**IMPORTANT NOTICE**

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

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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.

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**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 Nomura International plc (the "Manager") 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.

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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.

**STRICTLY CONFIDENTIAL**

# Korea Railroad Corporation

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

## HKD$921,000,000 2.60% Notes due 2023

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The HKD$921,000,000 2.60% Notes due 2023 (the "Notes") are issued by Korea Railroad Corporation (the "Issuer"), a statutory entity established under The Korea Railroad Corporation Act of 2005, as amended (the "KRC Act"). The Notes will be issued in registered form only in a minimum denomination of HKD$1,000,000 and integral multiples of HKD$1,000 in excess thereof. The Notes will bear interest at the rate of 2.60% per annum from and including May 25, 2017 to and including May 25, 2023. Interest will be payable annually in arrears on May 25 of each year, commencing on May 25, 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 Aa2 by Moody's Investors Service, Inc. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organization.

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

Application will be made to the Singapore Exchange Securities Trading Limited (the "SGX-ST") for the listing and quotation of the Notes on the SGX-ST. The SGX-ST assumes no responsibility for the correctness of any of the statements made, opinions expressed, or reports contained, 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 8 for a discussion of certain factors to be considered in connection with an investment in the Notes.**

## Issue Price: 100.00%

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

The Notes will initially be represented by a global note (the "Global Note") which will be registered in the name of a nominee of, and deposited with, a common depositary for Euroclear Bank S.A./N.V. ("Euroclear") and Clearstream Banking, société anonyme ("Clearstream") on or about May 25, 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.

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*Sole Bookrunner and Sole Lead Manager*

Nomura

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The date of this Offering Circular is May 11, 2017.

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

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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 "HKD$" and "Hong Kong dollars" are to the currency of Hong Kong Special Administrative Region of the People's Republic of China.

For convenience only, certain Won amounts have been translated into U.S. dollars. Unless otherwise specified, all such conversions were made at the market average exchange rate announced by Seoul Money Brokerage Services, Ltd. in Seoul between Won and the U.S. dollars or the Won and the Hong Kong dollars (the "Market Average Exchange Rate"). Where applicable, the translations of Won into U.S. dollars as of December 31, 2015 have been made at the Market Average Exchange Rate in effect as of December 31, 2015, which was ₩1,172.0 = U.S.$1.00. The translations of Hong Kong dollars into Won as of December 31, 2015 have been made at the Market Average Exchange Rate in effect as of December 31, 2015, which was ₩151.2 = HKD$1.00. No representation is made that the Won, U.S. dollar or Hong Kong dollar amounts referred to herein could have been or could be converted into U.S. dollars, Won or Hong Kong dollars, as the case may be, at any particular rate or at all. The Market Average Exchange Rate on May 11, 2017 was ₩1,134.5 = U.S.$1.00 and ₩145.7 = HKD$1.00. Any discrepancies in any table between totals and the sums of the amounts listed are due to rounding. See "*Exchange Rates*".

## FORWARD LOOKING STATEMENTS

Certain statements in this Offering Circular constitute "forward-looking statements", including statements regarding the Issuer's expectations and projections for future operating performance and business prospects. The words "believe", "expect", "anticipate", "estimate", "project", "will", "aim", "will likely result", "will continue", "intend", "plan", "contemplate", "seek to", "future", "objective", "goal", "should", "will pursue" and similar expressions or variations of these expressions identify forward-looking statements. In addition, all statements other than statements of historical facts included in this Offering Circular, including, without limitation, those regarding the Issuer's financial position and results, business strategy, plans and objectives of management for future operations, including development plans and objectives relating to the Issuer's products and services, are forward-looking statements. Such forward-looking statements and any other projections contained in this Offering Circular (whether made by the Issuer or any third party) involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements to be materially different from the future results, performance or achievements expressed or implied by forward-looking statements. Such forward-looking statements are based on current beliefs, assumptions, expectations, estimates and projections regarding the Issuer's present and future business strategies and the environment in which the Issuer will operate in the future. Among the important factors that could cause some or all of those assumptions not to occur or cause the Issuer's actual results, performance or achievements to differ materially from those in the forward-looking statements include, among other things, the Issuer's ability to successfully implement its business strategy, the condition of and changes in the Korean, Asian or global economies, future levels of non-performing assets, the Issuer's growth and expansion, including whether the Issuer succeeds in its consumer financing strategy, changes in interest rates and changes in government regulation and licensing of its businesses in Korea and in other jurisdictions where the Issuer may operate, and competition in the financial services industry. Additional factors that could cause the Issuer's actual results, performance or achievements to differ materially include, but are not limited to, those discussed under "*Risk Factors*". Any forward-looking statements contained in this Offering Circular speak only as of the date of this Offering Circular. Each of the Issuer and the Manager expressly disclaims any obligation or undertaking to release, publicly or otherwise, any updates or revisions to any forward-looking statement contained herein to reflect any change in the Issuer's expectations with regard thereto or any change in events, conditions, assumptions or circumstances on which any such statement was based.

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## SUMMARY

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

## THE ISSUER

### Business Overview

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

We were established by the Government as a statutory entity for the primary purpose of operating national railroad services, pursuant to the KRC Act on January 1, 2005 in connection with Restructuring Plan (as defined elsewhere in this Offering Circular). The Korea Railway Network Authority ("KRNA") constructs and maintains the Government-owned railroad facilities. The Government, through the Ministry of Land, Infrastructure and Transport of Korea ("MOLIT"), our primary regulator, 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 (“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.

## 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 HKD$921,000,000 2.60% Notes due 2023 (the "Notes") are being offered outside of the United States to non-U.S. persons in reliance on Regulation S ("Regulation S") under the Securities Act. We have not registered, and will not register, under the securities laws of the United States or otherwise, the Notes. See "*Subscription and Sale*" and "*Transfer Restrictions*". |
| Offering Price | 100% of the principal amount of the Notes, plus accrued interest, if any, from May 25, 2017 (the "Issue Date"). |
| Size of Offering | The aggregate principal amount of the Notes to be issued in this Offering is HKD$921,000,000. |
| Denomination | The Notes will be issued in minimum denominations of HKD$1,000,000 and integral multiples in excess of HKD$1,000 thereof. |
| Interest | The Notes will bear interest from and including the Issue Date up to and including May 25, 2023 (the "Maturity Date"), at the rate of 2.60% per annum. Interest on the Notes will be payable annually in arrears on May 25 in each year, beginning May 25, 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 "*Terms and Conditions of the Notes – Change of Control Redemption*". |
| Tax Redemption | The Issuer may redeem the Notes in whole but not in part at 100% of their principal amount (plus accrued but unpaid interest, if any), if the Issuer has or will become obliged to pay |

| | |
|---|---|
| | Additional Amounts in respect of any Korean Tax in respect of any payments on the Notes. The Issuer will give not less than 30 nor more than 60 days' notice to holders of Notes of such redemption. |
| Ranking | The Notes will constitute direct, unconditional, unsubordinated and unsecured obligations of the Issuer, ranking *pari passu* 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>ISIN: XS1616407786<br>Common Code: 161640778 |
| 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. |

## USE OF PROCEEDS

The net proceeds from the issue of Notes, which are expected to be approximately HKD$921,000,000 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, 2015 have been made at the Market Average Exchange Rate in effect as of December 31, 2015, which was ₩1,172.0 = 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.

| **Year Ended December 31,** | **At End of Period** | **Average[(1)]** | **High** | **Low** |
|---|---|---|---|---|
| | | *(Won per US$1.00)* | | |
| 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 11) | 1,134.5 | 1,148.1 | 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 11) | 1,134.5 | 1,132.6 | 1,134.5 | 1,130.7 |

*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 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. If the Government abandons or cancels its plans to expand KTX rail tracks, we will not be able to expand our KTX 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.

In November 2016, the prosecutor's office indicted a confidant of former President Park Geun-hye who had allegedly used her ties with the former President to extort donations from Korean conglomerates for two non-profit foundations over which she is purported to have substantial influence, and a number of current and former presidential aides on charges of, among others, abuse of power, coercion and leaking classified documents. On November 30, 2016, a special independent prosecutor was appointed to conduct an investigation of the extent of the former President's involvement. On December 9, 2016, the National Assembly voted in favor of impeaching former President Park for a number of alleged constitutional and criminal violations including violation of the Constitution and abuse of power by allowing her confidant to exert influence on state affairs and letting senior presidential aides help her extort from companies. On March 10, 2017, the Constitutional Court upheld the constitutionality of the impeachment, removing her from office. A special presidential election was held within 60 days of such ruling. There is no assurance that such political development will not have a material adverse effect on the Korean economy.

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, 2015 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, 2015, included elsewhere in this Offering Circular.

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

| | **As of December 31, 2015[(1)]** | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **Actual** | | | | **As Adjusted** | | | |
| | *(in billions of Won and millions of U.S. dollar [(2)])* | | | | | | | |
| **Long-term debt (excluding current portion):** | | | | | | | | |
| Long-term borrowings, net | ₩ | 133 | U.S.$ | 114 | ₩ | 133 | U.S.$ | 114 |
| Bonds, net | | 9,376 | | 8,000 | | 9,376 | | 8,000 |
| Notes offered hereby[(3)] | | - | | - | | 139 | | 119 |
| Total long-term debt[(3)] | | 9,509 | | 8,114 | | 9,648 | | 8233 |
| **Equity:** | | | | | | | | |
| Total equity | | 4,749 | | 4,052 | | 4,749 | | 4,052 |
| **Total capitalization[(3) (4)]** | **₩** | **14,258** | **US$** | **12,166** | **₩** | **14,397** | **US$** | **12,285** |

*Notes:*

(1) Except as disclosed herein and for the issuances of bonds in the aggregate amount of ₩2,023 billion in 2016, there has been no material changes in the capitalization of the Issuer since December 31, 2015.

(2) Won amounts as of December 31, 2015 have been converted into U.S. dollars solely for the convenience of the readers at the Market Average Exchange Rate of ₩1,172.0 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 ₩151.2 to HKD$1.00 in effect on December 31, 2015.

(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 and 2015, all of which are included elsewhere in this Offering Circular.

**STATEMENT OF COMPREHENSIVE INCOME DATA:**

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

**STATEMENT OF FINANCIAL POSITION DATA:**

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

| | As of December 31, | | | |
|---|---|---|---|---|
| | 2014 | | 2015 | |
| | (in billions of won) | | | |
| **Total liabilities** | ₩ | 17,861 | ₩ | 13,450 |
| **Equity** | | | | |
| Share capital | | 9,599 | | 9,989 |
| Accumulated deficit | | (8,458) | | (8,283) |
| Other equity components | | 3,015 | | 2,951 |
| **Equity attributable to owners of the Company** | | 4,156 | | 4,657 |
| **Non-controlling interests** | | 192 | | 92 |
| **Total equity** | | 4,347 | | 4,749 |
| **Total liabilities and equity** | ₩ | 22,208 | ₩ | 18,199 |

*Note*:

(*) Less than ₩0.5 billion

**OTHER FINANCIAL DATA:**

| | For the Year Ended December 31, | | | |
|---|---|---|---|---|
| | 2014 | | 2015 | |
| | (in billions of Won) | | | |
| Depreciation[(1)] | ₩ | 461 | ₩ | 451 |
| Amortization | | 14 | | 8 |
| Net cash provided by operating activities | | 691 | | 938 |
| Net cash used in investing activities | | (771) | | 684 |
| Net cash used in financing activities | | (128) | | (1,813) |

*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.

