

## IMPORTANT NOTICE

### NOT FOR DISTRIBUTION TO ANY PERSON OR ADDRESS IN THE UNITED STATES

**IMPORTANT: You must read the following before continuing.** The following applies to the offering circular following this page (the “Offering Circular”), and you are therefore advised to read this carefully before reading, accessing or making any other use of the Offering Circular. In accessing the Offering Circular, you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information as a result of such access.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN THE UNITED STATES OR ANY OTHER JURISDICTION WHERE IT IS UNLAWFUL TO DO SO.

THE SECURITIES DESCRIBED HEREIN HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION, AND THE SECURITIES DESCRIBED HEREIN MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES, EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND ANY APPLICABLE STATE OR LOCAL SECURITIES LAWS.

THE FOLLOWING OFFERING CIRCULAR MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER, AND IN PARTICULAR, MAY NOT BE FORWARDED TO ANY U.S. ADDRESS. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORIZED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

**Confirmation of your Representation:** In order to be eligible to view the Offering Circular or make an investment decision with respect to the securities described herein, investors must not be located in the United States. The Offering Circular is being sent at your request and by accepting the e-mail and accessing the Offering Circular, you shall be deemed to have represented the Manager (as defined in the “Subscription and Sale” section of the Offering Circular) that your stated electronic mail address to which this e-mail has been delivered is not located in the United States and that you consent to delivery of such Offering Circular by electronic transmission.

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

The materials relating to the issue of the securities described herein do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the issue of the securities described herein be made by a licensed broker or dealer and 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 Offering Circular has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently neither the Manager, nor any person who controls it nor any of its respective directors, officers, employees, agents or affiliates accepts any liability or responsibility whatsoever in respect of any difference between the Offering Circular distributed to you in electronic format and the hard copy version available to you on request from the Manager.

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



## Korea Railroad Corporation

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

### CAD110,000,000 3.07% Notes due 2037

---

The CAD110,000,000 3.07 % Notes due 2037 (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 CAD1,000,000 and integral multiples of CAD1,000 in excess thereof. The Notes will bear interest at the rate of 3.07% per annum from and including June 7, 2017 to and including June 7, 2037. Interest will be payable annually in arrears on June 7 of each year, commencing on June 7, 2018. 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 AA- by Fitch Ratings, 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, in this Offering Circular. Approval in-principle from, admission to the Official List of, and the 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 9 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 depository for Euroclear Bank S.A./N.V. (“Euroclear”) and Clearstream Banking, société anonyme (“Clearstream”) on or about June 7, 2017 (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.

The date of this Offering Circular is May 29, 2017.

---

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 LAW 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, 2014 and 2015 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" or the "Republic" refer to the Republic of Korea, those to the "Government" refer to the Government of Korea, those to the "MOLIT" refer to the Ministry of Land, Infrastructure and Transport of Korea and those to the "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 "CAD" and "Canadian dollars" are to the currency of Canada.

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 Canadian dollars (the "Market Average Exchange Rate"). Where applicable, the translations of Won into U.S. dollars as of December 31,

2016 have been made at the Market Average Exchange Rate in effect as of December 31, 2016, which was ₩1,208.5 = U.S.\$1.00. The translations of Canadian dollars into Won as of December 31, 2016 have been made at the Market Average Exchange Rate in effect as of December 31, 2016, which was ₩894.7 = CAD1.00. No representation is made that the Won, U.S. dollar or Canadian dollar amounts referred to herein could have been or could be converted into U.S. dollars, Won or Canadian dollars, as the case may be, at any particular rate or at all. The Market Average Exchange Rate on May 26, 2017 was ₩1,118.0 = U.S.\$1.00 and ₩828.8 = CAD1.00. 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.

## TABLE OF CONTENTS

|                                         | Page |
|-----------------------------------------|------|
| SUMMARY .....                           | 2    |
| USE OF PROCEEDS .....                   | 7    |
| EXCHANGE RATES.....                     | 8    |
| RISK FACTORS .....                      | 9    |
| CAPITALIZATION .....                    | 18   |
| SELECTED FINANCIAL DATA.....            | 19   |
| RELATIONSHIP WITH THE GOVERNMENT .....  | 23   |
| BUSINESS .....                          | 31   |
| MANAGEMENT .....                        | 42   |
| TERMS AND CONDITIONS OF THE NOTES ..... | 45   |
| FORM OF THE NOTES .....                 | 57   |
| OWNERSHIP .....                         | 61   |
| TAXATION .....                          | 62   |
| SUBSCRIPTION AND SALE .....             | 65   |
| TRANSFER RESTRICTIONS.....              | 70   |
| LEGAL MATTERS .....                     | 72   |
| INDEPENDENT AUDITORS .....              | 72   |

## 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, 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 comprised a total of 95 lines throughout Korea (and 15 lines linking Korea’s most populated metropolitan areas) and our metropolitan rail transit network comprised 12 main lines connecting Seoul and the greater metropolitan area. Our passenger railroad networks extended over the total operating distance of 3,654 kilometers, which include the operating distance of 596 kilometers for our KTX railroad network. In 2015, approximately 61 million, 75 million and 1,140 million passengers used our KTX, conventional

and metropolitan railroad services, respectively. Our annual freight transportation volume amounted to 37 million tons in 2015. A majority of our sales revenue consists of proceeds from passenger fares.

We recorded revenue of ₩5,094 billion and ₩5,516 billion for the years ended December 31, 2014 and 2015, respectively. For the same years, we recorded operating income of ₩100 billion and ₩114 billion, respectively. As of December 31, 2015, our total assets (consisting principally of passenger cars and rolling stock, land and buildings) amounted to ₩18,199 billion.

### **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, regulates our activities and owns through the Ministry of Strategy and Finance (“MOSF”) 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 March 10, 2017, the Constitutional Court upheld the decision by the National Assembly to impeach President Park, Geun-hye over alleged constitutional and criminal violations. On May 9, 2017, a special presidential election was held in Korea and Mr. Moon, Jae-in was elected as the new president of Korea.

## 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 CAD110,000,000 3.07% Notes due 2037 (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 “ <i>Subscription and Sale</i> ” and “ <i>Transfer Restrictions</i> ”.                                         |
| Offering Price .....                                   | 100% of the principal amount of the Notes, plus accrued interest, if any, from June 7, 2017 (the “Issue Date”).                                                                                                                                                                                                                                                                                                                           |
| Size of Offering .....                                 | The aggregate principal amount of the Notes to be issued in this Offering is CAD110,000,000.                                                                                                                                                                                                                                                                                                                                              |
| Denomination .....                                     | The Notes will be issued in minimum denominations of CAD1,000,000 and integral multiples in excess of CAD1,000 thereof.                                                                                                                                                                                                                                                                                                                   |
| Interest .....                                         | The Notes will bear interest from and including the Issue Date up to and including June 7, 2037 (the “Maturity Date”), at the rate of 3.07% per annum. Interest on the Notes will be payable annually in arrears on June 7 in each year, beginning June 7, 2018.                                                                                                                                                                          |
| 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 “ <i>Terms and Conditions of the Notes – Change of Control Redemption</i> ”.                                                   |
| 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:<br><br>ISIN: XS1625077455<br><br>Common Code: 162507745                                                                                                                                                                                                                                                                                                                                               |
| Listings and Trading .....          | Application will be made for the listing and quotation of the Notes on the SGX-ST. There can be no assurance, however, that the Notes will be admitted for listing and quotation on the SGX-ST. For as long as the Notes are listed on the SGX-ST and the rules of the SGX-ST so require, such Notes will be traded on the SGX-ST in a minimum board lot size of S\$200,000 (or its equivalent in foreign currencies).                                                                                                 |
| 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 CAD110,000,000 after deducting the commissions to the Manager (as defined herein) 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. Where applicable, the translations of Won into U.S. dollars as of December 31, 2016 have been made at the Market Average Exchange Rate in effect as of December 31, 2016, which was ₩1,208.5 = U.S.\$1.00. 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.

