitted or required to be given to persons with beneficial interests in the Global Note or any consent given or actions taken by such persons. The Issuer expects that the Common Depository, upon receipt of any payment in respect of any Notes represented by the Global Note held by it or its nominee, will promptly credit the accounts of the participants of Euroclear and Clearstream with payments proportionate to their respective interests in the principal amount of the Notes represented by the Global Note as shown on its records.

So long as the Notes are represented by the Global Note and the Global Note is held on behalf of Euroclear or Clearstream or any alternative clearing system, notices to Holders shall be given by delivery of the relevant notice to Euroclear or Clearstream, or such alternative clearing system, for communication by it to accountholders entitled to an interest in the Notes in substitution for notification as required by the terms and conditions of the Notes.

Transfers of interests in the Notes will be effected through the records of Euroclear and Clearstream (or any alternative clearing system) and their respective participants in accordance with the rules and procedures of

Euroclear and Clearstream (or any alternative clearing system) and their respective direct and indirect participants. Where the holding of Notes represented by the Global Note is only transferable in its entirety, the certificate issued to the transferee upon transfer of such holding shall be a Global Note. Where transfers are permitted in part, certificates issued to transferees shall not be Global Note unless the transferee so requests and certifies to the Registrar that it is, or is acting as or as nominee for a common depository for Euroclear, Clearstream and/or an alternative clearing system.

Cancellation of any Note represented by the Global Note which is required by the terms and conditions of the Notes to be cancelled will be effected by reduction in the principal amount of the Notes in the register of the Notes and the Global Note on its presentation to or to the order of the Paying Agent for annotation (for information only) in the Global Note.

Although Euroclear and Clearstream have agreed to the foregoing procedures in order to facilitate transfers of interests in the Global Note among participants and account holders of Euroclear and Clearstream, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. Neither the Issuer, the Fiscal Agent, the Paying Agent, the Transfer Agent, the Registrar, the Common Depository nor any of its other agents will have any responsibility for the performance by Euroclear, Clearstream or their respective participants, indirect participants or account holders, of their respective obligations under the rules and procedures governing their operations.

Euroclear and Clearstream each holds the Notes for participating organizations and facilitates the clearance and settlement of Note transactions between its respective participants through electronic book-entry changes in accounts of such participants. Euroclear and Clearstream provide to their respective participants, among other things, services for safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Participants of Euroclear and Clearstream are financial institutions throughout the world, including underwriters, securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. Indirect access to Euroclear and Clearstream is also available to others, such as banks, brokers, dealers and trust companies which clear through or maintain a custodial relationship with a participant of Euroclear or Clearstream, either directly or indirectly.

For so long as the Notes are listed on the SGX-ST and the rules of the SGX-ST so require, in the event that a Global Note is exchanged for Certificated Notes (as defined below), the Issuer will appoint and maintain a paying agent in Singapore, where the Certificated Notes may be presented or surrendered for payment or redemption. In addition, in the event that a Global Note is exchanged for Certificated Notes, an announcement of such exchange will be made by or on behalf of the Issuer through the SGX-ST and such announcement will include all material information with respect to the delivery of the Certificated Notes, including details of the paying agent in Singapore.

Certificated Notes

The Issuer will execute and deliver to the Fiscal Agent, and the Fiscal Agent will authenticate, definitive physical certificates representing the Notes (the “Certificated Notes”) in exchange for the Global Note, if:

- (i) either Euroclear or Clearstream or a successor clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so; or
- (ii) an event of default under the Notes or the Fiscal Agency Agreement has occurred and is continuing.

Upon receipt of the relevant notice from Euroclear, Clearstream or the Fiscal Agent, as the case may be, the Issuer will use its best efforts to make arrangements for the exchange of interests in the relevant Global Note for Certificated Notes and cause the requested Certificated Notes to be executed and delivered to the Fiscal Agent in sufficient quantities and authenticated by the Fiscal Agent for delivery to the holders of Notes or persons to whom such delivery is requested by holders of Notes. Persons exchanging interests in the Global Note for Certificated Notes will be required to provide to the Fiscal Agent, through the relevant clearing system, written instructions and other information required by the Issuer and the Fiscal Agent to complete, execute and deliver such Certificated

Notes. Any Certificated Notes delivered in exchange for the Notes represented by the Global Note or beneficial interests therein will be registered in the names requested and issued in the principal amount of HK\$1,000,000 and any integral multiple of HK\$1,000,000 in excess thereof.

The Clearing Systems

Euroclear

Euroclear was created in 1968 to hold securities for its participants and to clear and settle transactions between its participants through simultaneous electronic book-entry delivery against payment, thereby eliminating the need for physical movement of certificates and any risk from lack of simultaneous transfers of securities and cash. Euroclear includes various other services, including securities lending and borrowing, and interfaces with domestic markets in several countries. Euroclear is operated by Euroclear Bank S.A./N.V. (the “Euroclear Operator”), under contract with Euroclear Clearance Systems, S.C., a Belgian cooperative corporation (the “Cooperative”). All operations are conducted by the Euroclear Operator, and all Euroclear securities clearance accounts and Euroclear cash accounts are accounts with the Euroclear Operator, not the Cooperative. The Cooperative establishes policy for Euroclear on behalf of Euroclear participants. Euroclear participants include banks (including central banks), securities brokers and dealers and other professional financial intermediaries and may include the representative of the initial purchasers. Indirect access to Euroclear is also available to others that clear through or maintain a custodial relationship with a Euroclear participant, either directly or indirectly.

The Euroclear Operator was granted a banking license by the Belgian Banking and Finance Commission in 2000, authorizing it to carry out banking activities on a global basis. It took over operation of Euroclear from the Brussels, Belgium office of Morgan Guaranty Trust Company of New York on December 31, 2000.

Securities clearance accounts and cash accounts with the Euroclear Operator are governed by the Terms and Conditions Governing Use of Euroclear and the related Operating Procedures of the Euroclear System, and applicable Belgian law (collectively, the “Terms and Conditions”). The Terms and Conditions govern transfers of securities and cash within Euroclear, withdrawals of securities and cash from Euroclear, and receipts of payments with respect to securities in Euroclear. All securities in Euroclear are held on a fungible basis without attribution of specific certificates to specific securities clearance accounts.

The Euroclear Operator acts under the Terms and Conditions only on behalf of Euroclear participants and has no record of or relationship with persons holding through Euroclear participants. Distributions with respect to Notes held beneficially through Euroclear will be credited to the cash accounts of Euroclear participants in accordance with the Terms and Conditions, to the extent received by Euroclear.

Clearstream

Clearstream was incorporated under the laws of The Grand Duchy of Luxembourg as a professional depository. Clearstream holds securities for its participants and facilitates the clearance and settlement of securities transactions between its participants through electronic book-entry changes in accounts of its participants, thereby eliminating the need for physical movement of certificates. Clearstream provides to its participants, among other things, services for safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Clearstream interfaces with domestic markets in several countries. As a professional depository, Clearstream is subject to regulation by the Luxembourg Monetary Institute. Clearstream participants are financial institutions around the world, including securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations and may include the initial purchasers. Indirect access to Clearstream is also available to others that clear through or maintain a custodial relationship with a Clearstream participant either directly or indirectly.

Distributions with respect to Notes held beneficially through Clearstream will be credited to cash accounts of Clearstream participants in accordance with its rules and procedures, to the extent received by Clearstream.

Initial Settlement

Initial settlement for the Notes will be made in immediately available funds. All Notes will be represented by a Global Note which will be deposited with the Common Depositary, as custodian for Euroclear and Clearstream. Euroclear and Clearstream will hold such Notes on behalf of their participants, which are financial institutions. As a result, investors' interests in Notes held in book-entry form through Euroclear and Clearstream will be held through accounts at financial institutions acting on their behalf as direct and indirect participants in Euroclear and Clearstream.

Investors will follow the settlement procedures applicable to conventional Eurobonds in registered form. Notes will be credited to the securities custody accounts of Euroclear Holders and of Clearstream Holders on the business day following the settlement date against payment for value on the settlement date.

Secondary Market Trading

Secondary market trading between Euroclear participants and/or Clearstream participants will occur in the ordinary way in accordance with the applicable rules and operating procedures of Clearstream and Euroclear and will be settled using the procedures applicable to conventional Eurobonds in same-day funds.

OWNERSHIP

The following table sets out certain information relating to the ownership of the Issuer as of the date of this Offering Circular.

	Amount of Share Capital	% of Total Share Capital
	<i>(in billions of Won)</i>	<i>(percentages)</i>
MOSF	₩9,236	90.1%
MOLIT	₩1,015	9.9%
Total	₩10,251	100.0%

TAXATION

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

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

Korean Taxation

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

Tax on Interest

In principle, interest on notes issued by a Korean company paid to a Non-Resident is subject to withholding of Korean income tax or corporation tax unless exempted by relevant laws or tax treaties, although exception to this may apply depending on each prospective investors’ tax position.

Special Tax Treatment Control Law of Korea (the “STTCL”) exempts interest on notes denominated in a foreign currency (excluding payments to a Korean corporation or resident or a Permanent Establishments of a Non-Resident) from Korean income tax or corporation tax, provided that the offering of the notes is deemed to be an overseas issuance under the STTCL. The local income tax referred to below is also therefore eliminated.

Accordingly, if not exempt under the STTCL, interest on the Notes will be subject to withholding of Korean income tax or corporation tax at the rate of 14 per cent. for a Non-Resident. In addition, a tax surcharge, called a local income tax, is imposed at the rate of 10 per cent. of the income tax or corporation tax (raising the total tax rate to 15.4 per cent.). Tax is withheld by the payer (or its agent) of the interest.

Tax rates may be reduced or exempted by applicable tax treaties, conventions or agreements between Korea and the country of the recipient of the interest. The relevant tax treaties are summarized below.

Tax on Capital Gains

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

In the absence of an applicable treaty or any other special tax laws reducing or eliminating capital gains tax, the applicable rate of tax is the lower of 11 per cent. of the gross realization proceeds (the “Gross Realization Proceeds”) or (subject to the production of satisfactory evidence of the acquisition cost and certain direct transaction costs of the relevant Notes) 22 per cent. of the realized gain made. The gain is calculated as the Gross Realization Proceeds less the acquisition cost and certain direct transaction costs. 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 Notes being sold, the purchaser or any other designated withholding agents of the Notes, as applicable, must withhold an amount equal to 11 per cent. of the Gross Realization Proceeds.

Any withheld tax must be paid no later than the tenth day of the month following the month in which the payment for the purchase of the relevant Notes occurred. Failure to timely transmit the withheld tax to the Korean tax authorities technically subjects the purchaser or the withholding agent to penalties under Korean tax law.

Inheritance Tax and Gift Tax

Korean inheritance tax is imposed upon (1) all assets (wherever located) of the deceased if at the time of death the deceased was domiciled in Korea or resided in Korea for at least 183 days immediately prior to the death and (2) all property located in Korea which passes on death (irrespective of the domicile of the deceased). Gift tax is imposed in similar circumstances to the above. The taxes are imposed if the value of the relevant property is above a certain limit and the tax rates vary from 10 to 50% according to the value of the relevant property and the identity of the persons involved.

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

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

Stamp Duty and Securities Transaction Tax

No stamp, issue or registration duties will be payable in Korea by the holders of the Notes in connection with the issue of the Notes except for a nominal amount of stamp duty on certain documents executed in Korea. No securities transaction tax will be imposed on the transfer of the Notes.

Tax Treaties

As of the date of this Offering Circular, Korea has tax treaties with, *inter alia*, Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Italy, Japan, Luxembourg, the Netherlands, New Zealand, Norway, the People's Republic of China, Singapore, Sweden, Switzerland, the United Kingdom and the United States of America under which the rate of withholding tax on interest is reduced, generally to between approximately 5 and 16.5%, and the tax on capital gains is often eliminated.

Each holder of the Notes should inquire whether he or she is entitled to the benefit of a tax treaty with Korea with respect to any transaction involving the Notes. It is the responsibility of the party claiming the benefits of a tax treaty in respect of interest payments to file with the Issuer, the purchaser or the withholding agent, as applicable, a certificate as to his tax residence. In the absence of sufficient proof, the Issuer, the purchaser or the securities company, as applicable, must withhold taxes in accordance with the above discussion.

In order to claim the benefit of a tax rate reduction or tax exemption available under the applicable tax treaties, a Non-Resident holder should submit to the payer of such Korean source income an application (for reduced withholding tax rate, "application for entitlement to reduced tax rate" and in the case of exemption from withholding tax, "application for exemption" under a tax treaty along with a certificate of the Non-Resident holder's tax residence issued by a competent authority of the Non-Resident holder's residence country) as the beneficial owner ("BO Application"). Such application should be submitted to the withholding agent prior to the payment date of the relevant income. Subject to certain exceptions, where the relevant income is paid to an overseas investment vehicle (which is not the beneficial owner of such income) ("OIV"), a beneficial owner claiming the benefit of an applicable tax treaty with respect to such income must submit its BO Application to such OIV, which must submit an OIV report and a schedule of beneficial owners to the withholding agent prior to the payment date of such income. In the case of a tax exemption application, the withholding agent is required to submit such application (together with the applicable OIV report in the case of income paid to an OIV) to the relevant district tax office by the ninth day of the month following the date of the payment of such income.

European Union Savings Directive

Under the European Council Directive 2003/48/EC on the taxation of savings income, each Member State is required to provide to the tax authorities of another Member State details of payments of interest or other similar income paid by a person within its jurisdiction to an individual resident in that other Member State. However, for a

transitional period, Austria and Luxembourg are instead required (unless during such period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories including Switzerland, have agreed to adopt similar measures (or a withholding system in the case of Switzerland).

The European Commission has proposed certain amendment to the Directive, which may, if implemented amend or broaden the scope of the requirement described above.

SUBSCRIPTION AND SALE

Nomura International plc (the “Manager”) has, pursuant to a purchase agreement (the “Purchase Agreement”), dated as of May 30, 2018, between the Issuer and the Manager, agreed to purchase the Notes at a purchase price of 100% of the principal amount of the Notes. The Purchase Agreement provides that the obligations of the Manager to purchase the Notes are subject to approval of certain legal matters by their counsels and to certain conditions precedent.

Any Notes sold by the Manager may be sold at prices which are different from the issue price of the Notes. The Manager may offer the Notes in various jurisdictions through certain of their affiliates. If a jurisdiction requires that the issue of the securities described herein be made by a licensed broker or dealer and any of the Manager or any affiliate of the Manager is a licensed broker or dealer in that jurisdiction, the issue of the securities described herein shall be deemed to be made by the Manager or such affiliate on behalf of the issuer in such jurisdiction.

The Issuer has agreed to indemnify the Manager against certain liabilities, including liabilities under the Securities Act, and to contribute to payments that the Manager may be required to make in respect thereof.

The Notes are new securities for which there currently is no market. In connection with the offering of the Notes, the Manager has advised that it may purchase and sell Notes in the open market. These transactions may include short sales, stabilizing transactions and purchases to cover positions created by short sales. Short sales involve the sale by the Manager of a greater number of Notes than it is required to purchase in the offering. Stabilizing transactions consist of certain bids or purchases made for the purpose of preventing or retarding a decline in the market price of the Notes while the offering is in progress. These activities by the Manager may stabilize, maintain or otherwise affect the market price of the Notes. As a result, the price of the Notes may be higher than the price that otherwise might exist in the open market. These transactions may be effected in the over-the-counter market or otherwise. In addition, the Manager is not obligated to make a market in the Notes and any market-making may be discontinued at any time at its sole discretion. Accordingly, no assurance can be given as to the development or liquidity of any trading market for the Notes.

The Issuer has agreed in the Purchase Agreement that for a period of thirty (30) days after the date of the Purchase Agreement, the Issuer will not, without the prior written consent of the Manager, (i) offer, sell, contract to sell, pledge or otherwise dispose of, directly or indirectly, any debt securities (other than those denominated in Korean Won) issued or guaranteed by the Issuer and having a maturity of more than one year from the date of issue, (ii) enter into any swap or any other agreement or any transaction that transfers, in whole or in part, directly or indirectly, the economic consequence of ownership of the Notes, whether any such swap or transaction described in clause (i) or (ii) above is to be settled by delivery of Notes or such other securities, in cash or otherwise or (iii) publicly disclose the intention to make any transaction described in clause (i) or (ii) above.

This Offering Circular is based on information provided by the Issuer and by other sources the Issuer believes are reasonable. No representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Manager as to the accuracy or completeness of the information contained or incorporated by reference in this Offering Circular. To the fullest extent permitted by law, the Manager does not accept liability in relation to the information contained or incorporated by reference in this Offering Circular or any other information provided by the Issuer or for any other statement, made or purported to be made by the Manager or on its behalf in connection with the Issuer, the issue of the Notes or their distribution. The Manager accordingly disclaims all and any liability whether arising in tort or contract or otherwise which it might otherwise have in respect of this Offering Circular or any such information or statement.

Selling Restrictions

United States

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in accordance with Regulation S

or pursuant to any other transactions exempt from, or not subject to, the registration requirements of the Securities Act and applicable state securities laws. In addition, until 40 days after the commencement of this offering, an offer or sale of Notes within the United States by the Manager may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with an available exemption.

The Manager, through its respective affiliates, acting as selling agents where applicable, proposes to offer the Notes to certain non-U.S. persons in offshore transactions in reliance on Regulation S. The Manager has agreed that, except as permitted under the Purchase Agreement, it will not offer, sell or deliver the Notes within the United States or to U.S. persons.

Terms used in the immediately preceding two paragraphs have the meanings given to them by Regulation S. Transfer of the Notes will be restricted as described under “*Transfer Restrictions*”.

European Economic Area

Prohibition of Sales to EEA Retail Investors

The Manager has represented and agreed that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Securities to any retail investor in the European Economic Area. For the purposes of this provision, the expression “retail investor” means a person who is one (or more) of the following:

- (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, “**MiFID II**”); or
- (ii) a customer within the meaning of Directive 2002/92/EC (as amended), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II.

United Kingdom

The Manager has represented, warranted 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 the Notes in circumstances in which Section 21(1) of the FSMA would not, if the Company were not an “authorised person,” apply to the Company; 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.

Italy

The offering of the Notes has not been registered with the Commissione Nazionale per le Società e la Borsa (“CONSOB”) pursuant to Italian securities legislation and, accordingly, the Manager has not offered, sold or distributed, and will not offer, sell or distribute, any Notes or any copy of this Offering Circular or any other offer document in the Republic of Italy (“Italy”) in an offer to the public of financial products under the meaning of Article 1, paragraph 1, letter t) of Legislative Decree no. 58 of February 24, 1998 (the “Consolidated Financial Services Act”), unless an exemption applies. Accordingly, the Notes shall only be offered, sold or delivered in Italy:

(i) to qualified investors (investitori qualificati), pursuant to Article 100 the Consolidated Financial Services Act and Article 34-ter, first paragraph, letter (b) of CONSOB Regulation No. 11971 of May 14, 1999, as amended from time to time (“Regulation No. 11971”); or

(ii) in any other circumstances where an express exemption from compliance with the restrictions on offers to the public applies, as provided under Article 100 of the Consolidated Financial Services Act and Article 34-ter of Regulation No. 11971.

Moreover, and subject to the foregoing, any offer, sale or delivery of the Notes or distribution of copies of

this Offering Circular or any other document relating to the Notes in Italy under (i) or (ii) above must be:

(a) made by an investment firm, bank or financial intermediary permitted to conduct such activities in Italy in accordance with the Consolidated Financial Services Act, Legislative Decree No. 385 of September 1, 1993 (the “Banking Act”), CONSOB Regulation No. 16190 of October 29, 2007, all as amended;

(b) in compliance with Article 129 of the Banking Act, as amended, and the implementing guidelines of the Bank of Italy, as amended from time to time, pursuant to which the Bank of Italy may request information on the offering or issue of securities in Italy; and

(c) in compliance with any other applicable laws and regulations, including any limitation or requirement that may be imposed from time to time by CONSOB or other Italian authority.

Investors should also note that, in any subsequent distribution of the Notes in the Italy, Article 100-bis of the Consolidated Financial Services Act may require compliance with the law relating to public offers of securities. Furthermore, where the Notes are placed solely with “qualified investors” and are then systematically resold on the secondary market at any time in the 12 months following such placing, purchasers of Notes who are acting outside of the course of their business or profession may in certain circumstances be entitled to declare such purchase void and, in addition, to claim damages from any authorized person at whose premises the Notes were purchased, unless an exemption provided for under the Consolidated Financial Services Act applies.

Japan

The Notes have not been and will not be registered under the Financial Instruments and Exchange Act and are subject to the Special Taxation Measures Act. The Manager has represented and agreed that (i) it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell, the Notes in Japan or to, or for the benefit of, any person resident in Japan for Japanese securities law purposes (including any corporation or other entity organized under the laws of Japan) or to others for reoffering or resale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Financial Instruments and Exchange Act and any other applicable laws, regulations and government guidelines of Japan; and (ii) it has not, directly or indirectly, offered or sold and will not, as part of its distribution pursuant to the Purchase Agreement at any time, directly or indirectly offer or sell the Notes to, or for the benefit of, any person other than a beneficial owner that is (a) for Japanese tax purposes, neither (x) an individual resident of Japan or a Japanese corporation, nor (y) an individual non-resident of Japan or a non-Japanese corporation that in either case is a person having a special relationship with the Company as described in Article 6, paragraph (4) of the Special Taxation Measures Act or (b) a Japanese financial institution, designated in Article 3-2-2 paragraph (29) of the Cabinet Order relating to the Special Taxation Measures Act.

Singapore

This Offering Circular has not been and will not be registered as a prospectus with the Monetary Authority of Singapore under the Securities and Futures Act (Chapter 289 of Singapore) (the “SFA”). Accordingly, the Manager has represented, warranted and agreed that it has not offered or sold any Notes or caused the Notes to be made the subject of an invitation for subscription or purchase, and will not offer or sell any Notes or cause the Notes to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Offering Circular and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor under Section 274 of the SFA, (ii) to a relevant person pursuant to Section 275(1), or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275, of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

(a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals,

each of whom is an accredited investor; or

(b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities (as defined in Section 239(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 of the SFA except:

(1) to an institutional investor or to a relevant person defined in Section 275(2) of the SFA, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;

(2) where no consideration is or will be given for the transfer;

(3) where the transfer is by operation of law;

(4) as specified in Section 276(7) of the SFA; or

(5) as specified in Regulation 32 of the Securities and Futures (Offers of Investments) (Shares and Debentures) Regulations 2005 of Singapore.

Hong Kong

The Notes have not been offered or sold and will not be offered or sold in Hong Kong Special Administrative Region of the People's Republic of China (Hong Kong), by means of any document or any Notes (except for Notes which are a "structured product" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong) other than (i) to "professional investors" as defined in the Securities and Futures Ordinance and any rules made under that Ordinance or (ii) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance; and have not been issued or have not been in possession for the purpose of issue, and will not be issued or will not be in possession for the purpose 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 Securities and Futures Ordinance of Hong Kong and any rules made under that Ordinance.

People's Republic of China

The Notes are not being offered or sold and may not be offered or sold, directly or indirectly, in the People's Republic of China (for such purposes, not including the Hong Kong and Macau Special Administrative Regions or Taiwan), except as permitted by the securities laws of the People's Republic of China.

Korea

The Notes have not been and will not be registered under the Financial Investment Services and Capital Markets Act of Korea. Accordingly, the Notes may not be offered, sold or delivered, directly or indirectly, in Korea or to, or for the account or benefit of, any resident of Korea (as such term is defined under the Foreign Exchange Transactions Act of Korea and its Enforcement Decree), except as otherwise permitted under applicable Korean laws and regulations.

Certain Relationships and Activities of the Manager

With respect of the Notes, various potential and actual conflicts of interest may arise. The Manager and others associated with it may have positions in, and may effect transactions in, securities and instruments of issuers and may also perform or seek to perform investments banking services for the issuers of such securities and

instruments. The Manager has received, or may in the future receive, customary fees and commissions for these transactions. In addition, the Manager and others associated with it are involved in the structure relating to the Notes at various levels and various conflicts of interest may arise as a result of the roles each undertakes in the structure as well as from the overall activities of the Manager.

TRANSFER RESTRICTIONS

Because of the following restrictions, purchasers are advised to consult with legal counsel prior to making any offer, resale, pledge or other transfers of the Notes.

Transfer Restrictions Applicable to the Notes

The Notes have not been and will not be registered under the Securities Act. The Notes may not be offered or sold to any person in the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Terms used in this section are defined in Regulation S.

Except in certain limited circumstances, interests in the Notes may only be held through interests in the Global Note. Such interests in the Global Note will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear and Clearstream and their respective direct and indirect participants. See “*Terms and Conditions of the Notes*”.

Each purchaser of the Notes, by accepting delivery of this Offering Circular, will be deemed to have represented, agreed and acknowledged that:

1. the Notes have not been, and will not be, registered under the Securities Act or with any securities regulatory authority of any state of the United States and are subject to significant restrictions on transfer;
2. the purchaser is, and the person, if any, for whose account or benefit the purchaser is acquiring the Notes is, outside the United States at the time the buy order for the Notes is originated and continues to be located outside the United States, and the person, if any, for whose account or benefit the purchaser is acquiring the Notes reasonably believes that the purchaser is outside the United States, and neither the purchaser nor any person acting on its behalf knows that the transaction has been pre-arranged with a buyer in the United States;
3. the purchaser is aware of the restrictions on the offer and sale of the Notes pursuant to Regulation S described in this Offering Circular;
4. any offer, sale, pledge or other transfer of the Notes made other than in compliance with the above-stated restrictions will not be recognized by us; and
5. the Notes will bear legends to the following effect, unless we determine otherwise in compliance with applicable law, and such purchaser will observe the restrictions contained therein:

THIS NOTE (OR ITS PREDECESSOR) WAS ORIGINALLY ISSUED IN A TRANSACTION EXEMPT FROM REGISTRATION UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), AND MAY NOT BE TRANSFERRED IN THE UNITED STATES EXCEPT PURSUANT TO AN AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND ALL APPLICABLE STATE SECURITIES LAWS. TERMS USED ABOVE HAVE THE MEANINGS GIVEN TO THEM IN REGULATION S UNDER THE SECURITIES ACT.

Transfer Restrictions under Korean Laws and Regulations

Each purchaser of the Notes, by accepting delivery of this Offering Circular, will be deemed to have acknowledged, represented and agreed as follows:

THE NOTES HAVE NOT BEEN AND WILL NOT BE REGISTERED WITH THE FINANCIAL SERVICES COMMISSION OF KOREA UNDER THE FINANCIAL INVESTMENT SERVICES AND CAPITAL MARKETS ACT OF KOREA. THE NOTES HAVE NOT BEEN OFFERED, SOLD OR DELIVERED AND WILL NOT BE OFFERED, SOLD OR DELIVERED, DIRECTLY OR INDIRECTLY, IN KOREA OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, ANY RESIDENT OF KOREA (AS DEFINED IN THE FOREIGN EXCHANGE TRANSACTIONS ACT OF KOREA AND THE REGULATIONS THEREUNDER), OR TO ANY OTHER PERSON FOR REOFFERING, RESALE OR RE-DELIVERY, DIRECTLY OR INDIRECTLY, IN

KOREA OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, ANY RESIDENT OF KOREA, EXCEPT AS OTHERWISE PERMITTED BY APPLICABLE KOREAN LAWS AND REGULATIONS.

LEGAL MATTERS

Certain legal matters with respect to the offering of the Notes will be passed upon for the Manager by Greenberg Traurig, LLP as to matters of New York law.

Certain legal matters with respect to the offering of the Notes will be passed upon for the Manager by Lee & Ko as to matters of Korean law.

INDEPENDENT AUDITORS

The consolidated financial statements of the Issuer as of and for the years ended December 31, 2017 included in this Offering Circular have been audited by KPMG Samjong Accounting Corp., independent auditors, as stated in their report appearing herein. The consolidated financial statements of the Issuer as of and for the years ended December 31, 2015 and 2016 included in this Offering Circular have been audited by Deloitte Anjin LLC, independent auditors, as stated in their report appearing herein.

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Consolidated Statements of Changes in Equity for the Years Ended December 31, 2016 and 2015

Consolidated Statements of Cash Flows for the Years Ended December 31, 2016 and 2015

Notes to the Consolidated Financial Statements

KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

Consolidated Financial Statements
December 31, 2017

(With Independent Auditor's Report Thereon)

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Independent Auditors' Report

Based on a report originally issued in Korean

To the Board of Directors and Shareholders
Korea Railroad Corporation:

We have audited the accompanying consolidated financial statement of Korea Railroad Corporation and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as of December 31, 2017, and the consolidated statements of comprehensive income, changes in the shareholder's equity and cash flows for the year then ended, and 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 Government-owned and Quasi-government Accounting Regulations and 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 audit. We conducted our audit 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 financial position of the Group as of December 31, 2017, and its financial performance and its cash flows for the year then ended in accordance with Korean Government-owned and Quasi-government Accounting Regulations and Standards.

Other Matter

The comparative consolidated financial statements for the year ended December 31, 2016 were audited by other auditor whose report dated March 22, 2017, expressed an unqualified opinion on those statements.

The procedures and practices utilized in the Republic of Korea to audit such consolidated financial statements may differ from those generally accepted and applied in other countries.

KPMG Samjong Accounting Corp.

Seoul, Korea

February 28, 2018

<p>This report is effective as of February 28, 2018, 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.</p>
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KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

Consolidated Statements of Financial Position

As of December 31, 2017 and 2016

<i>(In thousands of won)</i>	<i>Notes</i>	2017	2016
Assets			
Current assets			
Cash and cash equivalents	7,28,42 ₩	481,767,204	374,092,586
Short-term financial instruments	13,43,44	15,203,275	16,841,649
Short-term loans	12,43,44	386,635	113,562
Current derivative instrument assets		-	44,554,993
Trade receivables and other receivables	10,42,44	885,995,302	357,860,661
Inventories	14,28	247,765,203	231,787,194
Prepaid income taxes		879,212	978,984
Current non-financial assets	15,28	42,654,612	45,355,964
Non-current assets held-for-sale	40	38,825,375	24,537,493
		<u>1,713,476,818</u>	<u>1,096,123,086</u>
Non-current assets			
Long-term financial instruments	13,43,44	18,755	18,755
Non-current available-for-sale financial assets	11,43,44	42,220,585	38,016,648
Long-term loans, net	12,43,44	40,092,731	42,138,014
Non-current derivative instrument assets	9,43,44	7,700,483	22,248,201
Long-term trade receivables other receivables	10,43,44	234,940,830	541,031,492
Property, trains and equipment, net	17,25,28	17,357,949,704	16,296,122,523
Investment property	18,28	277,551,178	167,251,889
Goodwill	20	3,732,906	3,732,906
Intangibles assets, net	21	61,219,503	69,819,653
Investment in associates	16	116,619,255	209,932,877
Deferred tax assets	39	15,700,193	17,800,091
Non-current non-financial assets	15	7,120,110	8,693,312
		<u>18,164,866,233</u>	<u>17,416,806,361</u>
Total assets	₩	<u>19,878,343,051</u>	<u>18,512,929,447</u>

See accompanying notes to consolidated financial statements

KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

Consolidated Statements of Financial Position, Continued

As of December 31, 2017 and 2016

(In thousands of won)

	Notes	2017	2016
Liabilities			
Current liabilities			
Trade payables and other payables	22,43,44 ₩	746,568,828	619,193,264
Short-term borrowings	23,43,44	7,999,991	10,448,562
Current portion of long-term borrowings, net	23,43,44	55,000,000	31,300,000
Current portion of bonds, net	23,43,44	1,371,162,536	1,862,112,178
Current derivative instrument liabilities	9,43,44	24,208,168	-
Current tax liabilities	39	621,677	828,299
Current non-financial liabilities	29	259,106,732	177,801,331
Current provisions	27	389,822,573	206,980,388
		<u>2,854,490,505</u>	<u>2,908,664,022</u>
Non-current liabilities			
Long-term trade payables and other payables	22,43,44	39,357,277	32,754,691
Long-term borrowings, net	23,43,44	60,821,938	115,783,210
Bonds, net	23,43,44	10,315,531,406	9,556,404,272
Non-current derivative instrument liabilities	23,43,44	53,827,313	4,352,442
Other non-current financial liabilities	9,43,44	147,500,000	147,600,000
Non-current non-financial liabilities	24,43	13,882,153	14,508,715
Employee benefits	26	863,568,660	746,954,783
Deferred tax liabilities	39	23,131,331	21,252,523
Provisions	27	508,649,364	195,871,179
		<u>12,026,269,442</u>	<u>10,835,481,815</u>
Total liabilities		<u><u>14,880,759,947</u></u>	<u><u>13,744,145,837</u></u>
Equity			
Share capital	1,30	10,246,337,939	10,103,893,478
Accumulated deficit	17,31,32	(9,227,880,231)	(8,387,695,695)
Other equity components	17,33	3,839,421,074	2,930,482,691
Equity attributable to owners of the Group		<u>4,857,878,782</u>	<u>4,646,680,474</u>
Non-controlling interests		<u>139,704,322</u>	<u>122,103,136</u>
Total equity		<u><u>4,997,583,104</u></u>	<u><u>4,768,783,610</u></u>
Total liabilities and equity	₩	<u><u>19,878,343,051</u></u>	<u><u>18,512,929,447</u></u>

See accompanying notes to consolidated financial statements

KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

Consolidated Statements of Comprehensive Income

For the years ended December 31, 2017 and 2016

(In thousands of won)

	Notes	2017	2016
Revenues	6,19,42 ₩	5,786,708,745	5,693,642,954
Cost of sales	19,41,4 2	5,917,719,010	5,232,444,886
Gross profit (loss)		<u>(131,010,265)</u>	<u>461,198,068</u>
Selling, general and administrative expense	35,41	338,901,980	339,614,223
Operating income (loss)	6	<u>(469,912,245)</u>	<u>121,583,845</u>
Other revenue	36	14,637,170	34,028,814
Other expenses	36	90,122,587	52,909,518
Other income (loss), net	36	(140,271,290)	56,298,826
Finance income	37,43	132,410,462	45,486,738
Finance expense	37,43	528,461,403	454,327,503
Gains on valuation of investments in associates	16	10,196,185	19,411,657
Losses on valuation of investments in associates	16	(91,349,643)	(1,571,362)
Loss before income tax benefit from continuing operation		<u>(1,162,873,351)</u>	<u>(231,998,503)</u>
Income tax benefit	39	307,345,371	5,499,686
Loss for the year	₩	<u>(855,527,980)</u>	<u>(226,498,817)</u>
Other comprehensive income, net of tax			
Defined benefit plan actuarial gain (loss), net of tax	₩	(13,354,386)	96,439,208
Asset revaluation gain, net of tax		953,487,906	36,495,587
Unrealized net change in the effective portion of changes in the fair value of cash flow hedges, net of tax		3,773,920	930,000
Unrealized net change in the fair value of available-for-sale financial assets		(101,687)	(2,513,842)
Changes in equity of equity method investments		1,480,040	1,072,493
Other comprehensive income for the year, net of tax		<u>945,285,793</u>	<u>132,423,446</u>
Total comprehensive income (loss) for the year	₩	<u>89,757,813</u>	<u>(94,075,371)</u>

See accompanying notes to consolidated financial statements

KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

Consolidated Statements of Changes in Shareholder's Equity

For the years ended December 31, 2017 and 2016*(In thousands of won)*

	<u>Notes</u>	<u>2017</u>	<u>2016</u>
Income (loss) attributable to:			
Owners of parent	₩	(874,442,087)	(205,843,322)
Non-controlling interests		<u>18,914,107</u>	<u>(20,655,495)</u>
Loss for the year	₩	<u>(855,527,980)</u>	<u>(226,498,817)</u>
Total comprehensive income (loss) attributable to:			
Owners of parent	₩	71,598,942	(73,357,848)
Non-controlling interests		<u>18,158,871</u>	<u>(20,717,523)</u>
Total comprehensive income (loss) for the year	₩	<u>89,757,813</u>	<u>(94,075,371)</u>

See accompanying notes to consolidated financial statements

KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

Consolidated Statements of Changes in Shareholder's Equity, Continued

For the years ended December 31, 2017 and 2016

<i>(In thousands of won)</i>	Common stock	Accumulated deficit	Other equity components	Equity attributable to owners of the Group	Non-controlling interests	Total Equity
Balance at Jan. 1, 2017	₩ 10,103,893,478	(8,387,695,695)	(2,930,482,691)	(4,646,680,474)	122,103,136	4,768,783,610
Total comprehensive income (loss) for the year:						
Loss for the year	-	(874,442,087)	-	(874,442,087)	18,914,107	(855,527,980)
Other comprehensive income (loss)						
Comprehensive income (loss) that is not subsequently reclassified to income (loss)						
-Defined benefit plan actuarial gains, net of tax	-	(12,599,150)	-	(12,599,150)	(755,236)	(13,354,386)
-Asset revaluation gain, net of tax	-	-	953,487,906	953,487,906	-	953,487,906
-Reclassification of asset revaluation gain	-	49,670,073	(49,670,073)	-	-	-
Comprehensive income (loss) that is subsequently reclassified to income (loss)						
-Unrealized change in the effective portion of changes in the fair value of cash flow hedges, net of tax	-	-	3,773,920	3,773,920	-	3,773,920
-Unrealized change in the fair value of available-for-sale financial assets, net of tax	-	-	(101,687)	(101,687)	-	(101,687)
-Change in equity of equity method investments, net of tax	-	-	1,480,040	1,480,040	-	1,480,040
Total comprehensive income (loss) for the year	-	37,070,923	908,970,106	946,041,029	(755,236)	945,285,793
Transactions with owners of the Group recognized directly, in equity						
Issuance of common stock	142,306,955	-	-	142,306,955	-	142,306,955
Dividends to owners of the Company	-	-	-	-	(56,161)	(56,161)
Total transactions with owners of the Company	142,306,955	-	-	142,306,955	(56,161)	142,250,794
Others	137,506	(2,813,372)	(31,723)	(2,707,589)	(501,524)	(3,209,113)
Balance at Dec. 31, 2017	₩ 10,246,337,939	(9,227,880,231)	3,839,421,074	4,857,878,782	139,704,322	4,997,583,104

See accompanying notes to consolidated financial statements

KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

Consolidated Statements of Changes in Shareholder's Equity, Continued

For the years ended December 31, 2017 and 2016

<i>(In thousands of won)</i>	Common stock	Accumulated deficit	Other equity components	Equity attributable to owners of the Group	Non-controlling interests	Total Equity
Balance at Jan. 1, 2016	₩ 9,989,037,478	(8,283,041,210)	2,950,694,593	4,656,690,861	91,828,630	4,748,519,491
Total comprehensive income (loss) for the year:						
Losses for the year	-	(205,843,322)	-	(205,843,322)	(20,655,495)	(226,498,817)
Other comprehensive income (loss)						
Comprehensive income (loss) that is not subsequently reclassified to income (loss)						
-Defined benefit plan actuarial gains, net of tax	-	96,501,255	-	96,501,255	(62,047)	96,439,208
-Asset revaluation gain, net of tax	-	-	36,495,587	36,495,587	-	36,495,587
-Reclassification of asset revaluation gain	-	4,694,905	(4,694,905)	-	-	-
Comprehensive income (loss) that is subsequently reclassified to income (loss)						
-Unrealized change in the effective portion of changes in the fair value of cash flow hedges, net of tax	-	-	929,999	929,999	-	929,999
-Unrealized change in the fair value of available-for-sale financial assets, net of tax	-	-	(2,513,860)	(2,513,860)	19	(2,513,841)
-Change in equity of equity method investments, net of tax	-	-	1,072,493	1,072,493	-	1,072,493
Total comprehensive income (loss) for the year	-	101,196,160	31,289,314	132,485,474	(62,028)	132,423,446
Transactions with owners of the Group, recognized directly, in equity						
Issuance of common stock	114,856,000	-	(51,330,000)	63,526,000	51,330,000	114,856,000
Dividends to owners of the Company	-	-	-	-	(255,762)	(255,762)
Total transactions with owners	114,856,000	-	(51,330,000)	63,526,000	51,074,238	114,600,238
Others	-	(7,323)	(171,216)	(178,539)	(82,208)	(260,747)
Balance at Dec. 31, 2016	₩ 10,103,893,478	(8,387,695,695)	(2,930,482,691)	(4,646,680,474)	122,103,136	4,768,783,610

See accompanying notes to consolidated financial statements

KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

Consolidated Statements of Cash Flows

For the years ended December 31, 2017 and 2016

(In thousands of won)

	2017	2016
Cash flows from operating activities		
Loss for the year	₩ (855,527,980)	(226,498,817)
Adjustments for:		
Income tax benefit	(307,345,371)	(5,499,686)
Bad debt expenses	1,542,427	11,460,328
Other bad debt expenses	97,935	6,778,336
Losses on inventory evaluation	-	73,700
Losses on revaluation of fixed assets	52,929,609	-
Depreciation	523,200,724	488,639,896
Depreciation of investment property	2,152,184	2,749,712
Amortization of intangible assets	12,502,026	9,975,120
Losses on sale of property, trains and equipment	1,799,053	2,890,313
Impairment losses on property, trains and equipment	7,084,339	9,959,565
Losses on valuation of investments in associates	80,469,513	(17,840,295)
Impairment losses on non-current assets	300,000	29,035
Losses on disposal of investment property	699,039	-
Losses on disposal of non-current assets held-for-sale	10,250,926	1,117,530
Retirement benefits	183,894,475	173,109,084
Increase in provisions for pending litigations	96,976	11,951,766
Losses of provision for other accounts	51,101,582	-
Losses of provision for construction warranty	185,749	-
Gains on disposal of available-for-sale financial assets	(14,102)	(552)
Losses on disposal of available-for sale financial assets	43,250	32
Impairment losses on available for sale financial assets financial expense	300,000	-
Losses on valuation of derivative instruments	94,563,470	2,496,900
Gains on valuation of held-for-sale financial assets	(238,233)	-
Losses on settlement of derivative instruments	23,100,000	11,000,000
Interest expenses	392,321,139	420,012,978
Foreign currency translation losses	4,082,907	20,737,905
Other losses	-	222,240
Reversal of other allowance for doubtful accounts	(57)	(1,108)
Gains on sale of property, trains and equipment	(656,767)	(5,370,339)

See accompanying notes to consolidated financial statements

KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

Consolidated Statements of Cash Flows

For the years ended December 31, 2017 and 2016

(In thousands of won)

		2017	2016
Gains on disposal of non-current assets held for sale	₩	(27,229,511)	(13,925,259)
Reversal of provision for restoration		(8,174,445)	(30,784,903)
Allowance for provisions for restoration		5,079,004	-
Provisions for pending litigations		(3,575,422)	(2,086,275)
Reversal of allowance doubtful accounts		(50,787)	-
Gains on assets contributed		(1,870,194)	(12,500)
Receipt of government grants		-	(1,136,918)
Foreign currency translation gains		(94,636,791)	(2,563,753)
Gains on valuation of derivative instruments		(3,953,800)	(20,715,400)
Interest income		(9,868,429)	(9,751,220)
Dividend income		(839,806)	(781,306)
Retirement pension operating income		(50,072)	-
Gains on revaluation of tangible assets		(10,866,885)	-
Other income		-	(300,000)
Changes:			
- Inventories		(978,879)	(32,956,724)
- Trade receivables		(51,233,553)	72,256,963
- Other account receivables		(177,610,749)	380,447
- Accrued income		431,393	-
- Prepayment		71,650,219	(6,913,387)
- Prepaid expenses		651,797	(65,885)
- Current tax assets		34,520	-
- Other current assets		(1,211,950)	-
- Other current financial assets		-	(2,700,212)
- Long-term prepaid expenses		1,974,039	2,672,217
- Employee benefits		(73,233,802)	(124,112,828)
- Invested asset for post-employment benefit contra account		(5,081,807)	-
- Short-term regular wage provision		167,052,880	-
- Regular wage provision		313,490,863	-
- Provisions for restoration		-	(1,516,801)
- Provisions for repairing defects		(200,109)	(157,591)
- Provision for construction losses		(88,272)	-
- Other current non-financial liabilities		-	4,614,621

See accompanying notes to consolidated financial statements

KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

Consolidated Statements of Cash Flows, Continued

For the years ended December 31, 2017 and 2016

(In thousands of won)

	2017	2016
- Long-term advances received	₩ -	381,631
- Long-term unearned revenues	(4,891,335)	(4,173,269)
- Trade payables	39,514,422	(23,011,216)
- Other account payables	(65,828,917)	32,574,529
- Advances on construction contracts	(757,370)	-
- Current value added tax payables	(52,857)	-
- Collateral for value added tax payable	6,740,207	-
- Guarantee deposit withholdings	61,586	-
- Guarantee deposit rent	(232,284)	-
- Withholding	(21,894,731)	(60,059,828)
- Deposit for tourism	73,596	-
- Deferred tax liabilities	37,040	-
- Deferred tax assets	(306,395)	-
- Advances received	54,218,654	(1,801,676)
- Accrued expenses	42,162,738	(27,063,969)
- Unearned revenues	22,124,700	15,815,408
- Employee provisions	10,366,328	43,806,914
- Payments of income taxes payable	(900,854)	-
- Deferred tax assets	(162,565)	-
Cash generated from operation activities	448,816,228	723,905,453
Income taxes paid (refund)	(2,304,562)	18,784,781
Other	62,266,201	-
Net cash provided by operating activities	₩ 508,777,867	742,690,234

See accompanying notes to consolidated financial statements

KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

Consolidated Statements of Cash Flows, Continued

For the years ended December 31, 2017 and 2016

(In thousands of won)

	2017	2016
Cash flows from investing activities		
Proceeds from sales of short-term financial instruments ₩	43,238,233	-
Proceeds from available-for-sale financial instruments	(41,818)	129,054
Decrease in long-term deposits	10,869,922	11,398,561
Decrease in leasehold deposits	3,128,604	2,269,599
Proceeds from sale of non-current assets held for sale	160,265,927	75,946,317
Proceeds from sale of property, trains and equipment	1,235,201	6,770,789
Decrease in short-term financial instruments	3,938,374	47,362,237
Decrease in short-term loans	-	94,813
Decrease in long-term other receivables, gross	2,049,933	-
Decrease in long-term investment stock	65	-
Decrease in long-term deposits provided, gross	2,103,270	-
Interest received	6,657,136	7,070,268
Dividends received	14,046,444	14,809,337
Acquisition of property, trains and equipment	(635,918,471)	(905,808,569)
Acquisition of intangible assets	(8,084,932)	(21,169,201)
Acquisition of available-for-sale financial instruments	(5,193,000)	(6,106,692)
Increase in long-term loans	(7,912,886)	(7,463,444)
increase in deposits	(4,092,245)	(3,533,748)
Increase in short-term financial instruments	(6,000,000)	(31,627,836)
Increase in short-term loans	(29,476)	-
Payments from contracts held for dealing or trading purpose	(40,000,000)	-
Other	(4,367,753)	-
Net cash used in investing activities ₩	(464,107,472)	(809,858,515)

See accompanying notes to consolidated financial statements

KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

Consolidated Statements of Cash Flows, Continued

For the years ended December 31, 2017 and 2016

(In thousands of won)

	2017	2016
Cash flows from financial activities		
Proceeds from issuance of share capital	₩ 142,306,955	166,186,000
Increase in borrowings	392,638,190	276,053,562
Settlements of currency swap transactions	43,730,431	36,349,009
Government grants received	675,000	52,902,624
Issuance of debt securities	2,721,573,821	2,022,374,521
Issuance of rental deposits	15,118,536	35,038,350
Proceeds from others of investments in associates	870,000	-
Interest paid	(376,457,731)	(409,457,206)
Decrease in borrowings	(2,789,636,761)	(503,707,255)
Settlement of currency swap transactions	(20,880,431)	-
Redemption of current portion of long-term liabilities	(1,300,000)	(1,524,400,000)
Decrease in rental deposits	(8,345,252)	(3,736,953)
Dividends paid	(56,161)	(255,762)
Net cash provided by financing activities	120,236,597	147,346,889
Net decrease in cash and cash equivalents	164,906,992	80,178,609
Effect of exchange rate fluctuations on cash held	(38,456)	(13,832)
Cash and cash equivalents at January 1	550,175,381	470,010,604
Cash and cash equivalents at December 31	715,043,917	550,175,381
Government grants	(63,512,514)	(68,713,017)
Fund for trustee business from governments	(169,764,199)	(107,369,778)
Net cash and cash equivalents	₩ 481,767,204	374,092,586

See accompanying notes to consolidated financial statements

KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

1. GENERAL INFORMATION:

(1) Description of the controlling company

Korea Railroad Corporation (the "Company") was incorporated on January 1, 2005, to engage in passenger and freight transportation services under the Korea Railroad Act. As of December 31, 2017, the Company's paid-in capital amounted to ₩10,250,985 million, and the Company is wholly owned by the Government of the Republic of Korea. The consolidated financial statements were authorized for issue by the Board of Directors on February 23, 2018.

The main businesses of the Company are as follows:

- i. Businesses related to passenger and freight transportation and linking other means of transportation via railroad
- ii. Manufacturing, selling, maintaining and leasing railroad equipment
- iii. Maintaining and leasing passenger cars and rolling stocks
- iv. Businesses entrusted by state and local autonomous entity or public institution for various matters, including maintenance of railroad facilities
- v. Developing and operating train station facilities related to sales, operations, cultural activities, meetings and administration of parking lot, accommodations, passenger and freight terminal
- vi. Businesses, such as distribution service, tourism business, overseas business, technology development and manpower development

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For the years ended December 31, 2017 and 2016

(2) Consolidated subsidiaries

1) Consolidated subsidiaries as of December 31, 2017 and 2016, are detailed as follows:

Company	Location	Reporting date	Ownership(%)		Industry
			2017	2016	
KORAIL Retail Co., Ltd.	Republic of Korea	Dec. 31	100%	100%	Retail
KORAIL Networks Co., Ltd.	Republic of Korea	Dec. 31	98.98%	98.98%	Service industry
KORAIL Logis Co., Ltd.	Republic of Korea	Dec. 31	97.23%	97.23%	Railroad cargo business
KORAIL Tourism Development Co., Ltd.	Republic of Korea	Dec. 31	60.80%	60.80%	Service industry
KORAIL Tech Co., Ltd.	Republic of Korea	Dec. 31	97.98%	97.98%	Railway track construction
SR Co., Ltd.	Republic of Korea	Dec. 31	41.00%	41.00%	Railroad transportation
Korean Insurance Brokerage Co., Ltd.	Republic of Korea	Dec. 31	98.98%	98.98%	Insurance brokerage business

2) The financial information of subsidiaries as of December 31, 2017 and 2016, is summarized as follows:

<i>(In thousands of won)</i>		2017			
		Total assets	Total Liabilities	Total revenue	Total net income
KORAIL Retail Co., Ltd.	₩	311,027,073	151,453,371	283,795,655	12,870,394
KORAIL Networks Co., Ltd.		38,217,899	16,649,047	84,614,409	3,801,497
KORAIL Logis Co., Ltd.		14,949,964	14,154,574	52,600,521	230,149
KORAIL Tourism Development Co., Ltd.		17,114,965	8,576,060	55,876,254	(227,561)
KORAIL Tech Co., Ltd.		19,101,295	2,437,466	36,647,180	570,613
SR Co., Ltd.		485,037,170	255,201,316	580,109,562	32,114,645
Korean Insurance Brokerage Co., Ltd.		1,475,471	290,168	1,135,497	362,987

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(In thousands of won)

Company		2016			
		Total assets	Total Liabilities	Total revenue	Total net income
KORAIL Retail Co., Ltd.	₩	297,354,889	142,401,366	270,541,630	15,157,435
KORAIL Networks Co., Ltd.		40,371,165	13,933,342	81,339,525	6,006,600
KORAIL Logis Co., Ltd.		13,193,466	12,628,225	50,709,345	47,138
KORAIL Tourism Development Co., Ltd.		17,195,879	8,377,574	60,326,427	(4,132,127)
KORAIL Tech Co., Ltd.		22,043,430	5,691,331	47,243,372	776,523
SR Co., Ltd.		409,505,266	209,999,502	30,156,577	(32,398,301)
Korean Insurance Brokerage Co., Ltd.		1,911,093	218,778	1,105,897	326,962

3) Subsidiaries whose non-controlling interests are significant to the Group are detailed as follows:

i) Proportion held by non-controlling interests as of December 31, 2017 and 2016 , is as follows:

Company	2017	2016	Location
SR Co., Ltd.	59.00%	59.00%	Republic of Korea

ii) Distribution to non-controlling interests for the year ended December 31, 2017, is as follows:

(In thousands of won)

Company		Profit distributed to non-controlling interests	Accumulated non-controlling interests	Location
SR Co., Ltd.	₩	18,312,444	(3,604,120)	Republic of Korea

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For the years ended December 31, 2017 and 2016

4) Subsidiaries whose non-controlling interests are significant to the Group are detailed as follows:
Continued

iii) Financial statements of subsidiaries whose non-controlling interests are significant to the Group as of December 31, 2017, are summarized as follows:

- Statement of Financial Position and Comprehensive Income

(In thousands of won)

Company	Current assets	Non-current assets	Current Liability	Non-current Liability	Revenue	Income for the year	Comprehensive Income
SR Co., Ltd.	158,356,551	326,680,619	56,240,438	198,960,878	580,109,562	32,114,645	30,837,461

- Statements of Cash flows

Company	Cash flows from operation activities	Cash flows from investing activities	Cash flows from financing activities	Net increase in cash and cash equivalents
SR Co., Ltd.	100,233,759	(4,355,491)	-	95,878,268

2. BASIS OF PREPARATION:

The consolidated financial statements have been prepared in accordance with Korean Government-owned and Quasi-government Accounting Regulation and Standards and Korean International Financial Reporting Standards ("K-IFRS"), as prescribed in the Act on External Audits of Corporations in the Republic of Korea. Meanwhile, except for requirements set forth in the regulation, the Group adopted K-IFRS for the reporting period beginning as of January 1, 2011, and in accordance with K-IFRS 1101, 'First-time Adoption of Korean International Financial Reporting Standards', the date of transition to K-IFRS is January 1, 2010.