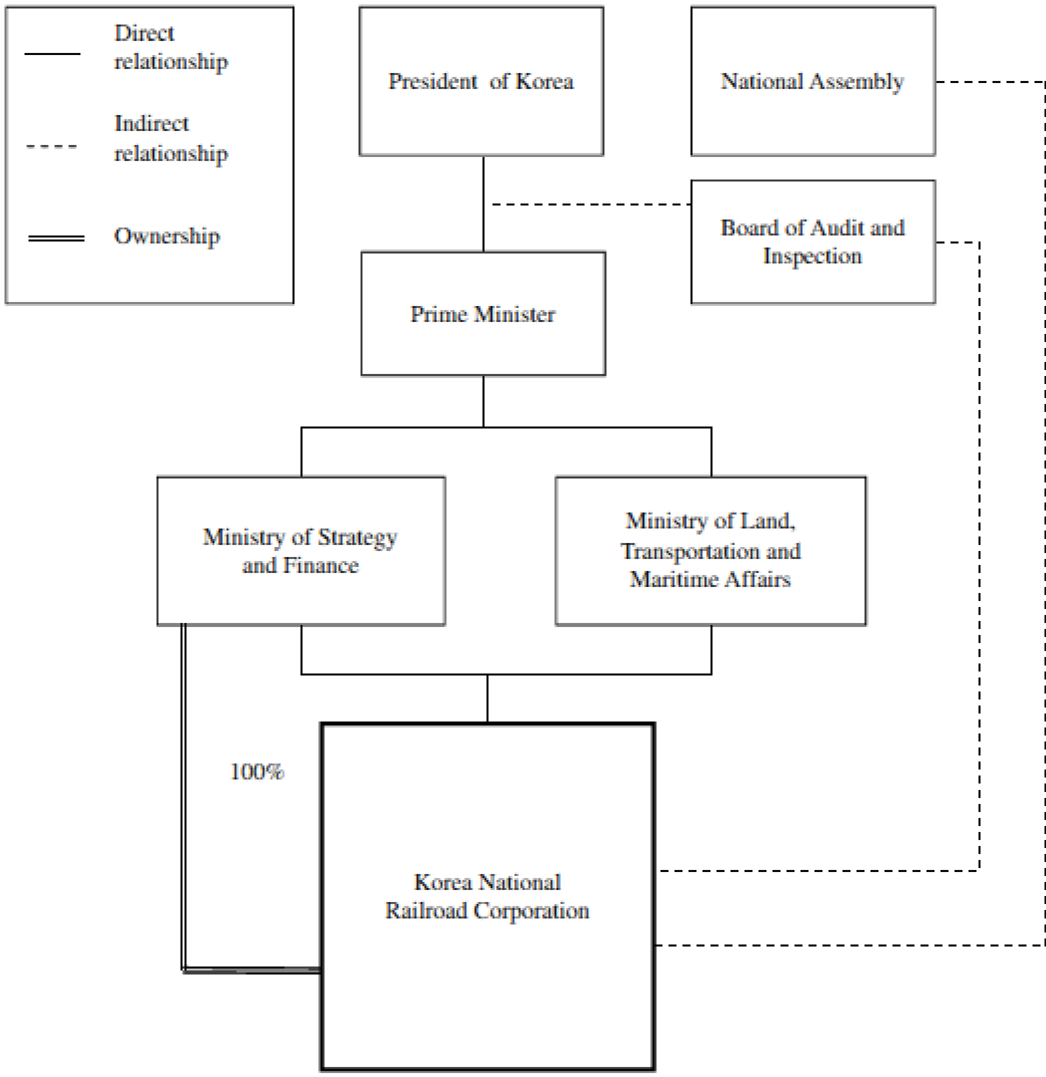
We are entrusted by the Government to operate and maintain the national railroad network pursuant to a legal framework that governs all railroad-related matters. Our business operations and management policy are subject to strict regulation by the Government and are supervised and evaluated by different 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.

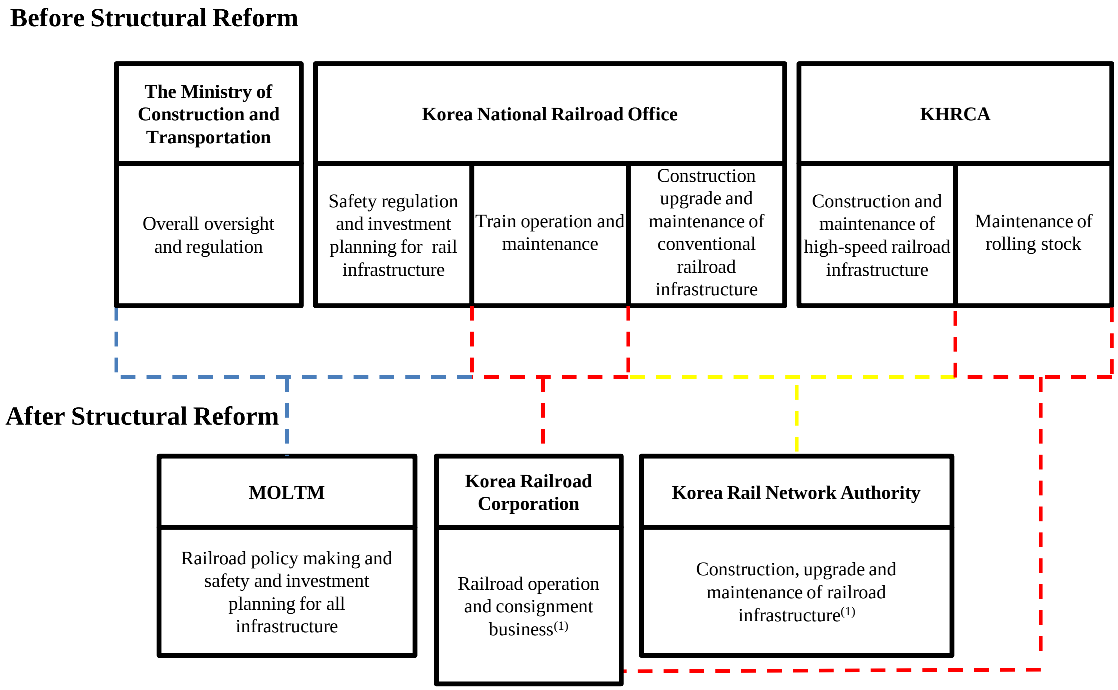
**Government Railroad Policy and Restructuring of Korean Railroad Industry**

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.




*Note:*

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

## Budget and Financing Plan Formulation Process

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

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

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

For the years ended December 31, 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:

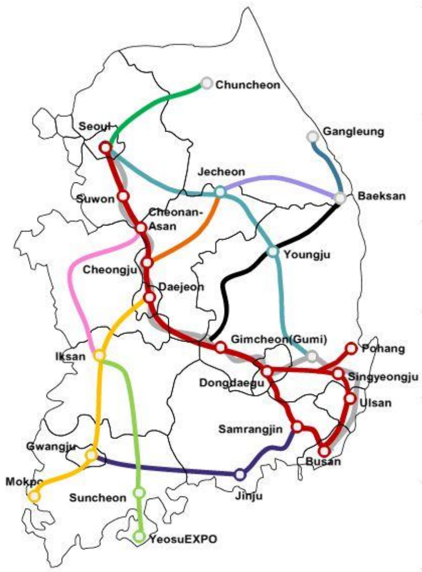
- Development of railroad as a key means of transportation in order to promote long-term economic and social development throughout various regions of Korea;
- Improvement of efficiency of railroad services by maximizing allocation of resources, such as transformation of an unprofitable train station 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 Gyeongbu Line, which connects Seoul to Busan, (ii) the Honam Line, which runs from Yongsan to Mokpo, (iii) the Donghae Line, which runs from Seoul to Pohang, (iv) the Kyungjeon Line which runs from Seoul to Jinju 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.

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)
- Gyeongeui 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 Sungnam and Yeoju for a total distance of 57.0 km in September 2016 and a double-track railway connecting Bujeon and Ilgwang for a total distance of 28.5 km in December 2016.

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)
- Gyeongeui and Central Line (Munsan to and from Yongmun, 118.7 kilometers; and Munsan to and from Seoul, 46.3 kilometers)
- Gwacheon  and Ansan Line (Namtaeryeoung 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.

| *(In billions of Korean Won)* | December 31, 2015 | | | |
|---|---|---|---|---|
| | **Acquisition cost** | **Government grants[1]** | **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 |
| **Total** | ₩ 19,632 | (572) | (3,102) | 15,958 |

| *(In billions of Korean Won)* | December 31, 2014 | | | |
|---|---|---|---|---|
| | **Acquisition cost** | **Government grants(1)** | **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 |
| **Total** | ₩ 18,492 | (551) | (2,663) | 15,279 |

*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 $m^2$, 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 $m^2$, 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 $m^2$, 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[(1)] | Principal Business Activity | % of Shares Directly Owned by Us | Revenue for the Year Ended December 31, 2015 | % of Revenue of our Consolidated Revenue for the Year Ended December 31, 2015 |
|---|---|---|---|---|
| | | | (in billions of Won) | |
| 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 elsewhere in this Offering Circular.

## Competition

### *General*

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

### *Passenger and Freight Railroad Services*

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

### *Subway Services*

Subway lines in the Seoul metropolitan area are operated by us, 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.

| Name | Title/Position | Other Activities, If Any | Position Held Since |
|---|---|---|---|
| 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 |

| Name | Title/Position | Other Activities, If Any | Position Held Since |
|---|---|---|---|
| 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 HKD$921,000,000 known as its “2.60% Notes due 2023” (the “Notes”) issued or to be issued pursuant to a Fiscal Agency Agreement (as amended from time to time, the “Fiscal Agency Agreement”), dated as of May 25, 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 HKD$1,000,000 and any integral multiple of HKD$1,000 in excess thereof.

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

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

## 2. Payments

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

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

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

(d) Notwithstanding paragraphs (b) and (c) of this Condition, the Holder of a Note if it is a Global Note shall receive, and any Holder of at least 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, New York, London and Hong Kong (a "Business Day"), then payment of such principal or interest need not be made on such date at such place of payment but may be made on the next succeeding day at such place of payment which is a Business Day with the same force and effect as if made on the date for such payment of principal or interest, and no interest shall accrue for the period after such date.

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

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

3. **Principal and Interest**

(a) Unless previously redeemed or converted or purchased and cancelled, the Issuer will redeem the Notes at 100.0% of their principal amount (plus accrued but unpaid interest, if any) on May 25, 2023 (the "Maturity Date"). The Notes may be redeemed in whole or in part prior to the Maturity Date only as provided in Condition 4 and Condition 5 below.

(b) The Notes will bear interest from and including the Issue Date up to and including the Maturity Date, at the rate of 2.60% per annum. Interest is payable annually in arrears on May 25 in each year (each an "Interest Payment Date"), with the first interest payment to be made on May 25, 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 actual number of days in the Interest Period divided by 365. "Interest Period" shall mean the period from (and including) an Interest Payment Date (or the Issue Date) to (but excluding) the next (or first) Interest Payment Date.