| <b>Year Ended December 31,</b> | <b>At End of<br/>Period</b> | <b>Average<sup>(1)</sup></b> | <b>High</b> | <b>Low</b> |
|--------------------------------|-----------------------------|------------------------------|-------------|------------|
| <i>(Won per US\$1.00)</i>      |                             |                              |             |            |
| 2010.....                      | 1,138.9                     | 1,156.3                      | 1,261.5     | 1,104.0    |
| 2011.....                      | 1,153.3                     | 1,108.1                      | 1,199.5     | 1,049.5    |
| 2012.....                      | 1,071.1                     | 1,126.8                      | 1,181.8     | 1,071.1    |
| 2013.....                      | 1,055.3                     | 1,095.0                      | 1,159.1     | 1,051.5    |
| 2014.....                      | 1,069.7                     | 1,042.1                      | 1,086.1     | 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 (through May 26).....     | 1,118.0                     | 1,145.3                      | 1,208.5     | 1,112.5    |
| January .....                  | 1,157.8                     | 1,185.1                      | 1,208.5     | 1,157.8    |
| February .....                 | 1,132.1                     | 1,144.9                      | 1,165.5     | 1,131.0    |
| March .....                    | 1,116.1                     | 1,134.8                      | 1,158.2     | 1,112.5    |
| April .....                    | 1,130.1                     | 1,132.7                      | 1,145.8     | 1,113.8    |
| May (through May 26) .....     | 1,118.0                     | 1,126.1                      | 1,134.5     | 1,117.1    |

Source: Seoul Money Brokerage Services, Ltd.

Note:

- (1) Annual averages are calculated from month-end rates. Monthly averages are calculated using the average of the daily rates during 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 2015, we received financial support in various forms from the Government in the amount of ₩1,780 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 ₩656 billion and ₩780 billion in 2014 and 2015, 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 2015, we received financial support in various forms from the Government in the amount of ₩1,780 billion, consisting of ₩351 billion for reimbursements of our PSO services, ₩394 billion for purchases of new rolling stock and transit improvement and ₩1,035 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 ₩3,801 billion in 2014 and we did not issue any bond in 2015. As of December 31, 2015, our net long-term debt, consisting of long-term borrowings and bonds, excluding the current portion thereof, amounted to ₩9,509 billion, representing 204.2% 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, partially depends 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. Also, 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.

***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. Approximately 68.5% of our employees belong 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.

***We have a history of lapses in internal controls and may experience such corporate governance issues in the future.***

Our predecessor, the Korea National Railroad Administration, experienced weaknesses in internal controls. As a result, since our establishment, our management has focused on improving our internal controls, including implementation of strict corporate governance procedures. Compromised accounting integrity, unexpected and unauthorized actions of employees, operational mismanagement, lapses in internal controls due to lack of oversight, or resource constraints, undetected errors and other improprieties could occur. Any such incidents, to the extent they occur, may materially and adversely affect our business prospects, results of operations and financial condition.

***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.***

You should carefully consider the risk factors listed in this “*Risk Factors*” section, together with all of the other information included in this Offering Circular before you decide to purchase the Notes. 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.

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

Under the Labor Standards Act, an employee is legally entitled to “ordinary wages.” Under the guidelines previously issued by the Ministry of Employment and Labor, ordinary wages include base salary and certain fixed monthly allowances for work performed overtime during night shifts and holidays. Prior to the Supreme Court decision described below, many companies in Korea had typically interpreted these guidelines as excluding from the scope of ordinary wages fixed bonuses that are paid other than on a monthly basis, namely on a bi-monthly, quarterly or 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, 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 were subject to ongoing lawsuits filed by over 20,000 employees based on claims that ordinary wages had been paid without including certain items that should have been included as ordinary wage. As of the date of this Offering Circular, the courts were in the process of determining the claim and damage amounts of the plaintiffs. We cannot presently assure you that there will not be additional lawsuits in relation to ordinary wages. If we are 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 most important market, and our current business and future growth could be materially and adversely affected if economic conditions in Korea deteriorate.***

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 telecommunications 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 recent years, adverse conditions and volatility in the worldwide financial markets, fluctuations in oil and commodity prices and the general weakness of the global economy have contributed to the uncertainty of global

economic prospects in general and have adversely affected, and may continue to adversely affect, the Korean economy. The value of the Won relative to major foreign currencies in general and the U.S. dollar in particular has also fluctuated widely. See “*Exchange Rates*.” A depreciation of the Won increases the cost of imported goods and services and the Won revenue needed by Korean companies to service foreign currency denominated debt. An appreciation of the Won, on the other hand, causes export products of Korean companies to be less competitive by raising their prices in terms of the relevant foreign currency and reduces the Won value of such export sales. Furthermore, as a result of adverse global and Korean economic conditions, there has been volatility in the stock prices of Korean companies in recent years. Future declines in the KOSPI and large amounts of sales of Korean securities by foreign investors and subsequent repatriation of the proceeds of such sales may adversely affect the value of the Won, the foreign currency reserves held by financial institutions in Korea, and the ability of Korean companies to raise capital. Any future deterioration of the Korean or global economy could adversely affect our business, financial condition and results of operations.

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;
- difficulties in the financial sectors in Europe, China and elsewhere and 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;
- increasing levels of household debt;
- 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;
- further decreases in the market prices of Korean real estate;
- increasing delinquencies and credit defaults by consumer and small- and medium-sized enterprise borrowers;
- 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;
- the economic impact of any pending or future 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, including the recent Ebola, Middle East Respiratory Syndrome and Zika virus outbreaks;
- deterioration in economic or diplomatic relations between Korea and its trading partners or allies, including deterioration resulting from territorial or trade disputes or disagreements in foreign policy;

- political uncertainty or increasing strife among or within political parties in Korea, and political gridlock within the Government or in the legislature, which prevent or disrupt timely and effective policy making;
- natural disasters that have a significant adverse economic or other impact on 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; 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 future events. In particular, there continues to be uncertainty regarding the long-term stability of North Korea's political leadership since the succession of Kim Jong-un to power following the death of his father in December 2011, which has raised concerns with respect to the political and economic future of the region.

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

- North Korea renounced its obligations under the Nuclear Non-Proliferation Treaty in January 2003 and conducted three rounds of nuclear tests between October 2006 to February 2013, which increased tensions in the region and elicited strong objections worldwide. Subsequently, North Korea continued to engage in provocative behaviors. In January 2016, North Korea announced that it had successfully tested a hydrogen bomb, its fourth nuclear test and allegedly first test using hydrogen, which is more explosive than plutonium. In February 2016, North Korea tested its intercontinental ballistic missile technology and launched a long-range missile, which it claimed to have launched a satellite into orbit. In response, the Government condemned the provocations and flagrant violations of relevant United Nations Security Council resolutions and withdrew Korean personnel from the inter-Korea Gaesong Industrial Complex and announced its closing. In March 2016, the United Nations Security Council unanimously passed a resolution condemning North Korea's actions and significantly expanding the scope of sanctions applicable to North Korea. In September 2016, North Korea announced that it had successfully tested a nuclear warhead that could be mounted on ballistic missiles. In response, the Government condemned the test, and in November 2016, the United Nations Security Council unanimously passed a resolution imposing additional sanctions on North Korea. In March 2017, North Korea launched four midrange missiles aimed at the U.S. military bases in Japan, which landed off the east coast of the Korean peninsula. The United Nations Security Council condemned the launches and expressed its plan to adopt additional measures against the regime.
- 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.