(1) Accounting standards that the Group adopted in accordance with Korean Government-owned and Quasi-government Accounting Regulation and Standards are as follows:

(i) Government Subsidies (Article 44: Accounting of Government Subsidies)

Government subsidies used for the acquisition of certain assets are deducted from the acquisition cost of the acquired assets and such subsidies are offset against the depreciation expenses of the acquired assets during the useful lives of the assets. Government subsidies received for consignment management services provided by the Group are recognized as operating revenue.

(ii) Recognition of Revenue and Expenses Related to Consignment Management Services (Article 48)

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For the years ended December 31, 2017 and 2016

The Group recognizes funds received for consignment management services as revenue and expenses or assets and liabilities when the funds are executed. The Group does not offset the funds received.

(iii) Contribution to the Employee Welfare Fund (Article 49)

The Group contributes to the employee welfare fund, and contributions are recognized as operating expenses in accordance with Employee Welfare Fund Act.

(2) Amendments to K-IFRS's affecting amounts reported in the consolidated financial statements

Except for the application of the establishment and revised standards, which is effective for the first time since January 1, 2017, the Group applies the same accounting policies for the current and prior year's financial statements.

- K-IFRS No.1007, 'Statement of Cash Flows'

Amendments to K-IFRS No.1007 clarify that the changes in liabilities arising from financing activities are disclosed separately by changes arising from cash flows and non-cash changes and etc.

- K-IFRS No.1012, 'Income Taxes'

Amendments to K-IFRS No.1012 clarify that the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period. The amendments do not have a material impact on the Group's consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES:

The significant accounting policies applied by the Group in preparation of its consolidated financial statements are included below. The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, except for the changes in accounting policies as explained in Note 2.

(1) Basis of consolidation

(i) Business combinations

A business combination is accounted for by applying the acquisition method, unless it is a combination involving entities or business under common control.

The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested for impairment annually and whenever any symptom implicating impairment appears. Any gain on a bargain purchase is recognized in profit or loss immediately. Transaction costs are expenses as incurred, except if

KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

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For the years ended December 31, 2017 and 2016

related to the issue of debt or equity securities. The costs to issue debt or equity securities are recognized in accordance with K-IFRS No. 1032, 'Financial Instruments: Presentation' and K-IFRS No. 1039, 'Financial Instruments: Recognition and Measurement.'

The consideration transferred does not include amounts related to the settlement of preexisting relationships. Such amounts are generally recognized in profit or loss.

Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognized in profit or loss.

If share-based payment awards (replacement awards) are required to be exchanged for awards held by the acquiree's employees (acquiree's awards), then all or a portion of the amount of the acquirer's replacement awards is included in measuring the consideration transferred in the business combination. This determination is based on the market-based measure of the replacement awards compared with the market-based measure of the acquiree's awards and the extent to which the replacement awards relate to precombination service.

(ii) Non-controlling interests (NCIs)

NCIs are measured at their proportionate share of the acquiree's identifiable net assets at the acquisition date.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

(iii) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

(iv) Loss of control

When the Group loses control over a subsidiary, it derecognizes the assets and liabilities of the subsidiary and any related NCI and other components of equity. Any resulting gain or loss is recognized in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

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(v) Interests in equity-accounted investees

The Group's interests in equity-accounted investees comprise interests in associates and a joint venture.

Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies. A joint venture is an arrangement in which the Group has joint control, whereby the Group has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities.

Interests in associates and the joint venture are accounted for using the equity method. They are recognized initially at cost, which includes transaction costs. Subsequent to initial recognition, the consolidated financial statements include the Group's share of the profit or loss and OCI of equity-accounted investees, until the date on which significant influence or joint control ceases.

(vi) Transactions eliminated on consolidation

Intragroup balances and transactions and any unrealized income and expenses arising from intragroup transactions are eliminated. Unrealized gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

(vii) Acquisitions from entities under common control

Business combinations arising from transfers of interests in entities that are under the control of the shareholder that controls the Group are accounted for as if the acquisition had occurred at the beginning of the earliest comparative period presented or, if later, at the date that common control was established; for this purpose, comparatives are revised. The assets and liabilities acquired are recognized at the carrying amounts recognized previously in the Group controlling the shareholder's consolidated financial statements. The components of equity of the acquired entities are added to the same components within Group equity, except that any share capital of the acquired entities is recognized as part of share premium.

(2) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value and are used by the Group in the management of its short-term commitments.

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(3) Inventories

The cost of inventories is based on the first-in, first-out principle and includes expenditures for acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

Inventories are measured at the lower of cost or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. 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, are recognized as a reduction in the amount of inventories recognized as an expense in the period in which the reversal occurs.

(4) Non-derivative financial assets

The Group recognizes and measures non-derivative financial assets by the following four categories: financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables and available-for-sale financial assets. The Group recognizes financial assets in the consolidated statement of financial position when the Group becomes a party to the contractual provisions of the instrument.

Upon initial recognition, non-derivative financial assets are measured at their fair value, plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the asset's acquisition or issuance.

(i) Financial assets at fair value through profit or loss

Financial assets are classified as at fair value through profit or loss when the financial asset is a contingent consideration that may be paid by an acquirer as part of business combination to which K-IFRS 1103 applies. Financial assets at fair value through profit or loss 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 gains and losses' line item in the consolidated statement of comprehensive income.

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(ii) Held-to-maturity investments

A non-derivative financial asset with a fixed or determinable payment and fixed maturity, for which the Group has the positive intention and ability to hold to maturity, are classified as held-to-maturity investments. Subsequent to initial recognition, held-to-maturity investments are measured at amortized cost using the effective interest method.

(iii) Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables are measured at amortized cost, less any impairment using the effective interest method, except for loans and receivables on which the effect of discounting is immaterial.

(iv) Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified as financial assets at fair value through profit or loss, held-to-maturity investments or loans and receivables. Subsequent to initial recognition, they are measured at fair value. Except for impairment loss that is recognized in profit and loss, interest income that is calculated using the effective interest method and gain and loss on foreign currency translation of monetary financial assets, changes in fair value are recognized in other comprehensive income. Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost.

(v) Derecognition of financial assets

The Group derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognized as a separate asset or liability.

If the Group retains substantially all the risks and rewards of ownership of the transferred financial assets, the Group continues to recognize the transferred financial assets and recognize financial liabilities for the consideration received.

(vi) Offsetting between financial assets and financial liabilities

Financial assets and financial liabilities are offset and the net amount is presented in the consolidated statement of financial position only when the Group currently has a legally enforceable right to offset the recognized amounts and there is the intention to settle on a net basis or realize the asset and settle the liability simultaneously.

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(5) Derivative financial instruments, including hedge accounting

Derivatives are initially recognized at fair value. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below.

(i) Hedge accounting

The Group holds forward exchange contracts, interest rate swaps, currency swaps and other derivative contracts to manage interest rate risk and foreign exchange risk. The Group designated derivatives as hedging instruments to hedge the risk of changes in the fair value of assets, liabilities or firm commitments (a fair value hedge) and foreign currency risk of highly probable forecasted transactions or firm commitments (a cash flow hedge).

On initial designation of the hedge, the Group formally documents the relationship between the hedging instrument(s) and hedged item(s), including the risk management objectives and strategy in undertaking the hedge transaction, together with the methods that will be used to assess the effectiveness of the hedging relationship.

- Fair value hedge

Changes in the fair value of a derivative hedging instrument designated as a fair value hedge are recognized in profit or loss. The gain or loss from remeasuring the hedging instrument at fair value for a derivative hedging instrument and the gain or loss on the hedged item attributable to the hedged risk are recognized in profit or loss in the same line item of the consolidated statement of comprehensive income.

The Group discontinues fair value hedge accounting if the hedging instrument expires or is sold, terminated or exercised, or if the hedge no longer meets the criteria for hedge accounting. Any adjustment arising from gain or loss on the hedged item attributable to the hedged risk is amortized to profit or loss from the date the hedge accounting is discontinued.

- Cash flow hedge

When a derivative is designated to hedge the variability in cash flows attributable to a particular risk associated with a recognized asset or liability or a highly probable forecasted transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognized in other comprehensive income, net of tax, and presented in the hedging reserve in equity. Any ineffective portion of changes in the fair value of the derivative is recognized immediately in profit or loss.

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If the hedging instrument no longer meets the criteria for hedge accounting; expires or is sold, terminated or exercised; or the designation is revoked, then hedge accounting is discontinued prospectively. The cumulative gain or loss on the hedging instrument that has been recognized in other comprehensive income is reclassified to profit or loss in the periods during which the forecasted transaction occurs. If the forecasted transaction is no longer expected to occur, then the balance in other comprehensive income is recognized immediately in profit or loss.

(ii) Separable embedded derivatives

Embedded derivatives are separated from the host contract and accounted for separately only if the following criteria have been met:

- (a) The economic characteristics and risks of the embedded derivative are not closely related to those of the host contract;
- (b) A separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
- (C) The hybrid instrument is not measured at fair value, with changes in fair value recognized in profit or loss.

Changes in the fair value of separable embedded derivatives are recognized immediately in profit or loss.

(iii) Other derivative financial instruments

Changes in the fair value of other derivative financial instrument not designated as a hedging instrument are recognized immediately in profit or loss.

(6) Impairment of financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably. However, losses expected as a result of future events, regardless of likelihood, are not recognized.

In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

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If financial assets have objective evidence that they are impaired, impairment losses should be measured and recognized.

(i) Financial assets measured at amortized cost

An impairment loss with respect to a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of its estimated future cash flows, discounted at the asset's original effective interest rate. If it is not practicable to obtain the instrument's estimated future cash flows, impairment losses would be measured using prices from any observable current market transactions. The Group can recognize impairment losses directly or establish a provision to cover impairment losses. 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 (such as an improvement in the debtor's credit rating), the previously recognized impairment loss shall be reversed either directly or by adjusting an allowance account.

(ii) Financial assets carried at cost

If there is objective evidence that an impairment loss has occurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to, and must be, settled by delivery of such an unquoted equity instrument, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows, discounted at the current market rate of return for a similar financial asset. Such impairment losses shall not be reversed.

(iii) Available-for-sale financial assets

When a decline in the fair value of an available-for-sale financial asset has been recognized in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss that had been recognized in other comprehensive income shall be reclassified from equity to profit or loss as a reclassification adjustment even though the financial asset has not been derecognized.

Impairment losses recognized in profit or loss for an investment in an equity instrument classified as available for sale shall not be reversed through profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss shall be reversed, with the amount of the reversal recognized in profit or loss.

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(7) Property, plant and equipment

Property, plant and equipment are initially measured at cost and, after initial recognition, are carried at cost, less accumulated depreciation and accumulated impairment losses. The cost of property, plant and equipment includes expenditures arising directly from the construction or acquisition of the asset, any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Subsequent to initial recognition, an item of property, plant and equipment, except the Group's land, shall be carried at its cost, less any accumulated depreciation and any accumulated impairment losses, while land whose fair value can be measured reliably is carried at revalued amount, being its fair value at the date of the revaluation, less subsequent accumulated impairment losses due to the change in the evaluation method of its land from cost model to revaluation model during the year ended December 31, 2013. Revaluations 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.

Property, plant and equipment, except for land, are depreciated on a straight-line basis over estimated useful lives that appropriately reflect the pattern in which the asset's future economic benefits are expected to be consumed.

A component that is significant compared to the total cost of property, plant and equipment is depreciated over its separate useful life.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognized in profit or loss.

The estimated useful lives of the Group's property, trains and equipment are as follows:

	Useful life(years)	Depreciation method
Buildings	25-50	Straight-line method
Structures	5-50	
Machinery	5-25	
Trains	6-40	
Vehicles	2-7	
Furniture and fixtures	5	
Tools and office equipment	2-6	
Others	Indefinite, 5	

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Depreciation methods, useful lives and residual values are reviewed at the end of each reporting date and adjusted, if appropriate. The change is accounted for as a change in an accounting estimate.

(8) Intangible assets

Intangible assets are measured initially at cost and, subsequently, are carried at cost, less accumulated amortization and accumulated impairment losses.

Amortization of intangible assets, except for goodwill, is calculated on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use. The residual value of intangible assets is zero. However, as there are no foreseeable limits to the periods over which club memberships are expected to be available for use, this intangible asset is determined as having indefinite useful lives and not amortized.

Categories	Useful life(years)
Industrial property right	5-10
Development costs	5
Computer software	5-20
Usable and profitable donation assets	15
Facility usage right	Indefinite
Other intangible assets	5-20

Amortization periods and the amortization methods for intangible assets with finite useful lives are reviewed at the end of each reporting period. The useful lives of intangible assets that are not being amortized are reviewed at the end of each reporting period to determine whether events and circumstances continue to support indefinite useful life assessments for those assets. Changes are accounted for as changes in accounting estimates.

(i) Service concession arrangements

The Group recognizes an intangible asset arising from a service concession arrangement when it has a right to charge for usage of the concession infrastructure. An intangible asset received as consideration for providing construction or upgrade services in a service concession arrangement is measured at fair value upon initial recognition. Subsequent to initial recognition, the intangible asset is measured at cost, which includes capitalized borrowing costs, less accumulated amortization and accumulated impairment losses.

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(ii) Subsequent expenditures

Subsequent expenditures are capitalized only when they increase the future economic benefits embodied in the specific asset to which it relates. All other expenditures, including expenditures on internally generated goodwill and brands, are recognized in profit or loss as incurred.

(9) Government grants

Government grants are not recognized unless there is reasonable assurance that the Group will comply with the grant's conditions and that the grant will be received.

Government grants whose primary condition is that the Group purchase; construct; or, otherwise, acquire long-term assets are deducted in calculating the carrying amount of the asset. The grant is recognized in profit or loss over the life of a depreciable asset as a reduction to depreciation expense. Also, any related costs incurred with respect to the government grants are recognized in profit or loss when incurred as 'Government Grants' in the consolidated statements of comprehensive income.

(10) Investment property

Property held for the purpose of earning rentals or benefiting from capital appreciation is classified as investment property. Investment property is initially measured at its cost. Transaction costs are included in initial measurement. Subsequently, investment property is carried at depreciated cost less any accumulated impairment losses.

Subsequent costs are recognized in the carrying amount of investment property at cost or, if appropriate, as separate items if it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing are recognized in profit or loss as incurred.

Investment property, except for land, is depreciated on a straight-line basis over 25–50 years, its estimated useful lives.

Depreciation methods, useful lives and residual values are reviewed at the end of each reporting date and adjusted, if appropriate. The change is accounted for as a change in an accounting estimate.

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(11) Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets, other than assets arising from employee benefits, inventories and non-current assets held for sale, are reviewed at the end of the reporting period to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill and intangible assets that have indefinite useful lives or that are not yet available for use, irrespective of whether there is any indication of impairment, are tested for impairment annually by comparing their recoverable amount to their carrying amount.

The Group estimates the recoverable amount of an individual asset. If it is impossible to measure the individual recoverable amount of an asset, the Group estimates the recoverable amount of cash-generating unit ("CGU"). A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. The recoverable amount of an asset or CGU is the greater of its value in use or its fair value, less costs to sell. The value in use is estimated by applying a pretax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU for which estimated future cash flows have not been adjusted to the estimated future cash flows expected to be generated by the asset or CGU.

An impairment loss is recognized in profit or loss if the carrying amount of an asset or a CGU exceeds its recoverable amount.

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(12) Leases

The Group classifies and accounts for leases as either a finance or operating lease, depending on the terms. Leases where the Group assumes substantially all of the risks and rewards of ownership are classified as finance leases. All other leases are classified as operating leases.

(i) Finance leases

At the commencement of the lease term, the Group recognizes, as finance assets and finance liabilities in its consolidated statements of financial position, the lower amount of the fair value of the leased property and the present value of the minimum lease payments, each determined at the inception of the lease. Any initial direct costs are added to the amount recognized as an asset.

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent rents are charged as expenses in the periods in which they are incurred.

The depreciable amount of a leased asset is allocated to each accounting period during the period of expected use on a systematic basis consistent with the depreciation policy that the lessee adopts for depreciable assets that are owned. If there is no reasonable certainty that the lessee will obtain ownership by the end of the lease term, the asset is fully depreciated over the shorter of the lease term and its useful life. The Group reviews to determine whether the leased asset may be impaired.

(ii) Operating leases

Payments made under operating leases (net of any incentives received from the lessor) are recognized in profit or loss on a straight-line basis over the period of the lease. Incentives under operating lease are recognized by deducting entire benefits from lease expense over the lease term.

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(13) Construction work in progress

Construction work in progress represents the gross unbilled amount expected to be collected from customers for contract work performed to date. It is measured at cost, plus profit recognized to date, less progress billings and recognized losses. Cost includes all expenditures related directly to specific projects and an allocation of fixed and variable overheads incurred in the Group's contract activities based on normal operating capacity.

Construction work in progress is presented as part of trade and other receivables in the consolidated statement of financial position for all contracts in which costs incurred, plus recognized profits, exceed progress billings.

If progress billings exceed costs incurred, plus recognized profits, then the difference is presented as deferred income in the consolidated statement of financial position.

(14) Non-current assets held for sale

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale, rather than through continuing use, are classified as held for sale. In order to be classified as held for sale, the asset (or disposal group) must be available for immediate sale in its present condition and its sale must be highly probable. The asset or disposal group that is classified as non-current assets held for sale is measured at the lower of its carrying amount or fair value, less cost to sell.

The Group recognizes an impairment loss for any initial or subsequent write-down of an asset (or disposal group) to fair value, less costs to sell, and a gain for any subsequent increase in fair value, less costs to sell, up to the cumulative impairment loss previously recognized in accordance with K-IFRS No. 1036 Impairment of Assets.

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).

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(15) Borrowing Costs

The Group capitalizes borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. Other borrowing costs are recognized in expense as incurred. A qualifying asset is an asset that requires a substantial period of time to get ready for its intended use or sale. Financial assets and inventories that are manufactured or otherwise produced over a short period of time are not qualifying assets. Assets that are ready for their intended use or sale when acquired are not qualifying assets.

To the extent that the Group borrows funds specifically for the purpose of obtaining a qualifying asset, the Group determines the amount of borrowing costs eligible for capitalization as the actual borrowing costs incurred on that borrowing during the period, less any investment income on the temporary investment of those borrowings. To the extent that the Group borrows funds generally and uses them for the purpose of obtaining a qualifying asset, the Group shall determine the amount of borrowing costs eligible for capitalization by applying a capitalization rate to the expenditures on that asset. The capitalization rate shall be the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. The amount of borrowing costs that the Group capitalizes during a period shall not exceed the amount of borrowing costs incurred during that period.

(16) Non-derivative financial liabilities

The Group classifies non-derivative financial liabilities into financial liabilities at fair value through profit or loss or other financial liabilities in accordance with the substance of the contractual arrangement and the definitions of financial liabilities. The Group recognizes financial liabilities in the consolidated statement of financial position when the Group becomes a party to the contractual provisions of the financial liability.

(i) Financial liabilities at fair value through profit or loss

Financial liabilities are classified as at fair value through profit or loss when the financial liability is a contingent consideration that may be paid by an acquirer as part of a business combination to which K-IFRS 1103 applies, it is held for trading or it is designated as at fair value through profit or loss. Financial liabilities at fair value through profit or loss are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any interest paid on the financial liability and is included in the 'Other gains and losses' line item in the consolidated statement of comprehensive income

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(ii) Other financial liabilities

Non-derivative financial liabilities other than financial liabilities at fair value through profit or loss are classified as other financial liabilities. At the date of initial recognition, other financial liabilities are measured at fair value, less transaction costs that are directly attributable to the acquisition. Subsequent to initial recognition, other financial liabilities are measured at amortized cost using the effective interest method.

The Group derecognizes a financial liability from the consolidated statement of financial position when it is extinguished (i.e., when the obligation specified in the contract is discharged, canceled or expired).

(17) Employee benefits

(i) Retirement benefits: defined contribution plans

When an employee has rendered service to the Group during a period, the Group recognizes the contribution payable to a defined contribution plan in exchange for that service as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the end of the reporting period, the Group recognizes that excess as an asset (prepaid expense) to the extent that the prepayment will lead to a reduction in future payments or a cash refund.

(ii) Retirement benefits: defined benefit plans

The Group's net obligation with respect to defined benefit plans is calculated by estimating the present value of defined benefit obligation after reflecting unrecognized past service cost and deducting the fair value of any plan assets.

The calculation of defined benefit obligations is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a potential asset for the Group, the recognized asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

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Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognized immediately in OCI. The Group determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognized in profit or loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognized immediately in profit or loss. The Group recognizes gains and losses on the settlement of a defined benefit plan when the settlement occurs.

(18) Provision

Provisions are recognized when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The risks and uncertainties that inevitably surround many events and circumstances are taken into account in reaching the best estimate of a provision. Where the effect of the time value of money is material, provisions are determined at the present value of the expected future cash flows.

Where some or all of the expenditures required to settle a provision are expected to be reimbursed by another party, the reimbursement shall be recognized when, and only when, it is virtually certain that reimbursement will be received if the entity settles the obligation. The reimbursement shall be treated as a separate asset.

Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimates. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed.

In accordance with the Group's published environmental policy and applicable legal requirements, a provision for site restoration with respect to contaminated land, and the related expense, is recognized when the land is contaminated.

A provision shall be used only for expenditures for which it was originally recognized.

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(19) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of the Group at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising on retranslation are recognized in profit or loss, except for differences arising from the retranslation of available-for-sale equity instruments, a financial liability designated as a hedge of the net investment in a foreign operation or qualifying cash flow hedges, which are recognized in other comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. When gains or losses on non-monetary items are recognized in other comprehensive income, exchange components of those gains or losses are recognized in other comprehensive income. Conversely, when gains or losses on non-monetary items are recognized in profit or loss, exchange components of those gains or losses are recognized in profit or loss.

(20) Equity capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of ordinary shares and share options are recognized as a deduction from equity, net of any tax effects.

When the Group repurchases its share capital, the amount of the consideration paid is recognized as a deduction from equity and classified as treasury shares. The profits or losses from the purchase, disposal, reissue or retirement of treasury shares are not recognized as current profit or loss. If the Group acquires and retains treasury shares, the consideration paid or received is directly recognized in equity.

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(21) Revenue

Revenue from the sale of goods, rendering of services or use of the assets is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates, and is recognized as a reduction of revenue.

(i) Goods sold

Revenue from the sale of goods in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue is recognized when persuasive evidence exists, usually in the form of an executed sales agreement, 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.

The timing of the transfer of risks and rewards varies depending on the individual terms of the contract of sale. For sales of products, usually transfer occurs when the product is received at the customer's warehouse; however, for some international shipments, transfer occurs upon loading the goods onto the relevant carrier at the port of the seller.

When two or more revenue-generating activities or deliverable are sold under a single arrangement, each deliverable that is considered to be a separate unit of account is accounted for separately. The allocation of consideration from a revenue arrangement to its separate units of account is based on the relative fair values of each unit.

(ii) Services

Revenue from services rendered is recognized in profit or loss in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed by reference to surveys of work performed. Revenue from transportation service is recognized at the point when the rendering service is completed, and the amount for which ticket was issued, but related service has not been completed is recognized as advances received.

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(iii) Customer loyalty programs

For customer loyalty programs, the fair value of the consideration received or receivable with respect to the initial sale is allocated between the award credits ("Mileage") and the other components of the sale. The Group provides mileage to customers when tickets are sold. The amounts allocated in the Mileage are estimated by reference to the fair value of the train tickets for which they could be redeemed, as the fair values of the mileage themselves are not directly observable. The fair value of the train tickets is estimated taking into account the expected redemption rate and the timing of such expected redemptions. Such amount is deferred and revenue is recognized only when the Mileages are redeemed and the Group has fulfilled its obligations to supply the train tickets. The amount of revenue recognized in those circumstances is based on the number of mileages that have been redeemed in exchange for train tickets, relative to the total number of mileages that is expected to be redeemed.

(iv) Construction contracts

Contract revenue includes the initial amount agreed in the contract, plus any variations in contract work, claims and incentive payments, to the extent it is probable that they will result in revenue and can be measured reliably. As soon as the outcome of a construction contract can be estimated reliably, contract revenue is recognized in profit or loss in proportion to the stage of completion of the contract. Contract expenses are recognized as incurred, unless they create an asset related to future contract activity.

The stage of completion is assessed by reference to surveys of work performed. When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognized only to the extent of contract costs incurred that are likely to be recoverable. An expected loss on a contract is recognized immediately in profit or loss.

(v) Rental income

Rental income from investment property, net of lease incentives granted, is recognized in profit or loss on a straight-line basis over the term of the lease.

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(22) Finance income and finance costs

Finance income comprises interest income on funds invested (including available-for-sale financial assets), dividend income, gains on the disposal of available-for-sale financial assets, changes in the fair value of financial assets at fair value through profit or loss and gains on hedging instruments that are recognized in profit or loss. Interest income is recognized as it accrues in profit or loss, using the effective interest method. Dividend income is recognized in profit or loss on the date that the Group's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions, dividends on preference shares classified as liabilities, changes in the fair value of financial assets at fair value through profit or loss, impairment losses recognized on financial assets and losses on hedging instruments that are recognized in profit or loss. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in profit or loss using the effective interest method.

(23) Income taxes

Income tax expense comprises current tax 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.

(i) Current tax

Current tax is the expected tax payable or receivable on the taxable profit or loss for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable related to previous years. The taxable profit is different from the accounting profit for the period, as the taxable profit is calculated excluding the temporary differences, which will be taxable or deductible in determining taxable profit (tax loss) of future periods, and non-taxable or non-deductible items from the accounting profit.

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(ii) Deferred tax

The measurement of deferred tax liabilities and deferred tax 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. The Group recognizes a deferred tax liability for all taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except to the extent that the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. The Group recognizes a deferred tax asset for all deductible temporary differences arising from investments in subsidiaries and associates to the extent it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilized.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and reduces the carrying amount to the extent it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax asset to be utilized.

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 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 deferred tax 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 only if there is a legally enforceable right to offset the related current tax liabilities and assets, they relate to income taxes levied by the same tax authority and they intend to settle current tax liabilities and assets on a net basis. Additional income tax due to dividend payments is recognized when the Group recognizes a liability relevant to the dividend payment.

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(24) New standards and interpretations, not yet adapted

(i) K-IFRS No. 1109, 'Financial Instruments'

K-IFRS No. 1109, published on September 25, 2015, is effective for annual periods beginning on or after January 1, 2018, with earlier adaption permitted. It replaces existing guidance in K-IFRS No. 1039, 'Financial Instruments: Recognition and Measurement'. The Group plans to adopt K-IFRS No. 1109 for the year beginning on January 1, 2018.

K-IFRS No. 1109 will generally be applied retrospectively; however the Group plans to take advantage of the exemption allowing it not to restate the comparative information for prior periods with respect to classification and measurement (including impairment) changes. New hedge accounting requirements will generally be applied prospectively except for certain exemptions including the accounting for the time value of options.

The key features of the new standard, K-IFRS No. 1109, are classification and measurement of financial assets that reflects the business model in which the assets are managed and their cash flow characteristics, impairment methodology that reflects 'expected credit loss' (ECL) model for financial assets, and expanded scope of hedged items and hedging instruments which qualify for hedge accounting and changes in assessment method for effect of hedging relationships.

K-IFRS No. 1109 will require the Group to assess the financial impact from application of K-IFRS No. 1109 and revise its accounting processes and internal controls related to financial instruments. Actual impact of adopting K-IFRS No. 1109 will be dependent on the financial instruments. The Group holds and economic conditions at that time as well as accounting policy elections and judgment that it will make in the future.

- Classification and Measurement of Financial Assets

Based on the results of the impact assessment, the Group believes that the requirements in accordance with the new classification system of K-IFRS No. 1109 will not have a material effect on accounting for trade receivables, loans, debt securities and equity securities that are managed at fair value.

The Group holds equity instruments classified as available-for-sale for a long-term strategic purpose as of December 31, 2017. Accordingly, in Accordance with K-IFRS No. 1109, the Group has decided to measure the investment at fair value through other comprehensive income.

Therefore all changes in fair value for the equity instruments will be classified in other comprehensive income. Impairment losses are not recognized in profit or loss and gains or losses are not reclassified at the time of disposal.

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In addition, the Group has selected the accounting policy to continue to apply the related hedging accounting provisions of the K-IFRS No. 1039 in accordance with the transitional provisions of K-IFRS No. 1109.

- Impairment

K-IFRS No. 1109 replaces the Income Loss model of K-IFRS 1039 with the Expected Credit Losses model.

The Group assesses credit risks by performing individual valuation of major bonds in accordance with the allowance for loan loss provision policy and evaluates the aggregation rate according to the number of delinquent days.

The Group applies Simplified Method for the trade receivables arise from transactions as defined in the K-IFRS No.1115.

(ii) K-IFRS No. 1115 'Revenue from Contracts with Customers'

K-IFRS No. 1115 'Revenue from Contracts with Customers' established on 6 November 2015 apply for the first time in the fiscal year starting on or after 1 January, 2018. It replaces existing revenue recognition accounting standards, including K-IFRS No. 1018 "Revenue", K-IFRS No. 1011 "Construction Contracts", K-IFRS No. 2031 "Revenue- Barter transactions involving advertising services", K-IFRS No. 2113 "Customer Loyalty Programs", K-IFRS No. 2115 "Agreements for the construction of real estate", and K-IFRS No. 2118 "Transfers of assets from customers"

The Group applies K-IFRS No. 1115 starting from fiscal year beginning on or after January 1, 2018. However, We also applies retrospectively for the past reporting periods presented in accordance with K-IFRS No. 1008 'Accounting Policies, Changes in Accounting Estimates and Errors', and will apply a practical simplification method that does not rewrite financial statements for contracts completed as of January 1, 2017.

Current K-IFRS standards and interpretations including K-IFRS No. 1018 provide revenue recognition standards by transaction types such as sales of goods, provision of services, interest income, royalty income, dividend income and construction revenue; however, under the new standard, K-IFRS No. 1115, the five-step approach (① Identify the contract(s) 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, ⑤ Recognize revenue when the entity satisfied a performance obligation) is applied for all types of contracts or agreements.

The Group has made an impact assessment on the adoption of K-IFRS No. 1115 and will adopt and apply the design of accounting guidelines and processes applicable to the Group.

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- Sales of goods

In accordance with K-IFRS No. 1115, the Group recognizes revenue when the customer obtains control of the goods. Control over assets refers to the ability to direct the use of an asset and obtain most of the remaining benefits of the asset.

The Revenue is recognized when the control of the goods is transferred to the customer, as the goods is transferred.

Accordingly, the Group does not expect that the application of K-IFRS No. 1115 will result in a significant difference in the timing of revenue recognition for these sales of goods.

- Provision of services

The Group provides transportation services to many unspecified persons. In accordance with K-IFRS No. 1115, the total value of service contracts is distributed according to the individual contract prices. Its will be determined by the stated price at which the Group provides the service in an individual transaction. The obligation to perform these services is being consumed at the same time as the customers get the benefits of the performance as they do it.

Accordingly, the Group does not expect that the application of K-IFRS No. 1115 will result in a significant difference in the timing of revenue recognition for these services.

- Construction Contracts

Construction contracting service can have a financial impact due to the different recognition of revenue as a result of the obligation to perform the contract over the period and the obligation to perform it at the time.

In accordance with K-IFRS No. 1115, if the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date, it is required to define as carrying out its obligations over the period and to recognizes the revenue during over the period.

It is judged that the Group performance does not create an asset with an alternative use to the Group for the reason the prohibit in either contractual or practical and a significant rework cost is required when it is converted ot used for other purposed. In addition, If the confirmation on amount of work completed is close to the contract price of the contracted service transferred so far (the construction cost and proper margin required to fulfill the performance obligation), in addition, if the amount of confirmation is greater than or equal to the projected revenue on a progressive basis, or if the difference is not significant, the entity may be determined to have a payment claim.

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Accordingly, the Group does not expect that the application of K-IFRS No. 1115 will result in a significant difference in the timing of revenue recognition for these construction contracts

In addition, the Group plans to adopt K-IFRS No. 1115 using the cumulative effect method on the first application date (January 1, 2018). As a result, we will not apply K-IFRS No. 1115 to the comparative period.

(iii) K-IFRS No. 1116, 'Leases'

K-IFRS No. 1116, 'Leases' replaces K-IFRS No. 1017, 'Leases', and K-IFRS No. 2104, 'Determining Whether a Lease is Included in the Agreement'.

This standard is effective for annual periods beginning on or after January 1, 2019. An entity that applies K-IFRS No. 1115, 'Revenue from contractual arrangements with customers' can apply early.

K-IFRS No. 1116 provides an accounting model in which the lessee recognizes lease assets and liabilities in the its statement of financial position. The lessee recognize the finance lease assets that represent the right to use the underlying asset and the financial lease liabilities that represent the obligation to pay the lease fees. Lease recognition can be exempted for short-term leases and minor lease assets. Lease provider accounting is similar to the existing standard that classifies leases as finance leases and operating leases.

We completed our initial assessment of the potential impact on our financial statements, but we have not yet completed an accurate assessment. The actual effect of applying K-IFRS No. 1116 to the financial statements is determined by the future economic environment at the time of initial application such as the company's interest rate on January 1, 2019, the composition of the Group's lease portfolio at the date, whether the company will exercise the option to renew the lease, practical simple method and whether to apply the lease recognition exemption regulations.

With the adoption of K-IFRS No. 1116, the operating lease fee recognized as straight line depreciation method changes to the depreciation cost of the underlying asset and the interest expense of the lease liability. As a result, the nature of the costs associated with leasing will change.

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4. SIGNIFICANT ACCOUNTING ESTIMATION AND ASSUMPTION:

The Group adopted estimations and assumptions for future events. Used estimations and assumptions are continuously evaluated, considering past experience and other aspects, such as future events reasonably foreseeable based on current situation. These estimates may differ from the actual result. Estimations and assumptions on significant risks that can cause adjustments on the book values of assets and liabilities after the reporting period are as follows:

(1) Income tax

There are some uncertainties in calculating final tax effects on the taxable income derived from the Group's operation. The Company recognized current tax expense and deferred income tax by its best estimate on the income tax effects expected to be shown on the Group as a result of the Group's operations up to December 31, 2017. However, the actual income tax payment that will be finally made in the future may be different from the recognized assets and liabilities and this difference can result in effects on the current tax expense for the period when the final tax effect has been finalized and deferred income tax assets and liabilities.

(2) Fair value of financial instruments

For financial instruments that are not traded in an active market, their fair values are calculated through related evaluating methods. The Group makes various decisions on selecting evaluation methods and assumptions based on major market situations available as of December 31, 2017.

(3) Provisions

As detailed in Note 27, the Group recognizes provisions related to litigations and recovery. These provisions are decided by estimations based on experience in the past periods.

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5. FINANCIAL RISK MANAGEMENT:

The Group has exposure to the following risks from its use of financial instruments:

- ✓ credit risk
- ✓ liquidity risk
- ✓ market risk

This note presents information about the Group's exposure to each of the above risks; the Group's objectives, policies and processes for measuring and managing risk; and the Group's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

(1) Risk management activities

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board of Directors has established the Risk Management Committee, which is responsible for developing and monitoring the Group's risk management policies. The committee reports regularly to the Board of Directors on its activities.

The Group's risk management policies are established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Group Audit Committee oversees how management monitors compliance with the Group's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Group Audit Committee is assisted in its oversight role by Internal auditor. Internal auditor undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

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5. FINANCIAL RISK MANAGEMENT, Continued:

(2) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and investment securities.

(i) Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The Group's customer base comprises a number of entities with small individual amounts; hence, the Group's credit risk is not concentrated. Also, the Group's exposure to credit risk is limited as most receivables get collected in two or three days from the date of billing.

Significant transactions are reviewed for legal and economic validity during regular audits and resolved based on Board of Directors' approval. Also, the Group manages credit risk by requiring collateral or guarantees with respect to significant trade and other receivables.

The Group establishes an allowance for impairment that represents its estimate of incurred losses with respect to trade and other receivables and investments. The main components of this allowance are a specific loss component that relates to individually significant exposures and a collective loss component established for groups of similar assets with respect to losses that have been incurred, but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

(ii) Guarantees

The Group can only provide financial guarantees based on the Board of Directors' resolution. At December 31, 2017, no guarantees were outstanding.

(iii) Investments

The Group deposits its cash and cash equivalents and short-term financial instruments in Kookmin Bank and others, and limits its exposure to credit risk by investing only in financial institutions with high credit ratings. The Group indirectly participates in the development and operation of the surrounding area of Yongsan station and owns associated companies' equity. Although the Group is exposed to credit risk as the market value of the associated companies that operate the private capital railway station sphere fluctuates depending on the location and surrounding conditions, the Group manages the investment assets by reviewing the fluctuation of net assets of investees on a regular basis and recognizes impairment loss when there is uncertainty on recoverability of investment assets.

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5. FINANCIAL RISK MANAGEMENT, Continued:

(3) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

To manage liquidity risk, the Group maintains short-term and medium-to-long-term cash flow plan, and continuously analyzes and reviews the actual cash outflow.

Also, the Group has credit lines as follows:

- ✓ Credit line of unsecured loans amounting to ₩550 billion. Interest would be payable at a rate of CD (91 days), plus 15–79 basis points ("BP").
- ✓ Credit line of unsecured loans amounting to ₩300 billion. Interest would be payable at a rate of CD (91 days), plus 21 BP.
- ✓ Credit line of unsecured loans amounting to ₩4 billion. Interest would be payable at a rate of 3.81%~4.50%.

(4) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices, will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

The Group buys and sells derivatives, and also incurs financial liabilities, in order to manage market risks. All such transactions are carried out within the guidelines set by the Risk Management Committee. Generally, the Group seeks to apply hedge accounting in order to manage volatility in profit or loss.

(i) Currency risk

The Group is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the respective functional currencies of Group entities, primarily the US dollars (USD).

The Group is exposed to currency risk in respect to bonds and long-term borrowings denominated in foreign currency. The Group uses derivative instruments, such as currency swap, to avoid foreign exchange rate fluctuation risk arising from foreign currency liabilities.

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5. FINANCIAL RISK MANAGEMENT, Continued:

(4) Market risk, Continued

(ii) Interest rate risk

The Group borrows funds at fixed and variable interest rates. The Group's management reviews the interest rate periodically and uses derivative instruments to hedge interest rate risk.

(iii) Other market price risk

Equity price risk arises from available-for-sale equity securities held for meeting partially the unfunded portion of the Group's defined benefit pension obligations. Management of the Group monitors the mix of debt and equity securities in its investment portfolio based on market indices. Material investments within the portfolio are managed on an individual basis and all buy and sell decisions are approved by the Board of Directors.

(5) Capital management

The Board of Directors' policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. To maintain or adjust the capital base, the Group returns capital to shareholder and sells out assets to reduce the liabilities.

Also, the Group manages the capital balance to suffice the related regulation, "Korean Railroad Law 11 (Issuance of bonds)," which states that bonds may not exceed twice the sum of capital and reserves. Also the Group aims to maintain the credit rating of AAA.

The Group's capital management strategy is maintained similarly to prior period and the credit rating is maintained AAA at the end of 2017.

The Company's debt-to-adjusted capital ratio at the end of the reporting period was as follows:

<i>(In thousands of won, except equity ratio)</i>		<u>December 31, 2017</u>	<u>December 31, 2016</u>
Bond issued	₩	11,500,323,620	11,232,979,700
Equity capital and reserves		4,894,024,662	4,667,679,816
Net debt-to-adjusted equity ratio		234.99%	240.65%

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6. BUSINESS UNITS:

The Group has nine business units, as described below, which are the Group's strategic business units. The strategic business units offer different products and services, and are managed separately because they require different technology and marketing strategies. For each of the strategic business units, the Group's CEO reviews internal management reports on at least a quarterly basis. The following summary describes the operations in each of the Group's business units:

(1) The Group's business units are summarized as follows:

Business units	Primary business
Korea Railroad Corporation	Railroad transportation
KORAIL Retail Co., Ltd.	Retail business
KORAIL Logis Co., Ltd.	Service industry
KORAIL Networks Co., Ltd.	Railroad transportation
KORAIL Tourism Development Co., Ltd.	Service industry
KORAIL Tech Co., Ltd.	Railway track specialized construction
SR Co., Ltd.	Railroad transportation
Korean Insurance Brokerage Co., Ltd.	Insurance brokerage

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6. BUSINESS UNITS, Continued:

(2) The Group's business units' information on revenue and profit for the years ended December 31, 2017 and 2016, is as follows:

<i>(In thousands of won)</i>		2017			
Company		Total revenue	Interunit revenue	External revenue	Operating profit(loss) Depreciation and amortization expenses
Korea Railroad Corporation	₩	5,057,247,076	253,190,637	4,804,056,438	(528,298,835) 508,716,376
KORAIL Retail Co., Ltd.		283,795,655	4,138,807	279,656,848	10,289,582 7,088,152
KORAIL Networks Co., Ltd.		84,614,409	38,111,209	46,503,200	3,463,999 1,589,991
KORAIL Logis Co., Ltd.		52,600,521	8,505,969	44,094,551	492,328 434,122
KORAIL Tourism Development Co., Ltd.		55,876,254	33,153,076	22,723,179	454,655 519,253
KORAIL Tech Co., Ltd.		36,647,180	28,106,819	8,540,361	1,224,156 244,798
SR Co., Ltd.		580,109,562	110,891	579,998,671	41,935,031 19,262,195
Korean Insurance Brokerage Co., Ltd.		1,135,497	-	1,135,497	465,552 -
	₩	<u>6,152,026,154</u>	<u>365,317,408</u>	<u>5,786,708,745</u>	<u>(469,973,533)</u> <u>537,854,932</u>

<i>(In thousands of won)</i>		2016			
Company		Total revenue	Interunit revenue	External revenue	Operating profit(loss) Depreciation and amortization expenses
Korea Railroad Corporation	₩	5,365,131,839	109,820,323	5,255,311,516	153,929,967 481,504,890
KORAIL Retail Co., Ltd.		270,541,630	1,411,549	269,130,081	8,205,849 6,778,276
KORAIL Networks Co., Ltd.		81,339,525	35,853,442	45,486,083	5,308,234 1,182,176
KORAIL Logis Co., Ltd.		50,709,345	7,192,008	43,517,337	305,996 512,592
KORAIL Tourism Development Co., Ltd.		60,326,427	29,256,177	31,070,250	(3,353,376) 509,351
KORAIL Tech Co., Ltd.		47,243,372	29,367,018	17,876,354	884,497 221,906
SR Co., Ltd.		30,156,577	11,141	30,145,436	(41,655,909) 7,926,195
Korean Insurance Brokerage Co., Ltd.		1,105,897	-	1,105,897	412,059 8,853
	₩	<u>5,906,554,612</u>	<u>212,911,658</u>	<u>5,693,642,954</u>	<u>124,037,317</u> <u>498,644,239</u>

KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

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For the years ended December 31, 2017 and 2016

6. BUSINESS UNITS, Continued:

(3) Assets and liabilities of the Group's business units as of December 31, 2017 and 2016, are as follows:

<i>(In thousands of won)</i>		2017			
Company		Total assets	Investment assets in associates	Acquisition amount of non-current assets	Total liabilities
Korea Railroad Corporation ₩		19,218,975,131	283,150,181	614,450,968	14,324,950,469
KORAIL Retail Co., Ltd.		311,027,073	20,643,284	20,114,365	151,453,371
KORAIL Networks Co., Ltd.		38,217,899	1,178,649	3,609,889	16,649,047
KORAIL Logis Co., Ltd.		14,949,964	-	71,854	14,154,574
KORAIL Tourism Development Co., Ltd.		17,114,965	-	2,345,495	8,576,060
KORAIL Tech Co., Ltd.		19,101,295	-	978,731	2,437,466
SR Co., Ltd.		485,037,170	-	2,432,102	255,201,316
Korean Insurance Brokerage Co., Ltd.		1,475,471	-	-	290,168
	₩	<u>20,105,898,968</u>	<u>304,972,114</u>	<u>644,003,404</u>	<u>14,773,712,471</u>

<i>(In thousands of won)</i>		2016			
Company		Total assets	Investment assets in associates	Acquisition amount of non-current assets	Total liabilities
Korea Railroad Corporation ₩		17,940,529,654	178,269,323	707,213,307	13,272,849,837
KORAIL Retail Co., Ltd.		297,354,889	20,643,284	29,762,055	142,401,366
KORAIL Networks Co., Ltd.		40,371,165	1,178,649	3,358,897	13,933,342
KORAIL Logis Co., Ltd.		13,193,466	-	39,852	12,628,225
KORAIL Tourism Development Co., Ltd.		17,195,879	-	1,669,492	8,377,574
KORAIL Tech Co., Ltd.		22,043,430	-	783,064	5,691,331
SR Co., Ltd.		409,505,266	-	273,824,145	209,999,502
Korean Insurance Brokerage Co., Ltd.		1,911,093	-	-	218,778
	₩	<u>18,742,104,842</u>	<u>200,091,256</u>	<u>1,016,650,813</u>	<u>13,666,099,955</u>

KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

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For the years ended December 31, 2017 and 2016

6. BUSINESS UNITS, Continued:

(4) External revenues by geographical regions for the years ended December 31, 2017 and 2016, and non-current assets by geographical regions as of December 31, 2017 and 2016, are summarized as follows:

<i>(In thousands of won)</i>	External revenue		Non-current assets	
	2017	2016	Dec. 31, 2017	Dec. 31, 2016
Domestic	₩ 5,779,717,570	5,690,896,161	18,164,866,233	17,416,806,361
Overseas	6,991,175	2,746,793	-	-
	₩ <u>5,786,708,745</u>	<u>5,693,642,954</u>	<u>18,164,866,233</u>	<u>17,416,806,361</u>

7. CASH AND CASH EQUIVALENTS:

Cash and cash equivalents in the consolidated statement of cash flow include cash and cash equivalents as of December 31, 2017 and 2016, before deducting government grants, which are summarized as follows:

<i>(In thousands of won)</i>	December 31, 2017	December 31, 2016
Cash and cash equivalents	₩ 715,043,917	550,175,381
Government subsidies	(63,512,514)	(68,713,017)
Fund for trustee business from government	(169,764,199)	(107,369,778)
	₩ <u>481,767,204</u>	<u>374,092,586</u>

KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

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8. CASH AND CASH EQUIVALENTS RESTRICTED IN USE AND COLLATERALIZED FINANCIAL ASSETS:

Cash and cash equivalents that are restricted in use and financial assets that are held as collateral for liabilities or contingencies as of December 31, 2017 and 2016, are summarized as follows:

<i>(In thousands of won)</i>	Type		Dec. 31, 2017	Dec. 31, 2016
Cash and cash equivalents	Railroad membership deposits	₩	9,025,146	8,976,422
Cash and cash equivalents	Cash on demand deposits		270,233	-
Short-term financial instruments	garnishment for litigation in progress of regular wages		-	284,036
Long-term financial instruments	Pledged assets		18,754	18,754
Others	Guaranty fulfillment		-	500,000
		₩	<u>9,314,133</u>	<u>9,779,212</u>

9. DERIVATIVES:

(1) Derivative instruments outstanding as of December 31, 2017 and 2016, are as follows:

	December 31, 2017		December 31, 2016		
<i>(In thousands of won)</i>	Current	Non-current	Current	Non-current	
<u>Derivative instrument assets:</u>					
Currency swap	₩	-	7,700,483	44,554,993	22,248,201
<u>Derivative instrument liabilities:</u>					
Currency swap		24,208,168	53,827,313	-	4,352,442

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Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

9. DERIVATIVES, Continued:

(2) Details of currency swap outstanding as of December 31, 2017, are summarized as follows:

(In thousands of won)

Financial institutions	Contract term		Selling price	Purchasing price	Selling interest rate	purchasing interest rate	Contractual exchange rate	Valuation amount
Standard Chartered Korea	2014.01.03~2019.12.02	CHF	134,895,000	115,000,000	3.64%	CHF1.51%(At 2019 1.52%)	1,173.00	(9,085,294)
SG	2014.01.03~2019.12.02	CHF	117,300,000	100,000,000	3.64%	CHF1.51%(At 2019 1.52%)	1,173.00	(7,971,930)
BNP	2014.01.03~2019.12.02	CHF	117,300,000	100,000,000	3.64%	CHF1.51%(At 2019 1.52%)	1,173.00	(7,881,317)
BNP	2014.05.29~2018.11.16	CHF	172,767,000	150,000,000	2.98%	CHF1.51%(At 2019 1.52%)	1,151.78	(8,599,592)
SG	2014.05.29~2018.11.16	CHF	57,589,000	50,000,000	2.98%	CHF1.51%(At 2019 1.52%)	1,151.78	(2,916,482)
Standard Chartered Korea	2014.05.29~2018.11.16	CHF	57,589,000	50,000,000	2.98%	CHF1.51%(At 2019 1.52%)	1,151.78	(2,869,163)
CREDIT AGRICOLE	2014.05.29~2018.11.16	CHF	57,589,000	50,000,000	2.98%	CHF1.51%(At 2019 1.52%)	1,151.78	(2,788,397)
DBS	2014.09.04~2018.09.04	SGD	52,845,000	65,000,000	2.55%	SGD 1.76%	813.00	(1,197,145)
HSBC	2014.11.13~2018.08.13	AUD	51,700,000	55,000,000	2.28%	AUD 3M BBSW+0.85%	940.00	(5,837,389)
HSBC	2016.12.20~2019.06.20	USD	233,400,000	200,000,000	1.81%	3M Libor+0.70%	1,167.00	(18,534,897)
NOMURA	2017.04.26~2032.04.26	AUD	42,708,500	50,000,000	2.23%	AUD 4.11%	854.17	843,258
NOMURA	2017.05.25~2023.04.26	HKD	134,180,490	921,000,000	2.17%	HKD 2.60%	145.69	(8,451,518)
NOMURA	2017.05.26~2032.05.26	SEK	38,199,000	300,000,000	2.40%	SEK 2.31%	127.33	1,219,050
Export-Import Bank of Korea	2017.06.07~2037.06.07	CAD	91,746,600	110,000,000	2.40%	CAD 3.07%	834.06	1,489,279
NOMURA	2017.06.09~2037.06.09	EUR	62,829,000	50,000,000	2.37%	EUR 1.89%	1,256.58	4,148,895
DBS	2017.11.29~2020.11.29	SGD	112,840,000	140,000,000	2.17%	SGD 1.73%	806.00	(1,902,357)
KRW			<u>1,535,477,590</u>	<u>2,506,000,000</u>				<u>(70,334,999)</u>

KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

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9. DERIVATIVES, Continued:

(3) Derivative transaction gain (loss) for the years ended December 31, 2017 and 2016, are as follows:

	Gain and losses from valuation		Gain and losses from transactions		Other comprehensive Income	
	2017	2016	2017	2016	2017	2016
<i>(In thousands of won)</i>						
Currency swap ₩	(90,609,670)	18,218,500	(23,100,000)	(11,000,000)	3,773,920	(561,143)
Interest swap	-	-	-	-	-	1,491,143
₩	<u>(90,609,670)</u>	<u>18,218,500</u>	<u>(23,100,000)</u>	<u>(11,000,000)</u>	<u>3,773,920</u>	<u>930,000</u>

Losses from valuation of derivatives of ₩2,818,972 thousand recognized in other comprehensive income for the year ended December 31, 2017, are net of tax amount, which are directly recognized in equity.

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10. TRADE RECEIVABLES AND OTHER RECEIVABLES:

(1) Trade receivables and accounts receivable as of December 31, 2017 and 2016, are as follows:

		December 31, 2017			
<i>(In thousands of won)</i>		Receivables	Allowance for impairment	Present value of discount	Carrying amounts
<u>Current assets:</u>					
Trade receivables	₩	376,899,689	(13,508,560)	-	363,391,129
Other receivables		524,774,199	(2,170,026)	-	522,604,173
Subtotal		901,673,888	(15,678,586)	-	885,995,302
<u>Non-current assets:</u>					
Other receivables		235,325,081	-	(384,251)	234,940,830
	₩	1,136,998,969	(15,678,586)	(384,251)	1,120,936,132

		December 31, 2016			
<i>(In thousands of won)</i>		Receivables	Allowance for impairment	Present value of discount	Carrying amounts
<u>Current assets:</u>					
Trade receivables	₩	332,505,985	(18,422,734)	-	314,083,251
Other receivables		52,064,241	(8,286,831)	-	43,777,410
Subtotal		384,570,226	(26,709,565)	-	357,860,661
<u>Non-current assets:</u>					
Other receivables		541,416,113	-	(384,622)	541,031,491
	₩	925,986,339	(26,709,565)	(384,622)	898,892,152

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10. TRADE RECEIVABLES AND OTHER RECEIVABLES, Continued:

(2) Other receivables as of December 31, 2017 and 2016, are detailed as follows:

<i>(In thousands of won)</i>	December 31, 2017			
	Receivables	Allowance for impairment	Present value of discount	Carrying amounts
<u>Current assets:</u>				
Other receivables	₩ 524,678,294	(2,170,026)	-	522,508,268
Accrued revenue	95,905	-	-	95,905
Subtotal	524,774,199	(2,170,026)	-	522,604,173
<u>Non-current assets:</u>				
Other receivables	201,087,739	-	-	201,087,739
Deposits provided	34,237,342	-	(384,251)	33,853,091
Subtotal	235,325,081	-	(384,251)	234,940,830
	₩ 760,099,280	(2,170,026)	(384,251)	757,545,003
<i>(In thousands of won)</i>	December 31, 2016			
	Receivables	Allowance for impairment	Present value of discount	Carrying amounts
<u>Current assets:</u>				
Other receivables	₩ 51,986,254	(8,286,831)	-	43,699,423
Accrued revenue	77,987	-	-	77,987
Subtotal	52,064,241	(8,286,831)	-	43,777,410
<u>Non-current assets:</u>				
Other receivables	506,269,164	-	-	506,269,164
Deposits provided	35,146,949	-	(384,622)	34,762,327
Subtotal	541,416,113	-	(384,622)	541,031,491
	₩ 593,480,354	(8,286,831)	(384,622)	584,808,901

KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

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10. TRADE RECEIVABLES AND OTHER RECEIVABLES, Continued:

(3) Credit risk and allowance for impairment

Trade receivables and other receivables presented above are categorized into loans and receivables and measured at amortized cost.