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 400 Madison Avenue, 4$^{th}$ Floor, 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 depositary 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 Depositary 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 HKD$1,000,000 and integral multiples of HKD$1,000 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 depositary. Clearstream holds securities for its participants and facilities 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 depositary, 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.

| | As of December 31, 2016 | |
|---|---|---|
| | **Amount of Share Capital** | **% of Total Share Capital** |
| | *(in billions of Won)* | *(percentages)* |
| **MOSF** | ₩9,236.4 | 91.4% |
| **MOLIT** | ₩872.4 | 8.6% |
| **Total** | ₩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 5 and 16.5% (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

Nomura International plc (the "Manager") has, pursuant to a purchase agreement (the "Purchase Agreement"), dated as of May 11, 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, stabilizing transactions and purchases to cover positions created by short sales. Short sales involve the sale by the Manager of a greater number of Notes than it is required to purchase in the offering. Stabilizing transactions consist of certain bids or purchases made for the purpose of preventing or retarding a decline in the market price of the Notes while the offering is in progress. These activities by the Manager may stabilize, maintain or otherwise affect the market price of the Notes. As a result, the price of the Notes may be higher than the price that otherwise might exist in the open market. These transactions may be effected in the over-the-counter market or otherwise. In addition, the Manager is not obligated to make a market in the Notes and any market-making may be discontinued at any time at its sole discretion. Accordingly, no assurance can be given as to the development or liquidity of any trading market for the Notes.

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

### 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**

The Manager and its affiliates have engaged in, and may in the future engage in, investment banking and other commercial dealings in the ordinary course of business with the Issuer or its affiliates. They have received, or may in the future receive, customary fees and commissions for these transactions.

## 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 Unites 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 IT 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 Lee & Ko as to matters of Korean law.

## INDEPENDENT AUDITORS

The consolidated financial statements of the Issuer as of and for the years ended December 31, 2014 and 2015 included in this Offering Circular have been audited by Deloitte Anjin LLC., independent auditors, as stated in their report appearing herein.

# INDEX TO FINANCIAL STATEMENTS

Deloitte.

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# INDEPENDENT AUDITORS' REPORT

English Translation of Independent Auditors' Report Originally Issued in Korean on February 29, 2016

To the Shareholder and Board of Directors of
Korea Railroad Corporation:

## Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Korea Railroad Corporation and subsidiaries (the "Group"), which comprise the consolidated statement of financial position as of December 31, 2015 and 2014, and the consolidated statement of comprehensive income, consolidated statement of changes in the shareholder's equity and consolidated statement of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

## Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Korean Government-owned and Quasi-government Accounting Regulations and Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

## Auditors' Responsibility

Our responsibility is to express an audit opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Korean Standards on Auditing ("KSAs"). Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence obtained is sufficient and appropriate to provide a basis for our audit opinion.

Deloitte.

## Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of December 31, 2015 and 2014, and its financial performance and its cash flows for the years then ended in accordance with Korean Government-owned and Quasi-government Accounting Regulations and Standards.

Deloitte Anjin LLC.

February 29, 2016

Notice to Readers

This report is effective as of February 29, 2016, the auditor's report date. Certain subsequent events or circumstances may have occurred between the auditor's report date and the time the auditor's report is read. Such events or circumstances could significantly affect the financial statements and may result in modifications to the auditor's report.

# KOREA RAILROAD CORPORATION AND SUBSIDIARIES

## Consolidated Statements of Financial Position

**As of December 31, 2015 and 2014**

| *(In thousands of Korean won)* | *Note* | | 2015 | 2014 |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and cash equivalents | *7,8,28,44* | ₩ | 208,608,820 | 230,032,865 |
| Short-term financial instruments | *7,13,43,44* | | 32,576,051 | 16,404,888 |
| Current available-for-sale financial assets | *11,43,44* | | - | 800 |
| Short-term loans | *12,43,44* | | 208,376 | 495,493 |
| Current derivative instrument assets | *9,43,44* | | 10,597,473 | - |
| Trade receivables and other receivables | *10,43,44* | | 448,694,904 | 395,796,863 |
| Inventories | *14,28* | | 198,904,170 | 247,746,959 |
| Prepaid income taxes | | | 9,045,777 | 14,963,329 |
| Current non-financial assets | *15* | | 37,028,152 | 53,059,232 |
| Non-current assets held for sale | *40,50* | | 7,073,397 | 4,560,345,817 |
| **Total current assets** | | | 952,737,120 | 5,518,846,246 |
| Long-term financial instruments | *7,13,43,44* | | 18,755 | 18,755 |
| Non-current available-for-sale financial assets | *11,43,44* | | 34,305,585 | 29,730,771 |
| Long-term loans, net | *12,43,44* | | 45,372,294 | 48,286,217 |
| Non-current derivative instrument assets | *9,43,44* | | 51,986,225 | 8,225,781 |
| Long-term trade receivables and other receivables | *10,43,44* | | 566,059,152 | 598,312,922 |
| Property, trains and equipment, net | *17,25,28* | | 15,957,921,127 | 15,279,230,944 |
| Investment property | *18,28* | | 302,831,192 | 463,516,825 |
| Goodwill | *20* | | 3,732,906 | 3,732,906 |
| Intangible assets, net | *21* | | 60,773,916 | 38,731,594 |
| Investment in associates | *16* | | 205,237,753 | 203,789,004 |
| Deferred tax assets | *39* | | 8,348,188 | 5,119,338 |
| Non-current non-financial assets | *15* | | 9,381,075 | 10,619,399 |
| **Total non-current assets** | | | 17,245,968,168 | 16,689,314,456 |
| **Total assets** | | ₩ | 18,198,705,288 | 22,208,160,702 |

Continued

# KOREA RAILROAD CORPORATION AND SUBSIDIARIES

## Consolidated Statements of Financial Position, Continued

**As of December 31, 2015 and 2014**

| *(In thousands of Korean won)* | *Note* | | 2015 | 2014 |
|---|---|---|---|---|
| **Liabilities** | | | | |
| Trade payables and other payables | *22,43,44* | ₩ | 646,169,452 | 599,726,033 |
| Short-term borrowings | *23,43,44* | | 221,589,755 | 8,503,864 |
| Current portion of long-term borrowings, net | *23,43,44* | | 30,812,500 | 30,875,000 |
| Current portion of bonds, net | *23,43,44* | | 1,523,667,779 | 1,849,355,969 |
| Current derivative instrument liabilities | *9,43,44* | | 1,491,143 | 13,225,965 |
| Current tax liabilities | | | 528,324 | 1,422,139 |
| Current non-financial liabilities | *29* | | 219,232,807 | 214,052,791 |
| Current provisions | *27* | | 163,173,475 | 153,155,831 |
| Non-current liabilities held for sale | *40,50* | | - | 2,678,855,479 |
| **Total current liabilities** | | | 2,806,665,235 | 5,549,173,071 |
| Long-term trade payables and other payables | *22,43,44* | | 1,503,451 | 5,901,072 |
| Long-term borrowings, net | *23,43,44* | | 133,000,000 | 152,812,500 |
| Bonds, net | *23,43,44* | | 9,375,550,460 | 11,046,615,851 |
| Non-current derivative instrument liabilities | *9,43,44* | | 6,790,303 | 50,041,863 |
| Other non-current financial liabilities | *24,43* | | 96,270,000 | 47,200,000 |
| Non-current non-financial liabilities | *29* | | 18,300,354 | 20,981,905 |
| Employee benefits | *26* | | 794,191,430 | 760,031,966 |
| Deferred tax liabilities | *39* | | 7,163,791 | 7,937,472 |
| Provisions | *27* | | 210,750,774 | 220,218,535 |
| **Total non-current liabilities** | | | 10,643,520,563 | 12,311,741,164 |
| **Total liabilities** | | | 13,450,185,798 | 17,860,914,235 |
| **Equity** | | | | |
| Share capital | *1,30* | | 9,989,037,477 | 9,598,883,509 |
| Accumulated deficit | *31,32* | | (8,283,041,210) | (8,458,108,033) |
| Other equity components | *33* | | 2,950,694,593 | 3,014,850,161 |
| **Equity attributable to owners of the Group** | | | 4,656,690,860 | 4,155,625,637 |
| **Non-controlling interests** | | | 91,828,630 | 191,620,830 |
| **Total equity** | | | 4,748,519,490 | 4,347,246,467 |
| **Total liabilities and equity** | | ₩ | 18,198,705,288 | 22,208,160,702 |

Concluded

*See notes.*

## KOREA RAILROAD CORPORATION AND SUBSIDIARIES

## Consolidated Statements of Comprehensive Income

**For the years ended December 31, 2015 and 2014**

| *(In thousands of Korean won)* | *Note* | | 2015 | 2014 |
|---|---|---|---|---|
| Revenues | *6,19,34,42* | ₩ | 5,516,031,289 | 5,093,692,839 |
| Cost of sales | *41,42* | | (5,108,949,751) | (4,720,451,302) |
| **Gross profit** | | | 407,081,538 | 373,241,537 |
| Selling, general and administrative expense | *35,41* | | (293,507,610) | (273,189,485) |
| **Operating income** | *6* | | 113,573,928 | 100,052,052 |
| Other revenue | *36* | | 22,664,151 | 9,924,489 |
| Other expenses | *36* | | (33,651,492) | (30,741,200) |
| Other income (loss), net | *36* | | 69,621,406 | (122,781,833) |
| Finance income | *37* | | 102,669,751 | 102,984,125 |
| Finance expense | *38* | | (572,122,499) | (615,406,463) |
| Gains on valuation of investments in associates | *16* | | 20,877,283 | 21,374,348 |
| Losses on valuation of investments in associates | *16* | | - | (1,489,593) |
| **Loss before income tax benefit from continuing operation** | | | (276,367,472) | (536,084,075) |
| Income tax benefit from continuing operation | *39* | | 219,431,766 | 4,062,438 |
| **Loss from continuing operation** | | | (56,935,706) | (532,021,639) |
| Income from discontinued operation | | | 143,331,671 | 193,696,026 |
| **Income (loss) for the year** | | | 86,395,965 | (338,325,613) |
| **Other comprehensive income (loss), net of tax** | | | | |
| Asset revaluation gain | | | | - |
| Defined benefit plan actuarial gain (loss), net of tax | | | 52,103,843 | (39,149,248) |
| Unrealized net changes in the effective portion of changes in the fair value of cash flow hedges, net of tax | | | 21,266,250 | (18,353,864) |
| Unrealized net changes in the fair value of available-for-sale financial assets | | | 869,301 | (1,076,436) |
| Changes in equity of equity method investments | | | 1,429,401 | (1,157,577) |
| **Other comprehensive income (loss) for the year, net of tax** | | | 75,668,795 | (59,737,125) |
| **Total comprehensive income (loss) for the year** | | | 162,064,760 | (398,062,738) |
| **Profit (loss) attributable to:** | | | | |
| Owners of the Company | | | 82,289,572 | (354,150,271) |
| Non-controlling interests | | | 4,106,393 | 15,824,658 |
| **Profit (Loss) for the year** | | | 86,395,965 | (338,325,613) |