North Korea's economy also faces severe challenges, which may further aggravate social and political pressure within North Korea. There can be no assurance that the level of tension affecting the Korean peninsula will not escalate in the future. Any further increase in tensions such as North Korea's leadership crisis, dissolution of high level contacts between Korea and North Korea or occurrence of military hostilities, could have a material adverse effect on our business, results of operations and financial condition.

## **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 US\$200,000.

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 and limitations on sale and leaseback transactions. 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 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 equity, as of December 31, 2016 and so 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, 2016, included in the Financial Statements (as defined elsewhere in this Offering Circular).

The table below should be read in conjunction with the Financial Statements.

| As of December 31, 2016 <sup>(1)</sup>                           |          |               |             |               |          |               |             |               |
|------------------------------------------------------------------|----------|---------------|-------------|---------------|----------|---------------|-------------|---------------|
| Actual                                                           |          |               |             | As Adjusted   |          |               |             |               |
| (in billions of Won and millions of U.S. dollar <sup>(2)</sup> ) |          |               |             |               |          |               |             |               |
| <b>Long-term debt (excluding current portion):</b>               |          |               |             |               |          |               |             |               |
| Long-term borrowings, net.....                                   | ₩        | 116           | U.S.\$      | 96            | ₩        | 116           | U.S.\$      | 96            |
| Bonds, net.....                                                  |          | 9,556         |             | 7,908         |          | 9,556         |             | 7,908         |
| Notes offered hereby <sup>(3)</sup> .....                        |          | -             |             | -             |          | 98            |             | 81            |
| Total long-term debt <sup>(3)</sup> .....                        |          | 9,672         |             | 8,004         |          | 9770          |             | 8085          |
| <b>Equity:</b>                                                   |          |               |             |               |          |               |             |               |
| Total equity .....                                               |          | 4,769         |             | 3,946         |          | 4,769         |             | 3,946         |
| <b>Total capitalization<sup>(3) (4)</sup> .....</b>              | <b>₩</b> | <b>14,441</b> | <b>US\$</b> | <b>11,950</b> | <b>₩</b> | <b>14,539</b> | <b>US\$</b> | <b>12,031</b> |

*Notes:*

- (1) Except as disclosed herein and for the issuances of bonds in the aggregate amount of approximately ₩1,275 billion in 2017, there has been no material changes in the capitalization of the Issuer since December 31, 2016.
- (2) Won amounts as of December 31, 2016 have been converted into U.S. dollars solely for the convenience of the readers at the Market Average Exchange Rate of ₩1,208.5 to US\$1.00 in effect on such date.
- (3) As adjusted amounts reflect the Notes; The aggregate principal amount of the Notes has been translated into Won at the Market Average Exchange Rate of ₩894.7 to CAD1.00 in effect on December 31, 2016.
- (4) Long-term debt (excluding current portion) 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, 2014, 2015 and 2016 (collectively, the “Financial Statements”), all of which along with their related audit reports are publicly available at our website ([http://info.korail.com/mbs/www/subview.jsp?id=www\\_010612000000](http://info.korail.com/mbs/www/subview.jsp?id=www_010612000000)) and the website designated for us on the All Public Information In-One website managed by the MOSF (<http://www.alio.go.kr/popReportTerm.do?apbaId=C0268&reportFormRootNo=32301>).

### STATEMENT OF COMPREHENSIVE INCOME DATA:

|                                                                                                                    | For the Year Ended December 31, |                      |         |
|--------------------------------------------------------------------------------------------------------------------|---------------------------------|----------------------|---------|
|                                                                                                                    | 2014                            | 2015                 | 2016    |
|                                                                                                                    |                                 | (in billions of Won) |         |
| Revenue .....                                                                                                      | ₩ 5,094                         | ₩ 5,516              | ₩ 5,694 |
| Cost of sales .....                                                                                                | (4,720)                         | (5,109)              | (5,232) |
| <b>Gross profit</b> .....                                                                                          | 373                             | 407                  | 461     |
| Selling, general and administrative expenses .....                                                                 | (273)                           | (294)                | (340)   |
| <b>Operating profit</b> .....                                                                                      | 100                             | 114                  | 122     |
| Other revenue .....                                                                                                | 10                              | 23                   | 34      |
| Other expenses .....                                                                                               | (31)                            | (34)                 | (53)    |
| Other income (loss), net .....                                                                                     | (123)                           | 70                   | 56      |
| Finance income .....                                                                                               | 103                             | 103                  | 45      |
| Finance expense .....                                                                                              | (615)                           | (572)                | (454)   |
| Gains on valuation of investments in associates .....                                                              | 21                              | 21                   | 19      |
| Losses on valuation of investments in associates .....                                                             | (1)                             | -                    | (2)     |
| <b>Loss before income tax benefit from continuing operation</b> ..                                                 | (536)                           | (276)                | (232)   |
| Income tax benefit from continuing operation .....                                                                 | 4                               | 219                  | 5       |
| <b>Loss from continuing operation</b> .....                                                                        | (532)                           | (57)                 | (226)   |
| Income from discontinued operation .....                                                                           | 194                             | 143                  | -       |
| <b>Income (loss) for the year</b> .....                                                                            | ₩ (338)                         | ₩ 86                 | ₩ (226) |
| <b>Other comprehensive income (loss), net of tax</b>                                                               |                                 |                      |         |
| Asset revaluation gain .....                                                                                       | -                               | -                    | 36      |
| Defined benefit plan actuarial gain (loss), net of tax in the fair value of cash flow hedges, net of tax .....     | (39)                            | 52                   | 96      |
| Unrealized net changes in the effective portion of changes in the fair value of cash flow hedges, net of tax ..... | (18)                            | 21                   | 1       |
| Unrealized net changes in the fair value of available-for-sale financial assets .....                              | (1)                             | 1                    | (3)     |
| Changes in equity of equity method investments .....                                                               | (1)                             | 1                    | 1       |
| <b>Other comprehensive income (loss) for the year, net of tax</b> .....                                            | (60)                            | 76                   | 132     |
| <b>Total comprehensive income (loss) for the year</b> .....                                                        | ₩ (398)                         | ₩ 162                | (94)    |
| <b>Profit (loss) attributable to:</b>                                                                              |                                 |                      |         |
| Owners of the Company .....                                                                                        | (354)                           | 82                   | (206)   |
| Non-controlling interests .....                                                                                    | 16                              | 4                    | (21)    |
| <b>Profit (Loss) for the year</b> .....                                                                            | ₩ (338)                         | ₩ 86                 | (226)   |
| <b>Total comprehensive income (loss) attributable to:</b>                                                          |                                 |                      |         |
| Owners of the Company .....                                                                                        | (414)                           | 158                  | (73)    |

|                                                       |                |              |             |
|-------------------------------------------------------|----------------|--------------|-------------|
| Non-controlling interests.....                        | 16             | 4            | (21)        |
| <b>Total comprehensive income (loss) for the year</b> | <u>₩ (398)</u> | <u>₩ 162</u> | <u>(94)</u> |