Average credit term given to customers for sales is 30 days. The Group records the allowance for impairment for 100% of outstanding receivables for more than 732 days. The Group establishes the allowance for outstanding receivables for more than 30 days, but less than 732 days based on historical data and current financial status of the customers.

The Group establishes a specific loss for individually significant receivables with balances more than ₩1 billion based on considering each customer's credit ratings, late payment history, bankruptcy, insolvency and other information. For all other receivables, the Group establishes the allowance for impairment based on historical data of late payment. However, the Group does not establish the allowance for receivables from federal government or local government.

Detail on individual analysis		Rate of allowance for impairment
Receivables with no collection right due to customers' bankruptcy, insolvency, death or disappearance etc.		100%
Customers' impaired capital or under administrative procedure etc.		100%
Receivables for which collection is requested to collection agency		50%
Receivables under dispute or litigations		50%
Customer's abilities to repay the debt significantly impaired		50%
Overdue customers	30 days	1%
	31 days–90 days	10%
	91 days–180 days	15%
	181 days–365 days	25%
	366 days–732 days	50%
	733 days or more	100%
Current credit rating	AAA+ ~ A	-
	BBB+ ~ B	0.10%
	CCC+ ~ C	0.50%
	C and below (including no credit rating available)	1%

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10. TRADE RECEIVABLES AND OTHER RECEIVABLES, Continued:

(4) Aging analysis of trade receivables and other receivables as of December 31, 2017 and 2016, is detailed as follows:

<i>(In thousands of won)</i>		Trade receivables	
		December 31, 2017	December 31, 2016
Current and not impaired	₩	270,442,816	249,985,823
Overdue, but not impaired		94,754,737	8,963,854
Current reviewed for impairment		11,702,136	82,520,162
- Under 90 days		4,461,671	9,427,015
- 90 days–120 days		450,169	342,782
- 120 days or more		6,790,296	63,786,511
Subtotal		376,899,689	332,505,985
Allowance for impairment		(13,508,560)	(18,422,734)
	₩	363,391,129	314,083,251
		Other receivables	
<i>(In thousands of won)</i>		December 31, 2017	December 31, 2016
Current and not impaired	₩	751,361,842	579,183,920
Overdue, but not impaired		6,892,012	4,413,386
Current reviewed for impairment		1,845,426	9,883,048
- Under 90 days		181,069	72,272
- 90 days–120 days		16,601	14,414
- 120 days or more		1,647,756	9,796,362
Subtotal		760,099,280	593,480,354
Allowance for impairment		(2,170,026)	(8,286,831)
Present value discounts		(384,251)	(384,622)
	₩	757,545,003	584,808,901

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10. TRADE RECEIVABLES AND OTHER RECEIVABLES, Continued:

(5) Changes in allowance for impairment of trade receivables and other receivables during the year ended December 31, 2017 and 2016, are as follows:

(In thousands of won)		2017		2016	
		Trade receivables	Other receivables	Trade receivables	Other receivables
Beginning balance	₩	18,422,734	8,286,831	8,016,195	1,620,146
Impairment loss recognized		1,335,881	291,527	11,437,040	6,801,624
Write-offs		(6,199,325)	(6,408,274)	(1,030,501)	(133,832)
Reversal of allowance		(50,730)	(58)	-	(1,107)
Ending balance	₩	13,508,560	2,170,026	18,422,734	8,286,831

11. AVAILABLE-FOR-SALE FINANCIAL ASSETS:

Available-for-sale financial assets as of December 31, 2017 and 2016, are summarized as follows:

(In thousands of won)		December 31, 2017		December 31, 2016	
		Current	Non-current	Current	Non-current
Equity instruments:	₩				
Marketable securities		-	11,990	-	8,109
Non-marketable securities		-	42,208,595	-	38,008,539
	₩	-	42,220,585	-	38,016,648

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12. LOANS:

Loans as of December 31, 2017 and 2016, are summarized as follows:

		Dec 31, 2017	
<i>(In thousands of won)</i>	Face value	Present value discounts	Carrying amount
₩			
Tuition loans(*1)	47,298,358	(6,962,029)	40,336,329
Other(*2)	143,038	-	143,038
₩	47,441,396	(6,962,029)	40,479,367

(*1) Regard of student loans, the amount of ₩394,468 thousand(₩7,833 thousand Present value discounts), which is repayable within one year, is replaced with short-term loans.

(*2) The Group recognizes four major insurance payments made on behalf of employees laid off as other loans.

<i>(In thousands of won)</i>		Dec 31, 2016		
		Face value	Present value discounts	Carrying amount
Tuition loans(*1)	₩	50,255,393	(8,117,379)	42,138,014
Other(*2)		113,562	-	113,562
	₩	50,368,955	(8,117,379)	42,251,576

(*1) The Group provides loans to employees for the purpose of financial aid for children. Repayment of loans is made through a monthly payroll deduction.

(*2) The Group recognizes four major insurance payments made on behalf of employees laid off as other loans.

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For the years ended December 31, 2017 and 2016

13. FINANCIAL INSTRUMENTS:

Financial instruments as of December 31, 2017 and 2016, are as follows:

(In thousands of won)		December 31, 2017		December 31, 2016	
		Current	Non-current	Current	Non-current
Periodical installment savings	₩	14,250,000	18,755	12,750,000	18,755
others		953,275	-	4,091,649	-
	₩	<u>15,203,275</u>	<u>18,755</u>	<u>16,841,649</u>	<u>18,755</u>

14. INVENTORIES:

Inventories as of December 31, 2017 and 2016, are as follows:

(In thousands of won)		Dec 31, 2016			
		Acquisition	Government grants	Provision for loss on valuation	Carrying amount
Raw materials	₩	2,391,782	-	(39,260)	2,352,522
Merchandises		8,859,252	-	-	8,859,252
Supplies		261,122,933	(56,344,234)	(457,605)	204,321,094
Inventory in transit		15,299,454	-	-	15,299,454
Work in progress		954,872	-	-	954,872
	₩	<u>288,628,293</u>	<u>(56,344,234)</u>	<u>(496,865)</u>	<u>231,787,194</u>

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14. INVENTORIES, Continued:

<i>(In thousands of won)</i>	December 31, 2017			
	Acquisition	Government grants	Provision for loss on valuation	Carrying amount
Raw materials	₩ 528,123	-	(39,260)	488,863
Merchandises	9,391,374	-	-	9,391,374
Supplies	2,104,760	-	-	2,104,760
Inventory in transit	296,103,625	(65,160,754)	(457,606)	230,485,265
Work in progress	5,294,941	-	-	5,294,941
	₩ 313,422,823	(65,160,754)	(496,866)	247,765,203

15. NON-FINANCIAL ASSETS:

(1) Non-financial assets as of December 31, 2017 and 2016, are as follows:

<i>(In thousands of won)</i>	Dec 31, 2017		Dec 31, 2016	
	Current	Non-current	Current	Non-current
Prepayment	₩ 26,258,074	-	20,961,317	-
Government grants	(6,584,210)	-	(5,140,300)	-
Allowance for bad debts	(116,821)	-	(91,369)	-
Prepaid expenses	6,782,874	7,044,524	7,783,363	8,669,969
Other non-financial assets	16,314,694	75,586	21,842,953	23,344
	₩ 42,654,611	7,120,110	45,355,964	8,693,313

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15. NON-FINANCIAL ASSETS, Continued:

(2) Other non-financial assets as of December 31, 2017 and 2016, are as follows:

<i>(In thousands of won)</i>		Dec 31, 2017		Dec 31, 2016	
		Current	Non-current	Current	Non-current
Deposits	₩	14,894,732	23,344	14,854,309	23,344
Non-financial assets-others		1,419,962	52,242	6,988,644	-
	₩	<u>16,314,694</u>	<u>75,586</u>	<u>21,842,953</u>	<u>23,344</u>

KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

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For the years ended December 31, 2017 and 2016

16. INVESTMENTS IN ASSOCIATES:

(1) Associates as of December 31, 2017 and 2016, are detailed as follows:

(In thousands of won)	Primary business	Location	December 31, 2017		
			Owner-ship(%)	Acquisition cost	Carrying amounts
Uiwang ICD Co., Ltd.	Construction and operation of container depot	Republic of Korea	25.00	₩ 1,765,000	1,877,209
Dream Hub Project	Developing, trading and leasing of real estate	Republic of Korea	25.00	250,000,000	-
Financial Investment Co., Ltd.	Asset management	Republic of Korea	29.90	897,000	-
Yong San Station Around Development Co., Ltd.	Development and operation of privatized station's sphere of influence	Republic of Korea	33.33	1,700,000	5,695,391
Sinchon Station Building Co., Ltd.	Development and operation of privatized station's sphere of influence	Republic of Korea	31.67	84,338,340	58,424,544
Lotte Station Building Co., Ltd.	Development and operation of privatized station's sphere of influence	Republic of Korea	25.00	682,300	1,725,605
Bupyeong Department Store Co., Ltd.	Development and operation of privatized station's sphere of influence	Republic of Korea	31.67	1,520,000	-
Changdong Station Building Co., Ltd.	Development and operation of privatized station's sphere of influence	Republic of Korea	26.08	699,962	3,020,844
Anyang Station Building Co., Ltd.	Development and operation of privatized station's sphere of influence	Republic of Korea	21.28	798,000	-
Dongincheon Shopping Center Co., Ltd.	Development and operation of privatized station's sphere of influence	Republic of Korea	25.00	6,833,050	5,996,960
Bucheon Station Building Co., Ltd.	Development and operation of privatized station's sphere of influence	Republic of Korea	32.04	12,953,517	38,176,691
Hanwha Station Development Co., Ltd.	Development and operation of privatized station's sphere of influence	Republic of Korea	27.00	540,000	-
Noryangjin Station Building Co., Ltd.	Development and operation of privatized station's sphere of influence	Republic of Korea	27.55	1,102,000	-
Shinsegae Uijeongbu Station Building Co., Ltd.	Development and operation of privatized station's sphere of influence	Republic of Korea	30.00	600,000	-
Seongbuk Station Building Co., Ltd.	Development and operation of privatized station's sphere of influence	Republic of Korea	25.00	500,000	-
Ansan Central Station Building Co., Ltd.	Development and operation of privatized station's sphere of influence	Republic of Korea	23.78	4,862,340	1,702,011
Bitplex Co., Ltd.	Development and operation of privatized station's sphere of influence	Republic of Korea			
				₩ 369,791,509	116,619,255

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(In thousands of won)	Primary business	Location	Dec 31, 2016		
			Owner ship(%)	Acquisition cost	Carrying amounts
Uiwang ICD Co., Ltd.	Construction and operation of container depot	Republic of Korea	25.00	₩ 1,765,000	1,871,137
Dream Hub Project	Developing, trading and leasing of real estate	Republic of Korea	25.00	250,000,000	-
Financial Investment Co., Ltd.					
YongSan Station Around Development Co., Ltd.	Asset management	Republic of Korea	29.90	897,000	-
Sinchon Station Building Co., Ltd.	Development and operation of privatized station's sphere of influence	Republic of Korea	33.33	1,700,000	-
Lotte Station Building Co., Ltd.	Development and operation of privatized station's sphere of influence	Republic of Korea	31.67	84,338,340	156,915,079
Bupyeong Department Store Co., Ltd.	Development and operation of privatized station's sphere of influence	Republic of Korea	25.00	682,300	1,325,625
Changdong Station Building Co., Ltd.	Development and operation of privatized station's sphere of influence	Republic of Korea	31.67	1,520,000	-
Anyang Station Building Co., Ltd.	Development and operation of privatized station's sphere of influence	Republic of Korea	26.08	699,962	2,852,826
Dongincheon Shopping Center Co., Ltd.	Development and operation of privatized station's sphere of influence	Republic of Korea	21.28	798,000	-
Bucheon Station Building Co., Ltd.	Development and operation of privatized station's sphere of influence	Republic of Korea	25.00	6,833,050	6,701,267
Hanwha Station Development Co., Ltd.	Development and operation of privatized station's sphere of influence	Republic of Korea	32.04	12,953,517	40,252,220
Noryangjin Station Building Co., Ltd.	Development and operation of privatized station's sphere of influence	Republic of Korea	27.00	540,000	-
Shinsegae Uijeongbu Station Building Co., Ltd.	Development and operation of privatized station's sphere of influence	Republic of Korea	27.55	1,102,000	-
Seongbuk Station Building Co., Ltd.	Development and operation of privatized station's sphere of influence	Republic of Korea	30.00	600,000	-
Ansan Central Station Building Co., Ltd.	Development and operation of privatized station's sphere of influence	Republic of Korea	25.00	500,000	14,723
Bitplex Co., Ltd.	Development and operation of privatized station's sphere of influence	Republic of Korea	23.78	4,862,340	-
			₩	<u>369,791,509</u>	<u>209,932,877</u>

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For the years ended December 31, 2017 and 2016

16. INVESTMENTS IN ASSOCIATES, Continued:

(2) Financial information of significant associates as of December 31, 2017 and 2016, is as follows:

<i>(In thousands of won)</i>		Lotte Station Building Co., Ltd.		Hanwha Station Development Co., Ltd.	
		2017	2016	2017	2016
Current Assets	₩	146,630,232	237,319,968	10,294,971	7,990,032
Non-current assets		208,557,838	503,325,152	405,551,965	426,815,531
Current liabilities		161,170,656	235,456,909	75,046,664	65,051,864
Non-current liabilities		9,518,783	9,666,868	221,658,052	244,134,162
Revenue		196,512,660	582,892,426	63,322,149	65,421,500
Profit for the year		(287,498,842)	34,828,921	155,110	14,612,728
Total comprehensive profit for the year		(282,828,423)	38,116,324	72,754	14,396,957
Dividend received		7,720,411	9,350,984	2,098,822	2,098,822

(3) Details of adjustments made for book value of associates as of December 31, 2017, are as follows:

<i>(In thousands of won)</i>		Net assets	Percentage of ownership	Share of interests in net assets	Book value
Uiwang ID Co., Ltd	₩	7,508,835	25.00%	1,877,209	1,877,209
Lotte Station Building Co., Ltd.		184,498,630	31.67%	58,424,544	58,424,544
Bupyeong Department Store Co., Ltd.		6,902,163	25.00%	1,725,605	1,725,605
Anyang Station Building Co., Ltd.		11,585,211	26.08%	3,020,844	3,020,844
Bucheon Station Building Co., Ltd.		23,987,840	25.00%	5,996,960	5,996,960
Hanwha Station Development Co., Ltd.		119,142,219	32.04%	38,176,691	38,176,691
Ansan Central Station Building Co., Ltd.		(297,997)	25.00%	-	-
Bit Plex Co., Ltd.		7,156,398	23.78%	1,702,011	1,702,011
Sinchon Station Building Co., Ltd.		17,086,172	33.33%	5,695,391	5,695,391

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16. INVESTMENTS IN ASSOCIATES, Continued:

(4) Book value of non-significant associates and joint arrangements is as follows:

<i>(In thousands of won)</i>		Individually non-significant associates and joint arrangements
Book value:	₩	20,018,020
Profit attributable to associates and joint ventures:		
Profit from continuing operations	₩	8,019,074
Other comprehensive income		4,293
	₩	8,023,367

(5) Changes in investments in associates for the years ended December 31, 2017 and 2016, are as follows:

		2017					
<i>(In thousands of won)</i>		Book value as of Jan. 1, 2017	Dividend	Share of profits	Change in equity method investments	Other increase (decrease)	Book value as of Dec. 31, 2017
Uiwang ID Co., Ltd	₩	1,871,137	-	11,519	-	(5,447)	1,877,209
Lotte Station Building Co., Ltd.		156,915,079	(7,720,411)	(91,041,310)	1,478,966	(1,207,780)	58,424,544
Bupyeong Department Store Co., Ltd.		1,325,625	-	400,295	1,073	(1,388)	1,725,605
Anyang Station Building Co., Ltd.		2,852,826	(26,075)	245,974	-	(51,881)	3,020,844
Bucheon Station Building Co., Ltd.		6,701,267	(2,500,000)	1,797,684	-	(1,991)	5,996,960
Hanwha Station Development Co., Ltd.		40,252,220	(2,098,822)	49,702	-	(26,409)	38,176,691
Ansan Central Station Building Co., Ltd.		14,723	-	(14,723)	-	-	-
Bit Plex Co., Ltd.		-	-	1,702,011	-	-	1,702,011
Sinchon Station Building Co., Ltd.		-	-	5,695,391	-	-	5,695,391
	₩	209,932,877	(12,345,308)	(81,153,457)	1,480,039	(1,294,897)	116,619,255

KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

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For the years ended December 31, 2017 and 2016

16. INVESTMENTS IN ASSOCIATES, Continued:

(5) Changes in investments in associates for the years ended December 31, 2017 and 2016, are as follows, Continued:

		2016					
(In thousands of won)		Book value as of Jan. 1, 2016	Dividend	Share of profits	Change in equity method investments	Other increase (decrease)	Book value as of Dec. 31, 2016
Uiwang ID Co., Ltd	₩	1,799,303	-	77,525	-	(5,691)	1,871,137
Lotte Station Building Co., Ltd.		154,184,224	(9,350,984)	11,029,159	1,041,011	11,669	156,915,079
Bupyeong Department Store Co., Ltd.		906,707	-	479,593	31,482	(92,157)	1,325,625
Anyang Station Building Co., Ltd.		2,678,447	(78,225)	253,269	-	(665)	2,852,826
Bucheon Station Building Co., Ltd.		7,380,957	(2,500,000)	1,845,525	-	(25,215)	6,701,267
Hanwha Station Development Co., Ltd.		37,737,840	(2,098,822)	4,682,362	-	(69,160)	40,252,220
Ansan Central Station Building Co., Ltd.		71,336	-	(48,199)	-	(8,414)	14,723
Bit Plex Co., Ltd.		478,939	-	(478,939)	-	-	-
	₩	205,237,753	(14,028,031)	17,840,295	1,072,493	(189,633)	209,932,877

(6) Details of unrecognized equity losses for the year ended December 31, 2017, and accumulated unrecognized equity losses due to discontinuance of equity method application are as follows:

(In thousands of won)		Unrecognized equity losses for the year ended	Unrecognized equity losses Accumulated
Dongincheon Shopping Center Co., Ltd.	₩	(233,805)	(8,619,262)
Kwangwoon Univ. Building Co., Ltd.		(152,652)	(2,402,724)
Shinsegae Uijeongbu Station Building Co., Ltd.		123,787	(4,410,535)

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17. PROPERTY, TRAINS AND EQUIPMENT:

(1) Details of property, trains and equipment as of December 31, 2017 and 2016, are as follows:

(In thousands of won)	Dec 31, 2017				
	Acquisition cost	Government grants	Accumulated depreciation	Accumulated impairment losses	Book value
Land(*)	₩ 9,848,936,722	(6,598,459)	-	-	9,842,338,263
Buildings(*)	1,987,744,138	(103,574,407)	(453,022,389)	-	1,431,147,342
Structures	304,733,265	(9,553,995)	(115,803,100)	(652,134)	178,724,036
Machinery	1,164,782,473	(72,849,761)	(718,133,396)	-	373,799,316
Servers	7,904,472	-	(1,929,871)	-	5,974,601
Trains	8,295,077,383	(339,673,654)	(2,672,145,490)	-	5,283,258,239
Vehicles	57,046,889	(98)	(39,097,452)	-	17,949,339
Furniture and fixtures	17,565,492	(8,626)	(14,204,547)	-	3,352,319
Tools	139,049,436	(1,360)	(105,114,091)	-	33,933,985
Construction in progress	168,629,395	(11,688,993)	-	-	156,940,402
Financial lease assets	1,717,071	-	(1,717,064)	-	7
Other tangible assets	31,915,483	-	(1,383,627)	-	30,531,856
	₩ 22,025,102,219	(543,949,353)	(4,122,551,027)	(652,134)	17,357,949,705

(*) Some land and buildings of the Group are being provided as collateral for the Group's borrowings.

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For the years ended December 31, 2017 and 2016

17. PROPERTY, TRAINS AND EQUIPMENT, Continued:

(1) Details of property, trains and equipment as of December 31, 2017 and 2016, are as follows, Continued:

(In thousands of won)	Dec 31, 2016				
	Acquisition cost	Government grants	Accumulated depreciation	Accumulated impairment losses	Book value
Land(*)	₩ 8,778,257,843	(6,598,459)	-	-	8,771,659,384
Buildings(*)	1,974,106,355	(104,178,832)	(406,126,120)	-	1,463,801,403
Structures	289,248,288	(8,417,758)	(106,352,408)	(728,111)	173,750,011
Machinery	1,128,342,610	(85,801,076)	(652,767,724)	-	389,773,810
Servers	7,731,279	-	(361,870)	-	7,369,409
Trains	7,861,661,276	(365,064,401)	(2,285,392,428)	-	5,211,204,447
Vehicles	49,844,590	(256,598)	(37,991,923)	-	11,596,069
Furniture and fixtures	16,835,945	(2,209)	(13,398,231)	-	3,435,505
Tools	121,623,909	(36,543)	(98,099,850)	-	23,487,516
Construction in progress	221,896,907	(12,284,510)	-	-	209,612,397
Financial lease assets	1,717,071	-	(1,717,064)	-	7
Other tangible assets	31,330,931	-	(898,366)	-	30,432,565
	₩ 20,482,597,004	(582,640,386)	(3,603,105,984)	(728,111)	16,296,122,523

(*) Some land and buildings of the Group are being provided as collateral for the Group's borrowings.

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For the years ended December 31, 2017 and 2016

17. PROPERTY, TRAINS AND EQUIPMENT, Continued:

(2) Changes in property, trains and equipment for the years ended December 31, 2017 and 2016, are as follows:

		Dec 31, 2017					
(In thousands of won)		Book value as of Jan. 1, 2017	Acquisitions	Disposals	Depreciation	Other(*)	Book value as of Dec. 31, 2017
Land	₩	8,771,659,385	502,074	(28,034,329)	-	1,098,211,133	9,842,338,263
Buildings(*)		1,463,801,403	16,964,518	(16,099,586)	(45,322,107)	11,803,114	1,431,147,342
Structures		173,750,012	6,843,353	(4,530,002)	(10,826,266)	13,486,939	178,724,036
Machinery		389,773,810	39,655,202	(1,269,101)	(55,490,067)	1,129,472	373,799,316
Servers		7,369,409	173,193	-	(1,568,001)	-	5,974,601
Trains		5,211,204,446	369,907,197	(4,677,849)	(397,244,023)	104,068,468	5,283,258,239
Vehicles		11,596,068	21,851,789	(252,310)	(3,003,149)	(12,243,059)	17,949,339
Furniture and fixtures		3,435,505	1,583,108	(693,052)	(967,505)	(5,737)	3,352,319
Tools		23,487,516	13,744,323	(15,020)	(8,294,344)	5,011,510	33,933,985
Construction in progress		209,612,397	158,547,251	(671,126)	-	(210,548,120)	156,940,402
Financial lease assets		7	-	-	-	-	7
Other tangible assets		30,432,565	1,076,593	(152,041)	(485,261)	(340,000)	30,531,856
	₩	<u>16,296,122,523</u>	<u>630,848,601</u>	<u>(56,394,416)</u>	<u>(523,200,723)</u>	<u>1,010,573,720</u>	<u>17,357,949,705</u>

(*) Other increase (decrease) relates to reclassification of assets under construction, payment in kind and assets contribution.

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17. PROPERTY, TRAINS AND EQUIPMENT, Continued:

(2) Changes in property, trains and equipment for the years ended December 31, 2017 and 2016, are as follows, Continued:

(In thousands of won)	Dec 31, 2016						Book value as of Dec. 31, 2016
	Book value as of Jan. 1, 2016	Acquisitions	Disposals	Depreciation	Impairment losses	Other(*)	
Land	₩ 8,629,430,778	2,473,520	(6,888,223)	-	-	146,643,310	8,771,659,385
Buildings(*)	1,432,704,864	(13,762,301)	(1,055,506)	(57,628,159)	-	103,542,505	1,463,801,403
Structures	186,767,867	4,435,778	(2,211,921)	(10,748,922)	(728,111)	(3,764,679)	173,750,012
Machinery	378,800,209	26,595,384	(1,032,941)	(53,591,097)	-	39,002,255	389,773,810
Servers	-	2,067,991	-	(361,870)	-	5,663,288	7,369,409
Trains	4,881,685,174	240,480,696	(2,684,848)	(353,865,364)	-	445,588,788	5,211,204,446
Vehicles	13,452,520	3,465,691	(38,817)	(3,034,475)	-	(2,248,851)	11,596,068
Furniture and fixtures	3,913,883	8,735,951	(45,636)	(9,074,948)	-	(93,745)	3,435,505
Tools	20,063,314	110,579	(6,852)	(67,903)	-	3,388,378	23,487,516
Construction in progress	382,059,440	578,051,651	-	-	-	(750,498,694)	209,612,397
Financial lease assets	7	-	-	-	-	-	7
Other tangible assets	29,043,070	1,481,365	(197,311)	(267,159)	-	372,600	30,432,565
	₩ 15,957,921,126	854,136,305	(14,162,055)	(488,639,897)	(728,111)	(12,404,845)	16,296,122,523

(*) Other increase (decrease) relates to reclassification of assets under construction, payment in kind and assets contribution.

(3) Change of accounting policy

The Group changed its accounting policy for land from the cost model to the revaluation model. The Group believes that the book value of Yongsan station area that the Group has reclaimed as a result of the cancellation of the project should be measured at fair value, as it would provide more reliable and relevant information of the Group's financial position and future cash flows.

The Group requested value assessment to Nara Appraisal & Realty Advisor, the independent and publicly authorized appraisal institutions, to determine the fair value of the land. The fair value is measured based on actual market price, taking into account differences arising from specific assets' characteristics, location and condition of the market, and the date of revaluation is December 31, 2017.

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17. PROPERTY, TRAINS AND EQUIPMENT, Continued:

(3) Change of accounting policy, Continued

As a result of the revaluation, the carrying amount of land and other comprehensive income increased by ₩1,229,222,760 thousand and ₩1,271,285,484 thousand, respectively. Revaluation gain of ₩10,866,885 thousand and revaluation loss of ₩ 52,929,609 thousand were recognized as other income and other expense, respectively.

<i>(In thousands of won)</i>		2017	2016
Beginning balance	₩	3,066,838,081	3,035,037,399
Gain on revaluation of the land		1,271,285,484	36,495,587
Tax effect		(317,829,302)	-
Reclassification of gain on revaluation of assets to retained earnings		(49,670,073)	(4,694,905)
Ending balance	₩	<u>3,970,624,190</u>	<u>3,066,838,081</u>

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18. INVESTMENT PROPERTY:

(1) Investment property as of December 31, 2017 and 2016, is as follows:

		December 31, 2017			Book value
		Acquisition cost	Government grants	Accumulated depreciation	
<i>(In thousands won)</i>					
Land	₩	151,064,716	-	-	151,064,716
Buildings and structure		157,444,828	(379,289)	(30,579,077)	126,486,462
	₩	<u>308,509,544</u>	<u>(379,289)</u>	<u>(30,579,077)</u>	<u>277,551,178</u>
		December 31, 2016			
		Acquisition cost	Government grants	Accumulated depreciation	Book value
<i>(In thousands won)</i>					
Land	₩	65,544,373	-	-	65,544,373
Buildings and structure		132,940,538	(2,068,923)	(29,164,100)	101,707,516
	₩	<u>198,484,911</u>	<u>(2,068,923)</u>	<u>(29,164,100)</u>	<u>167,251,889</u>

KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

18. INVESTMENT PROPERTY, Continued:

(2) Changes in investment property for the years ended December 31, 2017 and 2016, are as follows:

		2017				
<i>(In thousands of won)</i>		Book value as of Jan. 1, 2017	Disposals	Depreciation	Government grants	Other(*)
						Book value as of Dec. 31, 2017
Land	₩	65,544,373	(85,950)	-	-	85,606,293
Buildings and Structures		101,707,516	(613,089)	(2,152,184)	1,661,511	25,882,708
	₩	167,251,889	(699,039)	(2,152,184)	1,661,511	111,489,001
						277,551,178

(*) Other changes represent reclassification of investment property from property, trains and equipment.

		2016				
<i>(In thousands of won)</i>		Book value as of Jan. 1, 2016	Depreciation	Government grants	Other(*)	Book value as of Dec. 31, 2016
Land	₩	242,830,679	-	-	(177,286,306)	65,544,373
Buildings and Structures		60,000,513	(2,749,712)	(174,946)	44,631,661	101,707,516
	₩	302,831,192	(2,749,712)	(174,946)	(132,654,645)	167,251,889

(*) Other changes represent reclassification of investment property from property, trains and equipment.

KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

18. INVESTMENT PROPERTY, Continued:

(3) Income and expense from investment property for the years ended December 31, 2017 and 2016, are as follows:

<i>(In thousands of won)</i>		2017	2016
Rental income	₩	58,482,376	44,831,204
Operating expenses		(2,152,184)	(2,749,712)
	₩	<u>56,330,192</u>	<u>42,081,492</u>

(4) The fair value of investment property as of December 31, 2017 and 2016, are as follows:

<i>(In thousands won)</i>		2017		2016	
		Book value	Fair value	Book value	Fair value
Land	₩	151,064,716	151,064,716	65,544,373	66,665,677
Buildings and structure		<u>126,486,462</u>	<u>126,486,462</u>	<u>101,707,516</u>	<u>101,707,516</u>
	₩	<u>277,551,178</u>	<u>277,551,178</u>	<u>167,251,889</u>	<u>168,373,193</u>

The fair value of investment property (land) as of December 31, 2017, was determined based on the appraisal performed by the independent appraisal institution who are not related to us, Nara Appraisal Co., Ltd, on December 31, 2017. As a member of Korea Appraisal Association, Nara Appraisal Co., Ltd has extensive experience and qualification in connection with the appraisal of real estates in the area. The appraisal was performed in accordance with international standards and the appraisal value was measured based on the market price of the similar real estates.

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For the years ended December 31, 2017 and 2016

19. CONSTRUCTION CONTRACTS:

(1) During the year ended December 31, 2017, changes in outstanding balance of construction contracts are as follows:

<i>(In thousands of won)</i>		Contract price outstanding as of Jan. 1, 2017	Increase	Current construction revenue	Contract price outstanding as of Dec. 31, 2017
Domestic civil engineering works	₩	7,074,536	4,343,459	(7,890,954)	3,527,041

Revenue from new construction contracts increased by ₩4,435,679 thousand (₩20,272,876 thousand in 2016) and revenue from changes in construction contracts increased by ₩92,220 thousand (₩152,698 thousand in 2016).

(2) Details of profit or loss related to the construction contract recognized during the year ended December 31, 2017 and 2016, are as follows:

		2017		
<i>(In thousands of won)</i>		Accumulated revenue of construction	Accumulated cost of construction	Accumulated profit or loss of construction
Domestic civil engineering works	₩	2,466,916	2,197,579	269,337

		2016		
<i>(In thousands of won)</i>		Accumulated revenue of construction	Accumulated cost of construction	Accumulated profit or loss of construction
Domestic civil engineering works	₩	29,555,274	28,043,044	1,512,230

(3) Construction work in progress represents the gross unbilled balance is ₩162,244 thousand, and progress billings exceed costs incurred balance is ₩14,899 thousand at December 31, 2017.

KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

20. GOODWILL:

(1) Goodwill as of December 31, 2017 and 2016, is as follows:

<i>(In thousands of won)</i>		Dec. 31, 2017	Dec. 31, 2016
Acquisition costs	₩	4,095,870	4,095,870
Book value		3,732,906	3,732,906
	₩	<u>7,828,776</u>	<u>7,828,776</u>

(2) There is no change in the current and previous goodwill.

21. INTANGIBLE ASSETS:

(1) Intangible assets as of December 31, 2017 and 2016, are as follows:

<i>(In thousands of won)</i>		December 31, 2017		
		Acquisition cost	Accumulated amortization	Book value
Industrial property rights	₩	456,088	(231,552)	224,536
Development costs		70,628,521	(47,778,694)	22,849,827
Computer software		74,293,196	(57,958,802)	16,334,394
Service operating rights on donated assets		297,663	-	297,663
Other intangible assets		21,396,363	-	21,396,363
Developing intangible assets		116,720	-	116,720
	₩	<u>167,188,551</u>	<u>(105,969,048)</u>	<u>61,219,503</u>

KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

21. INTANGIBLE ASSETS, Continued:

(In thousands of won)		December 31, 2016		
		Acquisition cost	Accumulated amortization	Book value
Industrial property rights	₩	479,058	(231,5530	247,505
Development costs		60,554,851	(45,090,608)	15,464,243
Computer software		74,113,170	(52,982,026)	21,131,144
Service operating rights on donated assets		330,735	-	330,735
Other intangible assets		20,156,498	-	20,156,498
Developing intangible assets		12,489,528	-	12,489,528
	₩	<u>168,123,840</u>	<u>(98,304,187)</u>	<u>69,819,653</u>

(2) Changes in intangible assets for the years ended December 31, 2017 and 2016, are as follows:

(In thousands of won)		2017					
		Industrial property rights	Development costs	Computer software	Service operating rights on donated assets	Other intangible assets	Developing intangible assets
	₩						
Beginning balance		247,506	15,464,242	21,131,144	330,735	20,156,498	12,489,528
Increase		7,499	4,508,657	1,075,669	-	2,246,227	1,802,162
Amortization		(35,376)	(4,624,316)	(6,802,900)	(33,072)	(1,006,362)	-
Other		4,907	7,501,244	930,481	-	-	(14,174,970)
Ending balance	₩	<u>224,536</u>	<u>22,849,827</u>	<u>16,334,394</u>	<u>297,663</u>	<u>21,396,363</u>	<u>116,720</u>

(In thousands of won)		2016					
		Industrial property rights	Development costs	Computer software	Service operating rights on donated assets	Other intangible assets	Developing intangible assets
	₩						
Beginning balance		280,001	7,530,987	18,359,034	363,807	20,189,233	14,050,854
Increase		2,362	-	2,296,596	-	1,003,134	17,867,109
Amortization		(34,857)	(3,117,118)	(5,754,204)	(33,072)	(1,035,869)	-
Other		-	11,050,373	6,229,718	-	-	(19,428,435)
Ending balance	₩	<u>247,506</u>	<u>15,464,242</u>	<u>21,131,144</u>	<u>330,735</u>	<u>20,156,498</u>	<u>12,489,528</u>

KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

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For the years ended December 31, 2017 and 2016

22. TRADE AND OTHER PAYABLES:

Details of trade and other payables as of December 31, 2017 and 2016, are as follows:

<i>(In thousands of won)</i>	December 31, 2017		December 31, 2016	
	Current	Non-current	Current	Non-current
Trade payables	₩ 248,591,590	-	209,077,168	-
Other payables	198,098,735	-	184,707,613	-
Accrued expense	299,878,503	-	225,408,483	-
Other		39,357,277	-	32,754,691
	₩ 746,568,828	39,357,277	619,193,264	32,754,691

KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

23. FINANCIAL LIABILITIES:

(1) Financial liabilities as of December 31, 2017 and 2016, are as follows:

(In thousands of won)

		December 31, 2017	December 31, 2016
Current liabilities:			
Short-term borrowings	₩	7,999,991	10,448,562
Current portion of long-term borrowings		55,000,000	31,300,000
Current bonds		1,372,390,750	1,862,550,000
Deduct: Bond issuance discount		(1,228,214)	(437,822)
Subtotal		1,434,162,527	1,903,860,740
Non-current liabilities:			
Long-term borrowings		61,000,000	116,000,000
Deduct: Present value discount		(178,062)	(216,790)
Bonds		10,317,932,870	9,560,429,700
Deduct: Bond issuance discount		(2,401,464)	(4,025,428)
Subtotal		10,376,353,344	9,672,187,482
	₩	11,810,515,871	11,576,048,222

(2) Short-term borrowings as of December 31, 2017 and 2016, are as follows:

(In thousands of won)

	Type of borrowings	Interest rate	Dec 31, 2017	Dec. 31, 2016
NH Bank	Working fund borrowing	2.27% ₩	-	6,400,000
NH Bank	Working fund borrowing	2.61%	1,700,000	-
Hana Bank	Working fund borrowing	4.83%	-	395,000
Hana Bank	Working fund borrowing	4.42%	-	1,500,000
Hana Bank	Working fund borrowing	4.64%	1,500,000	-
KB Bank	Working fund borrowing	4.13%	-	208,562
KB Bank	Working fund borrowing	3.50%	1,000,000	-
KB Bank	Working fund borrowing	3.50%	1,980,000	-
Woori Bank	Working fund borrowing	3.82%	-	950,000
Woori Bank	Working fund borrowing	3.65%	900,000	-
Woori Bank	Working fund borrowing	3.65%	919,991	-
Woori Bank	Other fund borrowing	3.81%	-	995,000
		₩	7,999,991	10,448,562

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23. FINANCIAL LIABILITIES, Continued:

(3) Long-term borrowings as of December 31, 2017 and 2016, are as follows:

(In thousands of won)	Type of borrowings	Interest rate	Maternity	December 31, 2017	
				Borrowings denominated in foreign currency	Borrowings denominated in won
Ministry of Strategy and Finance	Public management fund financing	Variable(*)	2020	-	90,000,000
Korea workers' compensation and welfare Service	Financing on foundation of day care center in workplace	2.00%	2023	-	1,000,000
Woori Bank	Facility fund debt	5.55%	2017	-	-
NH Bank	Facility fund debt	2.13%	2018	-	25,000,000
	Subtotal			-	116,000,000
	Less: reclassified to current borrowings			-	(55,000,000)
				-	61,000,000

(*) 3 years Treasury bonds interest-50bp

(In thousands of won)	Type of borrowings	Interest rate	Maternity	December 31, 2016	
				Borrowings denominated in foreign currency	Borrowings denominated in Won
Ministry of Strategy and Finance	Public management fund financing	Variable(*)	2020	-	120,000,000
Korea workers' compensation and welfare Service	Financing on foundation of day care center in workplace	2.00%	2023	-	1,000,000
Woori Bank	Facility fund debt	5.55%	2017	-	1,300,000
NH Bank	Facility fund debt	2.13%	2018	-	25,000,000
	Subtotal			-	147,300,000
	Less: reclassified to current borrowings			-	(31,300,000)
				-	116,000,000

(*) 3 years Treasury bonds interest-50bp

KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

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For the years ended December 31, 2017 and 2016

23. FINANCIAL LIABILITIES, Continued:

(4) Bonds as of December 31, 2017 and 2016, are as follows:

(In thousands of won)	Interest rate	Maturity	December 31, 2017	
			Borrowings denominated in foreign currency	Borrowings denominated in won
Foreign public bond4	CHF 1.00%	2018-11-16	CHF 300,000,000	328,416,000
Foreign public bond6	CHF 1.50%	2019-12-02	CHF 315,000,000	344,836,800
Foreign public bond8	SGD 1.76%	2018-09-04	SGD 65,000,000	52,040,950
Foreign public bond10	AUD BBSW(3M)+0.85%	2018-08-13	AUD 55,000,000	45,933,800
Foreign public bond11	LIBOR(3M)+0.70%	2019-06-20	USD 200,000,000	214,280,000
Foreign public bond12	AUD 4.11%	2032-04-26	AUD 50,000,000	41,758,000
Foreign public bond13	HKD 2.60%	2023-05-25	HKD 921,000,000	126,241,470
Foreign public bond14	SEK 2.31%	2032-05-26	SEK 300,000,000	38,970,000
Foreign public bond15	CAD 3.07%	2037-06-07	CAD 110,000,000	93,795,900
Foreign public bond16	EUR 1.89%	2037-06-09	EUR 50,000,000	63,962,500
Foreign public bond17	SGD 1.73%	2020-11-29	SGD 140,000,000	112,088,200
Korea Railroad Corporation48	5.25%	2019-04-15	-	103,000,000
Korea Railroad Corporation50	5.29%	2018-05-14	-	150,000,000
Korea Railroad Corporation52	5.67%	2019-09-03	-	140,000,000
Korea Railroad Corporation53	5.67%	2019-09-17	-	122,000,000
Korea Railroad Corporation58	5.69%	2018-10-29	-	117,000,000
Korea Railroad Corporation60	5.45%	2020-02-04	-	150,000,000
Korea Railroad Corporation61	5.43%	2020-02-17	-	190,000,000
Korea Railroad Corporation65	5.12%	2020-04-27	-	50,000,000
Korea Railroad Corporation67	5.24%	2020-05-13	-	160,000,000
Korea Railroad Corporation68	5.19%	2018-05-25	-	180,000,000
Korea Railroad Corporation71	4.66%	2020-08-23	-	110,000,000
Korea Railroad Corporation76	5.03%	2021-02-17	-	150,000,000
Korea Railroad Corporation78	4.40%	2018-03-17	-	40,000,000
Korea Railroad Corporation79	4.67%	2021-04-08	-	100,000,000
Korea Railroad Corporation82	4.27%	2026-08-08	-	120,000,000
Korea Railroad Corporation83	4.10%	2021-08-23	-	80,000,000
Korea Railroad Corporation84	4.06%	2026-09-06	-	100,000,000
Korea Railroad Corporation88	4.17%	2021-11-08	-	170,000,000
Korea Railroad Corporation89	4.00%	2022-02-24	-	130,000,000
Korea Railroad Corporation90	4.26%	2027-03-19	-	130,000,000
Korea Railroad Corporation92	4.09%	2027-04-23	-	200,000,000
Korea Railroad Corporation93	3.84%	2022-05-22	-	190,000,000
Korea Railroad Corporation95	3.12%	2019-07-26	-	110,000,000
Korea Railroad Corporation96	3.16%	2027-09-11	-	90,000,000
Korea Railroad Corporation98	3.06%	2022-10-09	-	130,000,000
Korea Railroad Corporation99	3.12%	2027-10-18	-	100,000,000
Korea Railroad Corporation102	3.20%	2023-02-07	-	100,000,000
Korea Railroad Corporation106	4.04%	2033-09-06	-	90,000,000

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<i>(In thousands of won)</i>	Interest rate	Maturity	Borrowings denominated in foreign currency	Borrowings denominated in won
Korea Railroad Corporation107	3.62%	2023-09-26	-	100,000,000
Korea Railroad Corporation110	3.68%	2023-10-29	-	50,000,000
Korea Railroad Corporation111	3.48%	2018-11-08	-	80,000,000
Korea Railroad Corporation114	3.89%	2024-01-15	-	110,000,000
Korea Railroad Corporation115	3.57%	2019-01-15	-	90,000,000
Korea Railroad Corporation116	3.52%	2019-01-24	-	121,000,000
Korea Railroad Corporation118	3.81%	2034-02-17	-	40,000,000
Korea Railroad Corporation119	3.41%	2019-03-06	-	70,000,000
Korea Railroad Corporation120	3.22%	2018-03-12	-	70,000,000
Korea Railroad Corporation121	3.82%	2029-03-12	-	60,000,000
Korea Railroad Corporation122	3.36%	2019-03-19	-	70,000,000
Korea Railroad Corporation123	3.70%	2024-03-19	-	40,000,000
Korea Railroad Corporation125	3.68%	2024-03-31	-	60,000,000
Korea Railroad Corporation126	3.40%	2019-04-04	-	130,000,000
Korea Railroad Corporation127	3.30%	2018-10-16	-	180,000,000
Korea Railroad Corporation128	3.84%	2034-04-18	-	50,000,000
Korea Railroad Corporation129	3.39%	2019-04-23	-	184,000,000
Korea Railroad Corporation130	3.70%	2024-04-29	-	100,000,000
Korea Railroad Corporation131	3.16%	2018-05-14	-	129,000,000
Korea Railroad Corporation132	3.62%	2024-05-14	-	70,000,000
Korea Railroad Corporation133	3.55%	2024-05-21	-	70,000,000
Korea Railroad Corporation135	3.52%	2024-06-10	-	150,000,000
Korea Railroad Corporation136	3.26%	2024-07-04	-	150,000,000
Korea Railroad Corporation137	3.25%	2029-07-24	-	150,000,000
Korea Railroad Corporation138	2.93%	2029-10-28	-	100,000,000
Korea Railroad Corporation139	2.86%	2026-11-12	-	220,000,000
Korea Railroad Corporation140	2.79%	2024-11-25	-	200,000,000
Korea Railroad Corporation141	2.07%	2036-03-08	-	200,000,000
Korea Railroad Corporation142	1.79%	2023-04-11	-	150,000,000
Korea Railroad Corporation143	1.98%	2036-04-26	-	110,000,000
Korea Railroad Corporation144	1.47%	2026-08-01	-	100,000,000
Korea Railroad Corporation145	1.57%	2036-08-09	-	70,000,000
Korea Railroad Corporation146	1.56%	2036-08-26	-	150,000,000
Korea Railroad Corporation147	1.64%	2021-10-27	-	60,000,000
Korea Railroad Corporation148	1.88%	2046-10-27	-	70,000,000
Korea Railroad Corporation149	1.94%	2046-11-03	-	40,000,000
Korea Railroad Corporation150	1.62%	2019-11-08	-	152,000,000
Korea Railroad Corporation151	2.39%	2046-11-23	-	130,000,000
Korea Railroad Corporation152	2.35%	2046-12-06	-	150,000,000
Korea Railroad Corporation153	2.14%	2021-12-12	-	70,000,000
Korea Railroad Corporation154	1.99%	2022-02-09	-	200,000,000
Korea Railroad Corporation155	2.40%	2047-03-03	-	70,000,000
Korea Railroad Corporation156	2.11%	2022-03-07	-	150,000,000

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<i>(In thousands of won)</i>	Interest rate	Maturity	Borrowings denominated in foreign currency	Borrowings denominated in won
Korea Railroad Corporation157	2.40%	2047-03-21	-	140,000,000
Korea Railroad Corporation158	1.81%	2020-03-27	-	230,000,000
Korea Railroad Corporation159	2.49%	2047-04-12	-	150,000,000
Korea Railroad Corporation160	2.12%	2023-04-17	-	120,000,000
Korea Railroad Corporation161	2.38%	2047-07-20	-	80,000,000
Korea Railroad Corporation162	2.37%	2037-07-24	-	130,000,000
Korea Railroad Corporation163	2.31%	2027-07-25	-	70,000,000
Korea Railroad Corporation164	2.44%	2037-08-08	-	150,000,000
Korea Railroad Corporation165	2.38%	2047-09-12	-	150,000,000
Korea Railroad Corporation166	2.37%	2037-09-19	-	50,000,000
Korea Railroad Corporation167	2.38%	2047-09-19	-	50,000,000
Korea Railroad Corporation168	2.59%	2047-10-30	-	40,000,000
Korea Railroad Corporation169	2.65%	2037-11-09	-	160,000,000
Korea Railroad Corporation170	2.58%	2022-11-23	-	150,000,000
Korea Railroad Corporation171	2.55%	2047-12-15	-	150,000,000
Bond issuance	Average of interest+2bp	2021-06-28	-	90,000,000
Bond issuance	Average of interest-3bp	2023-06-28	-	100,000,000
		KRW	-	10,228,000,000,000
		USD	200,000,000	214,280,000,000
		CHF	615,000,000	673,252,800,000
		SGD	205,000,000	164,129,150,000
Subtotal		AUD	105,000,000	87,691,800,000
		HKD	921,000,000	126,241,470,000
		SEK	300,000,000	38,970,000,000
		CAD	110,000,000	93,795,900,000
		EUR	50,000,000	63,962,500,000
		KRW	-	946,000,000,000
		USD	-	-
Deduct: reclassified to current borrowings		CHF	300,000,000	328,416,000
		SGD	65,000,000	52,040,950
		AUD	55,000,000	45,933,800
		Total	-	1,372,390,750
		KRW	-	9,282,000,000
		USD	200,000,000	214,280,000
		CHF	315,000,000	344,836,800
		SGD	140,000,000	112,088,200
		AUD	50,000,000	41,758,000
Total		HKD	921,000,000	126,241,470
		SEK	300,000,000	38,970,000
		CAD	110,000,000	93,795,900
		EUR	50,000,000	63,962,500
		KRW	-	10,317,932,870

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<i>(In thousands of won)</i>	Interest rate	Maturity	December 31, 2016	
			Borrowings denominated in foreign currency	Borrowings denominated in won
Korea Railroad Corporation48	5.25%	2019-04-15	-	110,000,000
Korea Railroad Corporation50	5.29%	2018-05-14	-	150,000,000
Korea Railroad Corporation52	5.67%	2019-09-03	-	150,000,000
Korea Railroad Corporation53	5.67%	2019-09-17	-	130,000,000
Korea Railroad Corporation54	5.61%	2017-09-24	-	150,000,000
Korea Railroad Corporation58	5.69%	2018-10-29	-	120,000,000
Korea Railroad Corporation60	5.45%	2020-02-04	-	150,000,000
Korea Railroad Corporation61	5.43%	2020-02-17	-	200,000,000
Korea Railroad Corporation63	5.03%	2017-04-15	-	150,000,000
Korea Railroad Corporation65	5.12%	2020-04-27	-	50,000,000
Korea Railroad Corporation67	5.24%	2020-05-13	-	160,000,000
Korea Railroad Corporation68	5.19%	2018-05-25	-	200,000,000
Korea Railroad Corporation71	4.66%	2020-08-23	-	150,000,000
Korea Railroad Corporation74	4.53%	2017-11-11	-	150,000,000
Korea Railroad Corporation76	5.03%	2021-02-17	-	150,000,000
Korea Railroad Corporation78	4.40%	2018-03-17	-	100,000,000
Korea Railroad Corporation79	4.67%	2021-04-08	-	100,000,000
Korea Railroad Corporation82	4.27%	2026-08-08	-	120,000,000
Korea Railroad Corporation83	4.10%	2021-08-23	-	80,000,000
Korea Railroad Corporation84	4.06%	2026-09-06	-	100,000,000
Korea Railroad Corporation88	4.17%	2021-11-08	-	170,000,000
Korea Railroad Corporation89	4.00%	2022-02-24	-	130,000,000
Korea Railroad Corporation90	4.26%	2027-03-19	-	130,000,000
Korea Railroad Corporation91	3.94%	2017-04-05	-	200,000,000
Korea Railroad Corporation92	4.09%	2027-04-23	-	200,000,000
Korea Railroad Corporation93	3.84%	2022-05-22	-	190,000,000
Korea Railroad Corporation95	3.12%	2019-07-26	-	130,000,000
Korea Railroad Corporation96	3.16%	2027-09-11	-	90,000,000
Korea Railroad Corporation97	3.08%	2017-09-26	-	130,000,000
Korea Railroad Corporation98	3.06%	2022-10-09	-	130,000,000
Korea Railroad Corporation99	3.12%	2027-10-18	-	100,000,000
Foreign public bond4	CHF 1.00%	2018-11-16	CHF 300,000,000	354,399,000
Korea Railroad Corporation101	2.95%	2017-01-17	-	120,000,000
Korea Railroad Corporation102	3.20%	2023-02-07	-	100,000,000
Korea Railroad Corporation106	4.04%	2033-09-06	-	90,000,000
Korea Railroad Corporation107	3.62%	2023-09-26	-	100,000,000
Korea Railroad Corporation110	3.68%	2023-10-29	-	50,000,000
Korea Railroad Corporation111	3.48%	2018-11-08	-	90,000,000
Foreign public bond6	CHF 1.50%	2019-12-02	CHF 315,000,000	372,118,950

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<i>(In thousands of won)</i>	Interest rate	Maturity	Borrowings denominated in foreign currency	Borrowings denominated in won
Korea Railroad Corporation114	3.89%	2024-01-15	-	110,000,000
Korea Railroad Corporation115	3.57%	2019-01-15	-	100,000,000
Korea Railroad Corporation116	3.52%	2019-01-24	-	150,000,000
Korea Railroad Corporation117	3.11%	2017-02-10	-	250,000,000
Korea Railroad Corporation118	3.81%	2034-02-17	-	40,000,000
Foreign public bond7	LIBOR(3M)+0.70%	2017-02-28	USD 200,000,000	241,700,000
Korea Railroad Corporation119	3.41%	2019-03-06	-	100,000,000
Korea Railroad Corporation120	3.22%	2018-03-12	-	80,000,000
Korea Railroad Corporation121	3.82%	2029-03-12	-	60,000,000
Korea Railroad Corporation122	3.36%	2019-03-19	-	90,000,000
Korea Railroad Corporation123	3.70%	2024-03-19	-	40,000,000
Korea Railroad Corporation124	3.10%	2017-03-27	-	200,000,000
Korea Railroad Corporation125	3.68%	2024-03-31	-	60,000,000
Korea Railroad Corporation126	3.40%	2019-04-04	-	150,000,000
Korea Railroad Corporation127	3.30%	2018-10-16	-	200,000,000
Korea Railroad Corporation128	3.84%	2034-04-18	-	50,000,000
Korea Railroad Corporation129	3.39%	2019-04-23	-	200,000,000
Korea Railroad Corporation130	3.70%	2024-04-29	-	100,000,000
Korea Railroad Corporation131	3.16%	2018-05-14	-	140,000,000
Korea Railroad Corporation132	3.62%	2024-05-14	-	70,000,000
Korea Railroad Corporation133	3.55%	2024-05-21	-	70,000,000
Korea Railroad Corporation134	3.00%	2017-05-26	-	150,000,000
Korea Railroad Corporation135	3.52%	2024-06-10	-	150,000,000
Korea Railroad Corporation136	3.26%	2024-07-04	-	150,000,000
Korea Railroad Corporation137	3.25%	2029-07-24	-	150,000,000
Foreign public bond8	SGD 1.76%	2018-09-04	SGD 65,000,000	54,249,000
Foreign public bond9	LIBOR(3M)+0.55%	2017-09-18	USD 100,000,000	120,850,000
Korea Railroad Corporation138	2.93%	2029-10-28	-	100,000,000
Korea Railroad Corporation139	2.86%	2026-11-12	-	220,000,000
Foreign public bond10	AUD BBSW(3M)+0.85%	2018-08-13	AUD 55,000,000	47,962,750
Korea Railroad Corporation140	2.79%	2024-11-25	-	200,000,000
Foreign public bond11	LIBOR(3M)+0.70%	2019-06-20	USD 200,000,000	241,700,000
Korea Railroad Corporation141	2.07%	2036-03-08	-	200,000,000
Korea Railroad Corporation142	1.79%	2023-04-11	-	150,000,000

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<i>(In thousands of won)</i>	Interest rate	Maturity	Borrowings denominated in foreign currency	Borrowings denominated in won
Korea Railroad Corporation143	1.98%	2036-04-26	-	110,000,000
Korea Railroad Corporation144	1.47%	2026-08-01	-	100,000,000
Korea Railroad Corporation145	1.57%	2036-08-09	-	70,000,000
Korea Railroad Corporation146	1.56%	2036-08-26	-	150,000,000
Korea Railroad Corporation147	1.64%	2021-10-27	-	60,000,000
Korea Railroad Corporation148	1.88%	2046-10-27	-	70,000,000
Korea Railroad Corporation149	1.94%	2046-11-03	-	40,000,000
Korea Railroad Corporation150	1.62%	2019-11-08	-	300,000,000
Korea Railroad Corporation151	2.39%	2046-11-23	-	130,000,000
Korea Railroad Corporation152	2.35%	2046-12-06	-	150,000,000
Korea Railroad Corporation153	2.14%	2021-12-12	-	70,000,000
Bond issuance	Average of interest+2bp	2021-06-28	-	90,000,000
Bond issuance	Average of interest-3bp	2023-06-28	-	100,000,000
		KRW	-	9,990,000,000
		USD	500,000,000	604,250,000
Subtotal		CHF	615,000,000	726,517,950
		SGD	65,000,000	54,249,000
		AUD	55,000,000	47,962,750
Deduct: reclassified to current borrowings		KRW	-	1,500,000,000
		USD	300,000,000	362,550,000
		KRW	-	8,490,000,000
		USD	200,000,000	241,700,000
		CHF	615,000,000	726,517,950
Total		SGD	65,000,000	54,249,000
		AUD	55,000,000	47,962,750
		KRW	-	9,560,429,700

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For the years ended December 31, 2017 and 2016

24. OTHER FINANCIAL LIABILITIES:

Other Financial Liabilities as of December 31, 2017 and 2016, are as follows:

(In thousands of won)	December 31, 2017		December 31, 2016	
	Current	Non-current	Current	Non-current
Other financial liabilities(*) ₩	-	147,500,000	-	147,600,000

(*) Regarding the capital increase of SR Co., Ltd., the Group's subsidiary, the Group may have to purchase stocks from non-controlling interest of SR Co., Ltd. at the purchasing amount, plus annual compound interest of 5.6% from 3 years and 6 months to 8 years and 6 months after the date of capital increase. The Group recognizes the present value of the repayment related to this transaction as financial liability.