Continued

## KOREA RAILROAD CORPORATION AND SUBSIDIARIES

## Consolidated Statements of Comprehensive Income, Continued

**For the years ended December 31, 2015 and 2014**

| | *Note* | | 2015 | 2014 |
|---|---|---|---|---|
| **Total comprehensive income (loss) attributable to:** | | | | |
| Owners of the Company | | | 158,136,648 | (413,850,135) |
| Non-controlling interests | | | 3,928,112 | 15,787,398 |
| **Total comprehensive income (loss) for the year** | | ₩ | 162,064,760 | (398,062,737) |

Concluded

*See notes.*

# KOREA RAILROAD CORPORATION AND SUBSIDIARIES

## Consolidated Statements of Changes in Shareholder's Equity

**For the years ended December 31, 2015 and 2014**

| *(In thousands of Korean won)* | Common stock | Accumulated deficit | Other equity components | Equity attributable to owners of the Group | Non-controlling interests | Total Equity |
|---|---|---|---|---|---|---|
| **Balance at January 1, 2014** | ₩ 9,580,294,812 | (8,068,092,071) | 3,081,656,274 | 4,593,859,015 | 132,591,416 | 4,726,450,430 |
| **Total comprehensive income (loss) for the year:** | | | | | | |
| Profit (loss) for the year | - | (354,150,271) | - | (354,150,271) | 15,824,658 | (338,325,613) |
| Asset revaluation gain, net of tax | - | (39,111,800) | - | (39,111,800) | (37,448) | (39,149,248) |
| Defined benefit plan actuarial gains (loss), net of tax | - | 2,665,380 | (2,665,380) | - | - | - |
| Unrealized net change in the effective portion of changes in the fair value of cash flow hedges, net of tax | - | - | (18,353,864) | (18,353,864) | - | (18,353,864) |
| Unrealized net change in the fair value of available-for-sale financial assets, net of tax | - | - | (1,076,624) | (1,076,624) | 188 | (1,076,436) |
| Change in equity of equity method investments, net of tax | - | - | (1,157,577) | (1,157,577) | - | (1,157,577) |
| **Total comprehensive income (loss) for the year** | - | (390,596,691) | (23,253,445) | (413,850,136) | 15,787,398 | (398,062,738) |
| **Transactions with owners of the Company, recognized directly in equity** | | | | | | |
| Issuance of common stock | 18,570,000 | - | (43,116,626) | (24,546,626) | 43,116,626 | 18,570,000 |
| Dividends to owners of the Company | - | - | - | - | (190,245) | (190,245) |
| **Total transactions with owners of the Company** | 18,570,000 | - | (43,116,626) | (24,546,626) | 42,926,381 | 18,379,755 |
| **Others** | 18,697 | 580,728 | (436,042) | 163,383 | 315,636 | 479,019 |
| **Balance at December 31, 2014** | ₩ 9,598,883,509 | (8,458,108,034) | 3,014,850,161 | 4,155,625,636 | 191,620,831 | 4,347,246,466 |

Continued

## KOREA RAILROAD CORPORATION AND SUBSIDIARIES

## Consolidated Statements of Changes in Shareholder's Equity, Continued

**For the years ended December 31, 2015 and 2014**

| *(In thousands of Korean won)* | | Common stock | Accumulated deficit | Other equity components | Equity attributable to owners of the Company | Non-controlling interests | Total Equity |
|---|---|---|---|---|---|---|---|
| **Balance at January 1, 2015** | ₩ | 9,598,883,509 | (8,458,108,034) | 3,014,850,161 | 4,155,625,636 | 191,620,831 | 4,347,246,467 |
| **Total comprehensive income (loss) for the year:** | | | | | | | |
| Profit for the year | | - | 82,289,572 | - | 82,289,572 | 4,106,393 | 86,395,965 |
| Defined benefit plan actuarial gains, net of tax | | - | 51,925,576 | - | 51,925,576 | 178,267 | 52,103,843 |
| Asset revaluation gain, net of tax | | - | 38,750,535 | (38,750,535) | - | - | - |
| Unrealized net change in the effective portion of changes in the fair value of cash flow hedges, net of tax | | - | - | 21,266,250 | 21,266,250 | - | 21,266,250 |
| Unrealized net change in the fair value of available-for-sale financial assets, net of tax | | - | - | 869,287 | 869,287 | 15 | 869,302 |
| Change in equity of equity method investments, net of tax | | - | - | 1,429,401 | 1,429,401 | - | 1,429,401 |
| **Total comprehensive income (loss) for the year** | | - | 172,965,683 | (15,185,597) | 157,780,086 | 4,284,675 | 162,064,761 |
| **Transactions with owners of the Company, recognized directly in equity** | | | | | | | |
| Issuance of common stock | | 390,310,173 | - | (42,667,870) | 347,642,303 | 42,667,870 | 390,310,173 |
| Dividends to owners of the Company | | - | - | - | - | (119,625) | (119,625) |
| **Total transactions with owners of the Company** | | 390,310,173 | - | (42,667,870) | 347,642,303 | 42,548,245 | 390,190,548 |
| Changes in the scope of consolidation | | - | - | - | - | (152,517,828) | (152,517,828) |
| **Others** | | (156,204) | 2,101,141 | (6,302,101) | (4,357,164) | 5,892,710 | 1,535,545 |
| **Balance at December 31, 2015** | ₩ | 9,989,037,478 | (8,283,041,210) | 2,950,694,593 | 4,656,690,861 | 91,828,630 | 4,748,519,490 |

Concluded

*See notes.*

# KOREA RAILROAD CORPORATION AND SUBSIDIARIES

## Consolidated Statements of Cash Flows

**For the years ended December 31, 2015 and 2014**

| *(In thousands of Korean won)* | *Note* | | 2015 | 2014 |
|---|---|---|---|---|
| | | | | - |
| **Cash flows from operating activities** | | | | - |
| Income (loss) for the year | | ₩ | 86,395,965 | (338,325,613) |
| Adjustments for: | | | | |
| Income tax expense (benefit) | | | (219,431,766) | 34,434,276 |
| Bad debt expenses | | | 2,060,605 | 903,876 |
| Other bad debt expenses | | | 661,248 | - |
| Losses from inventory obsolescence | | | 94 | 117,485 |
| Losses from inventory evaluation | | | 324,913 | 137,277 |
| Depreciation | | | 448,104,164 | 458,568,597 |
| Depreciation of investment property | | | 2,417,379 | 2,637,067 |
| Amortization of intangible assets | | | 8,168,546 | 14,363,160 |
| Losses on sale of property, trains and equipment | | | 1,697,091 | 9,464,943 |
| Impairment losses on property, trains and equipment | | | 6,981,417 | - |
| Impairment losses on intangible assets | | | - | 407,240 |
| Impairment losses on investment property | | | - | 91,701 |
| Losses on disposal of non-current assets held for sale | | | 255,706 | 538,836 |
| Retirement benefits | | | 166,161,696 | 156,077,998 |
| Increase in provisions for pending litigations | | | 417,355 | 1,719,017 |
| Increase in provisions for losses incurred during construction | | | - | 245,460 |
| Increase in other provisions | | | - | 322,995 |
| Losses on disposal of available-for-sale financial assets | | | 2,161 | 675 |
| Losses on disposal of held-to-maturity financial assets | | | 5,255 | 18,736 |
| Losses on valuation of derivative instruments | | | 2,767,350 | 33,749,600 |
| Losses on settlement of derivative instruments | | | 1,960,000 | 3,685,900 |
| Losses on earlier settlement of financial liabilities than expected | | | 2,212,192 | - |
| Interest expenses | | | 480,668,462 | 651,035,976 |
| Losses on valuation of investments in associates | | | - | 1,489,593 |
| Foreign currency translation losses | | | 81,887,159 | 31,979,002 |
| Other expenses | | | 212,751 | - |
| Gains on sale of inventories | | | - | (8,282,601) |
| Reversal of allowance for doubtful accounts | | | - | (996,666) |
| Reversal of other allowance for doubtful accounts | | | (42,270) | (918,222) |
| Gains on sale of property, trains and equipment | | | (1,011,843) | (1,113,211) |
| Gains on disposal of non-current assets held for sale | | | (47,599,819) | (8,194,404) |
| Reversal of provisions for restoration | | | (12,880,702) | - |
| Reversal of provisions for pending litigations | | | (5,263,820) | (1,060,338) |
| Gains on assets contributed | | | (1,301,721) | (6,487,295) |

Continued

## Consolidated Statements of Cash Flow, Continued

**For the years ended December 31, 2015 and 2014**

| | Note | 2015 | 2014 |
|---|---|---|---|
| Gains on operation of retirement pension funds | ₩ | - | (85,585) |
| Foreign currency translation gains | | (2,769,236) | (49,802,933) |
| Gains on valuation of derivative instruments | | (81,885,400) | (31,938,750) |
| Gains on settlement of derivative instruments | | - | (2,122,944) |
| Gains on valuation of investments in associates | | (20,877,283) | (21,374,348) |
| Miscellaneous income | | - | (324,841) |
| Interest income | | (17,035,301) | (215,320,506) |
| Dividend income | | (848,084) | (834,563) |
| Other income | | (73,296) | - |
| Changes: | | (76,338,998) | (15,294,354) |
| - inventories | | (5,737,422) | 101,445,200 |
| - trade receivables | | (54,746,990) | 52,426,396 |
| - other account receivables | | (931,333) | (30,353,282) |
| - prepayments | | 14,340,554 | 80,763,941 |
| - value-added tax receivable | | - | 911,380 |
| - prepaid expenses | | 4,842,584 | 28,108,617 |
| - accrued revenues | | - | 14,417 |
| - other current financial assets | | (3,123,339) | (2,566,496) |
| - long-term prepaid expenses | | 2,190,375 | 3,077,208 |
| - employee benefits | | (79,861,817) | (79,669,748) |
| - provisions for pending litigations | | (31,579) | (3,183,787) |
| - provisions for restoration | | - | 14,515,753 |
| - provisions for repairing defects | | (318,131) | (154,295) |
| - provision for mileage | | - | (72,248) |
| - other provisions | | (114,473) | (915,266) |
| - long-term advances received | | 197,312 | (753,341) |
| - long-term unearned revenues | | (2,878,864) | 8,932,926 |
| - trade payables | | 9,549,763 | (29,712,133) |
| - other account payables | | (1,900,898) | 13,690,041 |
| - deposits received for guarantee | | (4,396,575) | 8,813,996 |
| - withholdings | | 12,527,736 | 589,765 |
| - advances received | | (13,416,593) | 19,367,191 |
| - accrued expenses | | 31,374,759 | (46,486,200) |
| - unearned revenues | | 6,078,289 | (18,564,487) |
| - long-term other receivables | | - | (59,135,687) |
| - employee provisions | | 10,017,644 | (76,384,215) |
| **Cash generated from operation activities** | | 806,001,970 | 699,512,236 |
| Income taxes paid | | 220,452,972 | 2,215,697 |
| Other outflow from operation activities | | (88,942,713) | (11,052,054) |
| **Net cash provided by operating activities** | | 937,512,229 | 690,675,879 |