STATEMENT OF FINANCIAL POSITION DATA:

|                                                         | As of December 31, |        |                      |        |      |        |
|---------------------------------------------------------|--------------------|--------|----------------------|--------|------|--------|
|                                                         | 2014               |        | 2015                 |        | 2016 |        |
|                                                         |                    |        | (in billions of won) |        |      |        |
| <b>Assets</b>                                           |                    |        |                      |        |      |        |
| Cash and cash equivalents .....                         | ₩                  | 230    | ₩                    | 209    | ₩    | 374    |
| Short-term financial instruments .....                  |                    | 16     |                      | 33     |      | 17     |
| Current available-for-sale financial assets* .....      |                    | 0*     |                      | -      |      | -      |
| Short-term loans* .....                                 |                    | 0*     |                      | 0*     |      | 0*     |
| Current derivative instrument assets.....               |                    | -      |                      | 11     |      | 45     |
| Trade receivables and other receivables .....           |                    | 396    |                      | 449    |      | 358    |
| Inventories.....                                        |                    | 248    |                      | 199    |      | 232    |
| Prepaid income taxes.....                               |                    | 15     |                      | 9      |      | 1      |
| Current non-financial assets .....                      |                    | 53     |                      | 37     |      | 45     |
| Non-current assets held for sale .....                  |                    | 4,560  |                      | 7      |      | 25     |
| <b>Total current assets</b> .....                       |                    | 5,519  |                      | 953    |      | 1,096  |
| Long-term financial instruments .....                   |                    | 0*     |                      | 0*     |      | 0*     |
| Non-current available-for-sale financial assets.....    |                    | 30     |                      | 34     |      | 38     |
| Long-term loans, net .....                              |                    | 48     |                      | 45     |      | 42     |
| Non-current derivative instrument assets .....          |                    | 8      |                      | 52     |      | 22     |
| Long-term trade receivables and other receivables ..... |                    | 598    |                      | 566    |      | 541    |
| Property, plant and equipment, net.....                 |                    | 15,279 |                      | 15,958 |      | 16,296 |
| Investment property .....                               |                    | 464    |                      | 303    |      | 167    |
| Goodwill .....                                          |                    | 4      |                      | 4      |      | 4      |
| Intangible assets, net .....                            |                    | 39     |                      | 61     |      | 70     |
| Investment in associates .....                          |                    | 204    |                      | 205    |      | 210    |
| Deferred tax assets .....                               |                    | 5      |                      | 8      |      | 18     |
| Non-current non-financial assets .....                  |                    | 11     |                      | 9      |      | 9      |
| <b>Total non-current assets</b> .....                   |                    | 16,689 |                      | 17,246 |      | 17,417 |
| <b>Total assets</b> .....                               | ₩                  | 22,208 | ₩                    | 18,199 | ₩    | 18,513 |
| <b>Liabilities</b>                                      |                    |        |                      |        |      |        |
| Trade payables and other payables.....                  | ₩                  | 600    | ₩                    | 646    | ₩    | 619    |
| Short-term borrowings .....                             |                    | 9      |                      | 222    |      | 10     |
| Current portion of long-term borrowings, net .....      |                    | 31     |                      | 31     |      | 31     |
| Current portion of bonds, net .....                     |                    | 1,849  |                      | 1,524  |      | 1,862  |
| Current derivative instrument liabilities .....         |                    | 13     |                      | 1      |      | -      |
| Current tax liabilities.....                            |                    | 1      |                      | 1      |      | 1      |
| Current non-financial liabilities.....                  |                    | 214    |                      | 219    |      | 178    |
| Current provisions .....                                |                    | 153    |                      | 163    |      | 207    |
| Non-current liabilities held for sale .....             |                    | 2,679  |                      | -      |      | -      |
| <b>Total current liabilities</b> .....                  |                    | 5,549  |                      | 2,807  |      | 2,909  |
| Long-term trade payables and other payables .....       |                    | 6      |                      | 2      |      | 33     |
| Long-term borrowings, net.....                          |                    | 153    |                      | 133    |      | 116    |
| Bonds, net .....                                        |                    | 11,047 |                      | 9,376  |      | 9,556  |
| Non-current derivative instrument liabilities .....     |                    | 50     |                      | 7      |      | 4      |
| Other non-current non-financial liabilities .....       |                    | 47     |                      | 96     |      | 148    |
| Non-current non-financial liabilities .....             |                    | 21     |                      | 18     |      | 15     |
| Employee benefits .....                                 |                    | 760    |                      | 794    |      | 747    |
| Deferred tax liabilities .....                          |                    | 8      |                      | 7      |      | 21     |
| Provisions.....                                         |                    | 220    |                      | 211    |      | 196    |
| <b>Total non-current liabilities</b> .....              |                    | 12,312 |                      | 10,644 |      | 10,835 |

|                                                     | As of December 31, |         |                      |         |      |         |
|-----------------------------------------------------|--------------------|---------|----------------------|---------|------|---------|
|                                                     | 2014               |         | 2015                 |         | 2016 |         |
|                                                     |                    |         | (in billions of won) |         |      |         |
| <b>Total liabilities</b> .....                      | ₩                  | 17,861  | ₩                    | 13,450  | ₩    | 13,744  |
| <b>Equity</b>                                       |                    |         |                      |         |      |         |
| Share capital .....                                 |                    | 9,599   |                      | 9,989   |      | 10,104  |
| Accumulated deficit .....                           |                    | (8,458) |                      | (8,283) |      | (8,388) |
| Other equity components .....                       |                    | 3,015   |                      | 2,951   |      | 2,930   |
| <b>Equity attributable to owners of the Company</b> |                    | 4,156   |                      | 4,657   |      | 4,647   |
| <b>Non-controlling interests</b> .....              |                    | 192     |                      | 92      |      | 122     |
| <b>Total equity</b> .....                           |                    | 4,347   |                      | 4,749   |      | 4,769   |
| <b>Total liabilities and equity</b> .....           | ₩                  | 22,208  | ₩                    | 18,199  | ₩    | 18,513  |

Note:

(\*) Less than ₩0.5 billion

#### OTHER FINANCIAL DATA:

|                                                 | For the Year Ended December 31, |       |                      |         |      |       |
|-------------------------------------------------|---------------------------------|-------|----------------------|---------|------|-------|
|                                                 | 2014                            |       | 2015                 |         | 2016 |       |
|                                                 |                                 |       | (in billions of Won) |         |      |       |
| Depreciation <sup>(1)</sup> .....               | ₩                               | 461   | ₩                    | 451     | ₩    | 491   |
| Amortization .....                              |                                 | 14    |                      | 8       |      | 10    |
| Net cash provided by operating activities ..... |                                 | 691   |                      | 938     |      | 743   |
| Net cash used in investing activities .....     |                                 | (771) |                      | 684     |      | (810) |
| Net cash used in financing activities .....     |                                 | (128) |                      | (1,813) |      | 147   |

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 owns all of our equity and, through the MOLIT, our primary regulator, regulates our activities. 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.