25. FINANCE LEASE LIABILITIES:

(1) The Group maintains finance lease agreement with Lotte Capital Corporation for the usage of tools and equipment, and recognizes assets and liabilities related to the lease agreements.

(2) Details of assets under the finance lease are as follows:

(In thousands of won)	December 31, 2017		December 31, 2016	
	Tools and equipment		Tools and equipment	
Acquisition cost ₩	1,717,071		1,717,071	
Accumulated depreciation	(1,717,064)		(1,717,064)	
Carrying amounts ₩	7		7	

KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

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For the years ended December 31, 2017 and 2016

26. EMPLOYEE BENEFITS:

(1) Defined contribution plan

The Group operates a defined contribution plan for employees of Korea Railroad Corporation, KORAIL Networks Co., Ltd., KORAIL Logis Co., Ltd. and KORAIL Tech Co., Ltd. Plan assets are operated independently from the Group's other assets in the form of funds.

Total expense included in the consolidated statement of comprehensive loss for the year ended December 31, 2017, amounting to ₩3,734,646 thousand (2016: ₩4,425,672 thousand), which represents the contributions to the retirement benefit plan according to the ratio pursuant to retirement benefit plan.

Expense presented above is recognized in the consolidated statements of comprehensive loss as follows:

<i>(In thousands of won)</i>		2017	2016
Cost of sales	₩	1,977,558	4,044,436
Selling, general and administrative expense		1,757,088	381,236
	₩	<u>3,734,646</u>	<u>4,425,672</u>

(2) Defined benefits retirement plan

The Group operates a defined benefit retirement plan for all other employees who do not participate in the defined contribution plan.

The major actuarial calculation of the plan asset and the defined benefit retirement liabilities was performed by HMC INVESTMENT SECURITIES CO., LTD. whose report was dated December 31, 2017. Present value of defined benefit liabilities, current service costs and past service costs are calculated using the projected credit method.

KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

26. EMPLOYEE BENEFITS, Continued:

(2) Defined benefits retirement plan, Continued

(i) The component of defined benefit liabilities as of December 31, 2017 and 2016, is as follows:

<i>(In thousands of won)</i>		Dec. 31, 2017	Dec. 31, 2016
Present value of defined benefit obligations	₩	937,288,825	811,869,226
Fair value of plan assets		(73,720,165)	(64,914,443)
Recognized as defined benefit liabilities in the consolidated statement of financial position	₩	863,568,660	746,954,783

(ii) Changes in defined benefit liabilities for the years ended December 31, 2017 and 2016, are as follows:

<i>(In thousands of won)</i>		2017	2016
Beginning balance	₩	811,869,226	838,053,652
Current service costs		138,385,462	144,817,157
Interests		24,695,870	24,659,312
Actuarial gains or losses		11,644,548	(96,987,334)
Gain due to calculation adjustment		18,410,658	-
Benefit paid		(68,982,495)	(99,845,397)
Other		1,265,556	1,171,836
Ending balance	₩	937,288,825	811,869,226

(iii) Changes in plan assets for the years ended December 31, 2017 and 2016, are as follows:

<i>(In thousands of won)</i>		2017	2016
Beginning balance	₩	64,914,443	43,862,222
Expected return on plan assets		1,332,162	793,057
Actuarial gains or losses		(954,602)	(266,359)
Benefit paid by the plan		(5,565,820)	(5,204,219)
Contribution paid into the plan		13,507,376	14,605,622
Employee contribution		-	11,124,120
Other		486,606	-
Ending balance	₩	73,720,165	64,914,443

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For the years ended December 31, 2017 and 2016

26. EMPLOYEE BENEFITS, Continued:

(2) Defined benefits retirement plan, Continued

(iv) Expense recognized in profit or loss

(In thousands of won)

		2017	2016
Current service costs	₩	138,385,462	144,817,157
Interests		24,695,870	24,659,312
Expected return on plan assets		(1,332,162)	(793,057)
Gain due to calculation adjustment		18,410,658	-
	₩	<u>180,159,828</u>	<u>168,683,412</u>

Expense presented above is recognized in the consolidated statements of comprehensive loss as follows:

(In thousands of won)

		2017	2016
Cost of sales	₩	165,269,582	154,152,708
Selling, general and administrative expense		14,890,246	14,530,704
	₩	<u>180,159,828</u>	<u>168,683,412</u>

(v) Remeasurement factors recognized in other comprehensive income for the years ended December 31, 2017 and 2016, are as follows:

(In thousands of won)

		2017	2016
Actuarial gain (loss)	₩	(11,644,548)	96,987,334
Interests of plan assets		(954,602)	(266,359)
		(12,599,150)	96,720,975
Tax effect		-	(281,767)
	₩	<u>(12,599,150)</u>	<u>96,439,208</u>

Remeasurement factors were directly reclassified to retained earnings in the consolidated statement of financial position.

KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

26. EMPLOYEE BENEFITS, Continued:

(2) Defined benefits retirement plan, Continued

(vi) Plan assets details:

<i>(In thousands of won)</i>		<u>December 31, 2017</u>	<u>December 31, 2016</u>
Cash and cash equivalents	₩	73,720,165	64,914,443

(vii) Principal actuarial assumptions at the reporting date.

<i>(In thousands of won)</i>		<u>December 31, 2017</u>	<u>December 31, 2016</u>
Discount rate (expected return on plan assets)		3.62%	3.23%
Future salary increases		3.64%	3.76%

As for the defined benefit liabilities and plan assets, the Group applied market yield of A-rated corporate bonds (Public offering, unsecured : AA0).

KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

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27. PROVISIONS:

(1) Provisions as of December 31, 2017 and 2016, are as follows:

(In thousands of won)	2017		2016	
	Current	Non-current	Current	Non-current
Provision for employee benefits(*1) ₩	389,822,573	313,490,863	206,980,388	-
Warranty provision	-	358,128	-	372,487
Provision for pending litigations	-	8,584,909	-	12,063,355
Provisions for recovery(*2)	-	186,115,464	-	183,347,064
Provisions for others	-	100,000	-	88,272
	₩ 389,822,573	508,649,364	206,980,388	195,871,178

(*1) The Group has recognized provisions for the provision of retroactive claims for the provision of work in the past period based on the assumption that the prescribed allowances are subject to normal wage recognition.

(*2) As the Group is obligated to restore contamination of lands in use, the Group recognizes the future expenditure amount as provisions for losses incurred during construction every year. Above provisions for recovery include estimations on additional burden in the Group's recovery that resulted in the cancelation of development project for Yongsan Station area that took place in the year ended December 31, 2013.

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For the years ended December 31, 2017 and 2016

27. PROVISIONS, Continued:

(2) Changes in provisions for the years ended December 31, 2017 and 2016, are as follows:

(In thousands of won)	2017						Ending balance
	Beginning balance	Increase	Used	Reversal	Liquidity substitution	Others	
Provision for employee benefits	₩ 206,980,388	536,260,557	(206,980,388)	-	167,052,880	-	703,313,437
Warranty provision	372,487	185,749	(200,108)	-	-	-	358,128
Provision for pending litigations	12,063,355	96,976	-	(3,575,421)	-	-	8,584,909
Provision for restoration	183,347,064	5,079,004	-	(8,174,445)	-	5,863,840	186,115,464
Provisions for others	88,272	-	(88,272)	-	-	100,000	100,000
	<u>₩ 402,851,566</u>	<u>541,622,286</u>	<u>(207,268,768)</u>	<u>(11,749,866)</u>	<u>167,052,880</u>	<u>5,963,840</u>	<u>898,471,938</u>

(In thousands of won)	2016						Ending balance
	Beginning balance	Increase	Used	Reversal	Others		
₩							
Provision for employee benefits	163,173,475	206,980,388	(163,173,475)	-	-	-	206,980,388
Warranty provision	317,327	176,622	(121,462)	-	-	-	372,487
Provision for pending litigations	2,197,865	11,951,766	-	(2,086,275)	-	-	12,063,356
Provision for restoration	208,235,581	-	-	(30,784,903)	5,896,385	-	183,347,063
Provisions for others	-	88,272	-	-	-	-	88,272
	<u>₩ 373,924,248</u>	<u>219,197,048</u>	<u>(163,294,937)</u>	<u>(32,871,178)</u>	<u>5,896,385</u>		<u>402,851,566</u>

KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

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28. GOVERNMENT GRANTS:

(1) Accounting treatment for government grants

In accordance with Korean Government-owned and Quasi-government Accounting Regulation and Standards, government grants used for the acquisition of certain assets are deducted from the acquisition cost of the acquired assets and such grants are offset against the depreciation expenses of the acquired assets during the useful lives of the assets.

(2) Government grants as of December 31, 2017 and 2016, are as follows:

<i>(In thousands of won)</i>		December 31, 2017	December 31, 2016
Cash and cash equivalents	₩	(63,512,513)	(68,713,017)
Supplies		(65,160,755)	(56,344,234)
Prepayment		(6,584,210)	(5,140,300)
Land		(6,598,459)	(6,598,459)
Buildings		(103,574,407)	(104,178,832)
Structures		(9,553,995)	(8,417,758)
Machinery		(72,849,761)	(85,801,076)
Trains		(339,673,654)	(365,064,401)
Vehicles		(98)	(256,598)
Tools		(1,360)	(36,543)
Fixtures		(8,626)	(2,209)
Construction in progress		(11,688,993)	(12,284,510)
Investment property (buildings)		(379,289)	(2,068,923)
	₩	(679,586,120)	(714,906,860)

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Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

28. GOVERNMENT GRANTS, Continued:

(3) Changes in government grants for the year ended as of December 31, 2017 and 2016, are as follows:

(In thousands of won)	2017							
	Book value as of Jan. 1, 2017	Receipt	Acquisition of assets	Offsetting with depreciation cost	Disposal	Recognize revenue	Other(*)	Book value as of Dec. 31, 2017
Cash and cash equivalents ₩	(68,713,017)	(299,717,042)	1,507,751	-	-	301,157,793	2,252,002	(63,512,513)
Supplies	(56,344,234)	(245,064,225)	-	-	-	-	236,247,704	(65,160,755)
Prepayment	(5,140,300)	(83,096,688)	-	-	-	-	81,652,778	(6,584,210)
Land	(6,598,459)	-	-	-	-	-	-	(6,598,459)
Buildings	(104,178,832)	(316,156)	-	2,538,040	5,558	-	(1,623,017)	(103,574,407)
Structures	(8,417,758)	(1,650,741)	-	440,148	74,356	-	-	(9,553,995)
Machinery	(85,801,076)	-	-	12,950,389	926	-	-	(72,849,761)
Trains	(365,064,401)	-	-	25,249,515	141,232	-	-	(339,673,654)
Vehicles	(256,598)	-	-	-	256,500	-	-	(98)
Tools	(36,543)	-	-	35,043	140	-	-	(1,360)
Fixture	(2,209)	(8,150)	-	1,733	-	-	-	(8,626)
Construction in progress	(12,284,510)	(1,294,203)	-	-	1,889,720	-	-	(11,688,993)
Investment property (buildings)	(2,068,923)	-	-	28,124	32,470	-	1,629,040	(379,289)
₩	<u>(714,906,860)</u>	<u>(631,147,205)</u>	<u>1,507,751</u>	<u>41,242,992</u>	<u>2,400,902</u>	<u>301,157,793</u>	<u>320,158,507</u>	<u>(679,586,120)</u>

(*) Other increase and decrease is based on the account substitution caused by the acquisition of each asset item.

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28. GOVERNMENT GRANTS, Continued:

(3) Changes in government grants for the year ended as of December 31, 2017 and 2016, are as follows, Continued:

(In thousands of won)	2016							
	Book value as of Jan. 1, 2016	Receipt	Acquisition of assets	Offsetting with depreciation cost	Disposal	Recognize revenue	Other(*)	Book value as of Dec. 31, 2016
Cash and cash equivalents ₩	(116,190,367)	(359,770,689)	51,977,998	-	-	351,999,918	3,270,123	(68,713,017)
Supplies	(54,351,104)	(277,871,710)	-	-	-	-	275,878,580	(56,344,234)
Prepayment	(3,809,413)	(70,599,712)	-	-	-	-	69,268,825	(5,140,300)
Land	(6,526,056)	(72,403)	-	-	-	-	-	(6,598,459)
Buildings	(81,118,815)	(22,970,728)	-	2,420,102	4,621	-	(2,514,012)	(104,178,832)
Structures	(6,747,135)	(1,664,324)	(374,452)	357,065	10,490	-	598	(8,417,758)
Machinery	(98,807,082)	(169,316)	-	13,119,955	53,793	-	1,574	(85,801,076)
Trains	(364,110,309)	(25,814,000)	-	24,859,908	-	-	-	(365,064,401)
Vehicles	(416,098)	-	-	112,000	47,500	-	-	(256,598)
Tools	(107,435)	(1,853)	-	72,745	-	-	-	(36,543)
Fixture	(2,856)	-	-	647	-	-	-	(2,209)
Construction in progress	(14,441,312)	-	(979,641)	-	-	-	3,136,443	(12,284,510)
Investment property (buildings)	(1,893,977)	-	-	54,170	-	-	(229,116)	(2,068,923)
₩	(748,521,959)	(758,934,735)	50,623,905	40,996,592	116,404	351,999,918	348,813,015	(714,906,860)

(*) Other increase and decrease is based on the account substitution caused by the acquisition of each asset item.

(4) Revenues from government grants for the years ended December 31, 2017 and 2016, are as follows:

(In thousands of won)	2017	2016
Revenues from government grants ₩	301,157,793	351,999,918
Others	41,242,992	40,996,592
₩	342,400,785	392,996,510

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29. OTHER NON-FINANCIAL LIABILITIES:

Non-financial liabilities as of December 31, 2017 and 2016, are as follows:

<i>(In thousands of won)</i>	December 31, 2017		December 31, 2016	
	Current	Non-current	Current	Non-current
Advance payments	₩ 94,112,714	321,686	39,894,062	411,216
Unearned revenues	66,944,194	13,545,567	44,819,494	13,325,229
Withholding	66,584,463	-	88,473,155	-
Due to customer for contract work	-	14,899	-	772,270
Other	31,465,361	-	4,614,620	-
	₩ 259,106,732	13,882,152	177,801,331	14,508,715

30. SHARE CAPITAL:

(1) Share capital as of December 31, 2017 and 2016, is as follows:

<i>(In thousands of won)</i>	December 31, 2017	December 31, 2016
Subscription certificate(*)	₩ 10,250,984,991	10,108,884,991
Discount stock issuance	(4,647,052)	(4,854,007)
Contributed capital	₩ 10,246,337,939	10,104,030,984

(*) 100% of the Group's equity is contributed by the Korean government.

(2) Changes in subscription certificate issued for the years ended December 31, 2017 and 2016, are as follows:

<i>(In thousands of won)</i>	December 31, 2017	December 31, 2016
Beginnings balance	₩ 10,108,884,991	9,994,028,991
Issue of equity	142,100,000	114,856,000
Ending balance	₩ 10,250,984,991	10,108,884,991

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30. SHARE CAPITAL, Continued:

(3) Discount on subscription certificate issued as of December 31, 2017 and 2016, is as follows:

<i>(In thousands of won)</i>		December 31, 2017	December 31, 2016
Beginnings balance	₩	(4,991,513)	(4,991,513)
Issue of equity		206,955	-
Other		137,506	-
Ending balance	₩	<u>(4,647,052)</u>	<u>(4,991,513)</u>

31. ACCUMULATED DEFICIT:

(1) Accumulated deficit as of December 31, 2017 and 2016, is as follows:

<i>(In thousands of won)</i>		December 31, 2017	December 31, 2016
Accumulated deficit	₩	(9,299,539,129)	(8,476,086,927)

(2) Changes in accumulated deficit for the years ended December 31, 2017 and 2016, are as follows:

<i>(In thousands of won)</i>		December 31, 2017	December 31, 2016
Beginning balance	₩	(8,476,086,927)	(8,373,991,312)
Loss for the year		(862,285,961)	(204,410,926)
Gain (loss) on remeasurement factors		(10,836,314)	97,620,406
Reclassification of gain on revaluation of assets to retained earnings		49,670,073	4,694,905
Ending balance	₩	<u>(9,299,539,129)</u>	<u>(8,476,086,927)</u>

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31. ACCUMULATED DEFICIT, Continued:

(3) Changes in gain (loss) on remeasurement factors of defined benefit plan for the year ended December 31, 2017 and 2016, are as follows:

<i>(In thousands of won)</i>		2017	2016
Beginning balance	₩	123,142,365	25,521,960
Changes		(10,836,315)	97,620,405
Ending balance	₩	112,306,050	123,142,365

32. CONSOLIDATED STATEMENT OF DISPOSITION OF ACCUMULATED DEFICIT:

Details of statement of disposition of accumulated deficit for the years ended December 31, 2017 and 2016, are as follows:

Date of disposition for 2017: March 31, 2018

Date of disposition for 2016: March 31, 2017

<i>(In thousands of won)</i>		Dec. 31, 2017	Dec. 31, 2016
Undisposed accumulated deficit:			
Balance at beginning of year	₩	(8,476,086,927)	(8,373,991,312)
loss for the year		(862,285,961)	(204,410,926)
Gain on remeasurement factors of defined benefit plan		(10,836,314)	97,620,405
Reclassification of gain on revaluation of assets to retained earnings		49,670,073	4,694,905
Balance at end of year before disposition		(9,299,539,129)	(8,476,086,927)
Appropriation of disposition of accumulated deficit		-	-
Undisposed accumulated deficit to be carried over to subsequent year		(9,299,539,129)	(8,476,086,927)

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33. OTHER EQUITY COMPONENTS:

(1) As of December 31, 2017 and 2016, other equity components are as follows:

<i>(In thousands of won)</i>		<u>December 31, 2017</u>	<u>December 31, 2016</u>
Other accumulated comprehensive income	₩	3,983,549,525	3,074,611,143
Other additional paid-up capital		<u>(144,128,451)</u>	<u>(144,128,451)</u>
	₩	<u>3,839,421,074</u>	<u>2,930,482,692</u>

(2) Other accumulated comprehensive income or loss for the years ended December 31, 2017 and 2016, is detailed as follows:

<i>(In thousands of won)</i>		<u>December 31, 2017</u>	<u>December 31, 2016</u>
Gain on valuation of available-for-sale securities	₩	9,345,783	9,447,469
Change in equity of equity method investment		760,581	(719,458)
Gain(loss) on valuation of derivatives		2,818,971	(954,948)
Gain on reassessment of assets		<u>3,970,624,190</u>	<u>3,066,838,081</u>
	₩	<u>3,983,549,525</u>	<u>3,074,611,144</u>

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34. REVENUE:

Details of revenues for the years ended December 31, 2017 and 2016, are summarized as follows:

(In thousands of won)	2017		2016	
	Domestic	Overseas	Domestic	Overseas
<u>Revenue from goods sold:</u>				
Revenue from entrusted multiple business ₩	295,662,685	3,458,491	289,557,064	492,500
<u>Revenue from services rendered:</u>				
Transportation business	4,365,402,707	-	4,188,467,303	-
Normal passenger transportation	471,141,488	-	484,163,106	-
Express passenger transportation	2,377,786,202	-	2,086,513,085	-
Long-distance passenger transportation	886,133,678	-	934,159,925	-
Freight and other transportation	334,119,339	-	332,768,187	-
PSO	296,222,000	-	350,863,000	-
Revenue from entrusted multiple business	174,543,786	3,532,685	164,662,845	2,254,293
Subtotal	4,539,946,493	3,532,685	4,353,130,148	2,254,293
<u>Revenue from entrusted business:</u>				
Normal entrusted business	58,195,554	-	60,767,984	-
Government entrusted business	878,021,883	-	969,989,037	-
Subtotal	936,217,437	-	1,030,757,021	-
<u>Construction-related revenue:</u>				
Revenue from entrusted multiple business	7,890,954	-	17,451,929	-
₩	5,779,717,569	6,991,176	5,690,896,162	2,746,793

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35. SELLING, GENERAL AND ADMINISTRATIVE EXPENSE:

(1) Details of selling, general and administrative expense for the years ended December 31, 2017 and 2016, are as follows:

(In thousands of won)

	2017	2016
Salaries and wages	₩ 164,614,996	158,751,410
Retirement benefits	16,647,334	14,911,940
Other employee benefits	18,318,642	17,903,112
Insurance	2,664,251	2,439,588
Depreciation	28,124,473	31,067,194
Amortization	10,419,839	9,399,087
Bad debts expenses	1,491,697	11,460,328
Professional service fees	37,910,690	36,299,722
Advertising	5,940,322	5,816,542
Training	5,662,388	4,933,152
Vehicles	214,317	234,024
Printing	766,495	959,097
Business development expenses	565,588	686,624
Rent	4,272,817	2,969,839
Communications	2,109,139	2,014,403
Transportation costs	9,942	30,729
Taxes and dues	9,590,282	8,528,512
Supplies	2,209,047	3,150,306
Utilities	5,432,436	5,339,499
Maintenance	8,908,399	10,970,358
Research	642,588	649,895
Travel	2,234,058	2,010,725
Uniform	201,594	879,453
Analysis	718,142	535,842
Annual fees	508,210	332,855
Selling expenses	918,753	798,904
Others	7,805,541	6,541,083
	₩ 338,901,980	339,614,223

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For the years ended December 31, 2017 and 2016**35. SELLING, GENERAL AND ADMINISTRATIVE EXPENSE, Continued:**

(2) Details of other selling, general and administrative expense for the years ended December 31, 2017 and 2016, are as follows:

<i>(In thousands of won)</i>		2017	2016
Conference expenses	₩	843,042	162,251
Cooperation expense		246,620	1,270,989
Prize expense		897,377	791,256
Other severance indemnities		2,155,404	743,727
Other expense		3,663,098	3,572,860
	₩	<u>7,805,541</u>	<u>6,541,083</u>

36. OTHER REVENUES, OTHER EXPENSES AND OTHER INCOME:

(1) Details of other revenues for the years ended December 31, 2017 and 2016, are as follows:

<i>(In thousands of won)</i>		2017	2016
Reversal of other provisions	₩	11,749,866	32,871,179
Government grants		1,010,944	1,136,918
Reversal of bad debts expenses		57	1,108
Gains from assets contributed		1,870,194	12,500
Others		6,109	7,109
	₩	<u>14,637,170</u>	<u>34,028,814</u>

(2) Details of other expenses for the years ended December 31, 2017 and 2016, are as follows:

<i>(In thousands of won)</i>		2017	2016
Increase in provisions	₩	56,277,562	11,951,766
Other bad debts expenses		97,935	6,778,336
Donations		30,903,854	30,457,757
Depreciation on assets not in use		2,843,236	3,721,660
	₩	<u>90,122,587</u>	<u>52,909,519</u>

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36. OTHER REVENUES, OTHER EXPENSES AND OTHER INCOME, Continued:

(3) Details of other income (loss) for the years ended December 31, 2017 and 2016, are as follows:

<i>(In thousands of won)</i>		2017	2016
Gains on sale of property, trains and equipment	₩	656,767	5,370,339
Gains on disposal of non-current assets held-for-sale		27,229,511	13,925,259
Gains on foreign currency transaction (related to operating activities)		424,736	426,726
Gains on foreign currency translation (related to operating activities)		73,321	65,389
Gains on insurance settlements		-	8,099
Other income		37,101,529	87,125,503
Losses on sale of property, trains and equipment		(1,799,053)	(2,890,313)
Losses on disposal of other non-current assets		(10,250,926)	(1,117,530)
Losses on valuation of fixed assets		(52,929,609)	-
Impairment losses on property, trains and equipment		(7,084,339)	(9,959,565)
Impairment losses on investment property		(699,039)	-
Impairment losses on other non-current assets		(300,000)	(29,035)
Losses on foreign currency transaction (related to operating activities)		(514,470)	(751,171)
Losses on foreign currency translation (related to operating activities)		(38,456)	(10,533)
Other costs		(132,141,262)	(35,864,341)
	₩	<u>(140,271,291)</u>	<u>56,298,827</u>

(3-1) Details of other gains for the years ended December 31, 2017 and 2016, are as follows:

<i>(In thousands of won)</i>		2017	2016
Gains on disposal of inventories	₩	4,977,886	7,608,386
Miscellaneous gains		21,256,758	79,517,117
Gains on valuation of fixed assets		10,866,885	-
	₩	<u>37,101,529</u>	<u>87,125,503</u>

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For the years ended December 31, 2017 and 2016**36. OTHER REVENUES, OTHER EXPENSES AND OTHER INCOME, Continued:**

(3-2) Details of other losses for the years ended December 31, 2017 and 2016, are as follows:

<i>(In thousands of won)</i>		2017	2016
		<hr/>	<hr/>
Losses from inventory obsolescence	₩	149,567	73,700
Prior period adjustments		482,049	-
Other charge fee		2,749,422	-
Miscellaneous losses		<hr/> 128,760,223	<hr/> 35,790,641
	₩	<hr/> <hr/> 132,141,261	<hr/> <hr/> 35,864,341

37. FINANCE INCOME:

(1) Details of finance income for the years ended December 31, 2017 and 2016, are as follows:

<i>(In thousands of won)</i>		2017	2016
		<hr/>	<hr/>
Interest income	₩	9,868,429	9,751,220
Dividend income		839,806	781,306
Gains on settlement of derivative instruments		14,102	552
Gains on valuation of derivative instruments		3,953,800	20,715,400
Gain from foreign currency translation		94,563,470	2,522,729
Gain from foreign currency transactions		<hr/> 23,170,855	<hr/> 11,715,531
	₩	<hr/> <hr/> 132,410,462	<hr/> <hr/> 45,486,738

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37. FINANCE INCOME, Continued:

(2) Details of interest income by related assets for the years ended December 31, 2017 and 2016, are as follows:

<i>(In thousands of won)</i>		2017	2016
Cash and cash equivalents	₩	4,369,902	4,654,547
Current financial instruments recognized in profit or loss		237,910	(161)
Loans and receivables		3,071,002	4,240,238
Short-term financial instruments		2,139,355	799,257
Long-term financial instruments		188	348
Other financial assets		50,072	56,991
	₩	<u>9,868,429</u>	<u>9,751,220</u>

38. FINANCE COSTS:

(1) Details of finance cost for the years ended December 31, 2017 and 2016, are as follows:

<i>(In thousands of won)</i>		2017	2016
Interest expenses	₩	392,321,139	420,012,978
Losses on disposal of available-for-sale financial assets		43,250	32
Losses on valuation of derivative instruments		94,563,470	2,496,900
Losses on settlement of derivative instruments		23,100,000	11,000,000
Losses from early extinguishment of debt		14,316,654	-
Losses on foreign currency translation		4,044,451	20,737,905
Losses on foreign currency transaction		72,437	79,688
	₩	<u>528,461,401</u>	<u>454,327,503</u>

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For the years ended December 31, 2017 and 2016**38. FINANCE COSTS, Continued:**

(2) Details of interest cost by related assets for the years ended December 31, 2017 and 2016, are as follows:

<i>(In thousands of won)</i>		2017	2016
Accounts payables and other payables	₩	5,863,839	7,413,068
Short-term borrowings		4,601,562	895,644
Long-term borrowings		1,565,267	4,939,337
Bonds		366,440,405	415,501,616
Derivative liabilities		15,747,208	-
Subtotal		394,218,281	428,749,665
Less: Capitalization of borrowing costs		(1,897,142)	(8,736,687)
	₩	392,321,139	420,012,978

Weighted-average capitalization interest rate for borrowings for the years ended December 31, 2017 and 2016, are 3.21% and 3.54%, respectively.

39. INCOME TAXES RELATED TO CONTINUING OPERATION:

(1) The component of income tax benefit for the years ended December 31, 2017 and 2016, is as follows:

<i>(In thousands of won)</i>		2017	2016
<u>Current tax expense:</u>			
Current tax	₩	10,705,021	1,233,613
<u>Adjustment for prior periods:</u>			
Origination and reversal of temporary differences		(221,477)	4,636,829
Income tax recognized in other comprehensive income		(317,828,914)	(11,370,128)
Income tax benefit	₩	(307,345,371)	(5,499,686)

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39. INCOME TAXES RELATED TO CONTINUING OPERATION, Continued:

(2) Reconciliation between income tax benefit and accounting income is detailed as follows:

<i>(In thousands of won)</i>		2017	2016
Loss before income tax benefit	₩	(1,162,873,351)	(231,998,503)
Tax rate		25.00%	22.00%
Income tax benefit using the Company's statutory tax rate		(290,718,338)	(51,039,671)
Adjustments:			
Tax effect of non-taxable income		(912,229,461)	(383,770)
Tax effect of non-deductible expenses		1,207,273,705	10,018,293
Current adjustments for prior periods		(17,264)	-
Tax expenses directly added to, or deducted from, equity		(317,828,914)	(11,370,128)
Other (tax rate differences, etc.)		6,174,901	47,275,590
Income tax benefit		(307,345,371)	(5,499,686)
Average effective tax rate		-	-

(3) Deferred income tax recognized directly in other comprehensive income for the years ended December 31, 2017 and 2016, is as follows:

<i>(In thousands of won)</i>		2017	2016
Gains (losses) on valuation of available-for-sale securities	₩	388	270
Gains (losses) on remeasurement factors of defined benefit plan		-	(281,767)
Gains (losses) on revaluation of assets		(317,829,302)	11,651,625
	₩	(317,828,914)	11,370,128

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39. INCOME TAXES RELATED TO CONTINUING OPERATION, Continued:

(4) Changes in deferred income tax assets (liabilities) during the year ended December 31, 2017 and 2016, are detailed as follows:

		2017			
<i>(In thousands of won)</i>		Beginning balance	Profit or loss	Other comprehensive income	Ending balance
<u>The Company:</u>					
Deferred income tax assets	₩	-	-	-	-
Deferred income tax liabilities		-	-	-	-
<u>Subsidiary:</u>					
Deferred income tax assets		17,800,091	(2,100,286)	388	15,700,193
Deferred income tax liabilities		21,252,523	1,878,808	-	23,131,331
<u>The Group:</u>					
Deferred income tax assets		17,800,091	(2,100,286)	388	15,700,193
Deferred income tax liabilities		21,252,523	1,878,808	-	23,131,331
		2016			
<i>(In thousands of won)</i>		Beginning balance	Profit or loss	Other comprehensive income	Ending balance
<u>The Company:</u>					
Deferred income tax assets	₩	-	-	-	-
Deferred income tax liabilities		-	-	-	-
<u>Subsidiary:</u>					
Deferred income tax assets		8,348,188	9,170,406	281,497	17,800,091
Deferred income tax liabilities		(7,163,791)	(2,437,107)	(11,651,625)	(21,252,523)
<u>The Group:</u>					
Deferred income tax assets		8,348,188	9,170,406	281,497	17,800,091
Deferred income tax liabilities		(7,163,791)	(2,437,107)	(11,651,625)	(21,252,523)

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39. INCOME TAXES RELATED TO CONTINUING OPERATION, Continued:

(5) Temporary differences to be deducted that are not recognized as deferred income tax assets as of December 31, 2017 and 2016, are as follows:

<i>(In thousands of won)</i>		<u>Dec. 31, 2017</u>	<u>Dec. 31, 2016</u>
Temporary differences to be deducted	₩	7,220,536,130	6,891,051,244

40. ASSETS HELD FOR SALE:

Details of assets and liabilities held for sale and related to discontinued operation as of December 31, 2017 and 2016, are detailed as follows:

<i>(In thousands of won)</i>		<u>December 31, 2017</u>	<u>December 31, 2016</u>
Held for sale: land (*1)	₩	38,793,945	24,090,996
Held for sale: buildings and structures (*1)		<u>31,430</u>	<u>446,497</u>
Disposal groups classified as held for sale	₩	<u>38,825,375</u>	<u>24,537,493</u>

(*1) During the period, some assets of land and buildings of the Group were classified as held for sale through the approval of the overall asset management. Each regional headquarters is in the process of disposal of public land by consultation of compensation for loss with the government. Assets are expected to be sold within a year from the end of reporting period.

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41. NATURE OF EXPENSES:

Details of nature of expenses for the years ended December 31, 2017 and 2016 are as follows:

(In thousands of won)	2017			
	Changes in inventories	Selling, general and administrative expense	Cost of sales	Total
Goods	₩ 132,804,735	-	-	132,804,735
Manufactured goods	483,097	-	-	483,097
Salaries	-	164,614,996	2,192,670,426	2,357,285,422
Retirement benefits	-	16,647,334	167,247,140	183,894,474
Employee benefits	-	18,318,642	246,160,406	264,479,048
Insurance	-	2,664,251	6,426,537	9,090,788
Depreciation	-	28,124,473	494,385,198	522,509,671
Amortization	-	10,419,839	2,082,187	12,502,026
Bad debts expenses	-	1,491,697	-	1,491,697
Commissions	-	37,910,690	351,680,871	389,591,561
Advertising	-	5,940,322	51,241	5,991,563
Education and training	-	5,662,388	828,586	6,490,974
Vehicle maintenance	-	214,317	466,587,901	466,802,218
Printing	-	766,495	1,160,347	1,926,842
Project initiatives	-	565,588	135,977	701,565
Rental	-	4,272,817	1,105,595,179	1,109,867,996
Communication	-	2,109,139	2,248,690	4,357,829
Transportation	-	9,942	5,905	15,847
Taxes and dues	-	9,590,282	18,526,885	28,117,167
Supplies	-	2,209,047	16,855,984	19,065,031
Utilities	-	5,432,436	71,008,490	76,440,926
Maintenance	-	8,908,399	576,638,189	585,546,588
Ordinary development expenses	-	642,588	2,398,940	3,041,528
Business trip and transportation expenses	-	2,234,058	20,245,245	22,479,303
Uniforms	-	201,594	13,378,762	13,580,356
Research and analysis	-	718,142	577,818	1,295,960
Annual fees	-	508,210	122,377	630,587
Sales promotion	-	-	749,000	749,000
Sales commissions	-	918,753	16,585	935,338
Others	2,038,199	7,805,541	24,608,113	34,451,853
	₩ 135,326,031	338,901,980	5,782,392,979	6,256,620,990

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41. NATURE OF EXPENSES, Continued:

		2016			
(In thousands of won)		Changes in inventories	Selling, general and administrative expense	Cost of sales	Total
Goods	₩	134,275,524	-	-	134,275,524
Manufactured goods		562,267	-	-	562,267
Salaries		-	158,751,409	1,813,580,435	1,972,331,844
Retirement benefits		-	14,911,940	158,197,144	173,109,084
Employee benefits		-	17,903,112	212,442,826	230,345,938
Insurance		-	2,439,588	6,247,901	8,687,489
Depreciation		-	31,067,194	456,600,755	487,667,949
Amortization		-	9,399,087	576,033	9,975,120
Bad debts expenses		-	11,460,328	-	11,460,328
Commissions paid		-	36,299,722	352,824,108	389,123,830
Advertising		-	5,816,542	59,576	5,876,118
Education and training		-	4,933,152	252,656	5,185,808
Vehicle maintenance		-	234,024	427,174,779	427,408,803
Printing		-	959,097	1,018,324	1,977,421
Project initiatives		-	686,624	143,434	830,058
Rental		-	2,969,839	963,368,741	966,338,580
Communication		-	2,014,403	1,511,336	3,525,739
Transportation		-	30,729	6,373	37,102
Taxes and dues		-	8,528,512	13,419,421	21,947,933
Supplies		-	3,150,306	15,530,778	18,681,084
Utilities		-	5,339,499	63,174,426	68,513,925
Maintenance		-	10,970,358	562,784,414	573,754,772
Ordinary development expenses		-	649,895	1,957,618	2,607,513
Business trip and transportation expenses		-	2,010,725	18,739,328	20,750,053
Uniforms		-	879,453	5,041,195	5,920,648
Research and analysis		-	535,842	31,158	567,000
Annual fees		-	332,856	90,447	423,303
Sales promotion		-	-	796,359	796,359
Sales commissions		-	798,904	21,678	820,582
Others		-	6,541,083	22,015,853	31,954,109
	₩	134,837,791	339,614,223	5,097,607,096	5,572,059,109

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42. ENTRUSTED BUSINESS:

(1) Revenues and expenses for the government entrusted business reported in the consolidated financial statements as of December 31, 2017 and 2016, are as follows:

(In thousands of won)	December 31, 2017		December 31, 2016	
	Revenue	Expense	Revenue	Expense
Government	₩ 878,021,883	838,819,065	969,989,037	935,895,167
Local government	58,195,555	36,991,002	60,767,984	43,530,493
	₩ 936,217,438	875,810,067	1,030,757,021	979,425,660

(2) Changes in the deferred revenue from the trusted business for the years ended December 31, 2017 and 2016, are as follows:

(In thousands of won)		2017				
		January 1, 2017	Received	Executed	Returned	Others
Cash and cash equivalents	Government	₩ 73,928,076	324,693,924	(237,408,903)	(49,004,912)	49,688,503
Other receivables(*)	Government	-	692,013,961	(709,825,765)	(37,428,825)	(141,190,531)
Cash and cash equivalents	Local government	33,441,702	53,696,126	(50,918,831)	(31,036,061)	2,684,575
		₩ 107,369,778	1,070,404,011	(998,153,499)	(117,469,798)	(88,817,453)

(*) The expenses related to maintenance contracts with the government have been changed from adjust accounts after receipt of payment to the method of receipt after adjust accounts.

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42. ENTRUSTED BUSINESS, Continued:

(2) Changes in the deferred revenue from the trusted business for the years ended December 31, 2017 and 2016, are as follows, Continued:

(In thousands of won)		2016					December 31, 2016
		January 1, 2016	Received	Executed	Returned	Others	
Cash and cash equivalents	Government	₩ 77,953,061	1,075,237,950	(974,429,569)	(101,913,907)	(2,919,459)	73,928,076
Cash and cash equivalents	Local government	67,258,356	54,179,450	(60,252,471)	(36,417,090)	8,673,457	33,441,702
		₩ 145,211,417	1,129,417,400	(1,034,682,040)	(138,330,997)	5,753,998	107,369,778

KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

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43. CATEGORIES OF FINANCIAL INSTRUMENTS:

(1) Categories of financial instruments as of December 31, 2017 and 2016, are as follows:

(In thousands of won)	December 31, 2017			
	Loans and receivables	Available-for-sale financial assets	Derivative instruments for hedging	Total
<u>Current assets:</u>				
Short-term loans	₩ 386,635	-	-	386,635
Short-term financial instruments	15,203,275	-	-	15,203,275
Accounts receivables and other receivables	885,995,302	-	-	885,995,302
Subtotal	901,585,212	-	-	901,585,212
<u>Non-current assets:</u>				
Available-for-sale financial assets	-	42,220,585	-	42,220,585
Long-term loans	40,092,731	-	-	40,092,731
Long-term financial instruments	18,755	-	-	18,755
Derivative instrument assets	-	-	7,700,483	7,700,483
Accounts receivables and other receivables	234,940,830	-	-	234,940,830
Subtotal	275,052,316	42,220,585	7,700,483	324,973,384
	₩ 1,176,637,528	42,220,585	7,700,483	1,226,558,596

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For the years ended December 31, 2017 and 2016

43. CATEGORIES OF FINANCIAL INSTRUMENTS, Continued:

(1) Categories of financial instruments as of December 31, 2017 and 2016, are as follows, Continued:

		December 31, 2016			
<i>(In thousands of won)</i>		Loans and receivables	Available-for-sale financial assets	Derivative instruments for hedging	Total
<u>Current assets:</u>					
Short-term loans	₩	113,562	-	-	113,562
Derivative instrument assets		-	-	44,554,993	44,554,993
Short-term financial instruments		16,841,649	-	-	16,841,649
Accounts receivables and other receivables		357,860,661	-	-	357,860,661
Subtotal		374,815,872	-	44,554,993	419,370,865
<u>Non-current assets:</u>					
Available-for-sale financial assets		-	38,016,648	-	38,016,648
Long-term loans		42,138,015	-	-	42,138,015
Long-term financial instruments		18,755	-	-	18,755
Derivative instrument assets		-	-	22,248,201	22,248,201
Accounts receivables and other receivables		541,031,492	-	-	541,031,492
Subtotal		583,188,262	38,016,648	22,248,201	643,453,111
	₩	958,004,134	38,016,648	66,803,194	1,062,823,976

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43. CATEGORIES OF FINANCIAL INSTRUMENTS, Continued:

(2) Categories of financial liabilities as of December 31, 2017 and 2016, are as follows:

(In thousands of won)	December 31, 2017		
	Financial liabilities measured at amortized costs	Derivative instruments for hedging	Total
₩			
<u>Current liabilities:</u>			
Accounts payables and other payables	746,568,828	-	746,568,828
Short-term borrowings	7,999,991	-	7,999,991
Current portion of long-term borrowings	55,000,000	-	55,000,000
Current bonds	1,371,162,536	-	1,371,162,536
Derivative instrument liabilities	-	24,208,168	24,208,168
Subtotal	2,180,731,355	24,208,168	2,204,939,523
<u>Non-current liabilities:</u>			
Account payables and other payables	39,357,277	-	39,357,277
Long-term borrowings	60,821,938	-	60,821,938
Bonds	10,315,531,406	-	10,315,531,406
Derivative instrument liabilities	-	53,827,313	53,827,313
Other financial liabilities	147,500,000	-	147,500,000
Subtotal	10,563,210,621	53,827,313	10,617,037,934
₩	12,743,941,976	78,035,481	12,821,977,457

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43. CATEGORIES OF FINANCIAL INSTRUMENTS, Continued:

(2) Categories of financial liabilities as of December 31, 2017 and 2016, are as follows, Continued:

(In thousands of won)	December 31, 2016		
	Financial liabilities measured at amortized costs	Derivative instruments for hedging	Total
<u>Current liabilities</u>			
Accounts payables and other payables	₩ 619,193,264	-	619,193,264
Short-term borrowings	10,448,562	-	10,448,562
Current portion of long-term borrowings	31,300,000	-	31,300,000
Current bonds	1,862,112,178	-	1,862,112,178
Subtotal	2,523,054,004	-	2,523,054,004
<u>Non-current liabilities</u>			
Account payables and other payables	32,754,691	-	32,754,691
Long-term borrowings	115,783,210	-	115,783,210
Bonds	9,556,404,272	-	9,556,404,272
Derivative instrument liabilities	-	4,352,442	4,352,442
Other financial liabilities	147,600,000	-	147,600,000
Subtotal	9,852,542,173	4,352,442	9,856,894,615
	₩ 12,375,596,177	4,352,442	12,379,948,619

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43. CATEGORIES OF FINANCIAL INSTRUMENTS, Continued:

(3) Gain and loss of financial instruments by categories for the years ended December 31, 2017 and 2016, are as follows:

(In thousands of won)

	2017	2016
<u>Loans and receivables:</u>		
Interest income	₩ 9,868,429	9,751,220
<u>Available-for-sale financial assets:</u>		
Dividends income	839,806	781,306
Gains (losses) on disposal of available for sale financial assets	(29,148)	520
financial expense, net		
Comprehensive income or loss recognized for the year	(101,687)	(2,514,799)
<u>Derivative instrument assets for hedging:</u>		
Gains on valuation of derivative financial instruments financial income	3,953,800	20,715,400
Losses on valuation of derivative financial instruments financial expense	(94,563,470)	(2,496,900)
Losses on transaction of derivative financial instruments financial expense	(23,100,000)	(11,000,000)
Comprehensive income or loss recognized in the reporting period	3,773,920	930,000
<u>Financial liabilities measured at amortized costs:</u>		
Gain on foreign currency transaction related to borrowings	23,170,855	11,715,531
Gain on foreign currency translation related to borrowings	94,563,470	2,522,729
Interest expense	(392,321,139)	(420,012,978)
Loss on Redemption of Finance debt	(14,316,655)	-
Losses foreign currency transactions	(72,438)	(79,688)
Losses on foreign exchange translations financial expense	(4,044,451)	(20,735,454)
	₩ (392,378,708)	(410,423,113)

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44. FINANCIAL RISK MANAGEMENT:

(1) Credit risk

As of December 31, 2017 and 2016, the Group's maximum exposure to credit risk is as follows:

<i>(In thousands of won)</i>		Dec. 31, 2017	Dec. 31, 2016
Loans	₩	40,479,367	42,251,577
Long- and short-term financial instruments		15,222,030	16,860,404
Derivative instrument assets		7,700,483	66,803,194
Trade receivables and other receivables		1,120,936,132	898,892,153
Cash and cash equivalents		344,567,204	374,092,586
	₩	<u>1,528,905,216</u>	<u>1,398,899,914</u>

(2) Liquidity risk

As of December 31, 2017, contractual maturity of financial liabilities is summarized as follows:

		December 31, 2017						
<i>(In thousands of won)</i>		Carrying amount	Contractual flow	6 month or less	6-12 months	1-2 years	2-5 years	More than 5 years
Borrowings	₩	123,821,929	126,493,860	22,119,212	42,455,350	30,840,384	30,876,418	202,496
Bonds		11,686,693,942	14,464,959,432	748,557,787	986,213,739	2,152,787,102	3,298,170,887	7,279,229,917
Trade payables and other payables		785,926,105	785,926,105	746,568,828	-	39,357,277	-	-
Derivative financial liabilities		78,035,481	78,035,481	-	24,208,168	43,473,438	1,902,357	8,451,518
		₩ 12,674,477,457	15,455,414,878	1,517,245,827	1,052,877,257	2,266,458,201	3,330,949,662	7,287,883,931

The Group does not expect the cash outflow to occur significantly earlier or at a significantly different amount.

KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

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For the years ended December 31, 2017 and 2016

44. FINANCIAL RISK MANAGEMENT, Continued:

(2) Liquidity risk, Continued

As of December 31, 2016, contractual maturity of financial liabilities is summarized as follows:

(In thousands of won)	December 31, 2016						
	Carrying amount	Contractual flow	6 month or less	6-12 months	1-2 years	2-5 years	More than 5 years
Borrowings	₩ 157,531,772	160,699,789	22,106,914	20,777,954	56,212,078	61,193,851	408,992
Bonds	11,418,516,450	13,530,622,608	1,493,458,342	737,024,261	1,853,817,117	4,144,978,388	5,301,344,500
Trade payables and other payables	651,947,955	651,947,955	619,193,264	-	32,754,691	-	-
Derivative financial liabilities	4,352,442	4,352,442	-	-	4,352,442	-	-
	<u>₩ 12,232,348,619</u>	<u>14,347,622,794</u>	<u>2,134,758,520</u>	<u>757,802,215</u>	<u>1,947,136,328</u>	<u>4,206,172,239</u>	<u>5,301,753,492</u>

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44. FINANCIAL RISK MANAGEMENT, Continued:

(2) Liquidity risk, Continued

The following table indicates the periods in which the cash flows associated with cash flow hedges are expected to occur as of December 31, 2017 and 2016.

		December 31, 2017					
(In thousands of won)	Book value	Contractual cash flow	6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years
₩							
Currency swap							
Assets	7,700,483	7,700,483	-	-	-	-	7,700,483
Liabilities	78,035,481	(78,035,481)	-	(24,208,168)	(43,473,438)	(1,902,357)	(8,451,518)
₩	85,735,964	(70,334,998)	-	(24,208,168)	(43,473,438)	(1,902,357)	(751,035)
		December 31, 2016					
(In thousands of won)	Book value	Contractual cash flow	6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years
₩							
Currency swap							
Assets	66,803,194	66,803,194	28,558,879	15,996,114	10,589,418	11,658,783	-
Liabilities	4,352,442	(4,352,442)	-	-	(4,352,442)	-	-
₩	71,155,636	62,450,752	28,558,879	15,996,114	6,236,976	11,658,783	-

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For the years ended December 31, 2017 and 2016

44. FINANCIAL RISK MANAGEMENT, Continued:

(3) Currency risk

(i) Exposure to currency risk

As of December 31, 2017 and 2016, monetary assets and liabilities denominated in currencies other than functional currency are detailed as follows:

(In thousands of won)	December 31, 2017				
	USD	CHF	EUR	SGD	Others
<u>Assets denominated in foreign currency:</u>					
Cash and cash equivalents	₩ 93,304	-	38,777	1	38,778
<u>Liabilities denominated in foreign currency:</u>					
Bonds	214,280,000	673,252,800	63,962,500	164,129,150	346,699,170

(In thousands of won)	December 31, 2016				
	USD	CHF	EUR	SGD	Others
<u>Assets denominated in foreign currency:</u>					
Cash and cash equivalents	₩ 99,324	-	139,882	1,670	262,654
<u>Liabilities denominated in foreign currency:</u>					
Bonds	604,250,000	726,517,950	-	54,249,000	47,962,750

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For the years ended December 31, 2017 and 2016

44. FINANCIAL RISK MANAGEMENT, Continued:

(3) Currency risk, Continued

Foreign exchange rate applied as of December 31, 2017 and 2016, is as follows:

<i>(In won)</i>		December 31, 2017	December 31, 2016
USD	₩	1,071.40	1,208.50
CHF		1,094.72	1,181.33
EUR		1,279.25	1,267.60
SGD		800.63	834.60
AUD		835.16	872.05
CNY		163.65	173.26
HKD		137.07	155.83
SEK		129.90	132.40
CAD		852.69	894.72
JPY		9.49	10.37

(ii) Sensitivity analysis of changes in exchange rate

A strengthening of the won, as indicated below, against the USD, CHF, EUR, SGD, AUD, JPY and CNY at December 31, 2017, would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis is based on foreign currency exchange rate variances that the Group considered to be reasonably possible at the reporting date. The analysis assumes that all other variables, in particular interest rates, remain constant and ignores any impact of forecasted sales and purchases. The analysis is performed on the same basis for 2017, albeit that the reasonably possible foreign exchange rate variances are different, as indicated below.