Continued

# KOREA RAILROAD CORPORATION AND SUBSIDIARIES

## Consolidated Statements of Cash Flow, Continued

**For the years ended December 31, 2015 and 2014**

| | *Note* | | 2015 | 2014 |
|---|---|---|---|---|
| **Cash flows from investing activities** | | | | |
| Proceeds from sales of short-term financial instruments | | ₩ | 800 | 1,000,000 |
| Proceeds from sale of investments | | | - | 128,385 |
| Decrease in long-term loans | | | 12,095,826 | 5,204,066 |
| Decrease in leasehold deposits | | | 26,382,814 | 1,403,921 |
| Proceeds from sale of non-current assets held for sale | | | 1,757,946,188 | 22,309,510 |
| Proceeds from sale of property, trains and equipment | | | 2,576,125 | 7,145,195 |
| Proceeds from sales of investment property | | | 747,520 | - |
| Proceeds from sales of available-for-sale financial instruments | | | - | 15,657 |
| Decrease in short-term financial instruments | | | 28,035,938 | 14,320,232 |
| Decrease in short-term loans | | | 425,248 | 6,640 |
| Interest received | | | 15,298,327 | 20,432,055 |
| Dividends received | | | 848,084 | 17,405,648 |
| Acquisition of property, trains and equipment | | | (986,536,465) | (709,260,184) |
| Acquisition of intangible assets | | | (391,488) | (7,527,850) |
| Acquisition of available-for-sale financial instruments | | | (4,548,620) | (309,829) |
| Increase in long-term loans | | | (8,561,457) | (3,169,126) |
| Increase in deposits | | | (29,838,616) | (2,400,458) |
| Increase in short-term financial instruments | | | (44,212,356) | (106,376,699) |
| Increase in short-term loans | | | (77,172) | (432,596) |
| Loss of control in associates | | | (5,217,746) | - |
| Other outflow from investing activities | | | (80,909,429) | (30,403,238) |
| **Net cash used in investing activities** | *47* | | 684,063,521 | (770,508,671) |

Continued

## KOREA RAILROAD CORPORATION AND SUBSIDIARIES

## Consolidated Statements of Cash Flow, Continued

**For the years ended December 31, 2015 and 2014**

| | *Note* | | 2015 | 2014 |
|---|---|---|---|---|
| **Cash flows from financing activities** | | | | |
| Proceeds from issuance of share capital | | | 439,280,173 | 65,770,000 |
| Increase in borrowings | | | 454,889,755 | 117,103,863 |
| Settlements of currency swap transactions | | | - | 3,574,872 |
| Government grants received | | | 116,790,947 | 29,428,323 |
| Proceeds from issuance of bonds | | | - | 3,796,279,547 |
| Increase in rental deposits | | | - | 157,338 |
| Interest paid | | | (468,961,254) | (624,590,884) |
| Increase in discount on stock issuance | | | (167,947) | (232,267) |
| Decrease in borrowings | | | (261,678,864) | (2,295,900,950) |
| Settlement of currency swap transactions | | | (10,920,000) | (9,514,000) |
| Settlement of bonds | | | (232,212,191) | - |
| Redemption of current portion of long-term liabilities | | | (1,849,840,000) | (1,209,954,000) |
| Payment of finance lease liabilities | | | - | (104,865) |
| Dividends paid | | | - | (190,245) |
| **Net cash used in financing activities** | *47* | | (1,812,819,381) | (128,173,268) |
| | | | | |
| **Net decrease in cash and cash equivalents** | | | (191,243,631) | (208,006,060) |
| Effect of exchange rate fluctuations on cash held | | | (32,554) | 8,967 |
| Cash and cash equivalents at January 1 | | | 661,286,789 | 869,283,882 |
| **Cash and cash equivalents at December 31** | | | 470,010,604 | 661,286,789 |
| Government grants | | | (116,190,367) | (197,099,795) |
| Fund for trustee business from governments | | | (145,211,417) | (234,154,129) |
| **Net Cash and cash equivalents** | | ₩ | 208,608,820 | 230,032,865 |

Concluded

*See notes.*

## 1. GENERAL INFORMATION:

### (1) Description of the controlling company

Korea Railroad Corporation (the "Company") was incorporated on January 1, 2005, to engage in passenger and freight transportation services under the Korea Railroad Act. As of December 31, 2015, the Company's paid-in capital amounted to ₩9,994,029 million, and the Company is wholly owned by the Government of the Republic of Korea. The consolidated financial statements were authorized for issue by the Board of Directors on February 25, 2016.

The main businesses of the Company are as follows:

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

### (2) Consolidated subsidiaries

1) Consolidated subsidiaries as of December 31, 2015 and 2014, are detailed as follows:

| Company | Location | Reporting date | Ownership (%) Dec. 31, 2015 | Ownership (%) Dec. 31, 2014 | Industry |
|---|---|---|---|---|---|
| KORAIL Retail Co., Ltd. | Republic of Korea | Dec. 31 | 100% | 100% | Retail |
| KORAIL Networks Co., Ltd. | Republic of Korea | Dec. 31 | 98.98% | 98.98% | Service industry |
| KORAIL Logis Co., Ltd. | Republic of Korea | Dec. 31 | 97.23% | 97.23% | Railroad cargo business |
| KORAIL Tourism Development Co., Ltd. | Republic of Korea | Dec. 31 | 60.80% | 60.80% | Service industry |
| KORAIL Tech Co., Ltd. | Republic of Korea | Dec. 31 | 97.98% | 97.98% | Railway track construction |
| SR Co., Ltd. | Republic of Korea | Dec. 31 | 41% | 41% | Railroad transportation |
| Korean Insurance Brokerage Co., Ltd. | Republic of Korea | Dec. 31 | 98.98% | 98.98% | Insurance brokerage business |
| Airport Railroad Co., Ltd.(*1) | Republic of Korea | Dec. 31 | 0% | 88.80% | Railroad transportation |

(*1) The Company sold Airport Railroad Co., Ltd. during 2015 and excluded it from the Group as of December 31, 2015. In addition, as noted in Note 50, above Airport Railroad Co., Ltd. satisfies the criteria of discontinued operation and, therefore, classified as assets and liabilities held for sale and discontinued operation as of December 31, 2014.

2) The financial information of subsidiaries as of December 31, 2015 and 2014, is summarized as follows:

*(In thousands of Korean won)*

| Company | | 2015 Total assets | Total liabilities | Total revenue | Total net income (loss) |
|---|---|---|---|---|---|
| KORAIL Retail Co., Ltd. | ₩ | 228,416,964 | 117,316,463 | 247,025,757 | 16,133,074 |
| KORAIL Networks Co., Ltd. | | 36,923,078 | 13,896,717 | 83,556,917 | 5,238,945 |
| KORAIL Logis Co., Ltd. | | 15,137,454 | 14,619,350 | 52,041,798 | (403,361) |
| KORAIL Tourism Development Co., Ltd. | | 19,772,207 | 6,661,775 | 69,539,002 | 535,664 |
| KORAIL Tech Co., Ltd. | | 18,928,153 | 2,775,785 | 38,098,844 | 1,241,396 |
| SR Co., Ltd. | | 155,749,204 | 10,338,076 | - | (10,283,177) |
| Korean Insurance Brokerage Co., Ltd. | | 1,810,903 | 225,550 | 1,368,729 | 435,940 |

*(In thousands of Korean won)*

| Company | | 2014 Total assets | Total liabilities | Total revenue | Total net income (loss) |
|---|---|---|---|---|---|
| Airport Railroad Co., Ltd. | ₩ | 4,539,963,264 | 3,266,515,795 | 237,014,581 | 136,489,264 |
| KORAIL Retail Co., Ltd. | | 179,427,078 | 78,327,280 | 226,601,336 | 5,997,840 |
| KORAIL Networks Co., Ltd. | | 32,639,275 | 13,322,582 | 76,117,645 | 3,713,825 |
| KORAIL Logis Co., Ltd. | | 18,871,991 | 17,950,526 | 70,663,206 | (1,536,389) |
| KORAIL Tourism Development Co., Ltd. | | 20,512,550 | 7,697,782 | 73,073,788 | 1,281,335 |
| KORAIL Tech Co., Ltd. | | 18,613,977 | 3,136,330 | 40,169,396 | 1,728,133 |
| SR Co., Ltd. | | 73,588,005 | 508,978 | - | (5,514,329) |
| Korean Insurance Brokerage Co., Ltd. | | 1,621,081 | 211,668 | 1,556,814 | 517,437 |

3) In 2015, Airport Railroad Co., Ltd. was sold and was excluded from consolidated subsidiaries.

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

i) Proportion held by non-controlling interests as of December 31, 2015 and 2014, is as follows:

| Company | 2015 | 2014 | Location |
|---|---|---|---|
| Airport Railroad Co., Ltd. | - | 11.20% | Republic of Korea |
| SR Co., Ltd. | 59% | 59% | Republic of Korea |

ii) Distribution to non-controlling interests for the year ended December 31, 2015, is as follows:

*(In thousands of Korean won)*

| Company | | Profit distributed to non-controlling interests | Accumulated non-controlling interests | Location |
|---|---|---|---|---|
| SR Co., Ltd | ₩ | (6,067,074) | 10,013,411 | Republic of Korea |
| Airport Railroad Co., Ltd. | | 10,168,696 | - | Republic of Korea |

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

iii) Financial statements of subsidiaries whose non-controlling interests are significant to the Group as of December 31, 2015, are summarized as follows:

- Statement of Financial Position and Comprehensive Income

*(In thousands of Korean won)*

| Company | Current assets | Non-current assets | Current liability | Non-current liability | Revenue | Income for the year | Comprehensive income |
|---|---|---|---|---|---|---|---|
| SR Co., Ltd. | 85,845,890 | 69,903,314 | 9,710,703 | 627,373 | - | (10,283,177) | (10,269,499) |

- Statements of Cash flows

*(In thousands of Korean won)*

| Company | Cash flows from operation activities | Cash flows from investing activities | Cash flows from financing activities | Other cash flows | Net increase in cash and cash equivalents |
|---|---|---|---|---|---|
| SR Co., Ltd. | (13,970,164) | (56,716,380) | 82,601,600 | - | 11,915,056 |

## 2. BASIS OF PREPARATION:

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

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

(i) Government Subsidies (Article 44: Accounting of Government Subsidies)
Government subsidies used for the acquisition of certain assets are deducted from the acquisition cost of the acquired assets and such subsidies are offset against the depreciation expenses of the acquired assets during the useful lives of the assets. Government subsidies received for consignment management services provided by the Group are recognized as operating revenue.

(ii) Recognition of Revenue and Expenses Related to Consignment Management Services (Article 48)
The Group recognizes funds received for consignment management services as revenue and expenses or assets and liabilities when the funds are executed. The Group does not offset the funds received.

(iii) Contribution to the Employee Welfare Fund (Article 49)
The Group contributes to the employee welfare fund, and contributions are recognized as operating expenses in accordance with Employee Welfare Fund Act.

(2) Amendments to K-IFRSs affecting amounts reported in the consolidated financial statements

(i) Amendments to K-IFRS 1019 – Employee Benefits
The amendments permit the Group to recognize amount of contributions as a reduction in the service cost for the period in which the related service is rendered if the amount of the contributions are independent of the number of years of service.