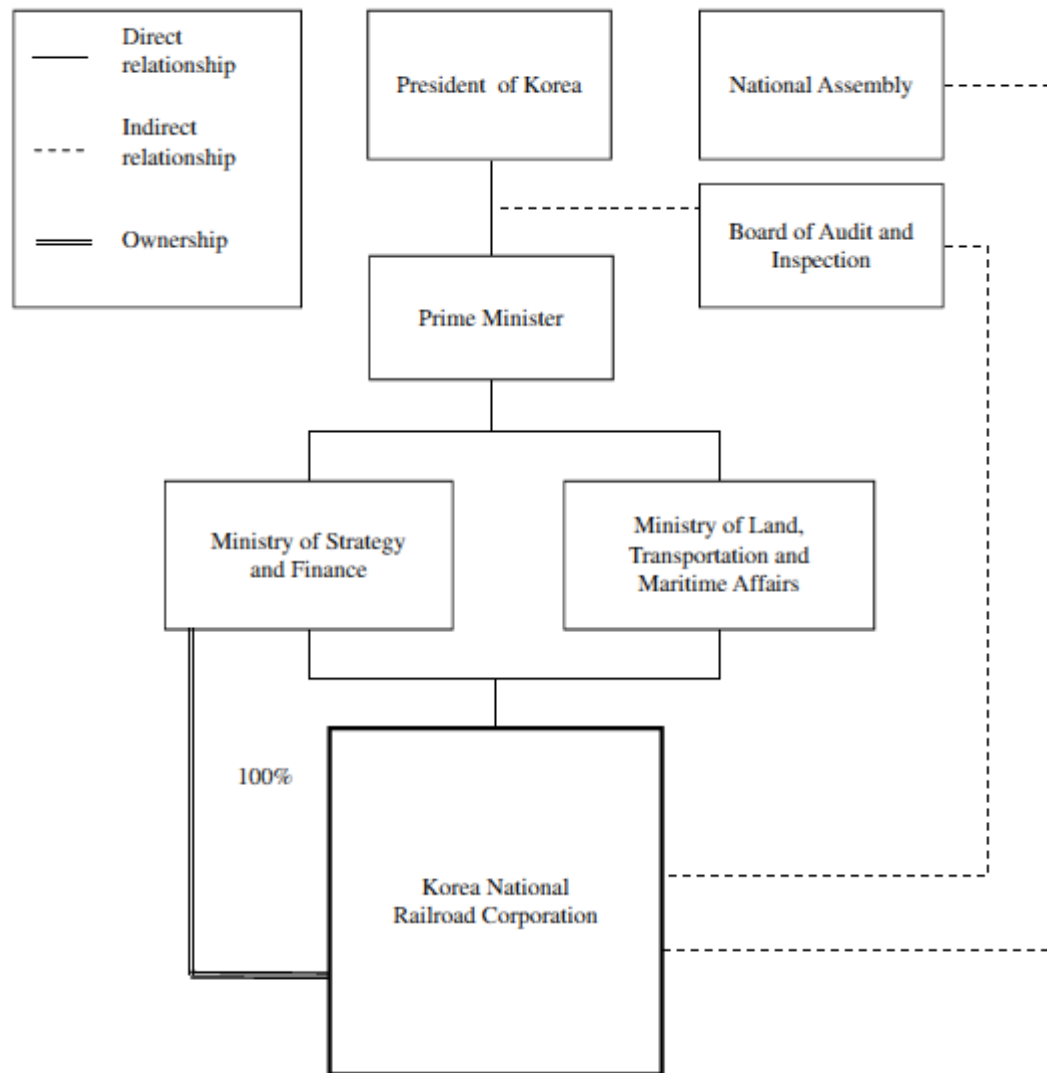
We are entrusted by the Government to operate and maintain the national railroad network pursuant to a legal framework that governs all railroad-related matters. Our business operations and management policy are subject to strict regulation by the Government and are supervised and evaluated by different 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 has since increased to ₩9,994 billion as of December 31, 2015.
- 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 ₩1,410 billion and ₩1,780 billion in 2014 and 2015, 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 ₩347 billion and ₩351 billion in capital support in respect of these obligations in each of 2014 and 2015, respectively. For the years between 2005 and 2015 (inclusive), the Government has generally compensated for approximately 78.7% 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. For the years ended December 31, 2014 and 2015, our total usage fee payments to the KRNA for use of high-speed and conventional rail tracks amounted to ₩764 billion and ₩879 billion, representing 15.3% and 16.3% of our operating expenses for such years, respectively. The total usage fees paid in 2014 and 2015 consisted of (i) our facility usage fees paid for the use of high-speed rail tracks in the amount of ₩353 billion and ₩499 billion in 2014 and 2015, respectively and (ii) our facility usage fees for the use of conventional rail tracks amounted to ₩411 billion and ₩381 billion in 2014 and 2015, 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 railroad facility usage fees equal to 60% to 70% of the Government's reimbursement for our consignment services with respect to conventional rail tracks.
- 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 2014 and 2015, the Government provided ₩390 billion and ₩16 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 ₩939 billion and ₩1,046 billion in 2014 and 2015, 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.

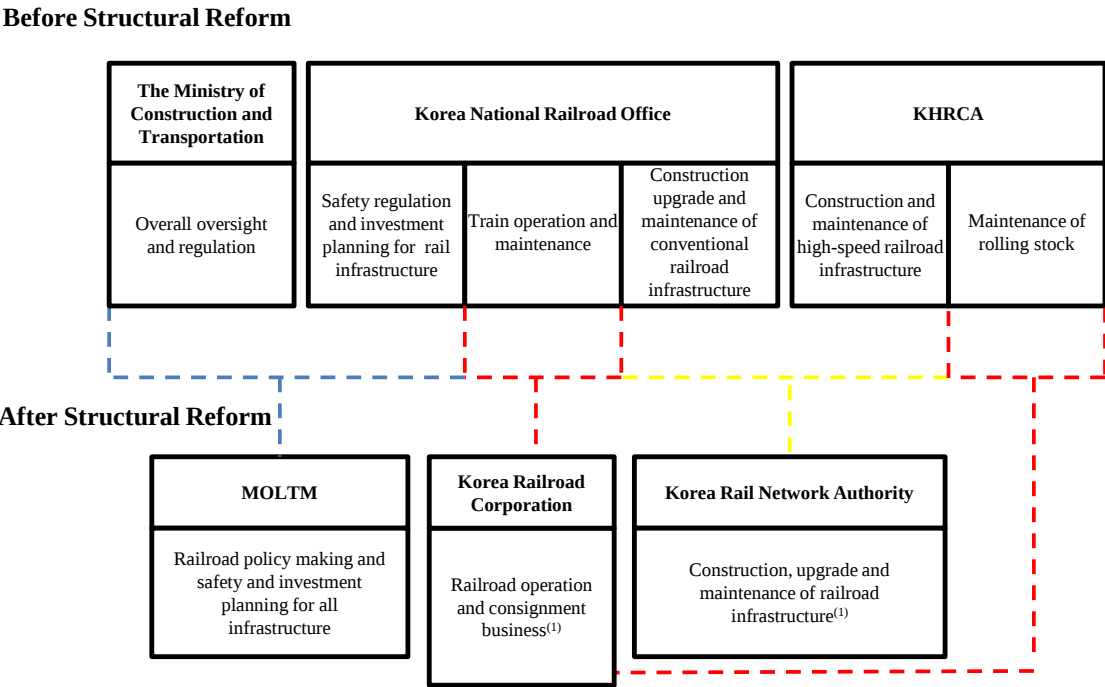
### **Government Railroad Policy and Restructuring of Korean Railroad Industry**

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.



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, 2014 and 2015, our total annual budget amounted to ₩ 7,404 billion and ₩7,246 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 owns all of our equity and, through the MOLIT, our primary regulator, regulates our activities. 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.

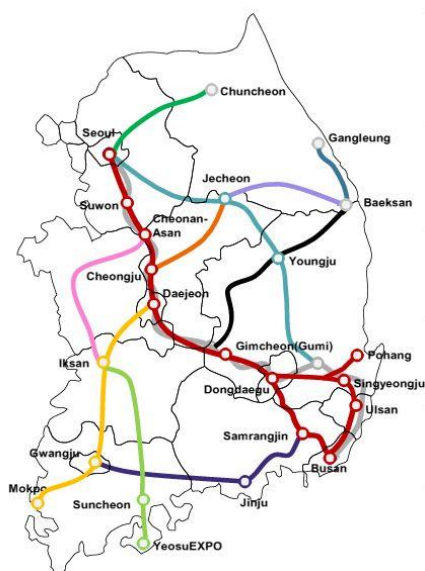
As a Government-owned entity charged with executing public policy objectives, our business objective is not the maximization of our profitability. Our business scope is subject to extensive regulation and our operations rely heavily on financial support from the Government. For a discussion on our relationship 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”*.