<i>(In thousands of won)</i>		10% increase	10% decrease
Net profit or loss before income taxes	₩	(146,206,692)	146,206,692

As the Group manages the risks through currency swaps to eliminate the currency risk of foreign currency liabilities, net exposure to foreign exchange risk is insignificant. However, as with the sensitivity analysis above, foreign currency deposits and foreign currency denominated bonds are exposed to foreign exchange risk.

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44. FINANCIAL RISK MANAGEMENT, Continued:

(4) Interest rate risk

(i) The Group has foreign currency bonds and foreign currency long-term borrowings, which has significant effect on profit or loss and equity depending on fluctuations in interest rates. The Group manages interest rate risk by interest rate swap agreements, and fluctuation in interest rates does not have significant impact on the financial position and financial results.

<i>(In thousands of won)</i>	Interest rate	December 31, 2017	December 31, 2016
Public fund management capital	Government bonds-three year interest rate – 0.5%	₩ 90,000,000	120,000,000

(ii) Cash flow sensitivity analysis of fixed-rate financial instruments

The Group does not account fixed-rate financial instruments as current financial instruments recognized in profit or loss, and does not designate derivative instruments, such as interest swap, to avoid fair value risk. As such, fluctuation of interest rate does not have effect on profit or loss.

(iii) Sensitivity analysis of cash flow from variable interest rate financial instruments on cash flow
Changes of 100BP in interest rates as of December 31, 2017, would result in increase or decrease in equity and profit or loss. The analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2017. Changes in equity and profit or loss are detailed as follows:

<i>(In thousands of won)</i>	Profit of loss		Equity	
	100BP	100BP	100BP	100BP
	Increase	Decrease	Increase	Decrease
As of December 31, 2017 – borrowings	₩ (900,000)	900,000	(900,000)	900,000
As of December 31, 2016 – borrowings	(1,200,000)	1,200,000	(1,200,000)	1,200,000

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44. FINANCIAL RISK MANAGEMENT, Continued:

(5) Fair value measurement

(i) Carrying value and the fair value of financial assets and liabilities are detailed as below:

(In thousands of won)	2017		2016	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Assets carried at fair value:</u>				
Available-for sale financial assets	₩ 41,350,008	41,350,008	36,799,363	36,799,363
Currency swap(hedging)	7,700,483	7,700,483	66,803,194	66,803,194
Subtotal	49,050,491	49,050,491	103,602,557	103,602,557
<u>Assets carried at amortized cost(*):</u>				
Available-for sale financial assets	870,577	870,577	1,217,284	1,217,284
Loans and other receivables	1,161,415,498	1,161,415,498	941,143,730	941,143,730
Long/short-term financial instrument	15,222,030	15,222,030	16,860,404	16,860,404
Cash and cash equivalents	481,767,204	481,767,204	374,092,586	374,092,586
Subtotal	1,659,275,309	1,659,275,309	1,333,314,004	1,333,314,004
	₩ 1,708,325,801	1,708,325,801	1,436,916,562	1,436,916,562
<u>Liabilities carried at fair value:</u>				
Currency swap(hedging)	₩ 78,035,481	78,035,481	4,352,442	4,352,442
<u>Liabilities carried at amortized cost(*):</u>				
Borrowings	123,821,929	123,821,929	157,531,772	157,531,772
Trade payables and other payables	785,926,105	785,926,105	651,947,955	651,947,955
Bonds	11,686,693,942	11,686,693,942	11,418,516,450	11,418,516,450
Subtotal	12,596,441,976	12,596,441,976	12,227,996,177	12,227,996,177
	₩ 12,674,477,457	12,674,477,457	12,232,348,619	12,232,348,619

(*) The Group recognized some of the financial assets and liabilities at book value as it believes book value is a reasonable measurement of fair value.

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44. FINANCIAL RISK MANAGEMENT, Continued:

(ii) Interest rate used to determine the fair value

At the end of reporting period, interest rate used to determine the expected cash flow was determined by adding interest rate of government bonds and credit spread. As of December 31, 2017 and 2016, interest rates applied are detailed as follows:

<i>(In percentage)</i>	December 31, 2017	December 31, 2016
Derivative instruments	1.81%~3.64%	1.81%~3.64%
Available-for-sale financial assets	5.99%~6.74%	5.78%~6.39%

(iii) The level of fair value hierarchy is as follows:

	Significance of inputs
Level 1	Quoted prices (unadjusted) in active markets for identical assets or liabilities
Level 2	Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices)
Level 3	Inputs for the asset or liability that are not based on observable market data (unobservable inputs)

As of December 31, 2017, details of fair value, carrying amount and secured assets are as follows:

<i>(In thousands of won)</i>	Level 1	Level 2	Level 3	Total
<u>Financial assets:</u>				
Available-for-sale financial assets(*1) ₩	11,990	18,694,667	22,643,351	41,350,008
Derivative instruments assets(*2)	-	7,700,483	-	7,700,483
₩	<u>11,990</u>	<u>26,395,150</u>	<u>22,643,051</u>	<u>49,050,491</u>
<u>Financial liabilities:</u>				
Derivative instruments liabilities(*2) ₩	-	78,035,481	-	78,035,481
₩	<u>-</u>	<u>78,035,481</u>	<u>-</u>	<u>78,035,481</u>

(*1) Available-for-sale financial assets are not quoted in an active market and measured at valuation amount evaluated by an independent valuation agency.

(*2) Derivative assets and liabilities are measured at fair value in accordance with terms of contract with financial institutions.

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44. FINANCIAL RISK MANAGEMENT, Continued:

(5) Fair value measurement

The following table shows changes in financial instruments of Level 3 (fair value) for the years ended December 31, 2017 and 2016:

<i>(In thousands of won)</i>		2017	2016
Beginning balance Acquisition	₩	22,402,670	25,237,173
Other comprehensive income		240,681	(2,834,503)
Ending balance	₩	22,643,351	22,402,670

45. RELATED PARTIES:

(1) As of December 31, 2017, the controlling company that prepares the consolidated financial statements is Korea Railroad Corporation, and the related parties of the Group are detailed as follows:

	Name of Related Parties
Controlling company (parent company)	Government of Korea
Subsidiaries	KORAIL Retail Co., Ltd., KORAIL Networks Co., Ltd., KORAIL Tech Co., Ltd., KORAIL Logis Co., Ltd., KORAIL Tourism Development Co., Ltd., SR Co., Ltd. and Korean Insurance Brokerage Co., Ltd. Hanwha Station Development Co., Ltd., Noryangjin Station Building Co., Ltd., Uiwang ICD Co., Ltd., Lotte Station Building Co., Ltd., Bucheon Station Building Co., Ltd., Bupyeong Department Store Co., Ltd., Shinsegae Uijeongbu Station Building Co., Ltd., Sinchon Station Building Co., Ltd. , Anyang Station Building Co., Ltd., Dongincheon Shopping Center Co., Ltd., Bitplex Co., Ltd. , Changdong Station Building Co., Ltd., Dream Hub Project Financial Investment Co., Ltd., Kwangwoon Univ. Building Co., Ltd., Ansan Central Station Building Co., Ltd. and Yongsan Station Around Development Co., Ltd.
Related companies	

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45. RELATED PARTIES, Continued:

(2) Significant transactions that occurred in the normal course of business with related companies for the years ended December 31, 2017 and 2016, are as follows:

<i>(In thousands of won)</i>		Revenue		Costs	
	Name	2017	2016	2017	2016
Related companies	Bitplex Co., Ltd.	₩ -	-	21,344	19,895
	Lotte Station Building Co., Ltd.	6,112,176	7,514,422	154,150	220,846
	Bucheon Station Building Co., Ltd.	2,507,188	2,508,358	464,526	487,664
	Bupyeong Department Store Co., Ltd.	-	-	174,570	190,401
	Kwangwoon Univ. Station Building Co., Ltd.	2,513	17,497	-	-
	Shinsegae Uijeongbu Station Building Co., Ltd.	14,179	13,543	141,854	-
	Ansan Central Station Building Co., Ltd.	-	5,972	-	-
	Anyang Station Building Co., Ltd.	25,521	75,485	138,569	132,121
	Uiwang ICD Co., Ltd.	8,519,215	6,971,194	-	-
	Hanwha Station Development Co., Ltd.	2,116,514	2,114,388	245,565	137,660
		₩ 19,297,306	19,220,859	1,340,578	1,188,587

KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

45. RELATED PARTIES, Continued:

(3) Account balances with related companies as of December 31, 2017 and 2016, are as follows:

<i>(In thousands of won)</i>		Receivable		Payables	
		2017	2016	2017	2016
	Name				
Related companies	Dream Hub Project Financial Investment Co., Ltd.	₩ -	-	65,268,912	65,268,912
	Lotte Station Building Co., Ltd.	5,945	2,801	580,473	576,878
	Bucheon Station Building Co., Ltd.	-	1,118	43,579	244
	Bupyeong Department Store Co., Ltd.	-	11	13,881	13,580
	Bitplex Co., Ltd.	-	-	1,471	1,678
	Kwangwoon Univ. Station Building Co., Ltd	6,589	-	120	-
	Ansan Central Station Building Co., Ltd.	4,025	16,004	-	-
	Anyang Station Building Co., Ltd.	-	25,000	21,421	20,993
	Yongsan Development Co., Ltd.	360,529	360,529	-	-
	Uiwang ICD Co., Ltd.	1,018,817	709,259	761,553	837,787
	Shinsegae Uijeongbu Station Building Co., Ltd	-	-	11,973	-
	Hanwha Station Development Co., Ltd.	5,126	-	11,999	10,625
		₩ 1,401,031	1,114,722	66,715,382	66,730,697

KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

45. RELATED PARTIES, Continued:

(4) During the year ended December 31, 2017 and 2016, compensation to management is detailed as follows:

<i>(In thousands of won)</i>		2017	2016
Short-term employees benefits	₩	527,320	570,235
Accrual for retirement and severance benefits		30,758	25,928
	₩	<u>558,078</u>	<u>596,163</u>

(5) Short-term and long-term loans of the consolidation entity as of the end of the current term and the prior term are all loans to employees, as described in Note 12.

46. NON-CASH INVESTING AND FINANCING ACTIVITIES:

Major non-cash investing transactions and non-cash financing transactions not included in the statement of cash flows for the current term and the prior term are as follows.

<i>(In thousands of won)</i>		2017	2016
Reclassification of construction in progress to buildings	₩	464,513,224	753,635,137
Reclassification of current portion of long-term borrowings		30,000,000	31,300,000
Reclassification of current portion of bonds		1,372,390,750	1,862,550,000
Reclassification of long-term non-trade receivables to property, trains and equipment		2,049,028	26,282,528
Reclassification of prepayment to property, trains and equipment		601,491	-
Other account payables of property, trains and equipment acquisition amount		64,091	-

KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

47. COMMITMENTS AND CONTINGENCIES:

(1) Details of contingent liabilities as of December 31, 2017 and 2016, are as follows:

<i>(In thousands of won)</i>		<u>2017(*1)</u>	<u>2016(*2)</u>
Pending litigations(*1),(*)2)	₩	232,948,892	581,226,170

(*1) The Group is a defendant for 88 litigations, such as claims for payment of goods.

(*2) The Group was a defendant for 124 litigations, such as claims for payment of ordinary wages.

(2) Details of contingent assets as of December 31, 2017 and 2016, are as follows:

<i>(In thousands of won)</i>		<u>2017(*1)</u>	<u>2016(*2)</u>
Pending litigations(*1),(*)2)	₩	1,238,237,487	2,028,080,975

(*1) As of December 31, 2017, the total amount of the pending lawsuits and filed by the Group is 110, including strike claims.

(*2) As of December 31, 2016, the total amount of the pending lawsuits and filed by the Group was 106, including strike claims.

KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

47. COMMITMENTS AND CONTINGENCIES, Continued:

(3) Pledged assets and guarantees

(i) Assets pledged as collateral for the Group's borrowings as of December 31, 2017, are summarized as follows:

<i>(In thousands of won)</i>	Type of borrowings	Lender	Carrying amount	Guaranteed amount
Buildings	Guarantee money	Seoul Election Commission ₩	2,809,014	100,000
	Guarantee money	Hyundai Card Inc.		550,234
	Guarantee money	Hyundai Commercial Inc.		110,273
	Guarantee money	Kookmin Bank		180,000
	Guarantee money	Samsung Life Service Inc.		1,099,269
	Guarantee money	Samsung Life Service Inc.		370,962
Land and buildings		Samsung Fire&Marine		
	Guarantee money	Insurance Financial Service Co., Ltd.	137,131,253	102,258
	Guarantee money	KB Claims Survey & Adjusting Co., Ltd.		366,423
	Guarantee money	KakaoBank of Korea Co., Ltd.		1,090,827
	Guarantee money	Hyundai Capital Services, Inc.		253,541
			<u>139,940,267</u>	<u>4,223,787</u>

KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

47. COMMITMENTS AND CONTINGENCIES, Continued:

(3) Pledged assets and guarantees

(ii) Collaterals and guarantees provided by third parties on behalf of the Group as of December 31, 2017, are as follows:

<i>(In thousands of won)</i>	Type of guarantees		Amount
Seoul Guarantee Insurance Co., Ltd.(SGI)	Contract performance guarantee	KRW	2,938,365
Seoul Guarantee Insurance Co., Ltd.(SGI)	Contract performance guarantee	KRW	934,340
Seoul Guarantee Insurance Co., Ltd.(SGI)	Permission	KRW	119,523
Seoul Guarantee Insurance Co., Ltd.(SGI)	Deposition	KRW	1,316,355
Woori Bank	Payment guarantee in foreign currency	USD	358,536.30
Woori Bank	Other	USD	358,536.30
Woori Bank	Operating capital loans	KRW	2,000,000
Hana Bank	L/C (Import)	USD	55,229,947.55
Hana Bank	Operating capital loans	KRW	1,000,000
Kookmin Bank	Export cargo pre-arrival guarantee	EUR	2,137,476.66
Kookmin Bank	Payment guarantee in foreign currency	USD	2,488,426.06
Kookmin Bank	Payment guarantee in foreign currency	EUR	50,576,354.85
Kookmin Bank	Payment guarantee in foreign currency	JPY	68,086,308.00
Kookmin Bank	Payment guarantee in foreign currency	AUD	40,545.00
Kookmin Bank	Limit loan arrangement	KRW	2,000,000
Kookmin Bank	Card	KRW	1,000,000
Korea Speciality Contractor Financial Cooperative (KSCFC)	Contract guarantee	KRW	2,169,054
Korea Speciality Contractor Financial Cooperative (KSCFC)	construction warranties	KRW	649,307
Korea Speciality Contractor Financial Cooperative (KSCFC)	Warranty insurance	KRW	30,672
Electric Contractors' Financial Cooperative(ECFC)	Performance bonds	KRW	640,000

KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

48. TRANSACTIONS WITH THE GOVERNMENT AND OTHER PUBLIC INSTITUTIONS:

(1) Transactions with the Government and other public institutions for the years ended December 31, 2017 and 2016, are as follows.

(In thousands of won)		Revenue		Costs	
		2017	2016	2017	2016
Ministries	₩	357,865,464	425,239,656	30,429,824	29,209,892
Local governments		107,201,390	104,912,398	42,216,153	34,203,954
Public companies		34,080,477	4,331,306	377,853,107	340,665,945
Semipublic institutions		878,003,811	981,309,059	785,666,975	952,280,799
Other public institution		841,116,772	832,293,517	79,415,251	75,745,903
	₩	<u>2,218,267,914</u>	<u>2,348,085,936</u>	<u>1,315,581,310</u>	<u>1,432,106,493</u>

(2) Account balances with government and other public institutions as of December 31, 2017 and 2016, are as follows.

(In thousands of won)		Receivable		Payable	
		2017	2016	2017	2016
Ministries	₩	2,809,352	4,790,032	436,880	27,414
Local governments		6,116,299	9,762,776	161,604	162
Public companies		3,148,640	336,489	118,932	334
Semipublic institutions		202,408	404,028	4,387,889	200,008
Other public institution		21,885,640	19,823,089	14,936,380	15,744,672
	₩	<u>34,162,339</u>	<u>35,116,414</u>	<u>20,041,685</u>	<u>15,972,590</u>

(3) Government grants and receivables for entrusted business with the Government and other public institutions as of December 31, 2017 and 2016 are as follows.

(In thousands of won)		Government grants		receivables for entrusted business	
		2017	2016	2017	2016
Ministries	₩	63,322,374	68,713,017	161,896,688	73,928,076
Local governments		-	-	7,867,511	33,441,702
	₩	<u>63,322,374</u>	<u>68,713,017</u>	<u>169,764,199</u>	<u>107,369,778</u>

KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

49. DEVELOPMENT OF YONGSAN STATION AREA (INTERNATIONAL BUSINESS DISTRICT):

(1) Summary

In 2007, the Group had established the Dream Hub Project Financial Investment Co., Ltd. ("DHPFI") (the Group: 25.0%, City of Seoul (SH Construction): 4.9% and Dream Hub Consortium: 70.1%) with the Dream Hub Consortium and had proceeded with the development of Yongsan Station area. Due to a number of amendments to the contracts to cope with the economic recession and financing difficulty, the Board of Directors of the controlling company concluded that factors such as the default of DHPFI made it impossible to carry the project forward and decided to cancel the project in 2013.

(2) The progress of the project

In the prior period, the Group notified the business cancellation to DHPFI and the members of Dream Hub Consortium and claimed ₩240,000 million to SGI as a contract performance bond based on the project agreements and land disposal contracts. As a result, the Group recognized business cancellation losses of ₩4,662,000 million, primarily composed of uncollected proceeds from the original sale of the land that was to be developed into the Yongsan Station Area.

In 2013, the Group returned the payment of ₩2,416,700 million and regained the ownership on part of the land disposed to DHPFI (138,908.4 m², 38.97% of total area), which had been placed into a trust according to the real estate collateral trust agreement with Daehan Real Estate Trust Ltd. (the "Trust Company") in relation to the outstanding balance that DHPFI borrowed in order to purchase land in Yongsan from the Group. The Group also regained the land equivalent to the amount of the special buyback registration that expired during the year ended December 31, 2017 (1,288.3 m², 0.36% of total area). In addition, the Group has finally won a lawsuit of claim for land ownership transfer registration (ownership of the part of land entrusted to Daehan Real Estate Trust Co., Ltd. by DHPFI for financing purposes) against Daehan Real Estate Trust Co., Ltd. in 2017, the Group restored ownership of the part of land. (Land area 875.8m², 0.25%).

(3) Expectation of business

In October 2013, the Group appealed to the Tax Tribunal for rectification of the corporate tax amounting to ₩705,900 million related to the disposal of the land in Yongsan. In January 2014, the Group filed a lawsuit against DHPFI over the ownership of remaining area in Yongsan (216,295.1 m², 60.67% of total area) and has been planning to seek ways to regain and utilize the land.

KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

50. ACCOUNTING FOR BUSINESS DEPARTMENTS:

(1) The Group defines business departments as follows:

- 1) Passenger transport business : KTX, ITX-Saemaekul, Saemaekul, Moogoonghwa, Nuri and trains for commuters
- 2) Metro business : Passenger transport business for Seoul metro area and ITX-Chungcheong
- 3) Freight business : Freight and storage for industrial materials such as coal, cement
- 4) Other multiple business : Development of station area and overseas business
- 5) Yongsan : Development of Yongsan station area (Cancellation on April 2013)
- 6) Entrusted business : Maintenance of properties for trains, etc.
- 7) Others
- 8) Airport train : Acquired stock of Incheon International Airport Railroad (sell stock in 2015)

(2) Details of financial information of business departments as of and for the years ended December 31, 2017 and 2016 are as follows:

(In thousands of won)	2017				
	Assets	Liabilities	Revenue	Operating income(loss)	Net income(loss)
Passenger	₩ 10,092,332,822	9,320,372,507	2,618,164,197	81,990,532	(38,905,363)
Metro	3,951,307,548	774,515,885	1,063,152,042	(142,765,492)	(102,063,558)
Freight	2,419,096,886	4,491,570,657	402,411,695	(315,528,602)	(477,724,620)
Other multiple	2,031,224,874	272,207,639	52,112,555	21,314,040	43,628,639
Yongsan	3,008,512,311	1,992,678,024	-	(1,073,292)	(82,623,058)
Entrusted	663,096,797	863,898,549	918,551,631	(171,040,976)	(211,962,878)
Others	4,885,588	3,521,928	2,854,956	(1,195,044)	(1,162,867)
Airport train	442,333,022	-	-	-	8,527,744
Transactions between departments	(3,393,814,719)	(3,393,814,719)	-	-	-
Subsidiaries	886,923,837	448,762,003	1,094,779,078	58,325,303	49,722,723
Internal transactions	(227,555,915)	107,047,474	(365,317,409)	61,286	(42,964,742)
	₩ 19,878,343,051	14,880,759,947	5,786,708,745	(469,912,245)	(855,527,980)

KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

50. ACCOUNTING FOR BUSINESS DEPARTMENTS, Continued:

(2) Details of financial information of business departments as of and for the years ended December 31, 2017 and 2016 are as follows, Continued:

(In thousands of won)	2016				
	Assets	Liabilities	Revenue	Operating income(loss)	Net income(loss)
Passenger ₩	8,775,824,241	8,458,272,200	2,774,116,206	360,942,131	137,796,642
Metro	3,696,654,734	643,148,685	1,100,299,562	53,093,334	48,851,151
Freight	2,451,671,995	4,108,515,655	422,084,616	(229,825,235)	(349,326,401)
Other multiple	1,829,537,546	268,621,949	46,006,819	24,218,388	54,872,301
Yongsan	3,907,631,470	2,951,510,127	-	(1,004,057)	(57,831,670)
Entrusted	577,000,958	576,933,383	1,019,229,683	(53,307,277)	(45,297,363)
Others	5,888,203	3,332,608	3,394,954	(187,317)	(202,561)
Airport train	433,805,278	-	-	-	6,726,975
Transactions between departments	(3,737,484,770)	(3,737,484,770)	-	-	-
Subsidiaries	801,575,189	393,250,118	541,422,773	(29,892,651)	(14,215,771)
Internal transactions	(229,175,397)	78,045,882	(212,911,659)	(2,453,471)	(7,872,120)
₩	<u>18,512,929,447</u>	<u>13,744,145,837</u>	<u>5,693,642,954</u>	<u>121,583,845</u>	<u>(226,498,817)</u>

KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

**CONSOLIDATED FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED
DECEMBER 31, 2016 AND 2015**

ATTACHMENT: INDEPENDENT AUDITORS' REPORT

KOREA RAILROAD CORPORATION

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INDEPENDENT AUDITORS' REPORT

English Translation of the Independent Auditors' Report Originally Issued in Korean on March 22, 2017

To the Shareholder and Board of Directors of
Korea Railroad Corporation:

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Korea Railroad Corporation and its subsidiaries (the "Group"), which comprise the consolidated statements of financial position as of December 31, 2016 and 2015, respectively, and the consolidated statements of comprehensive income, consolidated statements of changes in the shareholder's equity and consolidated statements of cash flows for the years ended December 31, 2016 and 2015, and 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 Government-owned and Quasi-government Accounting Regulations and 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 audit opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Korean Standards on Auditing ("KSAs"). Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence 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 financial position of the Group as of December 31, 2016 and 2015, and its financial performance and its cash flows for the years ended December 31, 2016 and 2015, in accordance with Korean Government-owned and Quasi-government Accounting Regulations and Standards.

A handwritten signature in dark ink that reads "Deloitte Anjin LLC". The signature is written in a cursive, flowing style.

March 22, 2017

Notice to Readers

This report is effective as of March 22, 2017, the auditors' report date. Certain subsequent events or circumstances may have occurred between the auditors' report date and the time the auditors' report is read. Such events or circumstances could significantly affect the financial statements and may result in modifications to the auditors' report.

KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

The accompanying consolidated financial statements, including all footnote disclosures, were prepared by, and are the responsibility of, Korea Railroad Corporation.

Hong Soon Man
Chief Executive Officer
Korea Railroad Corporation

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KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

Consolidated Statements of Financial Position

As of December 31, 2016 and 2015

<i>(In thousands of Korean won)</i>	<i>Note</i>	2016	2015
Assets			
Cash and cash equivalents	7,8,28,44	₩ 374,092,586	208,608,820
Short-term financial instruments	7,13,43,44	16,841,649	32,576,051
Short-term loans	12,43,44	113,562	208,376
Current derivative instrument assets	9,43,44	44,554,993	10,597,473
Trade receivables and other receivables	10,43,44	357,860,661	448,694,904
Inventories	14,28	231,787,194	198,904,170
Prepaid income taxes		978,984	9,045,777
Current non-financial assets	15	45,355,964	37,028,152
Non-current assets held for sale	40,50	24,537,493	7,073,397
Total current assets		1,096,123,086	952,737,120
Long-term financial instruments	7,13,43,44	18,755	18,755
Non-current available-for-sale financial assets	11,43,44	38,016,648	34,305,585
Long-term loans, net	12,43,44,37	42,138,014	45,372,294
Non-current derivative instrument assets	9,43,44	22,248,201	51,986,225
Long-term trade receivables and other receivables	10,43,44	541,031,492	566,059,152
Property, trains and equipment, net	17,25,28	16,296,122,523	15,957,921,127
Investment property	18,28	167,251,889	302,831,192
Goodwill	20	3,732,906	3,732,906
Intangible assets, net	21	69,819,653	60,773,916
Investment in associates	16	209,932,877	205,237,753
Deferred tax assets	39	17,800,091	8,348,188
Non-current non-financial assets	15	8,693,312	9,381,075
Total non-current assets		17,416,806,361	17,245,968,168
Total assets		₩ 18,512,929,447	18,198,705,288

Continued

KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

Consolidated Statements of Financial Position, Continued

As of December 31, 2016 and 2015

<i>(In thousands of Korean won)</i>	<i>Note</i>	2016	2015
Liabilities			
Trade payables and other payables	22,43,44	₩ 619,193,264	646,169,452
Short-term borrowings	23,43,44	10,448,562	221,589,755
Current portion of long-term borrowings, net	23,43,44	31,300,000	30,812,500
Current portion of bonds, net	23,43,44	1,862,112,178	1,523,667,779
Current derivative instrument liabilities	9,43,44	-	1,491,143
Current tax liabilities		828,299	528,324
Current non-financial liabilities	29	177,801,331	219,232,807
Current provisions	27	206,980,388	163,173,475
Total current liabilities		2,908,664,022	2,806,665,235
Long-term trade payables and other payables	22,43,44	32,754,691	1,503,451
Long-term borrowings, net	23,43,44	115,783,210	133,000,000
Bonds, net	23,43,44	9,556,404,272	9,375,550,460
Non-current derivative instrument liabilities	9,43,44	4,352,442	6,790,303
Other non-current financial liabilities	24,43	147,600,000	96,270,000
Non-current non-financial liabilities	29	14,508,715	18,300,354
Employee benefits	26	746,954,783	794,191,430
Deferred tax liabilities	39	21,252,523	7,163,791
Provisions	27	195,871,179	210,750,774
Total non-current liabilities		10,835,481,815	10,643,520,563
Total liabilities		13,744,145,837	13,450,185,798
Equity			
Share capital	1,30	10,103,893,478	9,989,037,477
Accumulated deficit	31,32	(8,387,695,695)	(8,283,041,210)
Other equity components	33	2,930,482,691	2,950,694,593
Equity attributable to owners of the Group		4,646,680,474	4,656,690,860
Non-controlling interests (NCIs)		122,103,136	91,828,630
Total equity		4,768,783,610	4,748,519,490
Total liabilities and equity	₩	18,512,929,447	18,198,705,288

Concluded

See notes to consolidated financial statements.

KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

Consolidated Statements of Comprehensive Income

For the years ended December 31, 2016 and 2015

<i>(In thousands of Korean won)</i>	<i>Note</i>	2016	2015
Revenues	6,19,34,42 ₩	5,693,642,954	5,516,031,289
Cost of sales	41,42	(5,232,444,886)	(5,108,949,751)
Gross profit		461,198,068	407,081,538
Selling, general and administrative expense	35,41	(339,614,223)	(293,507,610)
Operating income	6	121,583,845	113,573,928
Other revenue	36	34,028,813	22,664,151
Other expenses	36	(52,909,518)	(33,651,492)
Other income, net	36	56,298,826	69,621,406
Finance income	37	45,486,738	102,669,751
Finance expense	38	(454,327,503)	(572,122,499)
Gains on valuation of investments in associates	16	19,411,657	20,877,283
Losses on valuation of investments in associates	16	(1,571,361)	-
Loss before income tax benefit from continuing operation		(231,998,503)	(276,367,472)
Income tax benefit from continuing operation	39	5,499,686	219,431,766
Loss from continuing operation		(226,498,817)	(56,935,706)
Income from discontinued operation	51	-	143,331,671
Income (loss) for the year		(226,498,817)	86,395,965
Other comprehensive income, net of tax			
Defined benefit plan actuarial gain, net of tax		96,439,207	52,103,843
Asset revaluation gain, net of tax		36,495,587	-
Unrealized net changes in the effective portion of changes in the fair value of cash flow hedges, net of tax		930,000	21,266,250
Unrealized net changes in the fair value of available-for-sale financial assets		(2,513,841)	869,301
Changes in equity of equity method investments		1,072,493	1,429,401
Other comprehensive income for the year, net of tax		132,423,446	75,668,795
Total comprehensive income (loss) for the year		(94,075,371)	162,064,760
Profit (loss) attributable to:			
Owners of the Company		(205,843,322)	82,289,572
NCIs		(20,655,495)	4,106,393
Profit (Loss) for the year	₩	(226,498,817)	86,395,965

Continued

KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES
Consolidated Statements of Comprehensive Income, Continued

For the years ended December 31, 2016 and 2015

	<u>Note</u>	<u>2016</u>	<u>2015</u>
Total comprehensive income (loss) attributable to:			
Owners of the Company		(73,357,847)	158,136,648
NCIs		<u>(20,717,524)</u>	<u>3,928,112</u>
Total comprehensive income (loss) for the year	₩	<u>(94,075,371)</u>	<u>162,064,760</u>

Concluded

See notes to consolidated financial statements.

KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

Consolidated Statements of Changes in Shareholder's Equity

For the years ended December 31, 2016 and 2015

<i>(In thousands of Korean won)</i>	<u>Common stock</u>	<u>Accumulated deficit</u>	<u>Other equity components</u>	<u>Equity attributable to owners of the Company</u>	<u>Non-controlling interests</u>	<u>Total Equity</u>
Balance at January 1, 2015	₩ 9,598,883,509	(8,458,108,034)	3,014,850,161	4,155,625,636	191,620,831	4,347,246,467
Total comprehensive income (loss) for the year:						
Profit for the year	-	82,289,572	-	82,289,572	4,106,393	86,395,965
Defined benefit plan actuarial gains, net of tax	-	51,925,576	-	51,925,576	178,267	52,103,843
Asset revaluation gain, net of tax	-	38,750,535	(38,750,535)	-	-	-
Unrealized net change in the effective portion of changes in the fair value of cash flow hedges, net of tax	-	-	21,266,250	21,266,250	-	21,266,250
Unrealized net change in the fair value of available-for-sale financial assets, net of tax	-	-	869,287	869,287	15	869,302
Change in equity of equity method investments, net of tax	-	-	1,429,401	1,429,401	-	1,429,401
Total comprehensive income (loss) for the year	-	172,965,683	(15,185,597)	157,780,086	4,284,675	162,064,761
Transactions with owners of the Company, recognized directly in equity						
Issuance of common stock	390,310,173	-	(42,667,870)	347,642,303	42,667,870	390,310,173
Dividends to owners of the Company	-	-	-	-	(119,625)	(119,625)
Total transactions with owners of the Company	390,310,173	-	(42,667,870)	347,642,303	42,548,245	390,190,548
Changes in the scope of consolidation	-	-	-	-	(152,517,828)	(152,517,828)
Others	(156,204)	2,101,141	(6,302,101)	(4,357,164)	5,892,710	1,535,545
Balance at December 31, 2015	₩ 9,989,037,478	(8,283,041,210)	2,950,694,593	4,656,690,861	91,828,630	4,748,519,490
Continued						

KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

Consolidated Statements of Changes in Shareholder's Equity, Continued

For the years ended December 31, 2016 and 2015

<i>(In thousands of Korean won)</i>	<u>Common stock</u>	<u>Accumulated deficit</u>	<u>Other equity components</u>	<u>Equity attributable to owners of the Company</u>	<u>Non-controlling interests</u>	<u>Total Equity</u>
Balance at January 1, 2016	₩ 9,989,037,478	(8,283,041,210)	2,950,694,593	4,656,690,861	91,828,630	4,748,519,490
Total comprehensive income (loss) for the year:						
Loss for the year	-	(205,843,322)	-	(205,843,322)	(20,655,495)	(226,498,817)
Defined benefit plan actuarial gains, net of tax	-	96,501,254	-	96,501,254	(62,047)	96,439,207
Asset revaluation gain, net of tax	-	-	36,495,587	36,495,587	-	36,495,587
Reclassification of asset revaluation gain	-	4,694,905	(4,694,905)	-	-	-
Unrealized net change in the effective portion of changes in the fair value of cash flow hedges, net of tax	-	-	930,000	930,000	-	930,000
Unrealized net change in the fair value of available-for-sale financial assets, net of tax	-	-	(2,513,860)	(2,513,860)	19	(2,513,841)
Change in equity of equity method investments, net of tax	-	-	1,072,493	1,072,493	-	1,072,493
Total comprehensive income (loss) for the year	-	(104,647,163)	31,289,315	(73,357,848)	(20,717,523)	(94,075,371)
Transactions with owners of the Company, recognized directly in equity						
Issuance of common stock	114,856,000	-	(51,330,000)	63,526,000	51,330,000	114,856,000
Dividends to owners of the Company	-	-	-	-	(255,762)	(255,762)
Total transactions with owners of the Company	114,856,000	-	(51,330,000)	63,526,000	51,074,238	114,600,238
Others	-	(7,322)	(171,217)	(178,539)	(82,209)	(260,748)
Balance at December 31, 2016	₩ 10,103,893,478	(8,387,695,695)	2,930,482,691	4,646,680,474	122,103,136	4,768,783,610

Concluded

See notes to consolidated financial statements.

KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

Consolidated Statements of Cash Flows

For the years ended December 31, 2016 and 2015

(In thousands of Korean won)

	<u>Note</u>	<u>2016</u>	<u>2015</u>
			-
Cash flows from operating activities			-
Income (loss) for the year	₩	(226,498,817)	86,395,965
Adjustments for:			
Income tax benefit		(5,499,686)	(219,431,766)
Bad debt expenses		11,460,328	2,060,605
Other bad debt expenses		6,778,336	661,248
Losses from inventory obsolescence		-	94
Losses from inventory evaluation		73,700	324,913
Depreciation		488,639,896	448,104,164
Depreciation of investment property		2,749,712	2,417,379
Amortization of intangible assets		9,975,120	8,168,546
Losses on sale of property, trains and equipment		2,890,313	1,697,091
Impairment losses on property, trains and equipment		9,959,565	6,981,417
Losses on valuation of investments in associates		1,571,362	-
Impairment losses on non-current assets		29,035	-
Losses on disposal of non-current assets held for sale		1,117,530	255,706
Retirement benefits		173,109,084	166,161,696
Increase in provisions for pending litigations		11,951,766	417,355
Gains on disposal of available-for-sale financial assets		(550)	-
Losses on disposal of available-for-sale financial assets		32	2,161
Losses on disposal of held-to-maturity financial assets		-	5,255
Losses on valuation of derivative instruments		2,496,900	2,767,350
Losses on settlement of derivative instruments		11,000,000	1,960,000
Losses on earlier settlement of financial liabilities than expected		-	2,212,192
Interest expenses		420,012,978	480,668,462
Foreign currency translation losses		20,737,905	81,887,159
Other expenses		-	212,751
Other losses		222,240	-
Reversal of other allowance for doubtful accounts		(1,108)	(42,270)
Gains on sale of property, trains and equipment		(5,370,339)	(1,011,843)
Gains on disposal of non-current assets held for sale		(13,925,259)	(47,599,819)
Reversal of provisions for restoration		(30,784,903)	(12,880,702)
Reversal of provisions for pending litigations		(2,086,275)	(5,263,820)
Gains on assets contributed		(12,500)	(1,301,721)
Receipt of government grants		(1,136,918)	-

Continued

KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

Consolidated Statements of Cash Flows, Continued

For the years ended December 31, 2016 and 2015

	<i>Note</i>	2016	2015
	₩		
Foreign currency translation gains		(2,563,753)-	(2,769,236)-
Gains on valuation of derivative instruments		(20,715,400)	(81,885,400)
Gains on valuation of investments in associates		(19,411,657)	(20,877,283)
Interest income		(9,751,220)	(17,035,301)
Dividend income		(781,306)	(848,084)
Other income		(300,000)	(73,296)
Changes:		(112,030,656)	(76,338,998)
- inventories		(32,956,723)	(5,737,422)
- trade receivables		72,256,963	(54,746,990)
- other account receivables		380,447	(931,333)
- prepayments		(6,913,387)	14,340,554
- prepaid expenses		(65,885)	4,842,584
- other current financial assets		(2,700,212)	(3,123,339)
- long-term prepaid expenses		2,672,217	2,190,375
- employee benefits		(124,112,827)	(79,861,817)
- provisions for pending litigations		-	(31,579)
- provisions for restoration		(1,516,801)	-
- provisions for repairing defects		(157,591)	(318,131)
- other current non-financial liabilities		4,614,621	-
- other provisions		-	(114,473)
- long-term advances received		381,631	197,312
- long-term unearned revenues		(4,173,269)	(2,878,864)
- trade payables		(23,011,216)	9,549,763
- other account payables		32,574,529	(1,900,898)
- deposits received for guarantee		-	(4,396,575)
- withholdings		(60,059,828)	12,527,736
- advances received		(1,801,678)	(13,416,593)
- accrued expenses		(27,063,969)	31,374,759
- unearned revenues		15,815,408	6,078,289
- employee provisions		43,806,914	10,017,644
Cash generated from operating activities		723,905,453	806,001,970
Income taxes paid		18,784,781	220,452,972
Other outflow from operating activities		-	(88,942,713)
Net cash provided by operating activities		742,690,234	937,512,229

Continued

KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

Consolidated Statements of Cash Flows, Continued

For the years ended December 31, 2016 and 2015

	<i>Note</i>	2016	2015
Cash flows from investing activities			
Proceeds from sales of short-term financial instruments	₩	-	800
Proceeds from available-for-sale financial instruments		129,054	-
Decrease in long-term loans		11,398,561	12,095,826
Decrease in leasehold deposits		2,269,599	26,382,814
Proceeds from sale of non-current assets held for sale		75,946,317	1,757,946,188
Proceeds from sale of property, trains and equipment		6,770,789	2,576,125
Proceeds from sales of investment property		-	747,520
Decrease in short-term financial instruments		47,362,237	28,035,938
Decrease in short-term loans		94,813	425,248
Interest received		7,070,268	15,298,327
Dividends received		14,809,337	848,084
Acquisition of property, trains and equipment		(905,808,569)	(986,536,465)
Acquisition of intangible assets		(21,169,201)	(391,488)
Acquisition of available-for-sale financial instruments		(6,106,692)	(4,548,620)
Increase in long-term loans		(7,463,444)	(8,561,457)
Increase in deposits		(3,533,748)	(29,838,616)
Increase in short-term financial instruments		(31,627,836)	(44,212,356)
Increase in short-term loans		-	(77,172)
Loss of control in associates		-	(5,217,746)
Other outflow from investing activities		-	(80,909,429)
Net cash provided by(used in) investing activities	47	(809,858,515)	684,063,521

Continued

KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

Consolidated Statements of Cash Flows, Continued

For the years ended December 31, 2016 and 2015

	<i>Note</i>	2016	2015
Cash flows from financing activities			
Proceeds from issuance of share capital		166,186,000	439,280,173
Increase in borrowings		276,053,562	454,889,755
Settlements of currency swap transactions		36,349,009	-
Government grants received		52,902,624	116,790,947
Issuance of debt securities		2,022,374,521	-
Increase in rental deposits		35,038,350	-
Interest paid		(409,457,206)	(468,961,254)
Increase in discount on stock issuance		-	(167,947)
Decrease in borrowings		(503,707,255)	(261,678,864)
Settlement of currency swap transactions		-	(10,920,000)
Settlement of bonds		-	(232,212,191)
Redemption of current portion of long-term liabilities		(1,524,400,000)	(1,849,840,000)
Decrease in rental deposits		(3,736,953)	-
Dividends paid		(255,762)	-
Net cash provided by (used in) financing activities	<i>47</i>	<u>147,346,890</u>	<u>(1,812,819,381)</u>
Net decrease in cash and cash equivalents		80,178,609	(191,243,631)
Effect of exchange rate fluctuations on cash held		(13,832)	(32,554)
Cash and cash equivalents at January 1		470,010,604	661,286,789
Cash and cash equivalents at December 31		<u>550,175,381</u>	<u>470,010,604</u>
Government grants		(68,713,017)	(116,190,367)
Fund for trustee business from governments		(107,369,778)	(145,211,417)
Net Cash and cash equivalents	₩	<u><u>374,092,586</u></u>	<u><u>208,608,820</u></u>

Concluded

See notes to consolidated financial statements.

KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

As of and for the years ended December 31, 2016 and 2015

1. GENERAL INFORMATION:

(1) Description of the controlling company

Korea Railroad Corporation (the “Company”) was incorporated on January 1, 2005, to engage in passenger and freight transportation services under the Korea Railroad Act. As of December 31, 2016, the Company’s paid-in capital amounted to ₩10,108,885 million, and the Company is wholly owned by the Government of the Republic of Korea. The consolidated financial statements were authorized for issue by the Board of Directors on February 23, 2017.

The main businesses of the Company are as follows:

- i. Businesses related to passenger and freight transportation and linking other means of transportation via railroad
- ii. Manufacturing, selling, maintaining and leasing railroad equipment
- iii. Maintaining and leasing passenger cars and rolling stocks
- iv. Businesses entrusted by state and local autonomous entity or public institution for various matters, including maintenance of railroad facilities
- v. Developing and operating train station facilities related to sales, operations, cultural activities, meetings and administration of parking lot, accommodations, passenger and freight terminal
- vi. Businesses, such as distribution service, tourism business, overseas business, technology development and manpower development

(2) Consolidated subsidiaries

1) Consolidated subsidiaries as of December 31, 2016 and 2015, are detailed as follows:

Company	Location	Reporting date	Ownership (%)		Industry
			Dec. 31, 2016	Dec. 31, 2015	
KORAIL Retail Co., Ltd.	Republic of Korea	Dec. 31	100%	100%	Retail
KORAIL Networks Co., Ltd.	Republic of Korea	Dec. 31	98.98%	98.98%	Service industry
KORAIL Logis Co., Ltd.	Republic of Korea	Dec. 31	97.23%	97.23%	Railroad cargo business
KORAIL Tourism Development Co., Ltd.	Republic of Korea	Dec. 31	60.80%	60.80%	Service industry
KORAIL Tech Co., Ltd.	Republic of Korea	Dec. 31	97.98%	97.98%	Railway track construction
SR Co., Ltd.	Republic of Korea	Dec. 31	41%	41%	Railroad transportation
Korean Insurance Brokerage Co., Ltd.	Republic of Korea	Dec. 31	98.98%	98.98%	Insurance brokerage business

2) The financial information of subsidiaries as of December 31, 2016 and 2015, is summarized as follows:

(In thousands of Korean won)

Company		2016			
		Total assets	Total liabilities	Total revenue	Total net income (loss)
KORAIL Retail Co., Ltd.	₩	297,354,889	142,401,366	270,541,630	15,157,435
KORAIL Networks Co., Ltd.		40,371,165	13,933,342	81,339,525	6,006,600
KORAIL Logis Co., Ltd.		13,193,466	12,628,225	50,709,345	47,138
KORAIL Tourism Development Co., Ltd.		17,195,879	8,377,574	60,326,427	(4,132,127)
KORAIL Tech Co., Ltd.		22,043,430	5,691,331	47,243,372	776,523
SR Co., Ltd.		409,505,266	209,999,502	30,156,577	(32,398,301)
Korean Insurance Brokerage Co., Ltd.		1,911,093	218,778	1,105,897	326,962

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(In thousands of Korean won)

Company		2015			
		Total assets	Total liabilities	Total revenue	Total net income (loss)
KORAIL Retail Co., Ltd.	₩	228,416,964	117,316,463	247,025,757	16,133,074
KORAIL Networks Co., Ltd.		36,923,078	13,896,717	83,556,917	5,238,945
KORAIL Logis Co., Ltd.		15,137,454	14,619,350	52,041,798	(403,361)
KORAIL Tourism Development Co., Ltd.		19,772,207	6,661,775	69,539,002	535,664
KORAIL Tech Co., Ltd.		18,928,153	2,775,785	38,098,844	1,241,396
SR Co., Ltd.		155,749,204	10,338,076	-	(10,283,177)
Korean Insurance Brokerage Co., Ltd.		1,810,903	225,550	1,368,729	435,940

3) Subsidiaries whose NCIs are significant to the Group are detailed as follows:

i) Proportion held by NCIs as of December 31, 2016 and 2015, is as follows:

Company	2016	2015	Location
SR Co., Ltd.	59%	59%	Republic of Korea

ii) Distribution to NCIs for the year ended December 31, 2016, is as follows:

(In thousands of Korean won)

Company		Profit distributed to NCIs	Accumulated NCIs	Location
SR Co., Ltd	₩	(19,532,688)	(21,916,564)	Republic of Korea

4) Subsidiaries whose NCIs are significant to the Group are detailed as follows: Continued

iii) Financial statements of subsidiaries whose NCIs are significant to the Group as of December 31, 2016, are summarized as follows:

- Statements of Financial Position and Comprehensive Income

						<i>(In thousands of Korean won)</i>		
<u>Company</u>		<u>Current assets</u>	<u>Non-current assets</u>	<u>Current liability</u>	<u>Non-current liability</u>	<u>Revenue</u>	<u>Income for the year</u>	<u>Comprehensive income</u>
SR Co., Ltd.	₩	64,600,919	344,904,347	17,725,209	192,274,293	30,156,577	(32,398,301)	(32,487,764)

- Statement of Cash flows

						<i>(In thousands of Korean won)</i>	
<u>Company</u>		<u>Cash flows from operating activities</u>	<u>Cash flows from investing activities</u>	<u>Cash flows from financing activities</u>	<u>Other cash flows</u>	<u>Net increase in cash and cash equivalents</u>	
SR Co., Ltd.	₩	(44,965,204)	(253,825,617)	276,346,500	-	(22,444,321)	

2. BASIS OF PREPARATION:

The consolidated financial statements have been prepared in accordance with Korean Government-owned and Quasi-government Accounting Regulation and Standards and Korean International Financial Reporting Standards (“K-IFRS”), as prescribed in the Act on External Audits of Corporations in the Republic of Korea. Meanwhile, except for requirements set forth in the regulation, the Group adopted K-IFRS for the reporting period beginning as of January 1, 2011, and in accordance with K-IFRS 1101, First-time Adoption of Korean International Financial Reporting Standards, the date of transition to K-IFRS is January 1, 2010.

(1) Accounting standards that the Group adopted in accordance with Korean Government-owned and Quasi-government Accounting Regulation and Standards are as follows:

(i) Government Subsidies (Article 44: Accounting of Government Subsidies)

Government subsidies used for the acquisition of certain assets are deducted from the acquisition cost of the acquired assets and such subsidies are offset against the depreciation expenses of the acquired assets during the useful lives of the assets. Government subsidies received for consignment management services provided by the Group are recognized as operating revenue.

(ii) Recognition of Revenue and Expenses Related to Consignment Management Services (Article 48)

The Group recognizes funds received for consignment management services as revenue and expenses or assets and liabilities when the funds are executed. The Group does not offset the funds received.

(iii) Contribution to the Employee Welfare Fund (Article 49)

The Group contributes to the employee welfare fund, and contributions are recognized as operating expenses in accordance with Employee Welfare Fund Act.

(2) Amendments to K-IFRSs affecting amounts reported in the consolidated financial statements

(i) Amendments to K-IFRS 1110 – Consolidated Financial Statements, K-IFRS 1112 (Revised) – Disclosure of interests in other entities and K-IFRS 1028 (Revised) – 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 joint venture used for its subsidiaries. The application of these amendments has no material impact on the disclosures or the amounts recognized in the Group's consolidated financial statements.

(ii) 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 material impact on the disclosures or the amounts recognized in the Group's consolidated financial statements.

(iii) 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 material impact on the disclosures or the amounts recognized in the Group's consolidated financial statements.

(iv) 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 material impact on the disclosures or the amounts recognized in the Group's consolidated financial statements.

(v) Amendments to K-IFRS 1038 – Intangible Assets

The amendments to K-IFRS 1038 do not allow the presumption that revenue is an appropriate basis for the amortization of intangible assets; the presumption can only be limited when the 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 material impact on the disclosures or the amounts recognized in the Group's consolidated financial statements.

(vi) Amendments to K-IFRS 1016 – Property, plant and equipment and K-IFRS 1041 – Agriculture: Bearer Plants

The amendments to K-IFRS 1016 – Property, Plant and Equipment and K-IFRS 1041 – Agriculture 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 material impact on the disclosures or the amounts recognized in the Group's consolidated financial statements.

(vii) Annual Improvements to K-IFRS 2012-2014 cycle

The annual improvements include amendments to a number of K-IFRSs. The amendments introduce specific guidance in K-IFRS 1105, Non-current Assets Held for Sale and Discontinued Operations, when an entity reclassifies an asset (or disposal group) from held for sale to held for distribution to owners (or vice versa); such a change is considered as a continuation of the original plan of disposal, and not as a change to a plan of sale. Other amendments in the annual improvements include K-IFRS 1107, Financial Instruments: Disclosures, K-IFRS 1019, Employee Benefits and K-IFRS 1034, Interim Financial Reporting. The application of these amendments has no material impact on the disclosures or the amounts recognized in the Group's consolidated financial statements.

(3) New and revised K-IFRSs in issue, but not yet effective

The Group has not applied the following new and revised K-IFRSs that have been issued, but are not yet effective.

(i) Amendments to K-IFRS 1109 – Financial Instruments

The amendments to K-IFRS 1109 contain the requirements for the classification and measurement of financial assets and financial liabilities based on a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets and based on the contractual terms that give rise on specified dates to cash flows, impairment methodology based on the expected credit losses, broadened types of instruments that qualify as hedging instruments, the types of risk components of non-financial items that are eligible for hedge accounting and the change of the hedge effectiveness test. The amendments are effective for annual periods beginning on or after January 1, 2018.

(ii) Amendments to K-IFRS 1115 – Revenue from Contracts with Customers

The core principle under K-IFRS 1115 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The amendments introduce a five-step approach to revenue recognition and measurement: 1) Identify the contract with a customer, 2) Identify the performance obligations in the contract, 3) Determine the transaction price, 4) Allocate the transaction price to the performance obligations in the contract and 5) Recognize revenue when (or as) the entity satisfies a performance obligation. This standard will supersede K-IFRS 1011 - Construction Contracts, K-IFRS 1018- Revenue, K-IFRS 2113 - Customer Loyalty Programs, 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.

(iii) Amendments to K-IFRS 1102—Share-based Payment

The amendments include: 1) when measuring the fair value of share-based payment, the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payment should be consistent with the measurement of equity-settled share-based payment; 2) Share-based payment transaction in which the Group settles the share-based payment arrangement net by withholding a specified portion of the equity instruments per statutory tax withholding requirements would be classified as equity settled in its entirety (it otherwise would be classified as equity settled without the net settlement feature); and 3) when a cash-settled share-based payment changes to an equity-settled share-based payment because of modifications of the terms and conditions, the original liability recognized is derecognized and the equity-settled share-based payment is recognized at the modification-date fair value. Any difference between the carrying amount of the liability at the modification date and the amount recognized in equity at the same date would be recognized in profit and loss immediately. The amendments are effective for annual periods beginning on or after January 1, 2018.

(iv) Amendments to K-IFRS 1007 – Statement of Cash Flows

The amendments require that changes in liabilities arising from financial activities are disclosed. The amendments are effective for annual periods beginning on or after January 1, 2017.

(v) Amendments to K-IFRS 1012 – Income Taxes

The amendments clarify that unrealized losses on fixed-rate debt instruments measured at fair value and measured at cost for tax purposes give rise to a deductible temporary difference regardless of whether the holder expects to recover the carrying amount of the debt instrument by sale or by use, and that the estimate of probable future taxable profit may include the recovery of some of assets for more than their carrying amount. When the Group assesses whether there will be sufficient taxable profit, the Group should compare the deductible temporary differences with future taxable profit that excludes tax deductions resulting from the reversal of those deductible temporary differences. The amendments are effective for annual periods beginning on or after January 1, 2017.

The Group is evaluating the effect of the above-mentioned amendments on the Group's consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES:

The significant accounting policies applied by the Group in preparation of its consolidated financial statements are included below. The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, except for the changes in accounting policies as explained in Note 2.

(1) Basis of consolidation

(i) Business combinations

A business combination is accounted for by applying the acquisition method, unless it is a combination involving entities or business under common control.

The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested for impairment annually and whenever any symptom implicating impairment appears. Any gain on a bargain purchase is recognized in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities. The costs to issue debt or equity securities are recognized in accordance with K-IFRS No. 1032, 'Financial Instruments: Presentation' and K-IFRS No. 1039, 'Financial Instruments: Recognition and Measurement.'

The consideration transferred does not include amounts related to the settlement of preexisting relationships. Such amounts are generally recognized in profit or loss.

Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognized in profit or loss.

If share-based payment awards (replacement awards) are required to be exchanged for awards held by the acquiree's employees (acquiree's awards), then all or a portion of the amount of the acquirer's replacement awards is included in measuring the consideration transferred in the business combination. This determination is based on the market-based measure of the replacement awards compared with the market-based measure of the acquiree's awards and the extent to which the replacement awards relate to precombination service.