(ii) Annual Improvements to K-IFRS 2010-2012 Cycle

The amendments to K-IFRS 1002 (i) change the definitions of 'vesting condition' and 'market condition' and (ii) add definitions for 'performance condition' and 'service condition', which were previously included within the definition of 'vesting condition'. The amendments to K-IFRS 1103 Business Combinations clarify the classification and measurement of the contingent consideration in business combination. The amendments to K-IFRS 1108 clarify that a reconciliation of the total of the reportable segments' assets should only be provided if the segment assets are regularly provided to the chief operating decision maker.

(iii) Annual Improvements to K-IFRS 2011-2013 Cycle

The amendments to K-IFRS 1103 clarify that it excludes the accounting for the formation of a joint arrangement in the financial statements, or the joint arrangement itself, from the scope of K-IFRS 1103. The amendments to K-IFRS 1113 'Fair Value Measurements' and K-IFRS 1040 'Investment Properties' exist.

(3) New and revised K-IFRSs in issue, but not yet effective

The Group has not applied the following new and revised K-IFRSs that have been issued, but are not yet effective.

(i) Amendments to K-IFRS 1001 – Presentation of Financial Statements

The amendments to K-IFRS 1001 clarify the concept of applying materiality in practice and restrict an entity reducing the understandability of its financial statements by obscuring material information with immaterial information or by aggregating material items that have different natures or functions. The amendments to K-IFRS 1001 are effective for annual periods beginning on or after January 1, 2016.

(ii) Amendments to K-IFRS 1016 – Property, Plant and Equipment

The amendments to K-IFRS 1016 prohibit the Group from using a revenue-based depreciation method for items of property, plant and equipment. The amendments are effective for the annual periods beginning on or after January 1, 2016.

(iii) Amendments to K-IFRS 1038 – Intangible Assets

The amendments to K-IFRS 1038 do not allow presumption that revenue is an appropriate basis for the amortization of intangible assets; the presumption can only be limited when the intangible asset is expressed as a measure of revenue or when it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated. The amendments apply prospectively for annual periods beginning on or after January 1, 2016.

(iv) Amendments to K-IFRS 1111 – Accounting for Acquisitions of Interests in Joint Operations

The amendments to K-IFRS 1111 provide guidance on how to account for the acquisition of a joint operation that constitutes a business, as defined in K-IFRS 1103. A joint operator is also required to disclose the relevant information required by K-IFRS 1103 and other standards for business combinations. The amendments to K-IFRS 1111 are effective for the annual periods beginning on or after January 1, 2016.

(v) Amendments to K-IFRS 1109 – Financial Instruments

The amendments to K-IFRS 1109 contain the requirements for the classification and measurement of financial assets and financial liabilities based on a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets and based on the contractual terms that give rise on specified dates to cash flows, impairment methodology based on the expected credit losses, broadened types of instruments that qualify as hedging instruments, the types of risk components of non-financial items that are eligible for hedge accounting and the change of the hedge effectiveness test. The amendments are effective for annual periods beginning on or after January 1, 2018.

(vi) Amendments to K-IFRS 1115 – Revenue from Contracts with Customers

The core principle under K-IFRS 1115 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The amendments introduce a five-step approach to revenue recognition and measurement: 1) Identify the contract with a customer, 2) Identify the performance obligations in the contract, 3) Determine the transaction price, 4) Allocate the transaction price to the performance obligations in the contract and 5) Recognize revenue when (or as) the entity satisfies a performance obligation. This standard will supersede K-IFRS 1011 - Construction Contracts, K-IFRS 1018-Revenue; K-IFRS 2113 - Customer Loyalty Programmes; K-IFRS 2115-Agreements for the Construction of Real Estate; K-IFRS 2118 - Transfers of Assets from Customers and K-IFRS 2031-Revenue-Barter Transactions Involving Advertising Services. The amendments are effective for annual periods beginning on or after January 1, 2018.

(vii) Annual Improvements to K-IFRS 2012-2014 cycle

The annual improvements include amendments to a number of K-IFRSs. The amendments introduce specific guidance in K-IFRS 1105 Non-current Assets Held for Sale and Discontinued Operations when an entity reclassifies an asset (or disposal group) from held for sale to held for distribution to owners (or vice versa), such a change is considered as a continuation of the original plan of disposal not as a change to a plan of sale. Other amendments in the annual improvements include K-IFRS 1107 Financial Instruments: Disclosures; K-IFRS 1019 Employee Benefits and K-IFRS 1034 Interim Financial Reporting.

As of December 31, 2015, the Group has reviewed whether application of these amendments could impact the disclosure in the Group's consolidated financial statements.

## 3. SIGNIFICANT ACCOUNTING POLICIES:

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

### (1) Basis of consolidation

(i) Business combinations

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

The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested for impairment annually and whenever any symptom implicating impairment appears. Any gain on a bargain purchase is recognized in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities. The costs to issue debt or equity securities are recognized in accordance with K-IFRS No. 1032, 'Financial Instruments: Presentation' and K-IFRS No. 1039, 'Financial Instruments: Recognition and Measurement.'

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

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

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

(ii) Non-controlling interests (NCIs)
NCIs are measured at their proportionate share of the acquiree's identifiable net assets at the acquisition date.

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

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

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

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

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

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

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

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

### (2) Cash and cash equivalents

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

### (3) Inventories

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

Inventories are measured at the lower of cost or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. The amount of any write-down of inventories to net realizable value and all losses of inventories are recognized as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realizable value, are recognized as a reduction in the amount of inventories recognized as an expense in the period in which the reversal occurs.

### (4) Non-derivative financial assets

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

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

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

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

(ii) Held-to-maturity investments

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

(iii) Loans and receivables

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

(iv) Available-for-sale financial assets

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

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

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

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

**(5) Derivative financial instruments, including hedge accounting**

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

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

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

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

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

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

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

(ii) Separable embedded derivatives
Embedded derivatives are separated from the host contract and accounted for separately only if the following criteria have been met:
(a) The economic characteristics and risks of the embedded derivative are not closely related to those of the host contract;
(b) A separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
(c) The hybrid instrument is not measured at fair value, with changes in fair value recognized in profit or loss.

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

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

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

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

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

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

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

(iii) Available-for-sale financial assets
When a decline in the fair value of an available-for-sale financial asset has been recognized in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss that had been recognized in other comprehensive income shall be reclassified from equity to profit or loss as a reclassification adjustment even though the financial asset has not been derecognized. Impairment losses recognized in profit or loss for an investment in an equity instrument classified as available for sale shall not be reversed through profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as

available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss shall be reversed, with the amount of the reversal recognized in profit or loss.

### (7) Property, plant and equipment

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

Subsequent to initial recognition, an item of property, plant and equipment, except the Group's land, shall be carried at its cost, less any accumulated depreciation and any accumulated impairment losses, while land whose fair value can be measured reliably is carried at revalued amount, being its fair value at the date of the revaluation, less subsequent accumulated impairment losses due to the change in the evaluation method of its land from cost model to revaluation model during the year ended December 31, 2013. Revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

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

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

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

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

| | Useful life (years) | Depreciation method |
|---|---|---|
| Buildings | 25–50 | Straight-line method |
| Structures | 10–50 | Straight-line method |
| Installation structures | 5–15 | Straight-line method |
| Advertising structures | 5 | Straight-line method |
| Electric equipment | 5–15 | Straight-line method |
| Machinery | 5–25 | Straight-line method |
| Trains | 6–40 | Straight-line method |
| Vehicles | 2–7 | Straight-line method |
| Furniture and fixtures | 5 | Straight-line method |
| Tools and office equipment | 2–6 | Straight-line method |
| Others | Indefinite, 5 | Straight-line method |

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

### (8) Intangible assets

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

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

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

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

(i) Service concession arrangements

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

(ii) Subsequent expenditures

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

**(9) Government grants**

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

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

**(10) Investment property**

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

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

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

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

**(11) Impairment of non-financial assets**

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

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

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

**(12) Leases**

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

(i) Finance leases

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

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

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

(ii) Operating leases

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

**(13) Construction work in progress**

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

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

### (14) Non-current assets held for sale

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

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

A non-current asset that is classified as held for sale or part of a disposal group classified as held for sale is not depreciated (or amortized).

### (15) Borrowing Costs

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

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

### (16) Non-derivative financial liabilities

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

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

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

(ii) Other financial liabilities

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

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

### (17) Employee benefits

(i) Retirement benefits: defined contribution plans

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

(ii) Retirement benefits: defined benefit plans

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

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

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

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

### (18) Provision

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

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

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

Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimates. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed.
In accordance with the Group's published environmental policy and applicable legal requirements, a provision for site restoration with respect to contaminated land, and the related expense, is recognized when the land is contaminated.

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

### (19) Foreign currency transactions

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

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

### (20) Equity capital

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

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

### (21) Revenue

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

(i) Goods sold

Revenue from the sale of goods in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue is recognized when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods and the amount of revenue can be measured reliably.

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

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

(ii) Services

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

(iii) Customer loyalty programs

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

(iv) Construction contracts

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

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

(v) Rental income

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

**(22) Finance income and finance costs**

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

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

### (23) Income taxes

Income tax expense comprises current tax and deferred tax. Current tax and deferred tax are recognized in profit or loss, except to the extent that it relates to a business combination or items recognized directly in equity or in other comprehensive income.

(i) Current tax

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

(ii) Deferred tax

The measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. The Group recognizes a deferred tax liability for all taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except to the extent that the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. The Group recognizes a deferred tax asset for all deductible temporary differences arising from investments in subsidiaries and associates to the extent it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilized.

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

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

## 4. SIGNIFICANT ACCOUNTING ESTIMATION AND ASSUMPTION:

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

(1) Income tax

There are some uncertainties in calculating final tax effects on the taxable income derived from the Group’s operation. The Company recognized current tax expense and deferred income tax by its best estimate on the income tax effects expected to be shown on the Group as a result of the Group’s operations up to December 31, 2015. However, the actual income tax payment that will be finally made in the future may be different from the recognized assets and liabilities and this difference can result in effects on the current tax expense for the period when the final tax effect has been finalized and deferred income tax assets and liabilities.

(2) Fair value of financial instruments

For financial instruments that are not traded in active market, their fair values are calculated through related evaluating methods. The Group makes various decisions on selecting evaluation methods and assumptions based on major market situations available as of December 31, 2015.

(3) Provisions

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

## 5. FINANCIAL RISK MANAGEMENT:

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

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

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

### (1) Risk management activities

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

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

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

### (2) Credit risk

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

(i) Trade and other receivables

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

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

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

(ii) Guarantees

The Group can only provide financial guarantees based on the Board of Directors' resolution. At December 31, 2015, no guarantees were outstanding.

(iii) Investments

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

**(3) Liquidity risk**

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

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

Also, the Group has credit lines as follows:

- ✓ Credit line of unsecured loans amounting to ₩550 billion. Interest would be payable at a rate of CD (91 days), plus 15–17 basis points ("BP").
- ✓ Credit line of unsecured loans amounting to ₩85 billion. Interest would be payable at a rate of CD (91 days), plus 54 BP.
- ✓ Credit line of unsecured loans amounting to ₩4 billion. Interest would be payable at a rate of 3.95%.

**(4) Market risk**

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

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

(i) Currency risk

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

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

(ii) Interest rate risk

The Group adopts a policy of ensuring that between 40% and 60% of its exposure to changes in interest rates on borrowings is on a fixed-rate basis. This is achieved by entering into interest rate swaps.