As of December 31, 2015, our organization included seven business headquarters (consisting of Safety Innovation Headquarter, Corporate Management Headquarter, Passenger Business Headquarter, Logistics Business Headquarter, Metropolitan Railroad Headquarter, Business Development Headquarter and Engineering Headquarter) and 12 regional headquarters (covering major metropolitan regions). Our conventional and KTX rail networks comprised a total of 95 lines throughout Korea (and 15 lines linking Korea’s most populated metropolitan areas) and our metropolitan rail transit network comprised 12 main lines connecting Seoul and the greater metropolitan area. Our passenger railroad networks extended over the total operating distance of 3,654 kilometers, which include the operating distance of 596 kilometers for our KTX railroad network. As of December 31, 2015, we had 673 stations

servicing our KTX, conventional, metropolitan and freight transportation operation. We had 494 passenger stations, of which 41 were KTX rail stations. We also owned 33 train signaling stations, six train signal centers and two train depots. In addition, as of May 31, 2015, we owned a total of 16,863 railroad vehicles, including 1,380 KTX locomotives, 290 diesel locomotives, 966 ordinary passenger cars, 2,650 electric railroad vehicles, 11,031 freight cars and 16 other car types. The rail track that we operate is owned by the Government and managed by the KRNA.

The following map shows our railroad network in Korea as of November 2016.



In 2015, approximately 61 million, 75 million and 1,140 million passengers used our KTX, conventional and metropolitan railroad services, respectively. Our annual freight transportation volume amounted to 37 million tons in 2015. 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 ₩5,094 billion and ₩5,516 billion for the years ended December 31, 2014 and 2015, respectively. For the same years, we recorded operating income of ₩100 billion and ₩114 billion, respectively. As of December 31, 2015, our total assets (consisting principally of passenger cars and rolling stock, land and buildings) amounted to ₩18,199 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 five rail routes: (i) the Gyeonggi 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 and (v) the Jeolla Line which runs from Yongsan to Yeosu EXPO. The current travel time between Seoul and Busan on KTX trains is approximately 2 hours and 18 minutes, compared to approximately 4 hours and 10 minutes by the first class conventional train. Likewise, the current travel time between Seoul and Mokpo on KTX trains is approximately 2 hours and 58 minutes compared to approximately 4 hours and 40 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 x 100) increased from 60.1% in 2013 to 63.5% in 2015 (for 2015, we excluded the months of June and July during which the Middle East Respiratory Syndrome outbreak in Korea resulted in an unusual drop in ridership). In addition, the KTX ridership increased from 54,744 passengers in 2013 to the record high of 60,535 passengers in 2015.

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 ₩1,672 billion and ₩1,927 billion, representing 32.8% and 34.9% of total revenue in 2014 and 2015, 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)
- Janghang Line (Yongsan to and from Seodaejeon)
- Honam Line (Yongsan to and from Mokpo)
- Jeolla Line (Yongsan to and from Yeosu Expo)
- Chungbuk Line (Daejeon to and from Jecheon)
- Gyeongbuk Line (Yeongju to and from Busan)
- Daegu Line (Dongdaegu to and from Pohang)
- Donghae Nambu Line (Dongdaegu to and from Bujeon)
- Gyeongjeon Line (Bujeon to and from Gwangjusongjeong)
- Jungang Line (Cheongnyangni to and from Gyeongju)
- Taebaek Line (Cheongyangni to and from Jeongdongjin)
- Youngdong Line (Jeongdongjin to and from Bujeon)

- Gyeongwon Line (Dongducheon to and from Baengmagoji)
- Gyeongui Commuter Line (Munsan to and from Dorasan)
- Gyeongwon Commuter Line (Dongducheon to and from Baengmagoji)

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 north west region, the oceanic rail tour in the southern region. The ridership of these trip courses increased from 356,164 passengers in 2013 to 692,772 passengers in 2015. 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 Sunghnam and Yeosu for a total distance of 57.0 km in September 2016 and a double-track railway connecting Bujon and Ilgwang for a total distance of 28.5 km in December 2016.

Our revenue from conventional rail passenger services amounted to ₩516 billion and ₩514 billion, representing 10.1% and 9.3% of total revenue in 2014 and 2015, 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 Seoul Metropolitan Rapid Transit Corporation (“SMRT”) and other smaller operators. As of December 31, 2015, our metropolitan railroad transportation network extended over 533.2 kilometers and comprised a total of 236 metropolitan stations. In 2015, an average of 3.1 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 Yongmun, 118.7 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 Songdo, 13.0 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 Gwangwoondae to and from Chuncheon, 85.5 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, 2015, Seoul Metro’s transit operation network comprised of 5 lines for a total distance of 169.6 kilometers, connecting 150 stations. In 2015, an average of 4.5 million passengers used Seoul Metro’s

services. As of December 31, 2015, SMRT's transit operation network comprised of 4 lines for a total distance of 162.2 kilometers connecting a total of 157 stations. In 2015, an average of 2.7 million passengers used SMRT's services.

On August 17, 2015, the Government announced its plan to construct additional 49.4 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 ₩777 billion and ₩828 billion, representing 15.2% and 15.0% of total revenue in 2014 and 2015, respectively.

### ***Freight and Logistics Services***

We provide commercial freight transportation services via our railroad routes, through an operating distance of 3,077 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, 2014 and 2015, freight volume amounted to 37.4 million tons and 37.1 million tons, respectively. Freight cargo consists primarily of bulk traffic such as cement and container freight, which collectively accounted for approximately 66.6% of the total volume of cargo transported for the year ended December 31, 2015. 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.

On December 14, 2015, we signed a trilateral MOU contract with CJ Korea Express and Korea Railroad Research Institute to develop "Double Stack Train" cars, which are expected to boost freight volume by 70% and reduce costs per freight train.

Our revenue from freight and logistics services amounted to ₩402 billion and ₩386 billion, representing 7.9% and 7.0% of total revenue in 2014 and 2015, 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, 2015, we have outstanding business orders for our services from various countries, including Pakistan, South Africa and the Philippines.

Our revenue from related services amounted to ₩155 billion and ₩178 billion, representing 3.0% and 3.2% of total revenue in 2014 and 2015, 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 are currently engaged in a lawsuit to reclaim the rest. See “*Business—Legal Proceedings*”.

#### **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 ₩939 billion and ₩1,046 billion, representing 18.4% and 19.0% of total revenue in 2014 and 2015, 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 agreement. For the years ended December 31, 2014 and 2015, our total usage fee payments to the KRNA for use of high-speed and conventional rail tracks amounted to ₩764 billion and ₩879 billion, representing 15.3% and 16.3% of our operating expenses for such years, respectively. The total usage fees paid in 2014 and 2015 consisted of (i) our facility usage fees paid for the use of high-speed rail tracks in the amount of ₩353 billion and ₩499 billion in 2014 and 2015, respectively and (ii) our facility usage fees for the use of conventional rail tracks amounted to ₩411 billion and ₩381 billion in 2014 and 2015, 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 railroad facility usage fees equal to 60% to 70% of the Government’s reimbursement for our consignment services with respect to conventional rail tracks.

#### **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. For the year ended December 31, 2015, revenue generated from our PSO services represented 8.8% of our transportation services revenue and 6.4% of our total operating revenue.