(ii) NCIs

NCIs are measured at their proportionate share of the acquiree's identifiable net assets at the acquisition date.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

(iii) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

(iv) Loss of control

When the Group loses control over a subsidiary, it derecognizes the assets and liabilities of the subsidiary and any related NCI and other components of equity. Any resulting gain or loss is recognized in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

(v) Interests in equity-accounted investees

The Group's interests in equity-accounted investees comprise interests in associates and a joint venture.

Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies. A joint venture is an arrangement in which the Group has joint control, whereby the Group has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities.

Interests in associates and the joint venture are accounted for using the equity method. They are recognized initially at cost, which includes transaction costs. Subsequent to initial recognition, the consolidated financial statements include the Group's share of the profit or loss and Other Comprehensive Income of equity-accounted investees, until the date on which significant influence or joint control ceases.

(vi) Transactions eliminated on consolidation

Intragroup balances and transactions and any unrealized income and expenses arising from intragroup transactions are eliminated. Unrealized gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

(vii) Acquisitions from entities under common control

Business combinations arising from transfers of interests in entities that are under the control of the shareholder that controls the Group are accounted for as if the acquisition had occurred at the beginning of the earliest comparative period presented or, if later, at the date that common control was established; for this purpose, comparatives are revised. The assets and liabilities acquired are recognized at the carrying amounts recognized previously in the Group controlling the shareholder's consolidated financial statements. The components of equity of the acquired entities are added to the same components within Group equity, except that any share capital of the acquired entities is recognized as part of share premium.

(2) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value and are used by the Group in the management of its short-term commitments.

(3) Inventories

The cost of inventories is based on the first-in, first-out principle and includes expenditures for acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

Inventories are measured at the lower of cost or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. 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.

(4) Non-derivative financial assets

The Group recognizes and measures non-derivative financial assets by the following four categories: financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables and available-for-sale financial assets. The Group recognizes financial assets in the consolidated statements of financial position when the Group becomes a party to the contractual provisions of the instrument.

Upon initial recognition, non-derivative financial assets are measured at their fair value, plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the asset's acquisition or issuance.

(i) Financial assets at fair value through profit or loss

Financial assets are classified as at fair value through profit or loss when the financial asset is a contingent consideration that may be paid by an acquirer as part of business combination to which K-IFRS 1103 applies. Financial assets at fair value through profit or loss 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 gains and losses' line item in the consolidated statements of comprehensive income.

(ii) Held-to-maturity investments

A non-derivative financial asset with a fixed or determinable payment and fixed maturity, for which the Group has the positive intention and ability to hold to maturity, are classified as held-to-maturity investments. Subsequent to initial recognition, held-to-maturity investments are measured at amortized cost using the effective interest method.

(iii) Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables are measured at amortized cost, less any impairment using the effective interest method, except for loans and receivables on which the effect of discounting is immaterial.

(iv) Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified as financial assets at fair value through profit or loss, held-to-maturity investments or loans and receivables. Subsequent to initial recognition, they are measured at fair value. Except for impairment loss that is recognized in profit and loss, interest income that is calculated using the effective interest method and gain and loss on foreign currency translation of monetary financial assets, changes in fair value are recognized in other comprehensive income. Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost.

(v) Derecognition of financial assets

The Group derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognized as a separate asset or liability.

If the Group retains substantially all the risks and rewards of ownership of the transferred financial assets, the Group continues to recognize the transferred financial assets and recognize financial liabilities for the consideration received.

(vi) Offsetting between financial assets and financial liabilities

Financial assets and financial liabilities are offset and the net amount is presented in the consolidated statement of financial position only when the Group currently has a legally enforceable right to offset the recognized amounts and there is the intention to settle on a net basis or realize the asset and settle the liability simultaneously.

(5) Derivative financial instruments, including hedge accounting

Derivatives are initially recognized at fair value. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below.

(i) Hedge accounting

The Group holds forward exchange contracts, interest rate swaps, currency swaps and other derivative contracts to manage interest rate risk and foreign exchange risk. The Group designated derivatives as hedging instruments to hedge the risk of changes in the fair value of assets, liabilities or firm commitments (a fair value hedge) and foreign currency risk of highly probable forecasted transactions or firm commitments (a cash flow hedge).

On initial designation of the hedge, the Group formally documents the relationship between the hedging instrument(s) and hedged item(s), including the risk management objectives and strategy in undertaking the hedge transaction, together with the methods that will be used to assess the effectiveness of the hedging relationship.

Fair value hedge

Changes in the fair value of a derivative hedging instrument designated as a fair value hedge are recognized in profit or loss. The gain or loss from remeasuring the hedging instrument at fair value for a derivative hedging instrument and the gain or loss on the hedged item attributable to the hedged risk are recognized in profit or loss in the same line item of the consolidated statements of comprehensive income.

The Group discontinues fair value hedge accounting if the hedging instrument expires or is sold, terminated or exercised, or if the hedge no longer meets the criteria for hedge accounting. Any adjustment arising from gain or loss on the hedged item attributable to the hedged risk is amortized to profit or loss from the date the hedge accounting is discontinued.

Cash flow hedge

When a derivative is designated to hedge the variability in cash flows attributable to a particular risk associated with a recognized asset or liability or a highly probable forecasted transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognized in other comprehensive income, net of tax, and presented in the hedging reserve in equity. Any ineffective portion of changes in the fair value of the derivative is recognized immediately in profit or loss.

If the hedging instrument no longer meets the criteria for hedge accounting; expires or is sold, terminated or exercised; or the designation is revoked, then hedge accounting is discontinued prospectively. The cumulative gain or loss on the hedging instrument that has been recognized in other comprehensive income is reclassified to profit or loss in the periods during which the forecasted transaction occurs. If the forecasted transaction is no longer expected to occur, then the balance in other comprehensive income is recognized immediately in profit or loss.

(ii) Separable embedded derivatives

Embedded derivatives are separated from the host contract and accounted for separately only if the following criteria have been met:

- (a) The economic characteristics and risks of the embedded derivative are not closely related to those of the host contract;
- (b) A separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
- (c) The hybrid instrument is not measured at fair value, with changes in fair value recognized in profit or loss.

Changes in the fair value of separable embedded derivatives are recognized immediately in profit or loss.

(iii) Other derivative financial instruments

Changes in the fair value of other derivative financial instrument not designated as a hedging instrument are recognized immediately in profit or loss.

(6) Impairment of financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably. However, losses expected as a result of future events, regardless of likelihood, are not recognized.

In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

If financial assets have objective evidence that they are impaired, impairment losses should be measured and recognized.

(i) Financial assets measured at amortized cost

An impairment loss with respect to a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of its estimated future cash flows, discounted at the asset's original effective interest rate. If it is not practicable to obtain the instrument's estimated future cash flows, impairment losses would be measured using prices from any observable current market transactions. The Group can recognize impairment losses directly or establish a provision to cover impairment losses. 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 (such as an improvement in the debtor's credit rating), the previously recognized impairment loss shall be reversed either directly or by adjusting an allowance account.

(ii) Financial assets carried at cost

If there is objective evidence that an impairment loss has occurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to, and must be, settled by delivery of such an unquoted equity instrument, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows, discounted at the current market rate of return for a similar financial asset. Such impairment losses shall not be reversed.

(iii) Available-for-sale financial assets

When a decline in the fair value of an available-for-sale financial asset has been recognized in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss that had been recognized in other comprehensive income shall be reclassified from equity to profit or loss as a reclassification adjustment even though the financial asset has not been derecognized. Impairment losses recognized in profit or loss for an investment in an equity instrument classified as available for sale shall not be reversed through profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss shall be reversed, with the amount of the reversal recognized in profit or loss.

(7) Property, plant and equipment

Property, plant and equipment are initially measured at cost and, after initial recognition, are carried at cost, less accumulated depreciation and accumulated impairment losses. The cost of property, plant and equipment includes expenditures arising directly from the construction or acquisition of the asset, any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Subsequent to initial recognition, an item of property, plant and equipment, except the Group's land, shall be carried at its cost, less any accumulated depreciation and any accumulated impairment losses, while land whose fair value can be measured reliably is carried at revalued amount, being its fair value at the date of the revaluation, less subsequent accumulated impairment losses due to the change in the evaluation method of its land from cost model to revaluation model during the year ended December 31, 2013. Revaluations 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.

Property, plant and equipment, except for land, are depreciated on a straight-line basis over estimated useful lives that appropriately reflect the pattern in which the asset's future economic benefits are expected to be consumed.

A component that is significant compared to the total cost of property, plant and equipment is depreciated over its separate useful life.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognized in profit or loss.

The estimated useful lives of the Group's property, trains and equipment are as follows:

	Useful life (years)	Depreciation method
Buildings	25–50	Straight-line method
Structures	10–50	Straight-line method
Installation structures	5–15	Straight-line method
Advertising structures	5	Straight-line method
Electric equipment	5–15	Straight-line method
Machinery	5–25	Straight-line method
Trains	6–40	Straight-line method
Vehicles	2–7	Straight-line method
Furniture and fixtures	5	Straight-line method
Tools and office equipment	2–6	Straight-line method
Others	Indefinite, 5	Straight-line method

Depreciation methods, useful lives and residual values are reviewed at the end of each reporting date and adjusted, if appropriate. The change is accounted for as a change in an accounting estimate.

(8) Intangible assets

Intangible assets are measured initially at cost and, subsequently, are carried at cost, less accumulated amortization and accumulated impairment losses.

Amortization of intangible assets, except for goodwill, is calculated on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use. The residual value of intangible assets is zero. However, as there are no foreseeable limits to the periods over which club memberships are expected to be available for use, this intangible asset is determined as having indefinite useful lives and not amortized.

Category	Useful life (years)
Industrial property right	5–10
Development costs	5
Computer software	5–20
Usable and profitable donation assets	15
Facility usage right	Indefinite
Other intangible assets	5–20

Amortization periods and the amortization methods for intangible assets with finite useful lives are reviewed at the end of each reporting period. The useful lives of intangible assets that are not being amortized are reviewed at the end of each reporting period to determine whether events and circumstances continue to support indefinite useful life assessments for those assets. Changes are accounted for as changes in accounting estimates.

(i) Service concession arrangements

The Group recognizes an intangible asset arising from a service concession arrangement when it has a right to charge for usage of the concession infrastructure. An intangible asset received as consideration for providing construction or upgrade services in a service concession arrangement is measured at fair value upon initial recognition. Subsequent to initial recognition, the intangible asset is measured at cost, which includes capitalized borrowing costs, less accumulated amortization and accumulated impairment losses.

(ii) Subsequent expenditures

Subsequent expenditures are capitalized only when they increase the future economic benefits embodied in the specific asset to which it relates. All other expenditures, including expenditures on internally generated goodwill and brands, are recognized in profit or loss as incurred.

(9) Government grants

Government grants are not recognized, unless there is reasonable assurance that the Group will comply with the grant's conditions and that the grant will be received.

Government grants whose primary condition is that the Group purchase; construct; or otherwise, acquire long-term assets are deducted in calculating the carrying amount of the asset. The grant is recognized in profit or loss over the life of a depreciable asset as a reduction to depreciation expense. Also, any related costs incurred with respect to the government grants are recognized in profit or loss when incurred as 'Government Grants' in the consolidated statements of comprehensive income.

(10) Investment property

Property held for the purpose of earning rentals or benefiting from capital appreciation is classified as investment property. Investment property is initially measured at its cost. Transaction costs are included in initial measurement. Subsequently, investment property is carried at depreciated cost less any accumulated impairment losses.

Subsequent costs are recognized in the carrying amount of investment property at cost or, if appropriate, as separate items if it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing are recognized in profit or loss as incurred.

Investment property, except for land, is depreciated on a straight-line basis over 25–50 years, its estimated useful lives.

Depreciation methods, useful lives and residual values are reviewed at the end of each reporting date and adjusted, if appropriate. The change is accounted for as a change in an accounting estimate.

(11) Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets, other than assets arising from employee benefits, inventories and non-current assets held for sale, are reviewed at the end of the reporting period to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill and intangible assets that have indefinite useful lives or that are not yet available for use, irrespective of whether there is any indication of impairment, are tested for impairment annually by comparing their recoverable amount to their carrying amount.

The Group estimates the recoverable amount of an individual asset. If it is impossible to measure the individual recoverable amount of an asset, the Group estimates the recoverable amount of cash-generating unit (CGU). A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. The recoverable amount of an asset or CGU is the greater of its value in use or its fair value, less costs to sell. The value in use is estimated by applying a pretax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU for which estimated future cash flows have not been adjusted to the estimated future cash flows expected to be generated by the asset or CGU.

An impairment loss is recognized in profit or loss if the carrying amount of an asset or a CGU exceeds its recoverable amount.

(12) Leases

The Group classifies and accounts for leases as either a finance or operating lease, depending on the terms. Leases where the Group assumes substantially all of the risks and rewards of ownership are classified as finance leases. All other leases are classified as operating leases.

(i) Finance leases

At the commencement of the lease term, the Group recognizes, as finance assets and finance liabilities in its consolidated statements of financial position, the lower amount of the fair value of the leased property and the present value of the minimum lease payments, each determined at the inception of the lease. Any initial direct costs are added to the amount recognized as an asset.

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent rents are charged as expenses in the periods in which they are incurred.

The depreciable amount of a leased asset is allocated to each accounting period during the period of expected use on a systematic basis consistent with the depreciation policy that the lessee adopts for depreciable assets that are owned. If there is no reasonable certainty that the lessee will obtain ownership by the end of the lease term, the asset is fully depreciated over the shorter of the lease term and its useful life. The Group reviews to determine whether the leased asset may be impaired.

(ii) Operating leases

Payments made under operating leases (net of any incentives received from the lessor) are recognized in profit or loss on a straight-line basis over the period of the lease. Incentives under operating lease are recognized by deducting entire benefits from lease expense over the lease term.

(13) Construction work in progress

Construction work in progress represents the gross unbilled amount expected to be collected from customers for contract work performed to date. It is measured at cost, plus profit recognized to date, less progress billings and recognized losses. Cost includes all expenditures related directly to specific projects and an allocation of fixed and variable overheads incurred in the Group's contract activities based on normal operating capacity.

Construction work in progress is presented as part of trade and other receivables in the consolidated statements of financial position for all contracts in which costs incurred, plus recognized profits, exceed progress billings. If progress billings exceed costs incurred, plus recognized profits, then the difference is presented as deferred income in the consolidated statements of financial position.

(14) Non-current assets held for sale

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale, rather than through continuing use, are classified as held for sale. In order to be classified as held for sale, the asset (or disposal group) must be available for immediate sale in its present condition and its sale must be highly probable. The asset or disposal group that is classified as non-current assets held for sale is measured at the lower of its carrying amount or fair value, less cost to sell.

The Group recognizes an impairment loss for any initial or subsequent write-down of an asset (or disposal group) to fair value, less costs to sell, and a gain for any subsequent increase in fair value, less costs to sell, up to the cumulative impairment loss previously recognized in accordance with K-IFRS No. 1036, *Impairment of Assets*.

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).

(15) Borrowing Costs

The Group capitalizes borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. Other borrowing costs are recognized in expense as incurred. A qualifying asset is an asset that requires a substantial period of time to get ready for its intended use or sale. Financial assets and inventories that are manufactured or otherwise produced over a short period of time are not qualifying assets. Assets that are ready for their intended use or sale when acquired are not qualifying assets.

To the extent that the Group borrows funds specifically for the purpose of obtaining a qualifying asset, the Group determines the amount of borrowing costs eligible for capitalization as the actual borrowing costs incurred on that borrowing during the period, less any investment income on the temporary investment of those borrowings. To the extent that the Group borrows funds generally and uses them for the purpose of obtaining a qualifying asset, the Group shall determine the amount of borrowing costs eligible for capitalization by applying a capitalization rate to the expenditures on that asset. The capitalization rate shall be the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. The amount of borrowing costs that the Group capitalizes during a period shall not exceed the amount of borrowing costs incurred during that period.

(16) Non-derivative financial liabilities

The Group classifies non-derivative financial liabilities into financial liabilities at fair value through profit or loss or other financial liabilities in accordance with the substance of the contractual arrangement and the definitions of financial liabilities. The Group recognizes financial liabilities in the consolidated statements of financial position when the Group becomes a party to the contractual provisions of the financial liability.

(i) Financial liabilities at fair value through profit or loss

Financial liabilities are classified as at fair value through profit or loss when the financial liability is a contingent consideration that may be paid by an acquirer as part of a business combination to which K-IFRS 1103 applies, it is held for trading or it is designated as at fair value through profit or loss. Financial liabilities at fair value through profit or loss are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any interest paid on the financial liability and is included in the 'Other gains and losses' line item in the consolidated statements of comprehensive income.

(ii) Other financial liabilities

Non-derivative financial liabilities other than financial liabilities at fair value through profit or loss are classified as other financial liabilities. At the date of initial recognition, other financial liabilities are measured at fair value, less transaction costs that are directly attributable to the acquisition. Subsequent to initial recognition, other financial liabilities are measured at amortized cost using the effective interest method.

The Group derecognizes a financial liability from the consolidated statements of financial position when it is extinguished (i.e., when the obligation specified in the contract is discharged, canceled or expired).

(17) Employee benefits

(i) Retirement benefits: defined contribution plans

When an employee has rendered service to the Group during a period, the Group recognizes the contribution payable to a defined contribution plan in exchange for that service as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the end of the reporting period, the Group recognizes that excess as an asset (prepaid expense) to the extent that the prepayment will lead to a reduction in future payments or a cash refund.

(ii) Retirement benefits: defined benefit plans

The Group's net obligation with respect to defined benefit plans is calculated by estimating the present value of defined benefit obligation after reflecting unrecognized past service cost and deducting the fair value of any plan assets.

The calculation of defined benefit obligations is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a potential asset for the Group, the recognized asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognized immediately in OCI. The Group determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognized in profit or loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognized immediately in profit or loss. The Group recognizes gains and losses on the settlement of a defined benefit plan when the settlement occurs.

(18) Provision

Provisions are recognized when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The risks and uncertainties that inevitably surround many events and circumstances are taken into account in reaching the best estimate of a provision. Where the effect of the time value of money is material, provisions are determined at the present value of the expected future cash flows.

Where some or all of the expenditures required to settle a provision are expected to be reimbursed by another party, the reimbursement shall be recognized when, and only when, it is virtually certain that reimbursement will be received if the entity settles the obligation. The reimbursement shall be treated as a separate asset.

Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimates. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed.

In accordance with the Group's published environmental policy and applicable legal requirements, a provision for site restoration with respect to contaminated land, and the related expense, is recognized when the land is contaminated.

A provision shall be used only for expenditures for which it was originally recognized.

(19) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of the Group at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising on retranslation are recognized in profit or loss, except for differences arising from the retranslation of available-for-sale equity instruments, a financial liability designated as a hedge of the net investment in a foreign operation or qualifying cash flow hedges, which are recognized in other comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. When gains or losses on non-monetary items are recognized in other comprehensive income, exchange components of those gains or losses are recognized in other comprehensive income. Conversely, when gains or losses on non-monetary items are recognized in profit or loss, exchange components of those gains or losses are recognized in profit or loss.

(20) Equity capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of ordinary shares and share options are recognized as a deduction from equity, net of any tax effects.

When the Group repurchases its share capital, the amount of the consideration paid is recognized as a deduction from equity and classified as treasury shares. The profits or losses from the purchase, disposal, reissue or retirement of treasury shares are not recognized as current profit or loss. If the Group acquires and retains treasury shares, the consideration paid or received is directly recognized in equity.

(21) Revenue

Revenue from the sale of goods, rendering of services or use of the assets is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates, and is recognized as a reduction of revenue.

(i) Goods sold

Revenue from the sale of goods in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue is recognized when persuasive evidence exists, usually in the form of an executed sales agreement, 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.

The timing of the transfers of risks and rewards varies depending on the individual terms of the contract of sale. For sales of products, usually transfer occurs when the product is received at the customer's warehouse; however, for some international shipments, transfer occurs upon loading the goods onto the relevant carrier at the port of the seller.

When two or more revenue-generating activities or deliverables are sold under a single arrangement, each deliverable that is considered to be a separate unit of account is accounted for separately. The allocation of consideration from a revenue arrangement to its separate units of account is based on the relative fair values of each unit.

(ii) Services

Revenue from services rendered is recognized in profit or loss in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed by reference to surveys of work performed. Revenue from transportation service is recognized at the point when the rendering service is completed, and the amount for which ticket was issued, but related service has not been completed is recognized as advances received.

(iii) Customer loyalty programs

For customer loyalty programs, the fair value of the consideration received or receivable with respect to the initial sale is allocated between the award credits ("Mileage") and the other components of the sale. The Group provides Mileage to customers when tickets are sold. The amounts allocated in the Mileage are estimated by reference to the fair value of the train tickets for which they could be redeemed, as the fair values of the Mileage themselves are not directly observable. The fair value of the train tickets is estimated taking into account the expected redemption rate and the timing of such expected redemptions. Such amount is deferred and revenue is recognized only when the Mileages are redeemed and the Group has fulfilled its obligations to supply the train tickets. The amount of revenue recognized in those circumstances is based on the number of Mileages that have been redeemed in exchange for train tickets, relative to the total number of Mileages that are expected to be redeemed.

(iv) Construction contracts

Contract revenue includes the initial amount agreed in the contract, plus any variations in contract work, claims and incentive payments, to the extent it is probable that they will result in revenue and can be measured reliably. As soon as the outcome of a construction contract can be estimated reliably, contract revenue is recognized in profit or loss in proportion to the stage of completion of the contract. Contract expenses are recognized as incurred, unless they create an asset related to future contract activity.

The stage of completion is assessed by reference to surveys of work performed. When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognized only to the extent of contract costs incurred that are likely to be recoverable. An expected loss on a contract is recognized immediately in profit or loss.

(v) Rental income

Rental income from investment property, net of lease incentives granted, is recognized in profit or loss on a straight-line basis over the term of the lease.

(22) Finance income and finance costs

Finance income comprises interest income on funds invested (including available-for-sale financial assets), dividend income, gains on the disposal of available-for-sale financial assets, changes in the fair value of financial assets at fair value through profit or loss and gains on hedging instruments that are recognized in profit or loss. Interest income is recognized as it accrues in profit or loss, using the effective interest method. Dividend income is recognized in profit or loss on the date that the Group's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions, dividends on preference shares classified as liabilities, changes in the fair value of financial assets at fair value through profit or loss, impairment losses recognized on financial assets and losses on hedging instruments that are recognized in profit or loss. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in profit or loss using the effective interest method.

(23) Income taxes

Income tax expense comprises current tax 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.

(i) Current tax

Current tax is the expected tax payable or receivable on the taxable profit or loss for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable related to previous years. The taxable profit is different from the accounting profit for the period, as the taxable profit is calculated excluding the temporary differences, which will be taxable or deductible in determining taxable profit (tax loss) of future periods, and non-taxable or non-deductible items from the accounting profit.

(ii) Deferred tax

The measurement of deferred tax liabilities and deferred tax 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. The Group recognizes a deferred tax liability for all taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except to the extent that the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. The Group recognizes a deferred tax asset for all deductible temporary differences arising from investments in subsidiaries and associates to the extent it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilized.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and reduces the carrying amount to the extent it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax asset to be utilized.

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 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 deferred tax 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 only if there is a legally enforceable right to offset the related current tax liabilities and assets, they relate to income taxes levied by the same tax authority and they intend to settle current tax liabilities and assets on a net basis. Additional income tax due to dividend payments is recognized when the Group recognizes a liability relevant to the dividend payment.

4. SIGNIFICANT ACCOUNTING ESTIMATION AND ASSUMPTION:

The Group adopted estimations and assumptions for future events. Used estimations and assumptions are continuously evaluated, considering past experience and other aspects, such as future events reasonably foreseeable based on current situation. These estimates may differ from the actual result. Estimations and assumptions on significant risks that can cause adjustments on the book values of assets and liabilities after the reporting period are as follows:

(1) Income tax

There are some uncertainties in calculating final tax effects on the taxable income derived from the Group's operation. The Company recognized current tax expense and deferred income tax by its best estimate on the income tax effects expected to be shown on the Group as a result of the Group's operations up to December 31, 2016. However, the actual income tax payment that will be finally made in the future may be different from the recognized assets and liabilities and this difference can result in effects on the current tax expense for the period when the final tax effect has been finalized for deferred income tax assets and liabilities.

(2) Fair value of financial instruments

For financial instruments that are not traded in active market, their fair values are calculated through related evaluating methods. The Group makes various decisions on selecting evaluation methods and assumptions based on major market situations available as of December 31, 2015.

(3) Provisions

As detailed in Note 27, the Group recognizes provisions related to litigations and recovery. These provisions are decided by estimations based on experience in the past periods.

5. **FINANCIAL RISK MANAGEMENT:**

The Group has exposure to the following risks from its use of financial instruments:

- ✓ credit risk
- ✓ liquidity risk
- ✓ market risk

This note presents information about the Group's exposure to each of the above risks; the Group's objectives, policies and processes for measuring and managing risk; and the Group's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

(1) Risk management activities

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board of Directors has established the Risk Management Committee, which is responsible for developing and monitoring the Group's risk management policies. The committee reports regularly to the Board of Directors on its activities.

The Group's risk management policies are established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Group Audit Committee oversees how management monitors compliance with the Group's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Group Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

(2) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and investment securities.

(i) Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The Group's customer base comprises a number of entities with small individual amounts; hence, the Group's credit risk is not concentrated. Also, the Group's exposure to credit risk is limited as most receivables get collected in two or three days from the date of billing.

Significant transactions are reviewed for legal and economic validity during regular audits and resolved based on Board of Directors' approval. Also, the Group manages credit risk by requiring collateral or guarantees with respect to significant trade and other receivables.

The Group establishes an allowance for impairment that represents its estimate of incurred losses with respect to trade and other receivables and investments. The main components of this allowance are a specific loss component that relates to individually significant exposures and a collective loss component established for groups of similar assets with respect to losses that have been incurred, but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

(ii) Guarantees

The Group can only provide financial guarantees based on the Board of Directors' resolution. At December 31, 2015, no guarantees were outstanding.

(iii) Investments

The Group deposits its cash and cash equivalents and short-term financial instruments in Kookmin Bank and others, and limits its exposure to credit risk by investing only in financial institutions with high credit ratings.

The Group indirectly participates in the development and operation of the surrounding area of Yongsan station and owns associated companies' equity. Although the Group is exposed to credit risk as the market value of the associated companies that operate the private capital railway station sphere fluctuates depending on the location and surrounding conditions, the Group manages the investment assets by reviewing the fluctuation of net assets of investees on a regular basis and recognizes impairment loss when there is uncertainty on recoverability of investment assets.

(3) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

To manage liquidity risk, the Group maintains short-term and medium- to long-term cash flow plan, and continuously analyzes and reviews the actual cash outflow.

Also, the Group has credit lines as follows:

- ✓ Credit line of unsecured loans amounting to ₩550 billion. Interest would be payable at a rate of CD (Certificate of Deposit) (91 days), plus 15–79 basis points (BP).
- ✓ Credit line of unsecured loans amounting to ₩300 billion. Interest would be payable at a rate of CD (Certificate of Deposit) (91 days), plus 21 BP.
- ✓ Credit line of unsecured loans amounting to ₩4 billion. Interest would be payable at a rate of 3.81%–4.50%.

(4) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices, will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

The Group buys and sells derivatives, and also incurs financial liabilities, in order to manage market risks. All such transactions are carried out within the guidelines set by the Risk Management Committee. Generally, the Group seeks to apply hedge accounting in order to manage volatility in profit or loss.

(i) Currency risk

The Group is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the respective functional currencies of Group entities, primarily the US dollars (USD).

The Group is exposed to currency risk in respect to bonds and long-term borrowings denominated in foreign currency. The Group uses derivative instruments, such as currency swap, to avoid foreign exchange rate fluctuation risk arising from foreign currency liabilities.

(ii) Interest rate risk

The Group adopts a policy of ensuring that between 40% and 60% of its exposure to changes in interest rates on borrowings is on a fixed-rate basis. This is achieved by entering into interest rate swaps.

(iii) Other market price risk

Equity price risk arises from available-for-sale equity securities held for meeting partially the unfunded portion of the Group's defined benefit pension obligations. Management of the Group monitors the mix of debt and equity securities in its investment portfolio based on market indices. Material investments within the portfolio are managed on an individual basis and all buy and sell decisions are approved by the Board of Directors.

(5) Capital management

The Board of Directors' policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. To maintain or adjust the capital base, the Group returns capital to shareholder and sells out assets to reduce the liabilities.

Also, the Group manages the capital balance to suffice the related regulation, "Korean Railroad Law 11 (Issuance of bonds)," which states that bonds may not exceed twice the sum of capital and reserves. Also the Group aims to maintain the credit rating of AAA.

The Group's capital management strategy is maintained similarly to prior period and the credit rating is maintained AAA at the end of 2016.

The Company's debt-to-adjusted capital ratio at the end of the reporting period was as follows:

(In thousands of Korean won, except equity ratio)

		December 31, 2016	December 31, 2015
Bond issued	₩	11,232,979,700	10,905,761,200
Equity capital and reserves		4,667,679,816	4,661,199,136
Net debt-to-adjusted equity ratio on December 31		240.70%	234.00%

6. BUSINESS UNITS:

The Group has nine business units, as described below, which are the Group's strategic business units. The strategic business units offer different products and services, and are managed separately because they require different technology and marketing strategies. For each of the strategic business units, the Group's CEO reviews internal management reports on at least a quarterly basis. The following summary describes the operations in each of the Group's business units:

(1) The Group's business units are summarized as follows:

Business units	Primary business
Korea Railroad Corporation	Railroad transportation
KORAIL Retail Co., Ltd.	Retail business
KORAIL Logis Co., Ltd.	Railroad transportation
KORAIL Networks Co., Ltd.	Service industry
KORAIL Tourism Development Co., Ltd.	Service industry
KORAIL Tech Co., Ltd.	Railway track specialized construction
SR Co., Ltd.	Railroad transportation
Korean Insurance Brokerage Co., Ltd.	Insurance brokerage

(2) The Group's business units' information on revenue and profit for the years ended December 31, 2016 and 2015, is as follows:

(In thousands of Korean won)

		2016			
		Total revenue	Interunit revenue	External revenue	Operating profit (loss)
Korea Railroad Corporation	₩	5,365,131,839	109,820,323	5,255,311,516	153,929,967
KORAIL Retail Co., Ltd.		270,541,630	1,411,549	269,130,081	8,205,849
KORAIL Networks Co., Ltd.		81,339,525	35,853,442	45,486,083	5,308,234
KORAIL Logis Co., Ltd.		50,709,345	7,192,008	43,517,337	305,996
KORAIL Tech Co., Ltd.		60,326,427	29,256,177	31,070,250	(3,353,376)
KORAIL Tourism Development Co., Ltd.		47,243,372	29,367,018	17,876,354	884,497
SR Co., Ltd.	-	30,156,577	11,141	30,145,436	(41,655,909)
Korean Insurance Brokerage Co., Ltd.		1,105,897	-	1,105,897	412,059
Total	₩	5,906,554,612	212,911,658	5,693,642,954	124,037,317

Depreciation and amortization expenses

481,504,890
6,778,276
1,182,176
512,592
509,351
221,906
7,926,195
8,853
498,644,239

(In thousands of Korean won)

(In thousands of Korean won)

	2015					
		Total revenue	Interunit revenue	External revenue	Operating profit (loss)	Depreciation and amortization expenses
Korea Railroad Corporation	₩	5,220,739,033	97,005,348	5,123,733,685	114,397,573	447,053,732
KORAIL Retail Co., Ltd.		247,025,757	285,562	246,740,195	7,879,298	5,614,644
KORAIL Networks Co., Ltd.		83,556,917	35,930,577	47,626,340	5,088,714	1,121,533
KORAIL Logis Co., Ltd.		52,041,798	8,235,171	43,806,627	(212,185)	625,255
KORAIL Tech Co., Ltd.		38,098,844	26,436,764	11,662,080	726,238	318,649
KORAIL Tourism Development Co., Ltd.		69,539,002	28,445,369	41,093,633	554,882	860,106
SR Co., Ltd.	-	-	-	-	(13,832,563)	293,742
Korean Insurance Brokerage Co., Ltd.		1,368,729	-	1,368,729	549,490	9,343
Airport Railroad Co., Ltd.		157,045,379	658,223	156,387,155	89,492,614	2,003,322
Total	₩	5,869,415,459	196,997,014	5,672,418,444	204,644,061	457,900,326

As explained in Note 51, the revenue and profit of Airport Railroad Co., Ltd. are classified as income from discontinued operation.

(3) Assets and liabilities of the Group's business units as of December 31, 2016 and 2015, are as follows:

		December 31, 2016			
		Business units assets	Investment asset in associates	Acquisitions of non-current assets	Business units liabilities
(In thousands of Korean won)					
Korea Railroad Corporation	₩	17,940,529,654	178,269,323	707,213,307	13,272,849,837
KORAIL Retail Co., Ltd.		297,354,889	20,643,284	29,762,055	142,401,366
KORAIL Networks Co., Ltd.		40,371,165	1,178,649	3,358,897	13,933,342
KORAIL Logis Co., Ltd.		13,193,466	-	39,852	12,628,225
KORAIL Tourism Development Co., Ltd.		17,195,879	-	1,669,492	8,377,574
KORAIL Tech Co., Ltd.		22,043,430	-	783,064	5,691,331
SR Co., Ltd.		409,505,266	-	273,824,145	209,999,502
Korean Insurance Brokerage Co., Ltd.		1,911,093	-	-	218,778
Total	₩	18,742,104,842	200,091,256	1,016,650,812	13,666,099,955

		December 31, 2015			
		Business units assets	Investment asset in associates	Acquisitions of non-current assets	Business units liabilities
(In thousands of Korean won)					
Korea Railroad Corporation	₩	17,869,032,878	178,269,323	841,672,508	13,207,833,742
KORAIL Retail Co., Ltd.		228,416,964	18,467,246	52,747,974	117,316,463
KORAIL Networks Co., Ltd.		36,923,078	1	431,022	13,896,717
KORAIL Logis Co., Ltd.		15,137,454	-	30,924	14,619,350
KORAIL Tourism Development Co., Ltd.		19,772,207	-	3,719,693	6,661,775
KORAIL Tech Co., Ltd.		18,928,153	-	327,118	2,775,785
SR Co., Ltd.		155,749,204	-	40,964,201	10,338,076
Korean Insurance Brokerage Co., Ltd.		1,810,903	-	-	225,550
Total	₩	18,345,770,841	196,736,570	939,893,440	13,373,667,458

(4) External revenues by geographical regions for the years ended December 31, 2016 and 2015, and non-current assets by geographical regions as of December 31, 2016 and 2015, are summarized as follows:

	External revenues		Non-current assets	
	2016	2015	December 31, 2016	December 31, 2015
<i>(In thousands of Korean won)</i>				
Domestic	₩ 5,690,896,161	5,510,080,273	17,416,806,361	17,245,968,168
Overseas	2,746,793	5,951,016	-	-
Total	₩ 5,693,642,954	5,516,031,289	17,416,806,361	17,245,968,168

7. CASH AND CASH EQUIVALENTS RESTRICTED IN USE AND COLLATERALIZED FINANCIAL ASSETS:

Cash and cash equivalents that are restricted in use and financial assets that are held as collateral for liabilities or contingencies as of December 31, 2016 and 2015, are summarized as follows:

<i>(In thousands of Korean won)</i>		Type	Dec. 31, 2016	Dec. 31, 2015
Cash and cash equivalents	Railroad membership deposits	₩	8,976,422	8,935,656
Short-term financial instruments	Pledged assets		284,036	-
Long-term financial instruments	Pledged assets		18,754	18,755
Others	Guaranty fulfillment		500,000	-
Total		₩	9,779,212	8,954,411

8. CASH AND CASH EQUIVALENTS:

Cash and cash equivalents in the consolidated statements of cash flows include cash and cash equivalents as of December 31, 2016 and 2015, before deducting government grants, which are summarized as follows:

<i>(In thousands of Korean won)</i>		Dec. 31, 2016	Dec. 31, 2015
Cash	₩	13,846,415	14,801,383
Cash equivalents		536,328,966	455,209,221
Government subsidies		(68,713,017)	(116,190,367)
Fund for trustee business from government		(107,369,778)	(145,211,417)
Total	₩	374,092,586	208,608,820

9. DERIVATIVES:

(1) Derivative instruments outstanding as of December 31, 2016 and 2015, are as follows:

<i>(In thousands of Korean won)</i>		Dec. 31, 2016		Dec. 31, 2015	
		Current	Non-current	Current	Non-current
Derivative instrument assets:					
Currency swap	₩	44,554,993	22,248,201	10,597,473	51,986,225
Total	₩	44,554,993	22,248,201	10,597,473	51,986,225
Derivative instrument liabilities:					
Currency swap	₩	-	4,352,442	-	6,790,303
Interest swap		-	-	1,491,143	-
Total	₩	-	4,352,442	1,491,143	6,790,303

(2) Details of currency swap outstanding as of December 31, 2016, are summarized as follows:

(In thousands of Korean won and USD)	Financial institutions	Contract term		Contractual amount		Contractual interest rate		Contractu al exchange rate	Valuation amount
				Selling price	Purchasing price	Selling interest rate	Purchasing interest rate		
Cash flow hedge	CREDIT AGRICOLE	2014.02.14-2017.02.28	USD	106,300,000	100,000,000	2.61%	3M Libor+0.70 %	1,063.00	14,248,007
	Standard Chartered Korea	2014.02.14-2017.02.28	USD	53,150,000	50,000,000	2.61%	3M Libor+0.70 %	1,063.00	7,165,203
	Standard Chartered Korea	2014.05.29-2018.11.16	CHF	57,589,000	50,000,000	2.98%	CHF 1.01%	1,151.78	1,716,270
	SG	2014.05.29-2018.11.16	CHF	57,589,000	50,000,000	2.98%	CHF 1.01%	1,151.78	1,719,087
	BNP	2014.01.03-2019.12.02	CHF	117,300,000	100,000,000	3.64%	CHF 1.51%	1,173.00	1,213,020
	CREDIT AGRICOLE	2014.09.19-2017.09.18	USD	104,000,000	100,000,000	2.38%	3M Libor+0.55 %	1,040.00	15,996,114
	Standard Chartered Korea	2014.01.03-2019.12.02	CHF	134,895,000	115,000,000	3.64%	CHF 1.51%	1,173.00	1,572,505
	BNP	2014.02.14-2017.02.28	USD	53,150,000	50,000,000	2.61%	3M LIBOR+0.70 %	1,063.00	7,145,669
	BNP	2014.05.29-2018.11.16	CHF	172,767,000	150,000,000	2.98%	CHF 1.01%	1,151.78	5,153,769
	SG	2014.01.03-2019.12.02	CHF	117,300,000	100,000,000	3.64%	CHF 1.51%	1,173.00	1,392,314
	HSBC	2016.12.20-2019.06.18	USD	233,400,000	200,000,000	1.81%	3M Libor+0.70 %	1,167.00	7,480,945
	DBS	2014.09.04-2018.09.04	SGD	52,845,000	65,000,000	2.55%	SGD 1.76%	813.00	102,521
	HSBC	2014.11.13-2018.08.13	AUD	51,700,000	55,000,000	2.28%	AUD 3M BBSW+0.85 %	940.00	(4,352,442)
	CREDIT AGRICOLE	2014.05.29-2018.11.16	CHF	57,589,000	50,000,000	2.98%	CHF 1.01%	1,151.78	1,897,770
	Total			1,369,574,000	1,235,000,000			W	62,450,752

(3) Derivative transaction gain (loss) for the years ended December 31, 2016 and 2015, are as follows:

(In thousands of Korean won)		Gains and losses from valuation		Gains and losses from transactions		Other comprehensive income	
		2016	2015	2016	2015	2016	2015
Currency swap	₩	18,218,500	79,118,050	(11,000,000)	(1,960,000)	(561,143)	20,250,320
Interest swap		-	-	-	-	1,491,143	1,015,930
Total	₩	18,218,500	79,118,050	(11,000,000)	(1,960,000)	930,000	21,266,250

Losses from valuation of derivatives of ₩(-)954,948 thousand recognized in other comprehensive income for the year ended December 31, 2016, are net of tax amount, which are directly recognized in equity.

10. TRADE RECEIVABLES AND OTHER RECEIVABLES:

(1) Trade receivables and accounts receivable as of December 31, 2016 and 2015, are detailed as follows:

December 31, 2016					
(In thousands of Korean won)		Receivables	Allowance for impairment	Present value of discount	Carrying amounts
<u>Current assets</u>					
Trade receivables	₩	332,505,985	(18,422,734)	-	314,083,251
Other receivables		52,064,241	(8,286,831)	-	43,777,410
Subtotal		384,570,226	(26,709,565)	-	357,860,661
<u>Non-current assets</u>					
Other receivables		541,416,113	-	(384,622)	541,031,491
Total	₩	925,986,339	(26,709,565)	(384,622)	898,892,152

December 31, 2015					
(In thousands of Korean won)		Receivables	Allowance for impairment	Present value of discount	Carrying amounts
<u>Current assets</u>					
Trade receivables	₩	405,816,738	(8,016,195)	-	397,800,543
Other receivables		52,514,507	(1,620,146)	-	50,894,361
Subtotal		458,331,245	(9,636,341)	-	448,694,904
<u>Non-current assets</u>					
Other receivables		566,419,492	-	(360,340)	566,059,152
Total	₩	1,024,750,737	(9,636,341)	(360,340)	1,014,754,056

(2) Other receivables as of December 31, 2016 and 2015, are detailed as follows:

December 31, 2016					
(In thousands of Korean won)		Receivables	Allowance for impairment	Present value of discount	Carrying amounts
<u>Current assets</u>					
Other receivables	₩	51,986,254	(8,286,831)	-	43,699,423
Accrued revenue		77,987	-	-	77,987
Subtotal		52,064,241	(8,286,831)	-	43,777,410
<u>Non-current assets</u>					
Other receivables		506,269,164	-	-	506,269,164
Deposits provided		35,146,949	-	(384,622)	34,762,327
Subtotal		541,416,113	-	(384,622)	541,031,491
Total	₩	593,480,354	(8,286,831)	(384,622)	584,808,901

December 31, 2015				
(In thousands of Korean won)	Receivables	Allowance for impairment	Present value of discount	Carrying amounts
Current assets				
Other receivables	₩ 52,456,460	(1,620,146)	-	50,836,314
Accrued revenue	58,047	-	-	58,047
Subtotal	52,514,507	(1,620,146)	-	50,894,361
Non-current assets				
Other receivables	532,551,692	-	-	532,551,692
Deposits provided	33,867,800	-	(360,340)	33,507,460
Subtotal	566,419,492	-	(360,340)	566,059,152
Total	₩ 618,933,999	(1,620,146)	(360,340)	616,953,513

(3) Credit risk and allowance for impairment

Trade receivables and other receivables presented above are categorized into loans and receivables and measured at amortized cost.

Average credit term given to customers for sales is 30 days. The Group records the allowance for impairment for 100% of outstanding receivables for more than 732 days. The Group establishes the allowance for outstanding receivables for more than 30 days, but less than 732 days based on historical data and current financial status of the customers.

The Group establishes a specific loss for individually significant receivables with balances more than ₩1 billion based on considering each customer's credit ratings, late payment history, bankruptcy, insolvency and other information. For all other receivables, the Group establishes the allowance for impairment based on historical data of late payment. However, the Group does not establish the allowance for receivables from federal government or local government.

Details on individual analysis	Rate of allowance for impairment
Receivables with no collection right due to customers' bankruptcy, insolvency, death or disappearance	100%
Customers' impaired capital or under administrative procedure	
Receivables for which collection is requested to collection agency	
Receivables under dispute or litigations	50%
Customer's abilities to repay the debt significantly impaired	
30 days	1%
31 days–90 days	10%
90 days–180 days	15%
Overdue customers	
180 days–365 days	25%
365 days–732 days	50%
732 days or more	100%
AAA+–A	-
Current credit rating	
BBB+–B	0.10%
CCC+–C	0.50%
C and below (including no credit rating available)	1%

(4) Aging analysis of trade receivables and other receivables as of December 31, 2016 and 2015, is detailed as follows:

		Trade receivables	
		December 31, 2016	December 31, 2015
<i>(In thousands of Korean won)</i>			
Current and not impaired	₩	249,985,823	302,378,992
Overdue, but not impaired		-	-
Current reviewed for impairment		82,520,162	103,437,746
- Not overdue		8,963,854	9,900,137
- 30 days–90 days		9,427,015	7,253,275
- 90 days–120 days		342,782	235,344
- 120 days or more		63,786,511	86,048,990
Subtotal		332,505,985	405,816,738
Allowance for impairment		(18,422,734)	(8,016,195)
Total	₩	314,083,251	397,800,543

		Other receivables	
		December 31, 2016	December 31, 2015
<i>(In thousands of Korean won)</i>			
Current and not impaired	₩	579,183,920	612,078,929
Overdue, but not impaired			
Current reviewed for impairment		14,296,434	6,855,070
- Not overdue		4,413,386	1,642,892
- 30 days–90 days		72,272	203,508
- 90 days–120 days		14,414	133,399
- 120 days or more		9,796,362	4,875,271
Subtotal		593,480,354	618,933,999
Allowance for impairment		(8,286,831)	(1,620,146)
Present value of discount		(384,622)	(360,340)
Total	₩	584,808,901	616,953,513

(5) Changes in allowance for impairment of trade receivables and other receivables during the years ended December 31, 2016 and 2015, are as follows:

		2016		2015	
		Trade receivables	Other receivables	Trade receivables	Other receivables
<i>(In thousands of Korean won)</i>					
Beginning balance	₩	8,016,195	1,620,146	6,987,816	1,366,948
Impairment loss recognized		11,437,040	6,801,624	2,026,952	707,444
Write-offs		(1,030,501)	(133,832)	(973,269)	(453,455)
Reversal of allowance		-	(1,107)	(25,304)	(791)
Ending balance	₩	18,422,734	8,286,831	8,016,195	1,620,146

11. AVAILABLE-FOR-SALE FINANCIAL ASSETS:

(1) Available-for-sale financial assets as of December 31, 2016 and 2015, are summarized as follows:

(In thousands of Korean won)	December 31, 2016		December 31, 2015	
	Current	Non-current	Current	Non-current
Equity instruments:				
Marketable securities	₩ -	8,109	-	4,483
Non-marketable securities	-	38,008,539	-	34,301,102
Subtotal	-	38,016,648	-	34,305,585
Debt instruments:				
Government bonds	-	-	-	-
Subtotal	-	-	-	-
Total	₩ -	38,016,648	-	34,305,585

12. LOANS:

Loans as of December 31, 2016 and 2015, are summarized as follows:

(In thousands of Korean won)	December 31, 2016		
	Face Value	Discounted Present Value	Carrying amount
Tuition loans(*1)	₩ 50,255,393	(8,117,379)	42,138,014
Others(*2)	113,562	-	113,562
Total	₩ 50,368,955	(8,117,379)	42,251,576

(In thousands of Korean won)	December 31, 2015		
	Face Value	Discounted Present Value	Carrying amount
Tuition loans(*1)	₩ 54,190,511	(8,818,218)	45,372,293
Others(*2)	208,376	-	208,376
Total	₩ 54,398,887	(8,818,218)	45,580,669

(*1) The Group provides loans to employees for the purpose of financial aid for children. Repayment of loans is made through a monthly payroll deduction.

(*2) The Group recognizes four major insurance payments made on behalf of employees laid off as other loans.