(iii) Other market price risk

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

**(5) Capital management**

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

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

The Group's capital management strategy is maintained similarly to prior period and the credit rating is maintained AAA at the end of 2015.

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

| *(In thousands of Korean won, except equity ratio)* | | **December 31, 2015** | **December 31, 2014** |
|---|---|---|---|
| Bond issued | ₩ | 10,905,761,200 | 12,906,483,150 |
| Equity capital and reserves | | 4,661,199,136 | 3,618,312,957 |
| Net debt-to-adjusted equity ratio on December 31 | | 234.0% | 356.7% |

## 6. BUSINESS UNITS:

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

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

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

(2) The Group's business units' information on revenue and profit for the years ended December 31, 2015 and 2014, is as follows:

*(In thousands of Korean won)*

| | 2015 | | | | |
|---|---|---|---|---|---|
| | Total revenue | Interunit revenue | External revenue | Operating profit (loss) | Depreciation and amortization expenses |
| Korea Railroad Corporation | ₩ 5,220,739,033 | 97,005,348 | 5,123,733,685 | 114,397,573 | 447,053,732 |
| KORAIL Retail Co., Ltd. | 247,025,757 | 285,562 | 246,740,195 | 7,879,298 | 5,614,644 |
| KORAIL Networks Co., Ltd. | 83,556,917 | 35,930,577 | 47,626,340 | 5,088,714 | 1,121,533 |
| KORAIL Logis Co., Ltd. | 52,041,798 | 8,235,171 | 43,806,627 | (212,185) | 625,255 |
| KORAIL Tech Co., Ltd. | 38,098,844 | 26,436,764 | 11,662,080 | 726,238 | 318,649 |
| KORAIL Tourism Development Co., Ltd. | 69,539,002 | 28,445,369 | 41,093,633 | 554,882 | 860,106 |
| SR Co., Ltd. | - - | - | - | (13,832,563) | 293,742 |
| Korean Insurance Brokerage Co., Ltd. | 1,368,729 | - | 1,368,729 | 549,490 | 9,343 |
| Airport Railroad Co., Ltd. | 157,045,379 | 658,223 | 156,387,155 | 89,492,614 | 2,003,322 |
| Total | ₩ 5,869,415,459 | 196,997,014 | 5,672,418,444 | 204,644,061 | 457,900,326 |

| *(In thousands of Korean won)* | 2014 | | | | |
|---|---|---|---|---|---|
| | Total revenue | Interunit revenue | External revenue | Operating profit (loss) | Depreciation and amortization expenses |
| Korea Railroad Corporation | ₩ 4,807,631,178 | 104,068,024 | 4,703,563,154 | 103,401,030 | 461,649,274 |
| KORAIL Retail Co., Ltd. | 226,601,336 | 91,651 | 226,509,685 | 3,928,542 | 5,916,109 |
| KORAIL Networks Co., Ltd. | 76,117,645 | 32,568,863 | 43,548,782 | 3,726,705 | 1,093,635 |
| KORAIL Logis Co., Ltd. | 70,663,206 | 9,635,298 | 61,027,908 | (1,621,453) | 655,462 |
| KORAIL Tech Co., Ltd. | 73,073,788 | 27,554,764 | 45,519,024 | 1,069,987 | 645,321 |
| KORAIL Tourism Development Co., Ltd. | 40,169,396 | 28,975,458 | 11,193,938 | 1,461,178 | 356,066 |
| SR Co., Ltd. | - | - | - | (7,024,314) | 103,256 |
| Korean Insurance Brokerage Co., Ltd. | 1,556,814 | - | 1,556,814 | 672,125 | 10,207 |
| Airport Railroad Co., Ltd. | 237,014,581 | 925,722 | 236,088,859 | 145,444,127 | 2,691,797 |
| Total | ₩ 5,532,827,944 | 203,819,780 | 5,329,008,164 | 251,057,927 | 473,121,127 |

As explained in Note 50, the revenue and profit of Airport Railroad Co., Ltd. are classified as income from discontinued operation.

(3) Assets and liabilities of the Group's business units as of December 31, 2015 and 2014, are as follows:

| | December 31, 2015 | | | |
|---|---|---|---|---|
| *(In thousands of Korean won)* | Business units assets | Investment asset in associates | Acquisitions of non-current assets | Business units liabilities |
| Korea Railroad Corporation | ₩ 17,869,032,878 | 178,269,323 | 841,672,508 | 13,207,833,742 |
| KORAIL Retail Co., Ltd. | 228,416,964 | 18,467,246 | 52,747,974 | 117,316,463 |
| KORAIL Networks Co., Ltd. | 36,923,078 | 1 | 431,022 | 13,896,717 |
| KORAIL Logis Co., Ltd. | 15,137,454 | - | 30,924 | 14,619,350 |
| KORAIL Tourism Development Co., Ltd. | 19,772,207 | - | 3,719,693 | 6,661,775 |
| KORAIL Tech Co., Ltd. | 18,928,153 | - | 327,118 | 2,775,785 |
| SR Co., Ltd. | 155,749,204 | - | 40,964,201 | 10,338,076 |
| Korean Insurance Brokerage Co., Ltd. | 1,810,903 | - | - | 225,550 |
| Total | ₩ 18,345,770,841 | 196,736,570 | 939,893,440 | 13,373,667,458 |

| *(In thousands of Korean won)* | | December 31, 2014 Business unit assets | Investment asset in associates | Acquisitions of non-current assets | Business unit liabilities |
|---|---|---|---|---|---|
| Korea Railroad Corporation | ₩ | 18,651,836,131 | 178,269,323 | 665,418,366 | 15,033,523,175 |
| Airport Railroad Co., Ltd. | | 4,539,963,264 | - | 5,738,345 | 3,266,515,795 |
| KORAIL Retail Co., Ltd. | | 179,427,078 | 18,467,246 | 11,309,591 | 78,327,280 |
| KORAIL Networks Co., Ltd. | | 32,639,275 | 1 | 351,189 | 13,322,582 |
| KORAIL Logis Co., Ltd. | | 18,871,991 | - | 219,989 | 17,950,526 |
| KORAIL Tourism Development Co., Ltd. | | 20,512,550 | - | 812,694 | 7,697,782 |
| KORAIL Tech Co., Ltd. | | 18,613,977 | - | 1,237,655 | 3,136,330 |
| SR Co., Ltd. | | 73,588,005 | - | 18,885,233 | 508,978 |
| Korean Insurance Brokerage Co., Ltd. | | 1,621,081 | - | - | 211,668 |
| Total | ₩ | 23,537,073,352 | 196,736,570 | 703,973,062 | 18,421,194,116 |

As explained in Note 40, the assets and liabilities of Airport Railroad Co., Ltd. are classified as asserts held for sale.

(4) External revenues by geographical regions for the years ended December 31, 2015 and 2014, and non-current assets by geographical regions as of December 31, 2015 and 2014, are summarized as follows:

| *(In thousands of Korean won)* | | External revenues 2015 | External revenues 2014 | Non-current assets December 31, 2015 | Non-current assets December 31, 2014 |
|---|---|---|---|---|---|
| Domestic | ₩ | 5,510,080,273 | 5,075,495,045 | 17,245,968,168 | 16,689,314,456 |
| Overseas | | 5,951,016 | 18,197,794 | - | - |
| Total | ₩ | 5,516,031,289 | 5,093,692,839 | 17,245,968,168 | 16,689,314,456 |

## 7. CASH AND CASH EQUIVALENTS RESTRICTED IN USE AND COLLATERALIZED FINANCIAL ASSETS:

Cash and cash equivalents that are restricted in use and financial assets that are held as collateral for liabilities or contingencies as of December 31, 2015 and 2014, are summarized as follows:

*(In thousands of Korean won)*

| | Type | | Dec. 31, 2015 | Dec. 31, 2014 |
|---|---|---|---|---|
| Cash and cash equivalents | Railroad membership deposits | ₩ | 8,935,656 | 8,887,310 |
| Short-term financial instruments | Pledged assets | | - | 417,182,238 |
| Long-term financial instruments | Pledged assets | | 18,755 | 18,755 |
| Total | | ₩ | 8,954,411 | 426,088,303 |

## 8. CASH AND CASH EQUIVALENTS:

Cash and cash equivalents in the consolidated statement of cash flow include cash and cash equivalents as of December 31, 2015 and 2014, before deducting government grants, which are summarized as follows:

*(In thousands of Korean won)*

| | | Dec. 31, 2015 | Dec. 31, 2014 |
|---|---|---|---|
| Cash | ₩ | 14,801,383 | 7,380,701 |
| Cash equivalents | | 455,209,221 | 653,906,088 |
| Government subsidies | | (116,190,367) | (197,099,795) |
| Fund for trustee business from government | | (145,211,417) | (234,154,129) |
| Total | ₩ | 208,608,820 | 230,032,865 |

## 9. DERIVATIVES:

(1) Derivative instruments outstanding as of December 31, 2015 and 2014, are as follows:

*(In thousands of Korean won)*

| | | Dec. 31, 2015 | | Dec. 31, 2014 | |
|---|---|---|---|---|---|
| | | Current | Non-current | Current | Non-current |
| Derivative instrument assets: | | | | | |
| Currency swap | ₩ | 10,597,473 | 51,986,225 | - | 8,225,781 |
| Total | ₩ | 10,597,473 | 51,986,225 | - | 8,225,781 |
| Derivative instrument liabilities: | | | | | |
| Currency swap | ₩ | - | 6,790,303 | 13,225,965 | 47,534,790 |
| Interest swap | | 1,491,143 | - | - | 2,507,073 |
| Total | ₩ | 1,491,143 | 6,790,303 | 13,225,965 | 50,041,863 |