## 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 2015, 78.7% of the cost incurred for the PSO services we provide has been recovered. See “*Relationship with the Government*”.

For the years ended December 31, 2014 and 2015, aggregate PSO funding received from the Government as partial reimbursement amounted to ₩347 billion and ₩351 billion, representing approximately 81.0% and 79.3% of our incurred costs. For the year ended December 31, 2015, 37.3%, 61.8% and 0.9% 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. Freight fares are determined according to travel distance, weight and type of cargo and quality of service offered.

## Procurement

Approximately 70% 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 ₩15.7 billion and ₩390 billion in 2014 and 2015, 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 for the period specified.

|                                 |                 | December 31, 2015 |                                  |                          |
|---------------------------------|-----------------|-------------------|----------------------------------|--------------------------|
| (In billions of Korean Won)     |                 | Acquisition cost  | Government grants <sup>(1)</sup> | Accumulated depreciation |
|                                 |                 |                   |                                  | Book value               |
| Land .....                      | ₩ 8,636         | (7)               | -                                | 8,629                    |
| Buildings .....                 | 1,877           | (81)              | (363)                            | 1,433                    |
| Structures .....                | 294             | (7)               | (100)                            | 187                      |
| Machinery .....                 | 1,066           | (99)              | (588)                            | 379                      |
| Trains .....                    | 7,152           | (364)             | (1,907)                          | 4,882                    |
| Vehicles.....                   | 50              | 0*                | (36)                             | 13                       |
| Furniture and fixtures.....     | 17              | 0*                | (13)                             | 4                        |
| Tools .....                     | 112             | 0*                | (92)                             | 20                       |
| Construction-in- progress ..... | 397             | (14)              | -                                | 382                      |
| Financial lease assets.....     | 2               | -                 | (2)                              | 0*                       |
| Other tangible assets.....      | 30              | -                 | (1)                              | 29                       |
| <b>Total.....</b>               | <b>₩ 19,632</b> | <b>(572)</b>      | <b>(3,102)</b>                   | <b>15,958</b>            |

| December 31, 2014               |                  |                                  |                          |               |
|---------------------------------|------------------|----------------------------------|--------------------------|---------------|
| (In billions of Korean Won)     |                  |                                  |                          |               |
|                                 | Acquisition cost | Government grants <sup>(1)</sup> | Accumulated depreciation | Book value    |
| Land .....                      | ₩ 8,542          | (7)                              | -                        | 8,535         |
| Buildings .....                 | 1,846            | (75)                             | (318)                    | 1,453         |
| Structures .....                | 292              | (6)                              | (94)                     | 191           |
| Machinery .....                 | 1,041            | (89)                             | (527)                    | 425           |
| Trains .....                    | 6,377            | (364)                            | (1,585)                  | 4,428         |
| Vehicles.....                   | 49               | (1)                              | (35)                     | 13            |
| Furniture and fixtures.....     | 17               | -                                | (12)                     | 5             |
| Tools .....                     | 107              | 0*                               | (89)                     | 18            |
| Construction-in- progress ..... | 191              | (9)                              | -                        | 183           |
| Financial lease assets.....     | 2                | -                                | (2)                      | 0*            |
| Other tangible assets.....      | 29               | -                                | -1                       | 29            |
| <b>Total.....</b>               | <b>₩ 18,492</b>  | <b>(551)</b>                     | <b>(2,663)</b>           | <b>15,279</b> |

**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.

(\*) Less than ₩0.5 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, 2015, we employed a total of 27,981 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 four labor unions and approximately 68.5% of our employees are members of the unions. The unions negotiate a collective bargaining agreement and wage agreement for its members annually. The current collective bargaining agreement expires on May 12, 2017. We are currently negotiating a wage agreement, which, upon execution, will retrospectively apply to the calendar year 2017.

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, 2015, we were involved in 205 different court proceedings, out of which 113 were claims made against us amounting to approximately ₩629 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 had 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, had proceeded with the development of Yongsan Station area. Due to economic recession in Korea and financing difficulty, 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 have appealed the trial court's decision. 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 m<sup>2</sup>, 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 m<sup>2</sup>, 0.36% of the total area disposed). In January 2014, we filed a lawsuit against DHPFI over the ownership of remaining area in Yongsan (217,582.0 m<sup>2</sup>, 60.28% of total area disposed) and has been planning to seek ways to regain and utilize the land.

In October 2013, we appealed to the Tax Tribunal for rectification of the corporate tax amounting to ₩880 billion related to the disposal of the land in Yongsan.

## Research and Development

The Government and the Korea Railroad Research Institute (“KRRI”) conducts most of our research and development (“R&D”) activities. KRRI 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, KRRI 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. KRRI has a team of over 261 R&D personnel responsible for developing rail infrastructure and railway technology research. This team also conducts quality assurance and safety checks. KRRI’s R&D team is also responsible for the investigation and resolution of construction, maintenance and operational problems in our rail operations.

## Subsidiaries

Our subsidiaries provide the following services to enhance 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 generate 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 <sup>(1)</sup>         | Principal Business Activity                                                                                                     | % of Shares<br>Directly Owned<br>by Us | Revenue for the Year<br>Ended December 31,<br>2015<br>(in billions of Won) | % of Revenue<br>of our<br>Consolidated<br>Revenue for<br>the Year<br>Ended<br>December 31,<br>2015 |
|-------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------|----------------------------------------|----------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------|
| 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%                                 | ₩ 247                                                                      | 4.5%                                                                                               |
| KORAIL Networks Co., Ltd. ....            | Information technology and facility management services                                                                         | 99.0                                   | 84                                                                         | 1.5                                                                                                |
| KORAIL Logis Co., Ltd. ....               | Freight transportation and forwarding services                                                                                  | 97.2                                   | 52                                                                         | 0.9                                                                                                |
| KORAIL Tourism Development Co., Ltd. .... | Tourism promotion and rail crew services                                                                                        | 60.8                                   | 70                                                                         | 1.3                                                                                                |
| KORAIL Tech Co., Ltd. ....                | Railway track construction and maintenance                                                                                      | 98.0                                   | 38                                                                         | 0.7                                                                                                |
| SR Co., Ltd. ....                         | Railroad transportation                                                                                                         | 41.0                                   | -                                                                          | -                                                                                                  |
| Korean Insurance Brokerage Co., Ltd. .... | Insurance brokerage business                                                                                                    | 99.0                                   | 1                                                                          | 0.0                                                                                                |

Notes:

(1) Excludes Airport Railroad Co., Ltd. which was sold to the consortium of Kookmin Bank and Industrial Bank on June 23, 2015 and was classified as discontinued operation. See Note 50 of the consolidated financial statements as of and for the years ended December 31, 2015 and 2014 included in the Financial Statements.

In December 2016, our consolidated subsidiary, SR Co., Ltd., over which we own 49% interest as of the date of this Offering Circular, began operating two KTX lines connecting Seoul and Busan and Seoul and Mokpo. As of the date of this Offering Circular, each of the Teacher's Pension Fund of Korea, the Industrial Bank of Korea and Korea Development Bank owns 31.5% interest, 15% interest and 12.5% interest, respectively, of SR Co., Ltd.

## **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 of 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, three local government-owned subway service operators (Seoul Subway, SMRT and IRTC) and a few other smaller operators. As of December 31, 2015, our subway transit operation network extended over 533.2 kilometers whereas transit subway operation networks of Seoul Subway and SMRT extended over 169.6 kilometers and 162.2 kilometers, respectively.