13. FINANCIAL INSTRUMENTS:

Financial instruments as of December 31, 2016 and 2015, are summarized as follows:

(In thousands of Korean won)	December 31, 2016		December 31, 2015	
	Current	Non-Current	Current	Non-Current
Periodical installment savings	₩ 12,750,000	18,755	31,650,000	18,755
MMF, MMDA and others	4,091,649	-	926,051	-
Total	₩ 16,841,649	18,755	32,576,051	18,755

14. INVENTORIES:

Inventories as of December 31, 2016 and 2015, are detailed as follows:

		December 31, 2016			
		Acquisition cost	Government grants	Provision for loss on valuation	Carrying amount
<i>(In thousands of Korean won)</i>					
Raw materials	₩	2,391,782	-	(39,260)	2,352,522
Merchandises		8,859,252	-	-	8,859,252
Supplies		261,122,933	(56,344,234)	(457,605)	204,321,094
Inventory in transit		15,299,454	-	-	15,299,454
Work in progress		954,872	-	-	954,872
Total	₩	288,628,293	(56,344,234)	(496,865)	231,787,194

		December 31, 2015			
		Acquisition cost	Government grants	Provision for loss on valuation	Carrying amount
<i>(In thousands of Korean won)</i>					
Raw materials	₩	722,613	-	(58,646)	663,967
Merchandises		10,977,313	-	-	10,977,313
Supplies		221,289,327	(54,351,104)	(457,605)	166,480,618
Inventory in transit		16,994,126	-	-	16,994,126
Work in progress		3,788,146	-	-	3,788,146
Total	₩	253,771,525	(54,351,104)	(516,251)	198,904,170

15. NON-FINANCIAL ASSETS:

(1) Non-financial assets as of December 31, 2016 and 2015, are detailed as follows:

		December 31, 2016		December 31, 2015	
		Current	Non-current	Current	Non-current
<i>(In thousands of Korean won)</i>					
Prepayments	₩	20,961,317	-	14,047,929	-
Government grants		(5,140,300)	-	(3,809,413)	-
Allowance for bad debts		(91,369)	-	(70,583)	-
Prepaid expense		7,783,363	8,669,969	7,717,478	9,357,731
Other non-financial assets		21,842,953	23,344	19,142,741	23,344
Total	₩	45,355,964	8,693,313	37,028,152	9,381,075

(2) Other non-financial assets as of December 31, 2016 and 2015, are as follows:

		December 31, 2016		December 31, 2015	
		Current	Non-current	Current	Non-current
<i>(In thousands of Korean won)</i>					
Deposits	₩	14,854,309	23,344	15,990,984	23,344
Non-financial assets - others		6,988,644	-	3,151,757	-
Total	₩	21,849,953	23,344	19,142,741	23,344

16. INVESTMENTS IN ASSOCIATES:

(1) Associates as of December 31, 2016 and 2015, are detailed as follows:

(In thousands of Korean won)	Primary business	Location	December 31, 2016		
			Ownership (%)	Acquisition cost	Carrying amount
Uiwang ICD Co., Ltd.	Construction and operation of container depot	Republic of Korea	25.00%	₩ 1,765,000	1,871,137
Dream Hub Project Financial Investment Co., Ltd.	Developing, trading and leasing of real estate	Republic of Korea	25.00%	250,000,000	-
Yong San Station Around Development Co., Ltd.	Asset management	Republic of Korea	29.90%	897,000	-
Sinchon Station Building Co., Ltd.	Development and operation of privatized station's sphere of influence	Republic of Korea	33.33%	1,700,000	-
Lotte Station Building Co., Ltd.	Development and operation of privatized station's sphere of influence	Republic of Korea	31.67%	84,338,340	156,915,079
Bupyeong Department Store Co., Ltd.	Development and operation of privatized station's sphere of influence	Republic of Korea	25.00%	682,300	1,325,625
Changdong Station Building Co., Ltd.	Development and operation of privatized station's sphere of influence	Republic of Korea	31.67%	1,520,000	-
Anyang Station Building Co., Ltd.	Development and operation of privatized station's sphere of influence	Republic of Korea	26.08%	699,962	2,852,826
Donginchon Shopping Center Co., Ltd.	Development and operation of privatized station's sphere of influence	Republic of Korea	21.28%	798,000	-
Bucheon Station Building Co., Ltd.	Development and operation of privatized station's sphere of influence	Republic of Korea	25.00%	6,833,050	6,701,267
Hanwha Station Development Co., Ltd.	Development and operation of privatized station's sphere of influence	Republic of Korea	32.04%	12,953,517	40,252,220
Noryangjin Station Building Co., Ltd.	Development and operation of privatized station's sphere of influence	Republic of Korea	27.00%	540,000	-
Shinsegae Uijeongbu Station Building Co., Ltd.	Development and operation of privatized station's sphere of influence	Republic of Korea	27.55%	1,102,000	-
Seongbuk Station Building Co., Ltd.	Development and operation of privatized station's sphere of influence	Republic of Korea	30.00%	600,000	-
Ansan Central Station Building Co., Ltd.	Development and operation of privatized station's sphere of influence	Republic of Korea	25.00%	500,000	14,723
Bitplex Co., Ltd.	Development and operation of privatized station's sphere of influence	Republic of Korea	28.74%	4,862,340	-
Total				₩ 369,791,509	209,932,877

(In thousands of Korean won)	Primary business	Location	December 31, 2015		
			Ownership (%)	Acquisition cost	Carrying amount
Uiwang ICD Co., Ltd.	Construction and operation of container depot	Republic of Korea	25.00%	₩ 1,765,000	1,799,303
Dream Hub Project Financial Investment Co., Ltd.	Developing, trading and leasing of real estate	Republic of Korea	25.00%	250,000,000	-
Yong San Station Around Development Co., Ltd.	Asset management	Republic of Korea	29.90%	897,000	-
Sinchon Station Building Co., Ltd.	Development and operation of privatized station's sphere of influence	Republic of Korea	33.33%	1,700,000	-
Lotte Station Building Co., Ltd.	Development and operation of privatized station's sphere of influence	Republic of Korea	31.67%	84,338,340	154,184,236
Bupyeong Department Store Co., Ltd.	Development and operation of privatized station's sphere of influence	Republic of Korea	25.00%	682,300	906,643
Changdong Station Building Co., Ltd.	Development and operation of privatized station's sphere of influence	Republic of Korea	31.67%	1,520,000	-
Anyang Station Building Co., Ltd.	Development and operation of privatized station's sphere of influence	Republic of Korea	26.08%	699,962	2,678,447
Donginchon Shopping Center Co., Ltd.	Development and operation of privatized station's sphere of influence	Republic of Korea	21.28%	798,000	-
Bucheon Station Building Co., Ltd.	Development and operation of privatized station's sphere of influence	Republic of Korea	25.00%	6,833,050	7,380,957
Hanwha Station Development Co., Ltd.	Development and operation of privatized station's sphere of influence	Republic of Korea	32.04%	12,953,517	37,737,892
Noryangjin Station Building Co., Ltd.	Development and operation of privatized station's sphere of influence	Republic of Korea	27.00%	540,000	-
Shinsegae Uijeongbu Station Building Co., Ltd.	Development and operation of privatized station's sphere of influence	Republic of Korea	27.55%	1,102,000	-
Seongbuk Station Building Co., Ltd.	Development and operation of privatized station's sphere of influence	Republic of Korea	30.00%	600,000	-
Ansan Central Station Building Co., Ltd.	Development and operation of privatized station's sphere of influence	Republic of Korea	25.00%	500,000	71,336
Bitplex Co., Ltd.	Development and operation of privatized station's sphere of influence	Republic of Korea	23.78%	4,862,340	478,939
Total			₩	<u>369,791,509</u>	<u>205,237,753</u>

(2) Financial information of significant associates as of December 31, 2016 and 2015, is as follows:

(In thousands of Korean won)		Lotte Station Building Co., Ltd.		Hanwha Station Development Co., Ltd.	
		2016	2015	2016	2015
Current assets	₩	237,319,968	277,785,204	7,990,032	6,528,896
Non-current assets		503,325,152	450,437,532	426,815,531	437,985,349
Current liabilities		235,456,909	232,636,368	65,051,864	57,317,348
Non-current liabilities		9,666,868	8,688,779	244,134,162	269,424,245
Revenue		582,892,426	612,650,790	65,421,500	62,553,210
Profit for the year		34,828,921	42,184,892	14,612,728	14,560,047
Total comprehensive profit for the year		38,116,324	46,705,025	14,396,957	14,643,671
Dividend received		9,350,984	17,223,192	2,098,822	1,469,189

(3) Details of adjustments made for book value of associates as of December 31, 2016, are as follows:

(In thousands of Korean won)		Net assets	Percentage of ownership	Share of interests in net assets	Book value
Uiwang ICD Co., Ltd.	₩	7,484,548	25.00%	₩ 1,871,137	1,871,137
Lotte Station Building Co., Ltd.		495,521,342	31.67%	156,915,092	156,915,079
Bupyeong Department Store Co., Ltd.		5,302,241	25.00%	1,325,560	1,325,625
Anyang Station Building Co., Ltd.		10,940,847	26.08%	2,853,373	2,852,826
Bucheon Station Building Co., Ltd.		26,805,066	25.00%	6,701,267	6,701,267
Hanwha Station Development Co., Ltd.		125,619,537	32.04%	40,252,317	40,252,220
Ansan Central Station Building Co., Ltd.		58,891	25.00%	14,723	14,723
Bitplex Co., Ltd.		-	23.78%	-	-

(4) Book value of non-significant associates and joint arrangements is as follows:

(In thousands of Korean won)		Others
Book value	₩	12,765,578
Profit attributable to associates and joint ventures:		
Profit from continuing operations		2,607,712
Total comprehensive income for the year		2,607,712

(5) Changes in investments in associates for the years ended December 31, 2016 and 2015, were as follows:

(In thousands of Korean won)

2016								
	Book value as of Jan. 1, 2016	Acquisitions	Disposals	Dividend	Share of profits	Change in equity method investments	Other increase (decrease)	Book value as of Dec. 31, 2016
Uiwang ICD Co., Ltd.	₩ 1,799,303	-	-	-	77,525	-	(5,691)	1,871,137
Lotte Station Building Co., Ltd.	154,184,224	-	-	(9,350,984)	11,029,159	1,041,011	11,669	156,915,079
Bupyeong Department Store Co., Ltd.	906,707	-	-	-	479,593	31,482	(92,157)	1,325,625
Anyang Station Building Co., Ltd.	2,678,447	-	-	(78,225)	253,269	-	(665)	2,852,826
Bucheon Station Building Co., Ltd.	7,380,957	-	-	(2,500,000)	1,845,525	-	(25,215)	6,701,267
Hanwha Station Development Co., Ltd.	37,737,840	-	-	(2,098,822)	4,682,362	-	(69,160)	40,252,220
Ansan Central Station Building Co., Ltd.	71,336	-	-	-	(48,199)	-	(8,414)	14,723
Bitplex Co., Ltd.	478,939	-	-	-	(478,939)	-	-	-
Total	₩ 205,237,753	-	-	(14,028,031)	17,840,295	1,072,493	(189,633)	209,932,877

(In thousands of Korean won)

2015								
	Book value as of Jan. 1, 2015	Acquisitions	Disposals	Dividend	Share of profits	Change in equity method investments	Other increase (decrease)	Book value as of Dec. 31, 2015
Uiwang ICD Co., Ltd.	₩ 1,689,284	-	-	-	144,238	-	(34,219)	1,799,303
Lotte Station Building Co., Ltd.	156,617,886	-	-	(17,223,192)	13,358,549	1,431,375	(394)	154,184,224
Bupyeong Department Store Co., Ltd.	710,252	-	-	-	334,587	(1,974)	(136,158)	906,707
Anyang Station Building Co., Ltd.	2,746,469	-	-	(78,225)	92,769	-	(82,566)	2,678,447
Bucheon Station Building Co., Ltd.	7,439,261	-	-	(2,500,000)	1,802,719	-	638,977	7,380,957
Hanwha Station Development Co., Ltd.	34,514,516	-	-	(1,469,189)	4,665,482	-	27,031	37,737,840
Ansan Central Station Building Co., Ltd.	71,336	-	-	-	-	-	-	71,336
Bitplex Co., Ltd.	-	-	-	-	478,939	-	-	478,939
Total	₩ 203,789,004	-	-	(21,270,606)	20,877,283	1,429,401	412,671	205,237,753

(6) Details of unrecognized equity losses for the year ended December 31, 2016, and accumulated unrecognized equity losses due to discontinuance of equity method application are as follows:

<i>(In thousands of Korean won)</i>		Unrecognized equity losses for the year ended	Unrecognized equity losses accumulated
Dongincheon Shopping Center Co., Ltd.	₩	(272,322)	(8,385,457)
Seongbuk Station Building Co., Ltd.		(211,947)	(2,250,072)
Shinsegae Uijeongbu Station Building Co., Ltd.		(274,599)	(4,534,322)
Sinchon Station Building Co., Ltd.		(1,248,439)	(8,116,572)

17. PROPERTY, TRAINS AND EQUIPMENT:

(1) Details of property, trains and equipment as of December 31, 2016 and 2015, are as follows:

		December 31, 2016				
(In thousands of Korean won)		Acquisition cost	Government grants	Accumulated depreciation	Accumulated Impairment losses	Book value
Land(*)	₩	8,778,257,843	(6,598,459)	-	-	8,771,659,384
Buildings(*)		1,974,106,355	(104,178,832)	(406,126,120)	-	1,463,801,403
Structures		289,248,288	(8,417,758)	(106,352,408)	(728,111)	173,750,011
Machinery		1,128,342,610	(85,801,076)	(652,767,724)	-	389,773,810
Servers		7,731,279	-	(361,870)	-	7,369,409
Trains		7,861,661,276	(365,064,401)	(2,285,392,428)	-	5,211,204,447
Vehicles		49,844,590	(256,598)	(37,991,923)	-	11,596,069
Furniture and fixtures		16,835,945	(2,209)	(13,398,231)	-	3,435,505
Tools		121,623,909	(36,543)	(98,099,850)	-	23,487,516
Construction in progress		221,896,907	(12,284,510)	-	-	209,612,397
Financial lease assets		1,717,071	-	(1,717,064)	-	7
Other tangible assets		31,330,931	-	(898,366)	-	30,432,565
Total	₩	20,482,597,004	(582,640,386)	(3,603,105,984)	(728,111)	16,296,122,523

December 31, 2015					
(In thousands of Korean won)		Acquisition cost	Government grants	Accumulated depreciation	Book value
Land(*)	₩	8,635,956,834	(6,526,056)	-	8,629,430,778
Buildings(*)		1,877,158,346	(81,118,815)	(363,334,667)	1,432,704,864
Structures		293,504,703	(6,747,135)	(99,989,702)	186,767,866
Machinery		1,065,761,003	(98,807,082)	(588,153,712)	378,800,209
Trains		7,152,462,640	(364,110,309)	(1,906,667,156)	4,881,685,175
Vehicles		50,100,647	(416,098)	(36,232,029)	13,452,520
Furniture and fixtures		16,686,792	(2,856)	(12,770,053)	3,913,883
Tools		112,133,213	(107,435)	(91,962,464)	20,063,314
Construction in progress		396,500,752	(14,441,312)	-	382,059,440
Financial lease assets		1,717,071	-	(1,717,064)	7
Other tangible assets		29,880,722	-	(837,651)	29,043,071
Total	₩	19,631,862,723	(572,277,098)	(3,101,664,498)	15,957,921,127

(*) Some land and buildings of the Group are being provided as collateral for the Group's borrowings.

(2) Changes in property, trains and equipment for the years ended December 31, 2016 and 2015, are as follows:

(In thousands of
Korean won)

		2016						Book value as of December 31, 2016
		Book value as of January 1, 2016	Acquisitions	Disposals	Depreciation	Other(*)	Government grants	
Land	₩	8,629,430,778	2,473,520	(6,888,223)	-	-	146,643,310	8,771,659,385
Buildings		1,432,704,864	(13,762,301)	(1,055,506)	(57,628,159)	-	103,542,505	1,463,801,403
Structures		186,767,867	4,435,778	(2,211,921)	(10,748,922)	(728,111)	(3,764,679)	173,750,012
Machinery		378,800,209	26,595,384	(1,032,941)	(53,591,097)	-	39,002,255	389,773,810
Servers		-	2,067,991	-	(361,870)	-	5,663,288	7,369,409
Trains		4,881,685,174	240,480,696	(2,684,848)	(353,865,364)	-	445,588,788	5,211,204,446
Vehicles		13,452,520	3,465,691	(38,817)	(3,034,475)	-	(2,248,851)	11,596,068
Furniture and fixtures		3,913,883	8,735,951	(45,636)	(9,074,948)	-	(93,745)	3,435,505
Tools		20,063,314	110,579	(6,852)	(67,903)	-	3,388,378	23,487,516
Construction in progress		382,059,440	578,051,651	-	-	-	(750,498,694)	209,612,397
Financial lease assets		7	-	-	-	-	-	7
Other tangible assets		29,043,070	1,481,365	(197,311)	(267,159)	-	372,600	30,432,565
Total	₩	15,957,921,126	854,136,305	(14,162,055)	(488,639,897)	(728,111)	(12,404,845)	16,296,122,523

(In thousands of
Korean won)

		2015						Book value as of December 31, 2015
		Book value as of January 1, 2015	Acquisitions	Disposals	Depreciation	Other(*)	Government grants	
Land	₩	8,534,991,282	3,990,217	-	-	90,449,279	-	8,629,430,778
Buildings		1,453,286,090	3,239,074	(1,571,945)	(42,813,672)	26,201,814	(5,636,497)	1,432,704,864
Structures		191,016,841	6,463,257	(2,943,135)	(11,728,957)	4,675,629	(715,769)	186,767,866
Machinery		424,618,432	14,666,764	(1,439,308)	(64,699,452)	15,370,847	(9,717,074)	378,800,209
Trains		4,427,731,352	7,596,011	(3,809,757)	(356,260,332)	806,467,858	(39,957)	4,881,685,175
Vehicles		12,686,018	4,649,290	(544,393)	(3,236,023)	(298,113)	195,741	13,452,520
Furniture and fixtures		5,397,112	1,045,515	(117,943)	(2,018,228)	(389,717)	(2,856)	3,913,883
Tools		18,158,504	7,491,836	(45,741)	(6,135,715)	508,482	85,948	20,063,314
Construction in progress		182,629,393	936,950,112	-	-	(731,620,485)	(5,899,580)	382,059,440
Financial lease assets		7	-	-	-	-	-	7
Other tangible assets		28,715,914	444,389	(8,443)	(212,469)	103,680	-	29,043,071
Total	₩	15,279,230,945	986,536,465	(10,480,665)	(487,104,848)	211,469,274	(21,730,044)	15,957,921,127

(*) Other increase (decrease) relates to reclassification of assets under construction, payment in kind and assets contribution.

(3) Change of accounting policy

The Group changed its accounting policy for land from the cost model to the revaluation model. The Group believes that the book value of Yongsan station area that the Group has reclaimed as a result of the cancellation of the project should be measured at fair value, as it would provide more reliable and relevant information of the Group's financial position and future cash flows. The Group requested value assessment to Cheil Appraisal and Assessment Institution and Korea Appraisal Board, the independent and publicly authorized appraisal institutions, to determine the fair value of the land. The fair value is measured based on actual market price, taking into account differences arising from specific assets' characteristics, location and condition of the market, and the date of revaluation is April 30, 2013. Fair value of the land as of December 31, 2016, has not been significantly changed from the assessed value as of December 31, 2015.

(In thousands of Korean won)

		2016	2015
Beginning balance	₩	3,035,037,399	3,073,787,934
Gain on revaluation of the land		36,495,587	-
Reclassification of gain on revaluation of assets to retained earnings		(4,694,905)	(38,750,535)
Ending balance	₩	3,066,838,081	3,035,037,399

18. INVESTMENT PROPERTY:

(1) Investment property as of December 31, 2016 and 2015, is as follows:

		December 31, 2016			
(In thousands of Korean won)		Acquisition cost	Government grants	Accumulated depreciation	Book value
Land	₩	65,544,373	-	-	65,544,373
Buildings and structure		132,940,538	(2,068,923)	(29,164,099)	101,707,516
Total	₩	198,484,911	(2,068,923)	(29,164,099)	167,251,889

		December 31, 2015			
(In thousands of Korean won)		Acquisition cost	Government grants	Accumulated depreciation	Book value
Land	₩	242,830,679	-	-	242,830,679
Buildings and structure		84,193,754	(1,893,977)	(22,299,264)	60,000,513
Total	₩	327,024,433	(1,893,977)	(22,299,264)	302,831,192

(2) Changes in investment property for the years ended December 31, 2016 and 2015, are as follows:

(In thousands of Korean won)

		2016					
		Book value as of January 1, 2016	Acquisitions	Disposals	Depreciation	Government grants	Other(*)
Land	₩	242,830,679	-	-	-	(177,286,306)	-
Buildings and structure		60,000,513	-	-	(2,749,712)	44,631,661	(174,946)
Total	₩	302,831,192	-	-	(2,749,712)	(132,654,645)	(174,946)

		2015					
		Book value as of January 1, 2015	Acquisitions	Disposals	Depreciation	Government grants	Other(*)
Land	₩	394,679,844	-	-	-	-	(151,849,165)
Buildings and structure		68,836,981	-	-	(2,464,986)	(1,654,381)	(4,717,101)
Total	₩	463,516,825	-	-	(2,464,986)	(1,654,381)	(156,566,266)

(*) Other changes represent reclassification of investment property from property, trains and equipment.

(3) Income and expense from investment property for the years ended December 31, 2016 and 2015, are as follows:

<i>(In thousands of Korean won)</i>		2016	2015
Rental income	₩	44,831,204	42,889,774
Operating expense		(2,749,712)	(2,778,636)
Total	₩	42,081,492	40,111,138

(4) Fair value

<i>(In thousands of Korean won)</i>		2016		2015	
		Book value	Fair value	Book value	Fair value
Land	₩	65,544,373	66,665,677	242,830,679	251,177,631
Buildings and structure		101,707,516	101,707,516	60,000,513	60,000,513
Total	₩	167,251,889	168,373,193	302,831,192	311,178,144

The fair value of investment property as of December 31, 2016, was determined based on the appraisal performed by the independent appraisal institution, Korea Appraisal Board, on April 1, 2013. As a member of Korea Appraisal Association, Korea Appraisal Board has extensive experience and qualification in connection with the appraisal of real estates. The appraisal was performed in accordance with international standards and the appraisal value was measured based on the market price of the similar real estates.

19. CONSTRUCTION CONTRACTS:

(1) During the year ended December 31, 2016, changes in outstanding balance of construction contracts are as follows:

<i>(In thousands of Korean won)</i>	Contract price outstanding as of January 1, 2016	Increase	Current construction revenue	Contract price outstanding as of December 31, 2016
Domestic civil engineering works	₩ 4,406,287	20,120,178	(17,451,929)	7,074,536

Revenue from new construction contracts increased by ₩20,272,876 thousand (₩3,217,672 thousand in 2015) and revenue from changes in construction contracts increased by ₩152,698 thousand (₩86,056 thousand in 2015).

(2) Details of profit or loss related to the construction contract recognized during the years ended December 31, 2016 and 2015, are as follows:

<i>(In thousands of Korean won)</i>		2016		
		Accumulated revenue of construction	Accumulated cost of construction	Accumulated profit or loss of construction
Domestic civil engineering works	₩	29,555,274	(28,043,044)	1,512,230

<i>(In thousands of Korean won)</i>		2015		
		Accumulated revenue of construction	Accumulated cost of construction	Accumulated profit or loss of construction
Domestic civil engineering works	₩	12,045,399	(10,922,701)	1,122,698

(3) As of December 31, 2016 and 2015, there is no unbilled amount or deferred income.

20. GOODWILL:

(1) Goodwill as of December 31, 2016 and 2015, is as follows:

<i>(In thousands of Korean won)</i>		<u>December 31, 2016</u>	<u>December 31, 2015</u>
Acquisition costs	₩	4,095,870	4,095,870
Book value	₩	3,732,906	3,732,906

(2) Changes in goodwill for the years ended December 31, 2016 and 2015, are as follows:

<i>(In thousands of Korean won)</i>		<u>2016</u>	<u>2015</u>
Beginning balance	₩	3,732,906	3,732,906
Additional recognition		-	-
Other increase/decrease		-	-
Ending balance	₩	3,732,906	3,732,906

21. INTANGIBLE ASSETS:

(1) Intangible assets as of December 31, 2016 and 2015, are as follows:

		<u>December 31, 2016</u>		
<i>(In thousands of Korean won)</i>		<u>Acquisition cost</u>	<u>Government grants</u>	<u>Accumulated amortization</u>
Industrial property rights	₩	479,058	-	(231,553)
Development costs		60,554,851	-	(45,090,608)
Computer software		74,113,170	-	(52,982,026)
Service operating rights on donated assets		330,735	-	-
Other intangible assets		20,156,498	-	-
Developing intangible assets		12,489,528	-	-
Total	₩	168,123,840	-	(98,304,187)

		<u>December 31, 2015</u>		
<i>(In thousands of Korean won)</i>		<u>Acquisition cost</u>	<u>Government grants</u>	<u>Accumulated amortization</u>
Industrial property rights	₩	511,199	-	(231,198)
Development costs		49,985,415	-	(42,454,428)
Computer software		66,245,337	-	(47,886,303)
Service operating rights on donated assets		363,807	-	-
Other intangible assets		20,189,233	-	-
Developing intangible assets		14,050,854	-	-
Total	₩	151,345,845	-	(90,571,929)

(2) Changes in intangible assets for the years ended December 31, 2016 and 2015, are as follows:

2016						
(In thousands of Korean won)	Industrial property rights	Development costs	Computer software	Service operating rights on donated assets	Other intangible assets(*)	Total
Beginning balance ₩	280,001	7,530,987	18,359,034	363,807	34,240,087	60,773,916
Increase	2,362	-	2,296,596	-	18,870,243	21,169,201
Disposal	-	-	-	-	-	-
Amortization	(34,857)	(3,117,118)	(5,754,204)	(33,072)	(1,035,869)	(9,975,120)
Government grants	-	-	-	-	-	-
Other	-	11,050,373	6,229,718	-	(19,428,435)	(2,148,344)
Ending balance ₩	247,506	15,464,242	21,131,144	330,735	32,646,026	69,819,653

2015						
(In thousands of Korean won)	Industrial property rights	Development costs	Computer software	Service operating rights on donated assets	Other intangible assets(*)	Total
Beginning balance ₩	308,251	8,713,963	10,929,805	396,880	18,382,695	38,731,594
Increase	-	-	210,265	-	181,223	391,488
Disposal	-	-	-	-	-	-
Amortization	(715)	(1,881,442)	(4,631,496)	(33,073)	(1,621,820)	(8,168,546)
Government grants	-	-	-	-	-	-
Other	(27,535)	698,466	11,850,460	-	17,297,989	29,819,380
Ending balance ₩	280,001	7,530,987	18,359,034	363,807	34,240,087	60,773,916

(*) Other intangible assets include developing intangible assets and the amounts of increase are ₩17,867,109 thousand and nil for the years ended December 31, 2016 and 2015, respectively. In addition, the amounts of other are ₩(19,428,435) thousand and ₩14,050,854 thousand for the years ended December 31, 2016 and 2015, respectively.

(3) Details of important intangible assets for the years ended December 31, 2016 and 2015, are as follows:

2016				
(In thousands of Korean won)	Details	Book value	Remaining amortization period	
Development costs	SR API System	₩ 1,329,484	4 years	
Development costs	IT Service management for maintenance request	70,682	4 years	
Computer software	Management system for ticket reservation	294,562	4 years	
Computer software	REORG Software	52,668	4 years	

2015				
(In thousands of Korean won)	Details	Book value	Remaining amortization period	
Development costs	System for gathering Big Data	₩ 294,802	4 years	
Development costs	Information security ISP	11,277	4 years	
Computer software	GPS system	508,163	4 years	
Computer software	New generation of customer business system (Second edition)	7,804,953	4 years	

22. TRADE AND OTHER PAYABLES:

Details of trade and other payables as of December 31, 2016 and 2015, are as follows:

(In thousands of Korean won)	December 31, 2016		December 31, 2015	
	Current	Non-current	Current	Non-current
Trade payables	₩ 209,077,168	-	232,088,383	-
Other payables	184,707,613	-	161,912,958	-
Accrued expenses	225,408,483	-	252,168,110	-
Other	-	32,754,691	-	1,503,451
Total	₩ 619,193,264	32,754,691	646,169,451	1,503,451

23. FINANCIAL LIABILITIES:

(1) Financial liabilities as of December 31, 2016 and 2015, are as follows:

(In thousands of Korean won)	December 31, 2016	December 31, 2015
<u>Current liabilities</u>		
Short-term borrowings	₩ 10,448,562	221,589,755
Current portion of long-term borrowings	31,300,000	30,812,500
Current bonds	1,862,550,000	1,524,400,000
Deduct: Bond issuance discount	(437,822)	(732,221)
Subtotal	1,903,860,740	1,776,070,034
<u>Non-current liabilities</u>		
Long-term borrowings	116,000,000	133,000,000
Deduct: Present value discount	(216,790)	-
Bonds	9,560,429,700	9,381,361,200
Deduct: Bond issuance discount	(4,025,428)	(5,810,740)
Subtotal	9,672,187,482	9,508,550,460
Total	₩ 11,576,048,222	11,284,620,494

(2) Short-term borrowings as of December 31, 2016 and 2015, are as follows:

(In thousands of Korean won)	Type of borrowings	Interest rate	December 31, 2016	December 31, 2015
Hana Bank	Working fund borrowings	4.83%	₩ 395,000	1,415,000
Hana Bank	Working fund borrowings	4.42%	1,500,000	1,500,000
Woori Bank	Working fund borrowings	3.82%	950,000	1,974,755
Woori Bank	Working fund borrowings	3.81%	995,000	-
NH Bank	Working fund borrowings	2.27%	6,400,000	16,700,000
Hana Bank	Loans on others	-	-	100,000,000
Shinhan Bank	Loans on others	-	-	100,000,000
KB Bank	Working fund borrowings	4.13%	208,562	-
Ending balance			₩ 10,448,562	221,589,755

(3) Long-term borrowings as of December 31, 2016 and 2015, are as follows:

				December 31, 2016	
				Borrowings denominated in foreign currency	Borrowings denominated in Korean won
(In thousands of Korean won)	Type of borrowings	Interest rate	Maturity		
Ministry of Strategy and Finance	Public management fund financing	Variable	2020	-	120,000,000
Korea Workers' Compensation and Welfare Service	Financing on foundation of day care center in workplace	2.00%	2023	-	1,000,000
Woori Bank	Facility fund debt	5.55%	2017	-	1,300,000
NH Bank	Facility fund debt	2.13%	2018	-	25,000,000
Subtotal				-	147,300,000
				-	147,300,000
Deduct: reclassified to current borrowings				-	(31,300,000)
	Total			-	116,000,000

				December 31, 2015	
				Borrowings denominated in foreign currency	Borrowings denominated in Korean won
(In thousands of Korean won)	Type of borrowings	Interest rate	Maturity		
Ministry of Strategy and Finance	Public management fund financing	Variable	2020	-	150,000,000
Korea Workers' Compensation and Welfare Service	Financing on foundation of day care center in workplace	2.00%	2023	-	1,000,000
Woori Bank	Facility fund debt	5.55%	2018	-	1,000,000
Kookmin Bank	Facility fund debt	5.15%	2016	-	812,500
NH Bank	Facility fund debt	2.13%	2018	-	11,000,000
Subtotal				-	163,812,500
				-	163,812,500
Deduct: reclassified to current borrowings				-	(30,812,500)
	Total			-	133,000,000

(4) Bonds as of December 31, 2016 and 2015, are as follows:

			December 31, 2016	
			Borrowings denominated in foreign currency	Borrowings denominated in Korean won
(In thousands of Korean won)	Interest rate	Maturity		
Korea Railroad Corporation48	5.25%	2019-04-15	- ₩	110,000,000
Korea Railroad Corporation50	5.29%	2018-05-14	-	150,000,000
Korea Railroad Corporation52	5.67%	2019-09-03	-	150,000,000
Korea Railroad Corporation53	5.67%	2019-09-17	-	130,000,000
Korea Railroad Corporation54	5.61%	2017-09-24	-	150,000,000
Korea Railroad Corporation58	5.69%	2018-10-29	-	120,000,000
Korea Railroad Corporation60	5.45%	2020-02-04	-	150,000,000
Korea Railroad Corporation61	5.43%	2020-02-17	-	200,000,000
Korea Railroad Corporation63	5.03%	2017-04-15	-	150,000,000
Korea Railroad Corporation65	5.12%	2020-04-27	-	50,000,000
Korea Railroad Corporation67	5.24%	2020-05-13	-	160,000,000
Korea Railroad Corporation68	5.19%	2018-05-25	-	200,000,000
Korea Railroad Corporation71	4.66%	2020-08-23	-	150,000,000
Korea Railroad Corporation74	4.53%	2017-11-11	-	150,000,000
Korea Railroad Corporation76	5.03%	2021-02-17	-	150,000,000
Korea Railroad Corporation78	4.40%	2018-03-17	-	100,000,000
Korea Railroad Corporation79	4.67%	2021-04-08	-	100,000,000
Korea Railroad Corporation82	4.27%	2026-08-08	-	120,000,000
Korea Railroad Corporation83	4.10%	2021-08-23	-	80,000,000

Korea Railroad Corporation84	4.06%	2026-09-06	-	100,000,000
Korea Railroad Corporation88	4.17%	2021-11-08	-	170,000,000
Korea Railroad Corporation89	4.00%	2022-02-24	-	130,000,000
Korea Railroad Corporation90	4.26%	2027-03-19	-	130,000,000
Korea Railroad Corporation91	3.94%	2017-04-05	-	200,000,000
Korea Railroad Corporation92	4.09%	2027-04-23	-	200,000,000
Korea Railroad Corporation93	3.84%	2022-05-22	-	190,000,000
Korea Railroad Corporation95	3.12%	2019-07-26	-	130,000,000
Korea Railroad Corporation96	3.16%	2027-09-11	-	90,000,000
Korea Railroad Corporation97	3.08%	2017-09-26	-	130,000,000
Korea Railroad Corporation98	3.06%	2022-10-09	-	130,000,000
Korea Railroad Corporation99	3.12%	2027-10-18	-	100,000,000
Foreign public bond4	CHF 1.00%	2018-11-16	CHF 300,000,000	354,399,000
Korea Railroad Corporation101	2.95%	2017-01-17	-	120,000,000
Korea Railroad Corporation102	3.20%	2023-02-07	-	100,000,000
Korea Railroad Corporation106	4.04%	2033-09-06	-	90,000,000
Korea Railroad Corporation107	3.62%	2023-09-26	-	100,000,000
Korea Railroad Corporation110	3.68%	2023-10-29	-	50,000,000
Korea Railroad Corporation111	3.48%	2018-11-08	-	90,000,000
Foreign public bond6	CHF 1.50%	2019-12-02	CHF 315,000,000	372,118,950
Korea Railroad Corporation114	3.89%	2024-01-15	-	110,000,000
Korea Railroad Corporation115	3.57%	2019-01-15	-	100,000,000
Korea Railroad Corporation116	3.52%	2019-01-24	-	150,000,000
Korea Railroad Corporation117	3.11%	2017-02-10	-	250,000,000
Korea Railroad Corporation118	3.81%	2034-02-17	-	40,000,000
Foreign public bond7	LIBOR (3M)+0.7%	2017-02-28	USD 200,000,000	241,700,000
Korea Railroad Corporation119	3.41%	2019-03-06	-	100,000,000
Korea Railroad Corporation120	3.22%	2018-03-12	-	80,000,000
Korea Railroad Corporation121	3.82%	2029-03-12	-	60,000,000
Korea Railroad Corporation122	3.36%	2019-03-19	-	90,000,000
Korea Railroad Corporation123	3.70%	2024-03-19	-	40,000,000
Korea Railroad Corporation124	3.10%	2017-03-27	-	200,000,000
Korea Railroad Corporation125	3.68%	2024-03-31	-	60,000,000
Korea Railroad Corporation126	3.40%	2019-04-04	-	150,000,000
Korea Railroad Corporation127	3.30%	2018-10-16	-	200,000,000
Korea Railroad Corporation128	3.84%	2034-04-18	-	50,000,000
Korea Railroad Corporation129	3.39%	2019-04-23	-	200,000,000
Korea Railroad Corporation130	3.70%	2024-04-29	-	100,000,000
Korea Railroad Corporation131	3.16%	2018-05-14	-	140,000,000
Korea Railroad Corporation132	3.62%	2024-05-14	-	70,000,000
Korea Railroad Corporation133	3.55%	2024-05-21	-	70,000,000
Korea Railroad Corporation134	3.00%	2017-05-26	-	150,000,000
Korea Railroad Corporation135	3.52%	2024-06-10	-	150,000,000
Korea Railroad Corporation136	3.26%	2024-07-04	-	150,000,000
Korea Railroad Corporation137	3.25%	2029-07-24	-	150,000,000
Foreign public bond8	SGD 1.76%	2018-09-04	SGD 65,000,000	54,249,000
Foreign public bond9	LIBOR (3M)+0.55%	2017-09-18	USD 100,000,000	120,850,000
Korea Railroad Corporation138	2.93%	2029-10-28	-	100,000,000
Korea Railroad Corporation139	2.86%	2026-11-12	-	220,000,000
Foreign public bond10	AUD BBSW (3M)+0.85%	2018-08-13	AUD 55,000,000	47,962,750
Korea Railroad Corporation140	2.79%	2024-11-25	-	200,000,000
Foreign public bond11	(3M)+0.85%	2019-06-20	USD 200,000,000	241,700,000
Korea Railroad Corporation141	2.07%	2036-03-08	-	200,000,000
Korea Railroad Corporation142	1.79%	2023-04-11	-	150,000,000
Korea Railroad Corporation143	1.98%	2036-04-26	-	110,000,000
Korea Railroad Corporation144	1.47%	2026-08-01	-	100,000,000
Korea Railroad Corporation145	1.57%	2036-08-09	-	70,000,000
Korea Railroad Corporation146	1.56%	2036-08-26	-	150,000,000
Korea Railroad Corporation147	1.64%	2021-10-27	-	60,000,000

Korea Railroad Corporation148	1.88%	2046-10-27		70,000,000
Korea Railroad Corporation149	1.94%	2046-11-03		40,000,000
Korea Railroad Corporation150	1.62%	2019-11-08		300,000,000
Korea Railroad Corporation151	2.39%	2046-11-23		130,000,000
Korea Railroad Corporation152	2.35%	2046-12-06		150,000,000
Korea Railroad Corporation153	2.14%	2021-12-12		70,000,000
Bond	Average Rate for AAA+2bp	2021-06-28		90,000,000
"	Average Rate for AAA-3bp	2023-06-28		100,000,000
Subtotal		KRW	-	9,990,000,000
		USD	500,000,000	604,250,000
		CHF	615,000,000	726,517,950
		SGD	65,000,000	54,249,000
		AUD	55,000,000	47,962,750
Deduct: reclassified to current borrowings		KRW	-	1,500,000,000
		USD	300,000,000	362,550,000
Total		KRW	-	8,490,000,000
		USD	400,000,000	241,700,000
		CHF	615,000,000	726,517,950
		SGD	65,000,000	54,249,000
		AUD	55,000,000	47,962,750
		Total		₩ 9,560,429,700

(In thousands of Korean won)

	Interest rate	Maturity	December 31, 2015	
			Borrowings denominated in foreign currency	Borrowings denominated in Korean won
Korea Railroad Corporation12	5.05%	2016-09-08	- ₩	100,000,000
Korea Railroad Corporation18	5.05%	2016-12-12	-	140,000,000
Korea Railroad Corporation48	5.25%	2019-04-15	-	110,000,000
Korea Railroad Corporation50	5.29%	2018-05-14	-	150,000,000
Korea Railroad Corporation52	5.67%	2019-09-03	-	150,000,000
Korea Railroad Corporation53	5.67%	2019-09-17	-	130,000,000
Korea Railroad Corporation54	5.61%	2017-09-24	-	150,000,000
Korea Railroad Corporation56	5.56%	2016-10-16	-	140,000,000
Korea Railroad Corporation58	5.69%	2018-10-29	-	120,000,000
Korea Railroad Corporation60	5.45%	2020-02-04	-	150,000,000
Korea Railroad Corporation61	5.43%	2020-02-17	-	200,000,000
Korea Railroad Corporation63	5.03%	2017-04-15	-	150,000,000
Korea Railroad Corporation65	5.12%	2020-04-27	-	50,000,000
Korea Railroad Corporation67	5.24%	2020-05-13	-	160,000,000
Korea Railroad Corporation68	5.19%	2018-05-25	-	200,000,000
Korea Railroad Corporation71	4.66%	2020-08-23	-	150,000,000
Korea Railroad Corporation74	4.53%	2017-11-11	-	150,000,000
Korea Railroad Corporation76	5.03%	2021-02-17	-	150,000,000
Korea Railroad Corporation77	4.56%	2016-02-25	-	50,000,000
Korea Railroad Corporation78	4.40%	2018-03-17	-	100,000,000
Korea Railroad Corporation79	4.67%	2021-04-08	-	100,000,000
Korea Railroad Corporation81	4.40%	2016-04-28	-	150,000,000
Korea Railroad Corporation82	4.27%	2026-08-08	-	120,000,000
Korea Railroad Corporation83	4.10%	2021-08-23	-	80,000,000
Korea Railroad Corporation84	4.06%	2026-09-06	-	100,000,000
Korea Railroad Corporation85	3.99%	2016-09-26	-	150,000,000
Korea Railroad Corporation87	4.06%	2016-10-21	-	180,000,000
Korea Railroad Corporation88	4.17%	2021-11-08	-	170,000,000
Korea Railroad Corporation89	4.00%	2022-02-24	-	130,000,000
Korea Railroad Corporation90	4.26%	2027-03-19	-	130,000,000

Korea Railroad Corporation91	3.94%	2017-04-05	-	200,000,000
Korea Railroad Corporation92	4.09%	2027-04-23	-	200,000,000
Korea Railroad Corporation93	3.84%	2022-05-22	-	190,000,000
Korea Railroad Corporation94	CD (91 days)+0.28%	2016-07-06	-	120,000,000
Korea Railroad Corporation95	3.12%	2019-07-26	-	130,000,000
Korea Railroad Corporation96	3.16%	2027-09-11	-	90,000,000
Korea Railroad Corporation97	3.08%	2017-09-26	-	130,000,000
Korea Railroad Corporation98	3.06%	2022-10-09	-	130,000,000
Korea Railroad Corporation99	3.12%	2027-10-18	-	100,000,000
Foreign public bond4	CHF 1.00%	2018-11-16	CHF 300,000,000	355,617,000
Korea Railroad Corporation101	2.95%	2017-01-17	-	120,000,000
Korea Railroad Corporation102	3.20%	2023-02-07	-	100,000,000
Korea Railroad Corporation104	3.20%	2016-08-22	-	70,000,000
Foreign public bond5	LIBOR (3M)+0.95%	2016-08-29	USD 200,000,000	234,400,000
Korea Railroad Corporation106	4.04%	2033-09-06	-	90,000,000
Korea Railroad Corporation107	3.62%	2023-09-26	-	100,000,000
Korea Railroad Corporation109	3.05%	2016-04-15	-	80,000,000
Korea Railroad Corporation110	3.68%	2023-10-29	-	50,000,000
Korea Railroad Corporation111	3.48%	2018-11-08	-	90,000,000
Korea Railroad Corporation113	3.24%	2016-11-21	-	110,000,000
Foreign public bond6	CHF 1.50%	2019-12-02	CHF 315,000,000	373,397,850
Korea Railroad Corporation114	3.89%	2024-01-15	-	110,000,000
Korea Railroad Corporation115	3.57%	2019-01-15	-	100,000,000
Korea Railroad Corporation116	3.52%	2019-01-24	-	150,000,000
Korea Railroad Corporation117	3.11%	2017-02-10	-	250,000,000
Korea Railroad Corporation118	3.81%	2034-02-17	-	40,000,000
Foreign public bond7	LIBOR (3M)+0.7%	2017-02-28	USD 200,000,000	234,400,000
Korea Railroad Corporation119	3.41%	2019-03-06	-	100,000,000
Korea Railroad Corporation120	3.22%	2018-03-12	-	80,000,000
Korea Railroad Corporation121	3.82%	2029-03-12	-	60,000,000
Korea Railroad Corporation122	3.36%	2019-03-19	-	90,000,000
Korea Railroad Corporation123	3.70%	2024-03-19	-	40,000,000
Korea Railroad Corporation124	3.10%	2017-03-27	-	200,000,000
Korea Railroad Corporation125	3.68%	2024-03-31	-	60,000,000
Korea Railroad Corporation126	3.40%	2019-04-04	-	150,000,000
Korea Railroad Corporation127	3.30%	2018-10-16	-	200,000,000
Korea Railroad Corporation128	3.84%	2034-04-18	-	50,000,000
Korea Railroad Corporation129	3.39%	2019-04-23	-	200,000,000
Korea Railroad Corporation130	3.70%	2024-04-29	-	100,000,000
Korea Railroad Corporation131	3.16%	2018-05-14	-	140,000,000
Korea Railroad Corporation132	3.62%	2024-05-14	-	70,000,000
Korea Railroad Corporation133	3.55%	2024-05-21	-	70,000,000
Korea Railroad Corporation134	3.00%	2017-05-26	-	150,000,000
Korea Railroad Corporation135	3.52%	2024-06-10	-	150,000,000
Korea Railroad Corporation136	3.26%	2024-07-04	-	150,000,000
Korea Railroad Corporation137	3.25%	2029-07-24	-	150,000,000
Foreign public bond8	SGD 1.76%	2018-09-04	SGD 65,000,000	53,825,850
Foreign public bond9	LIBOR (3M)+0.55%	2017-09-18	USD 100,000,000	117,200,000
Korea Railroad Corporation138	2.93%	2029-10-28	-	100,000,000
Korea Railroad Corporation139	2.86%	2026-11-12	-	220,000,000
Foreign public bond10	AUD BBSW (3M)+0.85%	2018-08-13	AUD 55,000,000	46,920,500
Korea Railroad Corporation140	2.79%	2024-11-25	-	200,000,000
Subtotal		KRW	-	9,490,000,000
		USD	500,000,000	586,000,000
		CHF	615,000,000	729,014,850
		SGD	65,000,000	53,825,850
		AUD	55,000,000	46,920,500
Deduct: reclassified to current borrowings		KRW	-	1,290,000,000
		USD	(200,000,000)	234,400,000

Total	KRW	-	8,200,000,000
	USD	300,000,000	351,600,000
	CHF	615,000,000	729,014,850
	SGD	65,000,000	53,825,850
	AUD	55,000,000	46,920,500
	Total	₩	9,381,361,200

24. OTHER FINANCIAL LIABILITIES:

Other financial liabilities as of December 31, 2016 and 2015, are as follows:

(In thousands of Korean won)	December 31, 2016		December 31, 2015	
	Current	Non-current	Current	Non-current
Other financial liabilities(*)	₩ -	147,600,000	-	96,270,000

(*) Regarding the capital increase of SR Co., Ltd., the Group's subsidiary, the Group may have to purchase stocks from non-controlling interest of SR Co., Ltd., at the purchasing amount, plus annual compound interest of 5.6% from three years and six months to eight years and six months after the date of capital increase. The Group recognizes the present value of the repayment related to this transaction as financial liability.

25. FINANCE LEASE LIABILITIES:

(1) The Group maintains finance lease agreement with Lotte Capital Corporation for the usage of tools and equipment, and recognizes assets and liabilities related to the lease agreements.

(2) Details of assets under the finance lease are as follows:

(In thousands of Korean won)	December 31, 2016		December 31, 2015	
	Installation structures		Installation structures	
Acquisition cost	₩	1,717,071		1,717,071
Accumulated depreciation		(1,717,064)		(1,717,064)
Carrying amounts	₩	7		7

26. EMPLOYEE BENEFITS:

(1) Defined contribution plan

The Group operates a defined contribution plan for employees of Korea Railroad Corporation, KORAIL Networks Co., Ltd., KORAIL Logis Co., Ltd. and KORAIL Tech Co., Ltd. Plan assets are operated independently from the Group's other assets in the form of funds.

Total expense included in the consolidated statement of comprehensive loss for the year ended December 31, 2016, amounting to ₩4,425,672 thousand (2015: ₩2,940,272 thousand), which represents the contributions to the retirement benefit plan according to the ratio pursuant to retirement benefit plan.

(2) Defined benefits retirement plan

The Group operates a defined benefit retirement plan for all other employees who do not participate in the defined contribution plan.

The major actuarial calculation of the plan asset and the defined benefit retirement liabilities was performed by HMC Securities Actuary whose report was dated December 31, 2016. Present value of defined benefit liabilities, current service costs and past service costs are calculated using the projected credit method.

(i) The component of defined benefit liabilities as of December 31, 2016 and 2015, is as follows:

<i>(In thousands of Korean won)</i>	December 31, 2016	December 31, 2015
Present value of defined benefit obligations	₩ 811,869,226	838,053,652
Fair value of plan assets	(64,914,443)	(43,862,222)
Recognized as defined benefit liabilities in the consolidated statement of financial position	₩ 746,954,783	794,191,430

(ii) Changes in defined benefit liabilities for the years ended December 31, 2016 and 2015, are as follows:

<i>(In thousands of Korean won)</i>	2016	2015
Beginning balance	₩ 838,053,652	793,960,712
Current service costs	149,242,829	138,725,214
Interests(*)	24,659,312	27,847,439
Actuarial gains or losses	(96,987,334)	(52,432,986)
Benefit paid	(99,845,397)	(70,273,483)
Gain due to calculation adjustment	-	11,327
Other	(3,253,836)	215,429
Ending balance	₩ 811,869,226	838,053,652

(*) Interest rate applied for defined benefit liabilities is the market interest rate of government bonds.

(iii) Changes in plan assets for the years ended December 31, 2016 and 2015, are as follows:

<i>(In thousands of Korean won)</i>	2016	2015
Beginning balance	₩ 43,862,222	33,928,746
Expected return on plan assets(*)	793,057	670,914
Benefit paid by the plan	(266,359)	(135,615)
Actuarial gains or losses	(5,204,219)	(2,419,726)
Contributions paid into the plan	14,605,622	7,769,178
Employee contribution	11,124,120	4,048,725
Ending balance	₩ 64,914,443	43,862,222

(iv) Expense recognized in profit or loss

<i>(In thousands of Korean won)</i>	2016	2015
Current service costs	₩ 149,242,829	138,725,214
Interests	24,659,312	27,847,439
Expected return on plan assets	(793,057)	(670,914)
Total	₩ 173,109,084	165,901,739

Expense presented above is recognized in the consolidated statements of comprehensive loss as follows:

<i>(In thousands of Korean won)</i>	2016	2015
Cost of sales	₩ 158,197,144	152,955,154
Selling, general and administrative expense	14,911,940	12,946,585
Total	₩ 173,109,084	165,901,739

(v) Remeasurement factors recognized in other comprehensive income for the years ended December 31, 2016 and 2015, are as follows:

		2016	2015
<i>(In thousands of Korean won)</i>			
Actuarial gain (loss)	₩	96,987,334	52,432,986
Interests of plan assets		(266,359)	(135,615)
Subtotal		96,720,975	52,297,371
Tax effect		(281,767)	(15,262)
Total	₩	96,439,208	52,282,109

Remeasurement factors were directly reclassified to retained earnings in the consolidated statements of financial position.

(vi) Plan assets details:

		December 31, 2016	December 31, 2015
<i>(In thousands of Korean won)</i>			
Equity securities	₩	64,914,443	43,862,222

(vii) Principal actuarial assumptions at the reporting date.

	December 31, 2016	December 31, 2015
Discount rate (expected return on plan assets)	3.23%	3.15%
Future salary increases	3.76%	3.42%

27. PROVISIONS:

(1) Provisions as of December 31, 2016 and 2015, are as follows:

		December 31, 2016	December 31, 2015
<i>(In thousands of Korean won)</i>			
Provision for employee benefits	₩	206,980,388	163,173,475
Warranty provision		-	317,327
Provision for pending litigations		12,063,355	2,197,865
Provisions for recovery (*)		183,347,064	208,235,581
Provisions for others		88,272	-
Total	₩	206,980,388	210,750,773

(*) As the Group is obligated to restore contamination of lands in use, the Group recognizes the future expenditure amount as provisions for losses incurred during construction every year. Above provisions for recovery include estimations on additional burden in the Group's recovery that resulted in the cancellation of development project for Yongsan Station area that took place in the year ended December 31, 2013.

(2) Changes in provisions for the years ended December 31, 2016 and 2015, are as follows:

		2016				
<i>(In thousands of Korean won)</i>						
		Beginning balance	Increase	Used	Reversal	Ending balance
Provision for employee benefits	₩	163,173,475	206,980,388	(163,173,475)	-	206,980,388
Warranty provision		317,327	176,622	(121,462)	-	372,487
Provision for pending litigations		2,197,865	11,951,766	-	(2,086,275)	12,063,356
Provision for restoration		208,235,581	-	-	(30,784,903)	183,347,063
Provisions for others		-	88,272	-	-	88,272
Total	₩	373,924,248	219,197,048	(163,294,937)	(32,871,178)	402,851,566

		2015					
<i>(In thousands of Korean won)</i>		Beginning balance	Increase	Used	Reversal	Others(*)	Ending balance
Provision for employee benefits	₩	153,155,831	163,173,475	(153,155,831)	-	-	163,173,475
Warranty provision		422,707	213,010	(318,390)	-	-	317,327
Provision for pending litigations		7,075,910	417,354	(31,579)	(5,263,820)	-	2,197,865
Provision for restoration (Note 49)		212,605,445	-	-	(12,880,702)	8,510,838	208,235,581
Provisions for others		114,473	-	-	-	(114,473)	-
Total	₩	<u>373,374,366</u>	<u>163,803,839</u>	<u>(153,505,800)</u>	<u>(18,144,522)</u>	<u>8,396,365</u>	<u>373,924,248</u>

(*) As explained in Notes 40 and 51 provision of Airport Railroad Co., Ltd., is reclassified as liabilities held for sale.

28. **GOVERNMENT GRANTS:**

(1) Accounting treatment for government grants

In accordance with Korean Government-owned and Quasi-government Accounting Regulation and Standards, government grants used for the acquisition of certain assets are deducted from the acquisition cost of the acquired assets and such grants are offset against the depreciation expenses of the acquired assets during the useful lives of the assets.

(2) Government grants as of December 31, 2016 and 2015, are as follows:

		December 31, 2016	December 31, 2015
<i>(In thousands of Korean won)</i>			
Cash and cash equivalents	₩	(68,713,017)	(116,190,367)
Supplies		(56,344,234)	(54,351,104)
Prepayments		(5,140,300)	(3,809,413)
Land		(6,598,459)	(6,526,056)
Buildings		(104,178,832)	(81,118,815)
Structures		(8,417,758)	(6,747,135)
Machinery		(85,801,076)	(98,807,082)
Trains		(365,064,401)	(364,110,309)
Vehicles		(256,598)	(416,098)
Tools		(36,543)	(107,435)
Fixtures		(2,209)	(2,856)
Construction in progress		(12,284,510)	(14,441,312)
Investment property (buildings)		(2,068,923)	(1,893,977)
Total	₩	<u>(714,906,860)</u>	<u>(748,521,959)</u>

(3) Changes in government grants for the years ended as of December 31, 2016 and 2015, are as follows:

(In thousands of Korean
won)

won)		2016						Book value as of December 31, 2016
		Book value as of January 1, 2016	Receipt	Acquisition of assets	Offsetting with depreciation cost	Disposal	Others	
Cash and cash equivalents	₩	(116,190,367)	(359,770,689)	51,977,998	-	-	355,270,041	(68,713,017)
Supplies		(54,351,104)	(277,871,710)	-	-	-	275,878,580	(56,344,234)
Prepayments		(3,809,413)	(70,599,712)	-	-	-	69,268,825	(5,140,300)
Land		(6,526,056)	(72,403)	-	-	-	-	(6,598,459)
Buildings		(81,118,815)	(22,970,728)	-	2,420,102	4,621	(2,514,012)	(104,178,832)
Structures		(6,747,135)	(1,664,324)	(374,452)	357,065	10,490	598	(8,417,758)
Machinery		(98,807,082)	(169,316)	-	13,119,955	53,793	1,574	(85,801,076)
Trains		(364,110,309)	(25,814,000)	-	24,859,908	-	-	(365,064,401)
Vehicles		(416,098)	-	-	112,000	47,500	-	(256,598)
Tools		(107,435)	(1,853)	-	72,745	-	-	(36,543)
Fixture		(2,856)	-	-	647	-	-	(2,209)
Construction progress	in	(14,441,312)	-	(979,641)	-	-	3,136,443	(12,284,510)
Investment property (buildings)		(1,893,977)	-	-	54,170	-	(229,116)	(2,068,923)
Total	₩	(748,521,959)	(758,934,735)	50,623,905	40,996,592	116,404	700,812,933	(714,906,860)

(In thousands of Korean
won)

won)		2015						Book value
		Book value as of January 1, 2015	Receipt	Acquisition of assets	Offsetting with depreciation cost	Disposal	Others	as of December 31, 2015
Cash and cash equivalents	₩	(197,099,794)	(361,158,032)	117,238,203	-	582,867	324,246,389	(116,190,367)
Supplies		(95,900)	-	(54,255,204)	-	-	-	(54,351,104)
Prepayments		-	-	-	-	-	(3,809,413)	(3,809,413)
Land		(6,526,056)	-	-	-	-	-	(6,526,056)
Buildings		(75,482,318)	-	(9,250,529)	1,921,567	-	1,692,465	(81,118,815)
Structures		(6,031,366)	-	(1,162,879)	447,110	-	-	(6,747,135)
Machinery		(89,090,008)	-	(23,102,312)	13,380,007	-	5,231	(98,807,082)
Trains		(364,070,352)	-	(23,077,390)	22,969,933	-	67,500	(364,110,309)
Vehicles		(611,839)	-	-	195,741	-	-	(416,098)
Tools		(193,383)	-	-	85,948	-	-	(107,435)
Fixture		-	-	(3,233)	377	-	-	(2,856)
Construction progress	in	(8,541,732)	-	(6,386,656)	-	-	487,076	(14,441,312)
Investment property (buildings)		(239,596)	-	-	39,426	-	(1,693,807)	(1,893,977)
Total	₩	(747,982,344)	(361,158,032)	-	39,040,109	582,867	320,995,441	(748,521,959)

(4) Revenues from government grants for the years ended December 31, 2016 and 2015, are as follows:

(In thousands of Korean won)

		2016	2015
Revenues from government grants	₩	351,999,918	372,425,367
Others		40,996,592	39,040,109
Total	₩	392,996,510	411,465,476

29. OTHER NON-FINANCIAL LIABILITIES:

Non-financial liabilities as of December 31, 2016 and 2015, are as follows:

		December 31, 2016		December 31, 2015	
		Current	Non-current	Current	Non-current
Advance payments	₩	39,894,062	411,216	41,695,739	500,747
Unearned revenues		44,819,494	13,325,229	29,004,085	17,498,498
Withholdings		88,473,155	-	148,532,982	-
Due to customer for contract work		-	772,270	-	301,109
Other		4,614,620	-	-	-
Total	₩	177,801,331	14,508,715	219,232,806	18,300,354

30. SHARE CAPITAL:

(1) Share capital as of December 31, 2016 and 2015, is as follows:

(In thousands of Korean won)

		December 31, 2016	December 31, 2015
Subscription certificate(*)	₩	10,108,884,991	9,994,028,991

(*) 100% of the Group's equity is contributed by the Korean government.