## 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 to half of the total number of Directors, including our Chief Executive Officer (“CEO”). Currently, our Board consists of six 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 candidates 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 Minister of the MOLIT or the President of Korea at the recommendation of the Minister of the MOLIT.

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 based on recommendations made by the Director Recommendation Committee. 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 March 7, 2017. The business address of our Directors is 240 Jungang-ro, Dong-gu, Daejeon, Korea, 34618.

| <b>Name</b>     | <b>Title/Position</b>                                               | <b>Other Activities, If Any</b> | <b>Position Held Since</b> |
|-----------------|---------------------------------------------------------------------|---------------------------------|----------------------------|
| Hong, Soon-man  | Standing Director, President and the Chief Executive Officer        | N/A                             | May 10, 2016               |
| Park, Chong-jun | Statutory Auditor                                                   | N/A                             | February 14, 2017          |
| Yu, Jae-young   | Standing Director and Vice President                                | N/A                             | July 12, 2016              |
| Na, Min-chan    | Standing Director and Director of the Safety Innovation Headquarter | N/A                             | January 1, 2016            |

| <b>Name</b>       | <b>Title/Position</b>                                                   | <b>Other Activities, If Any</b>                               | <b>Position Held Since</b> |
|-------------------|-------------------------------------------------------------------------|---------------------------------------------------------------|----------------------------|
| Kwon, Tae-myeong  | Standing Director and Director of the Metropolitan Railroad Headquarter | N/A                                                           | August 1, 2016             |
| Chung, In-soo     | Standing Director and Director of the Engineering Headquarter           | N/A                                                           | August 1, 2016             |
| 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***

*Hong, Soon-man* has been our CEO and President since May 10, 2016. Mr. Hong received a Bachelor's degree in Korean Language and Literature from Yonsei University and a Master's degree and a Ph.D. degree in Geotechnical and Transportation Engineering from Washington State University. He previously served as the President of Korea Railroad Research Institute and has held key positions including Head of Aviation Safety Headquarters, as well as in the Ministry of Construction and Transportation, the Railway Bureau at the Ministry of Land, Transport and Maritime Affairs, and as a Deputy Mayor for Department of Economics in the city of Incheon.

*Yu, Jae-young* has been a Standing Director and Vice President since July 12, 2016. Mr. Yu received a Bachelor's degree in Political Science from Seoul National University. He previously served as director of the Passenger Strategy Division of the Issuer, and has held key positions including director of the Issuer's Metropolitan Railroad Headquarter, director of Passenger Business Headquarter and director of the Jeonbuk Office.

*Na, Min-chan* has been a Standing Director and director of Safety Innovation Headquarter since January 1, 2016. Mr. Na received a Bachelor's degree in Public Administration from Korea National Open University and a Master's Degree in Industrial Management from Hannam University. He previously served as director of Seoul office of the Issuer, manager of Safety Division and director of the Jeonnam Office of the Issuer.

*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 the Daegu Office of the Issuer.

*Chung, In-soo* has been a Standing Director and Director of Engineering Headquarter since August 1, 2016. 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 Research Department of the Issuer, director of Gangwon Office, manager of Rolling Stock Engineering Division, manager of Rail Maintenance Department and team leader of Express Rail Development Department.

### ***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 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, as governor of Buyeo and as 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 ₩564 million in 2014 and ₩631 million for in 2015. The aggregate amount the Issuer set aside or accrued during the year ended December 31, 2014 and 2015 to provide retirement and severance benefits for such directors and executive officers was ₩19 million and ₩43 million, 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 and a remuneration 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 CAD110,000,000 known as its “3.07% Notes due 2037” (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, 2017 (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 CAD1,000,000 and any integral multiple of CAD1,000 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 Canada.

(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 US\$10,000,000 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, London and Toronto (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, 2037 (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 3.07% 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, 2018. 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 basis of a 360-day year consisting of 12 months of 30 days each and, in the case of an incomplete month, the number of days elapsed.

#### **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 2<sup>nd</sup> 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 depositary for Euroclear and Clearstream (the “Common Depositary”), 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 Depositary 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 Depositary, 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 the Global Note is exchanged for Certificated Notes (as defined below), and unless the Issuer obtains an exemption from the SGX-ST, the Issuer will appoint and maintain a paying agent in Singapore where the Notes may be presented or surrendered for payment or redemption and make an announcement of such exchange 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 CAD1,000,000 and integral multiples of CAD1,000 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 December 31, 2016.

| <b>As of December 31, 2016</b> |                                    |                                     |
|--------------------------------|------------------------------------|-------------------------------------|
|                                | <b>Amount of<br/>Share Capital</b> | <b>% of Total<br/>Share Capital</b> |
|                                | <i>(in billions of Won)</i>        | <i>(percentages)</i>                |
| <b>MOSF</b> .....              | ₩9,236.4                           | 91.4%                               |
| <b>MOLIT</b> .....             | ₩872.4                             | 8.6%                                |
| <b>Total</b> .....             | ₩10,108.8                          | 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 one year 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 10 and 15% (including a local income tax), 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

Morgan Stanley & Co. International plc (the “Manager”) has, pursuant to a purchase agreement (the “Purchase Agreement”), dated as of May 29, 2017, 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 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. 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*”.

#### ***Notice to Prospective Investors in the EEA***

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a “Relevant Member State”), with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State, an offer to the public of the Notes described in this Offering Circular may not be made in that Relevant Member State other than:

(a) to any legal entity which is a qualified investor as defined in the Prospectus Directive;

(b) to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive), as permitted under the Prospectus Directive, subject to obtaining the prior consent of the Manager; or

(c) in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of the Notes shall require the Company or the Manager to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an “offer to the public” in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the Offering and the Notes to be offered so as to enable an investor to decide to purchase or subscribe for the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression “Prospectus Directive” means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in the Relevant Member State and the expression “2010 PD Amending Directive” means Directive 2010/73/EU. This selling restriction is in addition to any other selling restriction set out in this Offering Circular.

#### ***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 FSCMA. 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 Transaction Law 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 LAW 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 Simpson Thacher & Bartlett 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 Kim & Chang as to matters of Korean law.

## **INDEPENDENT AUDITORS**

The Financial Statements have been audited by Deloitte Anjin LLC., independent auditors, as stated in their report appearing therein.

**REGISTERED AND HEAD OFFICE OF THE ISSUER**

**Korea Railroad Corporation**

240 Jungang-ro, Dong-gu  
Daejeon, Korea, 34618

**FISCAL AGENT AND PAYING AGENT**

**The Bank of New York Mellon, London Branch**

One Canada Square  
London E14 5AL  
United Kingdom

**REGISTRAR AND TRANSFER AGENT**

**The Bank of New York Mellon SA/NV,**

**Luxembourg Branch**  
Vertigo Building - Polaris  
2-4 rue Eugène Ruppert  
L-2453 Luxembourg

**LEGAL ADVISER**

*To the Manager as to U.S. law*

**Simpson Thacher & Bartlett LLP**

25<sup>th</sup> Floor, West Tower  
Mirae Asset Center 1  
26 Eulji-ro 5-gil, Jung-gu  
Seoul, Korea 04539

*To the Manager as to Korean law*

**Kim & Chang**

Northgate Building  
55, Saemunan-ro 5-gil, Jongno-gu  
Seoul, Korea 03170

**INDEPENDENT AUDITOR**

**Deloitte Anjin LLC**

9<sup>th</sup> Floor, One IFC  
10 Gukjegeumyung-ro, Youngdeungpo-gu,  
Seoul, Korea 07326

**SINGAPORE LISTING AGENT**

**Shook Lin & Bok LLP**

1 Robinson Road  
#18-00 AIA Tower  
Singapore 048542