(2) Changes in subscription certificate issued for the years ended December 31, 2016 and 2015, are as follows:

(In thousands of Korean won)

		2016	2015
Beginning balance	₩	9,994,028,991	9,603,718,818
Cash contribution		114,856,000	390,310,173
Ending balance	₩	10,108,884,991	9,994,028,991

(3) Discount on subscription certificate issued as of December 31, 2016 and 2015, is as follows:

(In thousands of Korean won)

		December 31, 2016	December 31, 2015
Discount on subscription certificate issued	₩	(4,991,513)	(4,991,513)

31. ACCUMULATED DEFICIT:

(1) Accumulated deficit as of December 31, 2016 and 2015, is as follows:

(In thousands of Korean won)

		December 31, 2016	December 31, 2015
Accumulated deficit	₩	(8,476,086,927)	(8,373,991,312)

(2) Changes in accumulated deficit for the years ended December 31, 2016 and 2015, are as follows:

(In thousands of Korean won)

	2016	2015
Beginning balance	₩ (8,373,991,312)	(9,043,181,674)
Income (loss) for the year	(204,410,926)	577,639,907
Gain on remeasurement factors	97,620,405	52,799,920
Reclassification of gain on revaluation of assets to retained earnings	4,694,905	38,750,535
Ending balance	₩ (8,476,086,928)	(8,373,991,312)

(3) Changes in gain (loss) on remeasurement factors of defined benefit plan for the years ended December 31, 2016 and 2015, are as follows:

(In thousands of Korean won)

	2016	2015
Beginning balance	₩ 25,521,960	(27,277,960)
Changes	97,620,405	52,799,920
Ending balance	₩ 123,142,365	25,521,960

32. CONSOLIDATED STATEMENT OF DISPOSITION OF ACCUMULATED DEFICIT:

Date of Disposition for 2016: March 31, 2017

Date of Disposition for 2015: March 31, 2016

(In thousands of Korean won)

	2016	2015
Undisposed accumulated deficit		
Balance at beginning of year	₩ (8,373,991,312)	(9,043,181,674)
Income (loss) for the year	(204,410,925)	577,639,907
Gain on remeasurement factors of defined benefit plan	97,620,405	52,799,920
Reclassification of gain on revaluation of assets to retained earnings	4,694,905	38,750,535
Balance at end of year before disposition	(8,476,086,927)	(8,373,991,312)
Appropriation of disposition of accumulated deficit	-	-
Undisposed accumulated deficit to be carried over to subsequent year	₩ (8,476,086,927)	(8,373,991,312)

33. OTHER EQUITY COMPONENTS:

(1) As of December 31, 2016 and 2015, other equity components are as follows:

<i>(In thousands of Korean won)</i>		December 31, 2016	December 31, 2015
Other accumulated comprehensive income	₩	3,074,611,143	3,043,321,828
Other additional paid-up capital		(144,128,451)	(92,627,235)
Total	₩	2,930,482,692	2,950,694,593

(2) Other accumulated comprehensive income or loss for the years ended December 31, 2016 and 2015, is detailed as follows:

<i>(In thousands of Korean won)</i>		December 31, 2016	December 31, 2015
Gain on valuation of available-for-sale securities	₩	9,447,469	11,961,329
Change in equity of equity method investments		(719,458)	(1,791,952)
Loss on valuation of derivatives		(954,948)	(1,884,948)
Gain on reassessment of assets		3,066,838,081	3,035,037,399
Total	₩	3,074,611,144	3,043,321,828

34. REVENUE:

Details of revenues for the years ended December 31, 2016 and 2015, are summarized as follows:

<i>(In thousands of Korean won)</i>		December 31, 2016		December 31, 2015	
		Domestic	Overseas	Domestic	Overseas
Revenue from goods sold	₩	289,557,064	492,500	275,884,480	3,494,628
Revenue from services rendered					
Transportation business		4,188,467,303	-	4,004,999,407	-
- Normal passenger transportation		484,163,106	-	513,511,862	-
- Express passenger transportation		2,086,513,085	-	1,926,671,005	-
- Long-distance passenger transportation		934,159,925	-	828,400,132	-
- Freight and other transportation		332,768,187	-	385,553,408	-
- PSO		350,863,000	-	350,863,000	-
Revenue from other multiple business		164,662,845	2,254,293	175,484,863	2,456,388
Subtotal		4,353,130,148	2,254,293	4,180,484,270	2,456,388
Revenue from entrusted business:					
Normal entrusted business		60,767,984	-	61,208,600	-
Government entrusted business		969,989,037	-	984,957,741	-
Subtotal		1,030,757,021	-	1,046,166,341	-
Construction-related revenue		17,451,929	-	7,545,181	-
Total	₩	5,690,896,162	2,746,793	5,510,080,272	5,951,016

35. SELLING, GENERAL AND ADMINISTRATIVE EXPENSE:

(1) Details of selling, general and administrative expense for the years ended December 31, 2016 and 2015, are as follows:

(In thousands of Korean won)

		<u>2016</u>	<u>2015</u>
Contributions for employee welfare business	₩	17,271	40,911
Salaries and wages		158,751,410	144,877,230
Expenses related to retirement benefits		14,911,940	13,085,776
Other employee benefits		17,885,841	16,535,337
Insurance		2,439,588	2,350,984
Depreciation		31,067,194	19,408,579
Amortization		9,399,087	8,168,546
Bad debts expenses		11,460,328	2,060,605
Professional service fees		36,299,722	36,161,515
Advertising		5,816,542	3,589,807
Training		4,933,152	5,712,558
Vehicles		234,024	289,349
Printing		959,097	746,489
Business development expenses		686,624	815,335
Rent		2,969,839	4,825,143
Communications		2,014,403	2,020,391
Transportation costs		30,729	78,225
Taxes and dues		8,528,512	6,814,170
Supplies		3,150,306	2,321,133
Utilities		5,339,499	4,724,614
Maintenance		10,970,358	9,113,702
Research		649,895	733,426
Travel		2,010,725	2,215,901
Uniform		879,453	239,217
Analysis		535,842	695,389
Annual fees		332,855	380,134
Selling expenses		798,904	565,703
Others		6,541,083	4,937,440
		<u>6,541,083</u>	<u>4,937,440</u>
Total	₩	<u>339,614,223</u>	<u>293,507,609</u>

(2) Details of other selling, general and administrative expense for the years ended December 31, 2016 and 2015, are as follows:

(In thousands of Korean won)

		<u>2016</u>	<u>2015</u>
Conference	₩	162,251	29,645
Cooperation		1,270,989	1,272,020
Rewards		791,256	850,808
Honorary retirement		743,727	1,019,722
Others		3,572,860	1,765,245
		<u>3,572,860</u>	<u>1,765,245</u>
Total	₩	<u>6,541,083</u>	<u>4,937,440</u>

36. OTHER REVENUES, OTHER EXPENSES AND OTHER INCOME:

(1) Details of other revenues for the years ended December 31, 2016 and 2015, are as follows:

(In thousands of Korean won)

	<u>2016</u>	<u>2015</u>
Reversal of other provisions	₩ 32,871,179	18,144,522
Government grants	1,136,918	3,167,460
Reversal of bad debts expenses	1,108	42,270
Gains from assets contributed	12,500	1,301,721
Others	7,109	8,178
Total	₩ <u>34,028,814</u>	<u>22,664,151</u>

(2) Details of other expenses for the years ended December 31, 2016 and 2015, are as follows:

(In thousands of Korean won)

	<u>2016</u>	<u>2015</u>
Increase in provisions	₩ 11,951,766	417,355
Other bad debts expenses	6,778,336	661,248
Donations	30,457,757	29,133,579
Depreciation on assets not in use	3,721,660	3,439,310
Total	₩ <u>52,909,519</u>	<u>33,651,492</u>

(3) Details of other income (costs) for the years ended December 31, 2016 and 2015, are as follows:

(In thousands of Korean won)

	<u>2016</u>	<u>2015</u>
Gains on sale of property, trains and equipment	₩ 5,370,339	1,011,843
Gains on disposal of non-current assets held for sale	13,925,259	47,599,819
Gains on foreign currency transaction (related to operating activities)	426,726	649,506
Gains on foreign currency translation (related to operating activities)	65,389	-
Gains on insurance settlements	8,099	-
Other income	87,125,503	89,311,657
Losses on sale of property, trains and equipment	(2,890,313)	(1,697,091)
Losses on disposal of other non-current assets	(1,117,530)	(255,706)
Impairment losses on property, trains and equipment	(9,959,565)	(6,983,578)
Impairment losses on other non-current assets	(29,035)	-
Losses on foreign currency transaction (related to operating activities)	(751,171)	(616,987)
Losses on foreign currency translation (related to operating activities)	(10,533)	-
Other costs	(35,864,341)	(59,398,057)
Total	₩ <u>56,298,827</u>	<u>69,621,406</u>

(3-1) Details of other gains for the years ended December 31, 2016 and 2015, are as follows:

(In thousands of Korean won)

	<u>2016</u>	<u>2015</u>
Gains on disposal of inventories	₩ 7,608,386	6,849,690
Miscellaneous gains	79,517,117	82,461,967
Total	₩ <u>87,125,503</u>	<u>89,311,657</u>

(3-2) Details of other losses for the years ended December 31, 2016 and 2015, are as follows:

(In thousands of Korean won)

		2016	2015
Impaired loss on fixed assets intended for disposal	₩	-	1
Losses from inventory obsolescence		73,700	325,006
Miscellaneous losses		35,790,641	59,073,050
Total	₩	35,864,341	59,398,057

37. FINANCE INCOME:

(1) During 2016 and 2015, finance income is detailed as follows:

(In thousands of Korean won)

		2016	2015
Interest income	₩	9,751,220	17,035,301
Dividend income		781,306	848,084
Gain on valuation of derivative instruments		552	-
Gains on settlement of derivative instruments		20,715,400	81,885,400
Gain from foreign currency translation (borrowings denominated in foreign currency)		2,522,729	2,819,739
Gain from foreign currency transactions (borrowings denominated in foreign currency)		11,715,531	81,227
Total	₩	45,486,738	102,669,751

(2) During 2016 and 2015, interest income included in the financial income by related assets is detailed as follows:

(In thousands of Korean won)

		2016	2015
Cash and cash equivalents	₩	4,654,547	13,423,074
Current financial instruments recognized in profit or loss		(161)	(94)
Available-for-sale financial assets		-	1,300
Held-to-maturity financial assets		-	104,626
Loans and receivables		4,240,238	3,343,893
Short-term financial instruments		799,257	89,063
Long-term financial instruments		348	422
Other financial assets		56,991	73,017
Total	₩	9,751,220	17,035,301

38. FINANCE COSTS:

(1) During 2016 and 2015, finance costs are detailed as follows:

(In thousands of Korean won)

		2016	2015
Interest expenses	₩	420,012,978	480,668,462
Losses on disposal of available-for-sale financial assets		32	5,255
Losses on valuation of derivative instruments		2,496,900	2,767,350
Losses on settlement of derivative instruments		11,000,000	1,960,000
Losses from early extinguishment of debt		-	2,212,192
Losses on foreign currency translation (foreign borrowing)		20,737,905	81,905,109
Losses on foreign currency transaction (foreign borrowing)		79,688	2,604,131
Total	₩	454,327,503	572,122,499

(2) During 2016 and 2015, interest expense included in finance costs by related liabilities is detailed as follows:

(In thousands of Korean won)

		2016	2015
Accounts payables and other payables	₩	7,413,068	7,738,838
Short-term borrowings		895,644	1,492,381
Long-term borrowings		4,939,337	3,528,932
Bonds		415,501,616	470,711,384
Convertible bonds		-	-
Other financial liabilities		-	-
Subtotal		428,749,665	483,471,535
Deduct: Capitalization of borrowing costs		(8,736,687)	(2,803,073)
Total	₩	420,012,978	480,668,462

Weighted-average capitalization interest rate for borrowings for the years ended December 31, 2016 and 2015, was 3.54% and 3.63%, respectively.

39. **INCOME TAXES RELATED TO CONTINUING OPERATION:**

(1) The component of income tax benefit for the years ended December 31, 2016 and 2015, is as follows:

(In thousands of Korean won)

		2016	2015
Current tax expense	₩	1,233,613	708,631
Adjustment for prior periods		-	(216,562,266)
Origination and reversal of temporary differences		4,636,829	(2,801,901)
Income tax recognized in other comprehensive income		(11,370,128)	(776,230)
Income tax benefit	₩	(5,499,686)	(219,431,766)

(2) Reconciliation between income tax benefit and accounting income is detailed as follows:

(In thousands of Korean won)

		2016	2015
Loss before income tax benefit	₩	(231,998,503)	(276,367,472)
Tax rate		22.00%	22.0%
Income tax benefit using the Company's statutory tax rate		(51,039,671)	736,698
Adjustments:			
Tax effect of non-taxable income		(383,770)	(86)
Tax effect of non-deductible expenses		10,018,293	52,553
Current adjustments for prior periods		-	(216,562,266)
Tax expenses directly added to, or deducted from, equity		281,497	(776,230)
Other (tax rate differences, etc.)		35,623,965	(2,882,435)
Income tax benefit		(5,499,686)	(219,431,766)
Average effective tax rate		N/A	N/A

(3) Deferred income tax recognized directly in other comprehensive income for the years ended December 31, 2016 and 2015, is as follows:

(In thousands of Korean won)

		2016	2015
Deferred income tax:			
Gains/losses on valuation of available-for-sale securities	₩	270	227
Gains/losses on remeasurement factors of defined benefit plan		(281,767)	(3,858)
Gains/losses on revaluation of assets		11,651,625	(772,599)
Total	₩	11,370,128	(776,230)

(4) Changes in deferred income tax assets (liabilities) during the years ended December 31, 2016 and 2015, are detailed as follows:

		2016				
		Beginning balance	Profit or loss	Other comprehensive income	Reclassify to held for sale	Ending balance
<i>(In thousands of Korean won)</i>						
The Company:						
Deferred income tax assets	₩	-	-	-	-	-
Deferred income tax liabilities		-	-	-	-	-
Subsidiary:						
Deferred income tax assets		8,348,188	9,170,406	281,497	-	17,800,091
Deferred income tax liabilities		(7,163,791)	(2,437,107)	(11,651,625)	-	(21,252,523)
The Group:						
Deferred income tax assets		8,348,188	9,170,406	281,497	-	17,800,091
Deferred income tax liabilities		(7,163,791)	(2,437,107)	(11,651,625)	-	(21,252,523)

		2015				
		Beginning balance	Profit or loss	Other comprehensive income	Reclassify to held for sale	Ending balance
<i>(In thousands of Korean won)</i>						
The Company:						
Deferred income tax assets	₩	-	-	-	-	-
Deferred income tax liabilities		-	-	-	-	-
Subsidiary:						
Deferred income tax assets		5,119,338	4,005,080	(776,230)	-	8,348,188
Deferred income tax liabilities		(7,937,472)	773,681	-	-	(7,163,791)
The Group:						
Deferred income tax assets		5,119,338	4,005,080	(776,230)	-	8,348,188
Deferred income tax liabilities		(7,937,472)	773,681	-	-	(7,163,791)

40. **ASSETS HELD FOR SALE:**

(1) Details of assets and liabilities held for sale and related to discontinued operation as of December 31, 2016 and 2015, are detailed as follows:

<i>(In thousands of Korean won)</i>		December 31, 2016	December 31, 2015
Held for sale: land (Note 1)	₩	24,090,996	7,042,189
Held for sale: buildings and structures (Note 1)		446,497	31,209

Note 1.

During the period, some assets of land and buildings of the Group were classified as held for sale through the approval of the overall asset management. Each regional headquarters is in the process of disposal of public land by consultation of compensation for loss with the government. Assets are expected to be sold within a year from the end of reporting period.

41. NATURE OF EXPENSES:

Details of nature of expenses for the years ended December 31, 2016 and 2015, are as follows:

(In thousands of Korean won)

		2016		
		Selling, general and administrative expenses	Cost of sales	Total
	Changes in inventories			
Goods	₩ 134,275,524	-	-	134,275,524
Manufactured goods	562,267	-	-	562,267
Salaries	-	158,751,409	1,813,580,435	1,972,331,844
Retirement benefits	-	14,911,940	158,197,144	173,109,084
Employee benefits	-	17,903,112	212,442,826	230,345,938
Insurance	-	2,439,588	6,247,901	8,687,489
Depreciation expense	-	31,067,194	456,600,755	487,667,949
Amortization of intangibles	-	9,399,087	576,033	9,975,120
Bad debts expenses	-	11,460,328	-	11,460,328
Commissions paid	-	36,299,722	352,824,108	389,123,830
Advertising	-	5,816,542	59,576	5,876,118
Education and training	-	4,933,152	252,656	5,185,808
Vehicle maintenance	-	234,024	427,174,779	427,408,803
Printing	-	959,097	1,018,324	1,977,421
Project initiatives	-	686,624	143,434	830,058
Rental	-	2,969,839	963,368,741	966,338,580
Communication	-	2,014,403	1,511,336	3,525,739
Transportation	-	30,729	6,373	37,102
Taxes and dues	-	8,528,512	13,419,421	21,947,933
Supplies	-	3,150,306	15,530,778	18,681,084
Utilities	-	5,339,499	63,174,426	68,513,925
Maintenance	-	10,970,358	562,784,414	573,754,772
Ordinary development expenses	-	649,895	1,957,618	2,607,513
Business trip and transportation expenses	-	2,010,725	18,739,328	20,750,053
Uniforms	-	879,453	5,041,195	5,920,648
Research and analysis	-	535,842	31,158	567,000
Annual fees	-	332,856	90,447	423,303
Sales promotion	-	-	796,359	796,359
Sales commissions	-	798,904	21,678	820,582
Others	-	6,541,083	22,015,852	28,556,935
Total	₩ 134,837,791	339,614,223	5,097,607,096	5,572,059,109

(In thousands of Korean won)

		2015			
		Changes in inventories	Selling, general and administrative expenses	Cost of sales	Total
Goods	₩	126,523,580	-	-	126,523,580
Manufactured goods		637,279	-	-	637,279
Salaries		-	144,877,230	1,784,585,762	1,929,462,992
Retirement benefits		-	13,085,776	155,756,236	168,842,012
Employee benefits		-	16,576,248	203,737,623	220,313,871
Insurance		-	2,350,984	6,434,821	8,785,805
Depreciation expense		-	19,408,579	317,858,815	447,277,405
Amortization of intangibles		-	8,168,546	451,056	8,619,602
Bad debts expenses		-	2,060,605	-	2,060,605
Commissions paid		-	36,161,515	308,601,060	344,762,575
Advertising		-	3,589,807	47,613	3,637,420
Education and training		-	5,712,558	383,776	6,096,334
Vehicle maintenance		-	289,349	461,308,820	461,598,169
Printing		-	746,489	784,358	1,530,847
Project initiatives		-	815,335	134,288	949,623
Rental		-	4,825,143	889,493,972	894,319,115
Communication		-	2,020,391	1,398,966	3,419,357
Transportation		-	78,225	10,690	88,915
Taxes and dues		-	6,814,170	13,792,632	20,606,802
Supplies		-	2,321,133	14,930,643	17,251,776
Utilities		-	4,724,614	60,919,444	65,644,058
Maintenance		-	9,113,702	608,551,204	617,664,906
Ordinary development expenses		-	733,426	1,409,519	2,142,945
Business trip and transportation expenses		-	2,215,901	20,077,732	22,293,633
Uniforms		-	239,217	7,719,602	7,958,819
Research and analysis		-	695,389	11,379	706,768
Annual fees		-	380,134	98,773	478,907
Sales promotion		-	-	895,744	895,744
Sales commissions		-	565,703	21,799	587,502
Others		-	4,937,440	12,362,554	17,299,994
Total	₩	127,160,859	293,507,609	4,981,788,892	5,402,457,360

42. ENTRUSTED BUSINESS:

(1) Revenues and expenses for the government entrusted business reported in the consolidated financial statements as of December 31, 2016 and 2015, are as follows:

		December 31, 2016		December 31, 2015	
		Revenue	Expense	Revenue	Expense
Government	₩	969,989,037	935,895,167	984,957,741	954,354,384
Local government		60,767,984	43,530,493	61,208,600	42,214,782
Total	₩	1,030,757,021	979,425,660	1,046,166,341	996,569,166

(2) Changes in the deferred revenue from the trusted business for the years ended December 31, 2016 and 2015, are as follows:

		2016				
		January 1, 2016	Received	Executed	Returned	December 31, 2016
(In thousands of Korean won)						
Cash and cash equivalent	Government	₩ (77,953,061)	(1,075,237,950)	974,429,569	101,913,907	2,919,459 (73,928,076)
Cash and cash equivalent	Local government	(67,258,356)	(54,179,450)	60,252,471	36,417,090	(8,673,457) (33,441,702)
Total		₩ (145,211,417)	(1,129,417,400)	1,034,682,040	138,330,997	(5,753,998) (107,369,778)

			2015				
			January 1, 2015	Received	Executed	Returned	December 31, 2015
<i>(In thousands of Korean won)</i>							
Cash and cash equivalent	Government	₩	(157,083,824)	(1,004,043,577)	1,041,007,239	40,885,221	1,281,880 (77,953,061)
Cash and cash equivalent	Local government		(77,070,305)	(82,326,162)	62,638,308	19,061,835	10,437,968 (67,258,356)
Total		₩	(234,154,129)	(1,086,369,739)	1,103,645,547	59,947,056	11,719,848 (145,211,417)

43. CATEGORIES OF FINANCIAL INSTRUMENTS:

(1) Categories of financial instruments as of December 31, 2016 and 2015, are as follows:

(In thousands of Korean won)

		December 31, 2016				
		Loans and receivables	Available-for-sale financial assets	Held-to-maturity financial assets	Derivative instruments for hedging	Total
<u>Current assets</u>						
Short-term loans	₩	113,562	-	-	-	113,562
Derivative instrument assets		-	-	-	44,554,993	44,554,993
Short-term financial instruments		16,841,649	-	-	-	16,841,649
Accounts receivables and other receivables		357,860,661	-	-	-	357,860,661
Subtotal		374,815,872	-	-	44,554,993	419,370,865
<u>Non-current assets</u>						
Available-for-sale financial assets		-	38,016,648	-	-	38,016,648
Long-term loans		42,138,015	-	-	-	42,138,015
Long-term financial instruments		18,755	-	-	-	18,755
Derivative instrument assets		-	-	-	22,248,201	22,248,201
Accounts receivables and other receivables		541,031,492	-	-	-	541,031,492
Subtotal		583,188,262	38,016,648	-	22,248,201	643,453,111
Total	₩	958,004,134	38,016,648	-	66,803,194	1,062,823,976

(In thousands of Korean won)

		December 31, 2015				
		Loans and receivables	Available-for-sale financial assets	Held-to-maturity financial assets	Derivative instruments for hedging	Total
<u>Current assets</u>						
Short-term loans	₩	208,376	-	-	-	208,376
Derivative instrument assets		-	-	-	10,597,473	10,597,473
Short-term financial instruments		32,576,051	-	-	-	32,576,051
Accounts receivables and other receivables		448,694,904	-	-	-	448,694,904
Subtotal		481,479,331	-	-	10,597,473	492,076,804
<u>Non-current assets</u>						
Available-for-sale financial assets		-	34,305,585	-	-	34,305,585
Long-term loans		45,372,293	-	-	-	45,372,293
Long-term financial instruments		18,755	-	-	-	18,755
Derivative instrument assets		-	-	-	51,986,225	51,986,225
Accounts receivables and other receivables		566,059,152	-	-	-	566,059,152
Subtotal		611,450,200	34,305,585	-	51,986,225	697,742,010
Total	₩	1,092,929,531	34,305,585	-	62,583,698	1,189,818,814

(2) Categories of financial liabilities as of December 31, 2016 and 2015, are as follows:

		December 31, 2016		
		Financial liabilities measured at amortized costs	Derivative instruments for hedging	Total
(In thousands of Korean won)				
<u>Current liabilities</u>				
Accounts payables and other payables	₩	619,193,264	-	619,193,264
Short-term borrowings		10,448,562	-	10,448,562
Current portion of long-term borrowings		31,300,000	-	31,300,000
Current bonds		1,862,112,178	-	1,862,112,178
Subtotal		2,523,054,004	-	2,523,054,004
<u>Non-current liabilities</u>				
Account payables and other payables		32,754,691	-	32,754,691
Long-term borrowings		115,783,210	-	115,783,210
Bonds		9,556,404,272	-	9,556,404,272
Derivative instrument liabilities		-	4,352,442	4,352,442
Other financial liabilities		147,600,000	-	147,600,000
Subtotal		9,852,542,173	4,352,442	9,856,894,615
Total	₩	12,375,596,177	4,352,442	12,379,948,619
		December 31, 2015		
		Financial liabilities measured at amortized costs	Derivative instruments for hedging	Total
(In thousands of Korean won)				
<u>Current liabilities</u>				
Accounts payables and other payables	₩	646,169,452	-	646,169,452
Short-term borrowings		221,589,755	-	221,589,755
Current portion of long-term borrowings		30,812,500	-	30,812,500
Current bonds		1,523,667,779	-	1,523,667,779
Derivative instrument liabilities		-	1,491,143	1,491,143
Subtotal		2,422,239,486	1,491,143	2,423,730,629
<u>Non-current liabilities</u>				
Account payables and other payables		1,503,451	-	1,503,451
Long-term borrowings		133,000,000	-	133,000,000
Bonds		9,375,550,460	-	9,375,550,460
Derivative instrument liabilities		-	6,790,303	6,790,303
Other financial liabilities		96,270,000	-	96,270,000
Subtotal		9,606,323,911	6,790,303	9,613,114,214
Total	₩	12,028,563,397	8,281,446	12,036,844,843

(3) Gain and loss of financial instruments by categories for the years ended December 31, 2016 and 2015, are as follows:

(In thousands of Korean won)

		2016	2015
Loans and receivables:			
Interest income	₩	9,751,220	17,035,301
Available-for-sale financial assets:			
Dividends income		781,306	848,084
Loss on disposal of available-for-sale securities		(32)	(5,255)
Comprehensive income or loss recognized for the year		(2,513,841)	869,301
Derivative instrument assets for hedging:			
Gains on valuation of derivative instruments		552	81,885,400
Gains on settlement of derivative instruments		20,715,400	-
Losses on valuation of derivative instruments		(2,496,900)	(2,767,350)
Losses on settlement of derivative instruments		(11,000,000)	(1,960,000)
Comprehensive income or loss recognized in the reporting period		929,999	21,266,250
Financial liabilities measured at amortized costs:			
Gain on foreign currency transaction related to borrowings		11,715,531	81,227
Gain on foreign currency translation related to borrowings		2,522,729	2,819,739
Interest expense		(420,012,978)	(480,668,462)
Loss on Redemption of Finance debt		-	(2,212,192)
Gain on foreign currency transaction		(79,688)	(2,604,132)
Gain on foreign currency translation		(20,737,905)	(81,905,109)
Total	₩	(410,424,607)	(447,317,196)

44. FINANCIAL RISK MANAGEMENT:

(1) Credit risk

As of December 31, 2016 and 2015, the Group's maximum exposure to credit risk is as follows:

(In thousands of Korean won)

		December 31, 2016	December 31, 2015
Loans	₩	42,251,577	45,580,669
Long- and short-term financial instruments		16,860,404	32,594,805
Derivative instrument assets		66,803,194	62,583,698
Trade receivables and other receivables		898,892,153	1,014,754,056
Cash and cash equivalents		374,092,586	208,608,820
Total	₩	1,398,899,914	1,364,122,048

(2) Liquidity risk

As of December 31, 2016, contractual maturity of financial liabilities is summarized as follows:

		December 31, 2016						
(In thousands of Korean won)		Carrying amount	Contractual cash flow	6 months or less	6–12 months	1 year–2 years	2–5 years	More than 5 years
Borrowings	₩	157,531,772	160,699,789	22,106,914	20,777,954	56,212,078	61,193,851	408,992
Bonds		11,418,516,450	13,530,622,608	1,493,458,342	737,024,261	1,853,817,117	4,144,978,388	5,301,344,500
Trade payables and other payables		651,947,955	651,947,955	619,193,264	-	32,754,691	-	-
Derivative financial liabilities		4,352,442	4,352,442	-	-	4,352,442	-	-
Total liabilities	₩	12,232,348,619	14,347,622,794	2,134,758,520	757,802,215	1,947,136,328	4,206,172,239	5,301,753,492

The Group does not expect the cash outflow to occur significantly earlier or at a significantly different amount.

As of December 31, 2015, contractual maturity of financial liabilities is summarized as follows:

		December 31, 2015						
<i>(In thousands of Korean won)</i>		<u>Carrying amount</u>	<u>Contractual cash flow</u>	<u>6 months or less</u>	<u>6–12 months</u>	<u>1 year–2 years</u>	<u>2–5 years</u>	<u>More than 5 years</u>
Borrowings	₩	385,402,255	391,325,216	232,972,225	21,672,331	31,603,211	104,457,961	619,488
Bonds		10,899,218,240	12,878,077,513	475,835,783	1,454,809,172	1,454,809,172	4,572,796,095	4,192,597,600
Trade payables and other payables		647,672,902	647,674,743	646,169,452	-	1,505,291	-	-
Derivative financial liabilities		8,281,446	8,281,446	-	1,491,143	-	6,790,303	-
Total liabilities	₩	11,940,574,843	13,925,358,918	1,354,977,460	1,477,972,646	2,215,147,365	4,684,044,359	4,193,217,088

The following table indicates the periods in which the cash flows associated with cash flow hedges are expected to occur as of December 31, 2016.

		December 31, 2016						
<i>(In thousands of Korean won)</i>		Book value	Contractual cash flow	6 months or less	6–12 months	1 year–2 years	2–5 years	More than 5 years
Currency swap								
Assets	₩	66,803,194	66,803,194	28,558,879	15,996,114	10,589,418	11,658,783	-
Liabilities		4,352,442	(4,352,442)	-	-	(4,352,442)	-	-
Total	₩	71,155,636	62,450,752	28,558,879	15,996,114	6,236,976	11,658,783	-

The following table indicates the periods in which the cash flows associated with cash flow hedges are expected to occur as of December 31, 2015.

		December 31, 2015						
<i>(In thousands of Korean won)</i>		Book value	Contractual cash flow	6 months or less	6–12 months	1 year–2 years	2–5 years	More than 5 years
Interest rate swap								
Liabilities	₩	1,491,143	(1,491,143)	-	-	(1,491,143)	-	-
Currency swap								
Assets		62,583,698	62,583,698	-	10,597,473	31,901,738	20,084,487	-
Liabilities		6,790,303	(6,790,303)	-	-	-	(6,790,303)	-
Total	₩	70,865,144	54,302,252	-	10,597,473	30,410,595	13,294,184	-

(3) Currency risk

(i) Exposure to currency risk

As of December 31, 2016 and 2015, monetary assets and liabilities denominated in currencies other than functional currency are detailed as follows:

	December 31, 2016				
<i>(in USD, CHF, EUR, SGD and AUD)</i>	USD	CHF	EUR	SGD	Others
<u>Assets denominated in foreign currency</u>					
Cash and cash equivalents	99,324	-	139,882	1,670	262,654
Total assets denominated in foreign currency	99,324	-	139,882	1,670	262,654
<u>Liabilities denominated in foreign currency</u>					
Trade payables and other payables	-	-	1,591	-	-
Bonds	604,250,000	726,517,950	-	54,249,000	47,962,750
Total liabilities denominated in foreign currency	604,250,000	726,517,950	1,591	54,249,000	47,962,750

	December 31, 2015				
<i>(in USD, CHF, EUR, SGD and AUD)</i>	USD	CHF	EUR	SGD	Others
<u>Assets denominated in foreign currency</u>					
Cash and cash equivalents	760,853	-	117,244	1,655	151,028
Total assets denominated in foreign currency	760,853	-	117,244	1,655	151,028
<u>Liabilities denominated in foreign currency</u>					
Bonds	586,000,000	729,014,850	-	53,825,850	46,920,500
Total liabilities denominated in foreign currency	586,000,000	729,014,850	-	53,825,850	46,920,500

Foreign exchange rate applied as of December 31, 2016 and 2015, is as follows:

	Reporting date spot rate	
	December 31, 2016	December 31, 2015
USD	1208.50	1172.0
CHF	1181.33	1185.4
EUR	1267.60	1280.5
SGD	834.60	828.1
AUD	872.05	853.1
JPY	10.3681	9.7201
CNY	173.26	180.6

(ii) Sensitivity analysis of changes in exchange rate

A strengthening of the Korean won, as indicated below, against the USD, CHF, EUR, SGD, AUD, JPY and CNY at December 31, 2016, would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis is based on foreign currency exchange rate variances that the Group considered to be reasonably possible at the reporting date. The analysis assumes that all other variables, in particular, interest rates, remain constant and ignores any impact of forecasted sales and purchases. The analysis is performed on the same basis for 2015, albeit that the reasonably possible foreign exchange rate variances are different, as indicated below.

<i>(In thousands of Korean won)</i>		10% increase	10% decrease
Net profit or loss before income taxes	₩	(1,200,000)	1,200,000

A weakening of the Korean won against the above currencies at December 31, 2016, would have the equal, but opposite effect on the above currencies to the amounts shown above on the basis that all other variables remain constant. As the Group manages foreign exchange rate risk with currency swap, the exposure to exchange rate risk is non-significant.

(4) Interest rate risk

(i) The Group has foreign currency bonds and foreign currency long-term borrowings, which have significant effect on profit or loss and equity depending on fluctuations in interest rates. The Group manages interest rate risk by interest rate swap agreements, and fluctuation in interest rates does not have significant impact on the financial position and financial results.

<i>(In thousands of Korean won)</i>		Interest rate	December 31, 2016	December 31, 2015
Public fund management capital	Government bonds-three-year interest rate - 0.5%	₩	120,000,000	150,000,000

(ii) Cash flow sensitivity analysis of variable interest rate financial instruments

The Group does not account fixed-rate financial instruments as current financial instruments recognized in profit or loss, and does not designate derivative instruments, such as interest swap, to avoid fair value risk. As such, fluctuation of interest rate does not have effect on profit or loss.

(iii) Sensitivity analysis of cash flow from variable interest rate financial instruments on cash flow

Changes of 100 BP in interest rates as of December 31, 2016, would result in increase or decrease in equity and profit or loss. The analysis assumes that all other variables, in particular, interest rates, remain constant. The analysis is performed on the same basis for 2015. Changes in equity and profit or loss are detailed as follows:

<i>(In thousands of Korean won)</i>		Profit of loss		Equity	
		100 BP Increase	100 BP Decrease	100 BP Increase	100 BP Decrease
As of December 31, 2016-borrowings in Korean won	₩	(1,200,000)	1,200,000	(1,200,000)	1,200,000
As of December 31, 2015-borrowings in Korean won		(1,500,000)	1,500,000	(1,500,000)	1,500,000

(5) Fair value measurement

(i) Carrying value and the fair value of financial assets and liabilities are detailed as below:

	December 31, 2016		December 31, 2015	
(In thousands of Korean won)	Carrying Amount	Fair value	Carrying Amount	Fair value
Assets carried at fair value				
Available-for-sale financial assets	₩ 38,016,648	38,016,648	34,305,585	34,305,585
Currency swap (hedging)	66,803,194	66,803,194	62,583,698	62,583,698
Subtotal	104,819,842	104,819,842	96,889,283	96,889,283
Assets carried at amortized cost				
Loans and other receivables	941,143,730	941,143,730	1,060,334,724	1,060,334,724
Long/short-term financial instrument	16,860,404	16,860,404	32,594,805	32,594,805
Cash and cash equivalents	374,092,586	374,092,586	208,608,820	208,608,820
Subtotal	1,332,096,720	1,332,096,720	1,301,538,349	1,301,538,349
Total	₩ 1,436,916,562	1,436,916,562	1,398,427,632	1,398,427,632
Liabilities carried at fair value				
Currency swap (hedging)	₩ 4,352,442	4,352,442	6,790,303	6,790,303
Interest rate swap	-	-	1,491,143	1,491,143
Subtotal	4,352,442	4,352,442	8,281,446	8,281,446
Liabilities carried at amortized cost(*)				
Borrowings	157,531,772	157,531,772	385,402,255	385,402,255
Trade payables and other payables	651,947,955	651,947,955	647,672,902	647,672,902
Bonds	11,418,516,450	11,418,516,450	10,899,218,240	10,899,218,240
Subtotal	12,227,996,177	12,227,996,177	11,932,293,397	11,932,293,397
Total	₩ 12,232,348,619	12,232,348,619	11,940,574,843	11,940,574,843

(*) The Group recognized some of the financial assets and liabilities at book value as it believes book value is a reasonable measurement of fair value.

(ii) Interest rate used to determine the fair value

At the end of reporting period, interest rate used to determine the expected cash flow was determined by adding interest rate of government bonds and credit spread. As of December 31, 2016 and 2015, interest rates applied are detailed as follows:

	December 31, 2016	December 31, 2015
Derivative instruments	1.81%–3.64%	2.38%–3.64%
Available-for-sale financial assets	5.78%–6.39%	4.60%–5.83%

(iii) The level of fair value hierarchy is as follows:

	Significance of inputs
Level 1	Quoted prices (unadjusted) in active markets for identical assets or liabilities
Level 2	Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices)
Level 3	Inputs for the asset or liability that are not based on observable market data (unobservable inputs)

As of December 31, 2016, details of fair value, carrying amount and secured assets are as follows:

		Level 1	Level 2	Level 3	Total
<i>(In thousands of Korean won)</i>					
Available-for-sale financial assets(*1)	₩	-	-	38,016,648	38,016,648
Derivative instrument assets(*2)		-	66,803,194	-	66,803,194
Total	₩	-	66,803,194	38,016,648	104,819,842
Derivative instrument liabilities(*2)	₩	-	4,352,442	-	4,352,442
Total	₩	-	4,352,442	-	4,352,442

(*1) Available-for-sale financial assets are not quoted in an active market and measured at valuation amount evaluated by an independent valuation agency.

(*2) Derivative assets and liabilities are measured at fair value in accordance with terms of contract with financial institutions.

The following table shows changes in financial instruments of Level 3 (fair value) for the years ended December 31, 2016 and 2015:

(In thousands of Korean won)

		Available-for-sale financial assets	
		2016	2015
Beginning balance	₩	34,305,585	29,730,771
Acquisition		6,106,692	3,678,691
Loss for the period		-	-
Other comprehensive income		(2,513,571)	869,930
Disposal		(157,569)	-
Reclassification to other level		275,511	26,193
Ending balance	₩	38,016,648	34,305,585

45. RELATED PARTIES:

(1) As of December 31, 2016, the controlling company that prepares the consolidated financial statements is Korea Railroad Corporation, and the related parties of the Group are detailed as follows:

	Name of Related Parties
Controlling company (parent company)	Government of Korea
Subsidiaries	KORAIL Retail Co., Ltd., KORAIL Networks Co., Ltd., KORAIL Tech Co., Ltd., KORAIL Logis Co., Ltd., KORAIL Tourism Development Co., Ltd., SR Co., Ltd. and Korean Insurance Brokerage Co., Ltd.
Related companies	Hanwha Station Development Co., Ltd., Noryangjin Station Building Co., Ltd., Uiwang ICD Co., Ltd., Lotte Station Building Co., Ltd., Bucheon Station Building Co., Ltd., Bupyeong Department Store Co., Ltd., Shinsegae Uijeongbu Station Building Co., Ltd., Sinchon Station Building Co., Ltd., Anyang Station Building Co., Ltd., Dongincheon Shopping Center Co., Ltd., Bitplex Co., Ltd., Changdong Station Building Co., Ltd., Dream Hub Project Financial Investment Co., Ltd., Seongsbuk Station Building Co., Ltd., Ansan Central Station Building Co., Ltd. and Yong San Station Around Development Co., Ltd.

(2) Significant transactions that occurred in the normal course of business with related companies for the years ended December 31, 2016 and 2015, are as follows:

(In thousands of
Korean won)

	Name	Revenue		Costs	
		2016	2015	2016	2015
Related companies	Bitplex Co., Ltd.	₩ -	107,712	19,895	21,544
	Lotte Station Building Co., Ltd.	7,514,422	13,779,853	220,846	245,440
	Bucheon Station Building Co., Ltd.	2,508,358	2,507,353	487,664	471,341
	Bupyeong Department Store Co., Ltd.	-	6	190,401	146,757
	Seongbuk Station Building Co., Ltd.	17,497	16,752	-	-
	Shinsegae Uijeongbu Station Building Co., Ltd.	13,543	13,543	-	-
	Ansan Central Station Building Co., Ltd.	5,972	6,558	-	-
	Anyang Station Building Co., Ltd.	75,485	85,394	132,121	150,333
	Yong San Station Around Development Co., Ltd.	-	95,744	-	-
	Uiwang ICD Co., Ltd.	6,971,194	6,651,007	-	-
	Hanwha Station Development Co., Ltd.	2,114,388	1,516,353	137,660	140,820
	Total	₩ 19,220,859	24,780,275	1,188,587	1,176,235

(3) Account balances with related companies as of December 31, 2016 and 2015, are as follows:

(In thousands of
Korean won)

	Name	Receivables		Payables	
		2016	2015	2016	2015
Related companies	Noryangjin Station Building Co., Ltd.	₩ -	782	-	624
	Dream Hub Project Financial Investment Co., Ltd.	-	-	65,268,912	65,268,912
	Lotte Station Building Co., Ltd.	2,801	2,639	576,878	679,834
	Bucheon Station Building Co., Ltd.	1,118	379	244	244
	Bupyeong Department Store Co., Ltd.	11	9	13,580	13,548
	Bitplex Co., Ltd.	-	35	1,678	110,499
	Seongbuk Station Building Co., Ltd.	-	231	-	4,979
	Ansan Central Station Building Co., Ltd.	16,004	10,033	-	-
	Anyang Station Building Co., Ltd.	25,000	1	20,993	21,334
	Yongsan Development Co., Ltd.	360,529	360,529	-	-
	Uiwang ICD Co., Ltd.	709,259	989,484	837,787	808,581
	Hanwha Station Development Co., Ltd.	-	-	10,625	-
	Total	₩ 1,114,722	1,364,122	66,730,697	66,908,555

(4) During the years ended December 31, 2016 and 2015, compensation to management is detailed as follows:

(In thousands of Korean won)

		2016	2015
Short-term employees benefits	₩	570,235	631,237
Accrual for retirement and severance benefits		25,928	42,606
Total	₩	<u>596,163</u>	<u>673,843</u>

(5) Loans as of December 31, 2016 and 2015, are totally borrowed from the Group's employees and the details are as follows:

(In thousands of Korean won)

		2016	2015
Tuition loans(*1)	₩	42,138,014	45,372,293
Other loans(*2)		113,562	208,376
Total	₩	<u>42,251,576</u>	<u>45,580,669</u>

(*1) The Group provides loans to employees for the purpose of financial aid for children. Repayment of loans is made through a monthly payroll deduction.

(*2) The Group recognized four major insurance payments made on behalf of employees laid off as other loans.

46. NON-CASH INVESTING AND FINANCING ACTIVITIES:

(In thousands of Korean won)

		2016	2015
Reclassification of construction in progress to buildings	₩	753,635,137	731,620,485
Reclassification of current portion of long-term borrowings		31,300,000	30,812,500
Reclassification of current portion of bonds		1,862,550,000	1,524,400,000
Reclassification of long-term non-trade receivables to land		26,282,528	35,855,669

47. COMMITMENTS AND CONTINGENCIES:

(1) Details of contingent liabilities as of December 31, 2016 and 2015, are as follows:

(In thousands of Korean won)

		2016 (*1)	2015 (*2)
Pending litigations	₩	581,226,170	629,003,068

(*1) The Group is a defendant for 124 litigations, such as claims for payment of ordinary wages.

(*2) The Group was a defendant for 113 litigations, such as claims for Cancellation of development of Yongsan station area.

(2) Details of contingent assets as of December 31, 2016 and 2015, are as follows:

(In thousands of Korean won)

		2016(*3)	2015(*4)
Pending litigations	₩	2,028,080,975	2,280,914,256

(*3) The Group is a plaintiff for 106 litigations, such as compensation for damages caused by strikes by employees.

(*4) The Group was a plaintiff for 92 litigations, such as cancellation of corporate income taxation.

(3) Pledged assets and guarantees

(i) Assets pledged as collateral for the Group's borrowings as of December 31, 2016, are summarized as follows:

<i>(In thousands of Korean won)</i>	Carrying amount	Guaranteed amount	Type of borrowings	Lender
Promissory notes	₩ 500,000	500,000	Performance bonds	Mitsui-soko
Buildings	2,970,948	100,000	Guarantee money	Seoul Election Commission
Land and buildings	138,653,496	2,420,520	Guarantee money	Korea Seven

(ii) Collaterals and guarantees provided by third parties on behalf of the Group as of December 31, 2016, are as follows:

<i>(In thousands of Korean won)</i>	Type of guarantees	Amount	Notes
Seoul Guarantee Insurance Co., Ltd. (SGI)	Guarantee fulfillment	KRW 17,020,648	
Woori Bank	Operating capital loans	KRW 100,000,000	
	Operating capital loans	KRW 19,397,000	
	Operating capital loans	KRW 2,000,000	
Hana Bank	L/C (Import)	USD 16,074	
	Operating capital loans	KRW 3,980,000	
Kookmin Bank	Operating capital loans	KRW 100,000,000	
	Payment guarantee in foreign currency	USD 952,908	
	Payment guarantee in foreign currency	EUR 20,959,857	
	Payment guarantee in foreign currency	JPY 73,284,600	
	Business purchasing Card	KRW 3,000,000	
SC Bank	Other contract(P Bond)	USD 533,203	
Import Bank of Korea	Other contract	SAR 24,950,000	
NH Bank	Operating capital loans	KRW 43,100,000	
Korea Specialty Contractor Financial Cooperative (KSCFC)	Contract guarantee	KRW 2,403,333	
	Performance bonds	KRW 751,481	
	Advance bonds	KRW 1,334,476	
Electric Contractors' Financial Cooperative (ECFC)	Contract guarantee	KRW 870,916	
	Performance bonds	KRW 212,274	

48. TRANSACTIONS WITH THE GOVERNMENT AND OTHER PUBLIC INSTITUTIONS:

(1) Transactions with the Government and other public institutions for the years ended December 31, 2016 and 2015, are as follows.

Name		Revenue		Costs	
		2016	2015	2016	2015
Ministries	₩	425,239,656	466,840,771	29,209,892	104,504,327
Local governments		104,912,398	129,325,522	34,203,954	38,327,962
Public companies		4,331,306	5,202,568	340,665,945	360,734,750
Semipublic institutions		981,309,059	1,048,627,304	952,280,799	929,083,855
Other public institutions		832,293,517	798,280,231	75,745,903	76,943,596
Total	₩	<u>2,348,085,936</u>	<u>2,448,276,396</u>	<u>1,432,106,493</u>	<u>1,509,594,490</u>

(2) Account balances with government and other public institutions as of December 31, 2016 and 2015, are as follows.

Name		Receivables		Payables	
		2016	2015	2016	2015
Ministries	₩	4,790,032	1,721,253	27,414	1,138,763
Local governments		9,762,776	34,529,069	162	10,742
Public companies		336,489	620,876	334	6,009
Semipublic institutions		404,028	133,839	200,008	1,887,117
Other public institutions		19,823,089	6,509,662	15,744,672	14,278,675
Total	₩	<u>35,116,414</u>	<u>43,514,699</u>	<u>15,972,590</u>	<u>17,321,306</u>

(3) Government grants and receivables for entrusted business with the Government and other public institutions as of December 31, 2016 and 2015 are as follows.

Name		Government grants		Receivables for entrusted business	
		2016	2015	2016	2015
Ministries	₩	68,713,017	116,190,367	73,928,076	77,953,061
Local Governments		-	-	33,441,702	67,258,356
Total	₩	<u>116,190,367</u>	<u>116,190,367</u>	<u>107,369,778</u>	<u>145,211,417</u>

49. DEVELOPMENT OF YONGSAN STATION AREA (INTERNATIONAL BUSINESS DISTRICT):

(1) Summary

In 2007, the Group had established the Dream Hub Project Financial Investment Co., Ltd. (DHPFI) (the Group: 25.0%, City of Seoul (SH Construction): 4.9% and Dream Hub Consortium: 70.1%) with the Dream Hub Consortium and had proceeded with the development of Yongsan Station area. Due to a number of amendments to the contracts to cope with the economic recession and financing difficulty, the Board of Directors of the controlling company concluded that factors, such as the default of DHPFI made it impossible to carry the project forward and decided to cancel the project in 2013.

(2) The progress of the project

In the prior period, the Group notified the business cancellation to DHPFI and the members of Dream Hub Consortium and claimed ₩240,000 million to SGI as a contract performance bond based on the project agreements and land disposal contracts. As a result, the Group recognized business cancellation losses of ₩4,662,000 million, primarily composed of uncollected proceeds from the original sale of the land that was to be developed into the Yongsan Station Area.

In 2013, the Group returned the payment of ₩2,416,700 million and regained the ownership on part of the land disposed to DHPFI (138,908.4 m², 38.97% of total area), which had been placed into a trust according to the real estate collateral trust agreement with Daehan Real Estate Trust Ltd. (the “Trust Company”) in relation to the outstanding balance that DHPFI borrowed in order to purchase land in Yongsan from the Group. The Group also regained the land equivalent to the amount of the special buyback registration that expired during the year ended December 31, 2015 (1,288.3 m², 0.36% of total area).

(3) Expectation of Business

In October 2013, the Group appealed to the Tax Tribunal for rectification of the corporate tax amounting to ₩705,900 million related to the disposal of the land in Yongsan. In January 2014, the Group filed a lawsuit against DHPFI over the ownership of remaining area in Yongsan (216,295.1 m², 60.67% of total area) and has been planning to seek ways to regain and utilize the land.

50. ACCOUNTING FOR BUSINESS DEPARTMENTS

(1) The Group defines business departments as follows:

- 1) Passenger transport business: KTX, ITX-Saemaoul, Saemaoul, Moogoonghwa, Nuri and trains for commuters
- 2) Metro business: Passenger transport business for Seoul metro area and ITX-Chungchoon
- 3) Freight business: Freight and storage for industrial materials such as coal, cement
- 4) Other multiple business: Development of station area and overseas business
- 5) Yongsan: Development of Yongsan station area (Cancellation on April 2013)
- 6) Entrusted business: Maintenance of properties for trains, etc.
- 7) Others
- 8) Airport train: Passenger transport for Incheon international airport (Disposed on June 2015)

(2) Details of financial information of business departments as of and for the years ended December 31, 2016 and 2015, are as follows:

1) 2016

(In thousands of
Korean won)

		Asset	Liabilities	Revenue	Operating income(loss)	Net income(loss)
Passenger	₩	8,775,824,241	8,458,272,200	2,774,116,206	360,942,131	137,796,642
Metro		3,696,654,734	643,148,685	1,100,299,562	53,093,334	48,851,151
Freight		2,451,671,995	4,108,515,655	422,084,616	(229,825,235)	(349,326,401)
Other multiple		1,829,537,546	268,621,949	46,006,819	24,218,388	54,872,301
Yongsan		3,907,631,470	2,951,510,127	-	(1,004,057)	(57,831,670)
Entrusted		577,000,958	576,933,383	1,019,229,683	(53,307,277)	(45,297,363)
Others		5,888,203	3,332,608	3,394,953	(187,316)	(202,561)
Airport train		433,805,277	-	-	-	6,726,975
Transactions between departments		(3,737,484,770)	(3,737,484,770)	-	-	-
Subsidiaries		801,575,188	393,250,118	541,422,773	(29,892,651)	(14,215,771)
Internal transactions		(229,175,395)	78,045,882	(212,911,658)	(2,453,472)	(7,872,120)
Total	₩	18,512,929,447	13,744,145,837	5,693,642,954	121,583,845	(226,498,817)

1) 2015

(In thousands of
Korean won)

		Assets	Liabilities	Revenue	Operating income(loss)	Net income(loss)
Passenger	₩	8,363,623,663	8,276,821,328	2,660,585,594	343,734,210	119,460,641
Metro		3,597,315,665	678,242,951	988,665,675	4,302,765	1,912,170
Freight		2,526,282,387	3,841,672,480	476,320,007	(225,895,058)	(325,138,010)
Other multiple		1,784,583,480	276,245,776	53,147,267	40,338,656	104,644,123
Yongsan		3,788,308,852	2,774,389,498	-	(2,380,862)	138,591,110
Entrusted		556,784,277	538,052,223	1,038,954,490	(44,778,414)	(31,851,174)
Others		6,643,709	3,998,730	3,066,000	(585,310)	(746,554)
Airport train		427,504,004	423,916	-	(338,414)	570,767,601
Transactions between departments		(3,182,013,160)	(3,182,013,160)	-	-	-
Subsidiaries		4,854,022,366	3,181,351,798	648,676,425	90,246,487	111,238,936
Internal transactions		(4,524,349,955)	(2,938,999,743)	(353,384,169)	(91,070,132)	(602,482,878)
Total	₩	18,198,705,288	13,450,185,797	5,516,031,289	113,573,928	86,395,965

51. Discontinued Operation, Continued

1) Income from discontinued operation
(In thousands of Korean won)

		2016	2015
Operating revenues	₩	-	156,387,156
Operating expenses		-	(64,920,545)
Other revenue and expenses		-	43,814,962
Income tax expense		-	(19,807,881)
Gain/Loss On Disposition		-	27,857,979
Income from discontinued operation		-	143,331,671
Equity attributable to owners of the Company		-	130,398,617
NCIs	₩	-	12,933,054

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