(2) Details of currency swap outstanding as of December 31, 2015, are summarized as follows:

| *(In thousands of Korean won and USD)* | Financial institutions | Contract term | | Contractual amount: Selling price | Contractual amount: Purchasing price | Contractual interest rate: Selling interest rate | Contractual interest rate: Purchasing interest rate | Contractual exchange rate | Valuation amount |
|---|---|---|---|---|---|---|---|---|---|
| Cash flow hedge | CREDIT AGRICOLE | 2013.08.29–2016.08.29 | USD | 111,390,000 | 100,000,000 | 2.76% | 3M LIBOR+0.95% | 1,113.90 | 5,323,799 |
| | Standard Chartered Korea | 2013.08.29–2016.08.29 | USD | 111,390,000 | 100,000,000 | 2.76% | 3M LIBOR+0.95% | 1,113.90 | 5,273,674 |
| | Standard Chartered Korea | 2014.01.03–2019.12.02 | CHF | 134,895,000 | 115,000,000 | 3.64% | CHF 1.51% | 1,173.00 | 2,654,798 |
| | SG | 2014.01.03–2019.12.02 | CHF | 117,300,000 | 100,000,000 | 3.64% | CHF 1.51% | 1,173.00 | 1,927,662 |
| | BNP | 2014.01.03–2019.12.02 | CHF | 117,300,000 | 100,000,000 | 3.64% | CHF 1.51% | 1,173.00 | 2,308,469 |
| | CREDIT AGRICOLE | 2014.02.28–2017.02.28 | USD | 106,300,000 | 100,000,000 | 2.61% | 3M LIBOR+0.70% | 1,063.00 | 9,968,059 |
| | Standard Chartered Korea | 2014.02.28–2017.02.28 | USD | 53,150,000 | 50,000,000 | 2.61% | 3M LIBOR+0.70% | 1,063.00 | 4,975,813 |
| | BNP | 2014.02.28–2017.02.28 | USD | 53,150,000 | 50,000,000 | 2.61% | 3M LIBOR+0.70% | 1,063.00 | 4,967,048 |
| | RBS | 2014.05.29–2018.11.16 | CHF | 172,767,000 | 150,000,000 | 2.98% | CHF 1.01% | 1,151.78 | 6,753,025 |
| | SG | 2014.05.29–2018.11.16 | CHF | 57,589,000 | 50,000,000 | 2.98% | CHF 1.01% | 1,151.78 | 2,053,282 |
| | Standard Chartered Korea | 2014.05.29–2018.11.16 | CHF | 57,589,000 | 50,000,000 | 2.98% | CHF 1.01% | 1,151.78 | 2,247,459 |
| | CREDIT AGRICOLE | 2014.05.29–2018.11.16 | CHF | 57,589,000 | 50,000,000 | 2.98% | CHF 1.01% | 1,151.78 | 2,139,793 |
| | DBS | 2014.09.04–2018.09.04 | SGD | 52,845,000 | 65,000,000 | 2.55% | SGD 1.76% | 813.00 | (1,294,482) |
| | CREDIT AGRICOLE | 2014.09.18–2017.09.18 | USD | 104,000,000 | 100,000,000 | 2.38% | 3M LIBOR+0.55% | 1,040.00 | 11,990,817 |
| | HSBC | 2014.11.13–2018.08.13 | AUD | 51,700,000 | 55,000,000 | 2.28% | AUD 3M BBSW+0.85% | 940.00 | (5,495,821) |
| | Total | | | 1,358,954,000 | 1,235,000,000 | | | | ₩ 55,793,395 |

(3) Details of Interest swap outstanding as of December 31, 2015, are summarized as follows:

| *(In thousands of Korean won)* | Financial institutions | Contract term | | Contractual amount | Selling interest rate | Purchasing interest rate | Valuation amount |
|---|---|---|---|---|---|---|---|
| Cash flow hedge | CREDIT AGRICOLE | 2012.07.06–2016.07.06 | ₩ | 120,000,000 | 3.575% | 3M CD +0.28% | (1,491,143) |

(4) Derivative transaction gain (loss) for the years ended December 31, 2015 and 2014, are as follows:

| *(In thousands of Korean won)* | | Gains and losses from valuation | | Gains and losses from transactions | | Other comprehensive income | |
|---|---|---|---|---|---|---|---|
| | | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 |
| Currency swap | ₩ | 79,118,050 | (1,810,850) | (1,960,000) | (1,562,956) | 20,250,320 | (17,255,550) |
| Interest swap | | - | - | - | - | 1,015,930 | (1,098,314) |
| Total | ₩ | (79,118,050 | (1,810,850) | (1,960,000) | (1,562,956) | 21,266,250 | (18,353,864) |

Gains and losses from valuation of derivatives of ₩1,884,948 thousand recognized in other comprehensive income for the year ended December 31, 2015, are net of tax amount, which are directly recognized in equity.

## 10. TRADE RECEIVABLES AND OTHER RECEIVABLES:

(1) Trade receivables and accounts receivable as of December 31, 2015 and 2014, are detailed as follows:

| | | December 31, 2015 | | | |
|---|---|---|---|---|---|
| *(In thousands of Korean won)* | | Receivables | Allowance for impairment | Present value of discount | Carrying amounts |
| Current assets | | | | | |
| Trade receivables | ₩ | 405,816,738 | (8,016,195) | - | 397,800,543 |
| Other receivables | | 52,514,507 | (1,620,146) | - | 50,894,361 |
| Subtotal | | 458,331,245 | (9,636,341) | - | 448,694,904 |
| Non-current assets | | | | | |
| Other receivables | | 566,419,492 | - | (360,340) | 566,059,152 |
| Total | ₩ | 1,024,750,737 | (9,636,341) | (360,340) | 1,014,754,056 |

| | | December 31, 2014 | | | |
|---|---|---|---|---|---|
| *(In thousands of Korean won)* | | Receivables | Allowance for impairment | Present value of discount | Carrying amounts |
| Current assets | | | | | |
| Trade receivables | ₩ | 352,119,880 | (6,987,816) | - | 345,132,064 |
| Other receivables | | 52,031,746 | (1,366,948) | - | 50,664,798 |
| Subtotal | | 404,151,626 | (8,354,764) | - | 395,796,862 |
| Non-current assets | | | | | |
| Trade receivables | | - | - | - | - |
| Other receivables | | 598,746,310 | - | (433,388) | 598,312,922 |
| Subtotal | | 598,746,310 | - | (433,388) | 598,312,922 |
| Total | ₩ | 1,002,897,936 | (8,354,764) | (433,388) | 994,109,784 |

(2) Other receivables as of December 31, 2015 and 2014, are detailed as follows:

| (In thousands of Korean won) | | December 31, 2015 Receivables | Allowance for impairment | Present value of discount | Carrying amounts |
|---|---|---|---|---|---|
| Current assets | | | | | |
| Other receivables | ₩ | 52,456,460 | (1,620,146) | - | 50,836,314 |
| Accrued revenue | | 58,047 | - | - | 58,047 |
| Subtotal | | 52,514,507 | (1,620,146) | - | 50,894,361 |
| Non-current assets | | | | | |
| Other receivables | | 532,551,692 | - | - | 532,551,692 |
| Deposits provided | | 33,867,800 | - | (360,340) | 33,507,460 |
| Subtotal | | 566,419,492 | - | (360,340) | 566,059,152 |
| Total | ₩ | 618,933,999 | (1,620,146) | (360,340) | 616,953,513 |

| (In thousands of Korean won) | | December 31, 2014 Receivables | Allowance for impairment | Present value of discount | Carrying amounts |
|---|---|---|---|---|---|
| Current assets | | | | | |
| Other receivables | ₩ | 51,931,123 | (1,366,948) | - | 50,564,175 |
| Accrued revenue | | 100,623 | - | - | 100,623 |
| Subtotal | | 52,031,746 | (1,366,948) | - | 50,664,798 |
| Non-current assets | | | | | |
| Other receivables | | 568,407,360 | - | - | 568,407,360 |
| Deposits provided | | 30,338,950 | - | (433,388) | 29,905,562 |
| Subtotal | | 598,746,310 | - | (433,388) | 598,312,922 |
| Total | ₩ | 650,778,056 | (1,366,948) | (433,388) | 648,977,720 |

(3) Credit risk and allowance for impairment

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

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

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

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

(4) Aging analysis of trade receivables and other receivables as of December 31, 2015 and 2014, is detailed as follows:

| *(In thousands of Korean won)* | | Trade receivables | |
|---|---|---|---|
| | | December 31, 2015 | December 31, 2014 |
| Current and not impaired | ₩ | 302,378,992 | 285,415,019 |
| Overdue, but not impaired | | - | - |
| Current reviewed for impairment | | 103,437,746 | 66,704,861 |
| - Not overdue | | 9,900,137 | 26,570,208 |
| - 30 days–90 days | | 7,253,275 | 7,315,908 |
| - 90 days–120 days | | 235,344 | 38,509 |
| - 120 days or more | | 86,048,990 | 32,780,236 |
| Subtotal | | 405,816,738 | 352,119,880 |
| Allowance for impairment | | (8,016,195) | (6,987,816) |
| Total | ₩ | 397,800,543 | 345,132,064 |

| *(In thousands of Korean won)* | | Other receivables | |
|---|---|---|---|
| | | December 31, 2015 | December 31, 2014 |
| Current and not impaired | ₩ | 612,078,929 | 642,751,276 |
| Overdue, but not impaired | | | |
| Current reviewed for impairment | | 6,855,070 | 8,026,780 |
| - Not overdue | | 1,642,892 | 3,528,600 |
| - 30 days–90 days | | 203,508 | 97,511 |
| - 90 days–120 days | | 133,399 | 13,485 |
| - 120 days or more | | 4,875,271 | 4,387,184 |
| Subtotal | | 618,933,999 | 650,778,056 |
| Allowance for impairment | | (1,620,146) | (1,366,948) |
| Present value of discount | | (360,340) | (433,388) |
| Total | ₩ | 616,953,513 | 648,977,720 |

(5) Changes in allowance for impairment of trade receivables and other receivables during the year ended December 31, 2015 and 2014, are as follows:

| | | 2015 | | 2014 | |
|---|---|---|---|---|---|
| *(In thousands of Korean won)* | | Trade receivables | Other receivables | Trade receivables | Other receivables |
| Beginning balance | ₩ | 6,987,816 | 1,366,948 | 9,091,010 | 1,974,998 |
| Impairment loss recognized | | 2,026,952 | 707,444 | 715,816 | 217,649 |
| Write-offs | | (973,269) | (453,455) | (1,794,503) | (113,981) |
| Reversal of allowance | | (25,304) | (791) | (1,024,508) | (699,955) |
| Others | | - | - | - | (11,763) |
| Ending balance | ₩ | 8,016,195 | 1,620,146 | 6,987,815 | 1,366,948 |

## 11. AVAILABLE-FOR-SALE FINANCIAL ASSETS:

(1) Available-for-sale financial assets as of December 31, 2015 and 2014, are summarized as follows:

| | | December 31, 2015 | | December 31, 2014 | |
|---|---|---|---|---|---|
| *(In thousands of Korean won)* | | Current | Non-current | Current | Non-current |
| Equity instruments: | | | | | |
| Marketable securities | ₩ | - | 4,483 | - | - |
| Non-marketable securities | | - | 34,301,102 | - | 29,730,771 |
| Subtotal | | - | 34,305,585 | - | 29,730,771 |
| Debt instruments: | | | | | |
| Government bonds | | - | - | 800 | - |
| Subtotal | | - | - | 800 | - |
| Total | ₩ | - | 34,305,585 | 800 | 29,730,771 |

## 12. LOANS:

Loans as of December 31, 2015 and 2014, are summarized as follows:

| | | December 31, 2015 | | |
|---|---|---|---|---|
| *(In thousands of Korean won)* | | Face Value | Discounted Present Value | Carrying amount |
| Tuition loans(*1) | ₩ | 54,190,511 | (8,818,218) | 45,372,293 |
| Others(*2) | | 208,376 | - | 208,376 |
| Total | ₩ | 54,398,887 | (8,818,218) | 45,580,669 |

| | | December 31, 2014 | | |
|---|---|---|---|---|
| *(In thousands of Korean won)* | | Face Value | Discounted Present Value | Carrying amount |
| Tuition loans(*1) | ₩ | 57,790,612 | (9,499,620) | 48,290,992 |
| Loans to employees | | 2,959 | - | 2,959 |
| Others(*2) | | 487,760 | - | 487,760 |
| Total | ₩ | 58,281,331 | (9,499,620) | 48,781,711 |

(*1) The Group provides loans to employees for the purpose of financial aid for children. Repayment of loans is made through a monthly payroll deduction.
(*2) The Group recognizes four major insurance payments made on behalf of employees laid off as other loans.

## 13. FINANCIAL INSTRUMENTS:

Financial instruments as of December 31, 2015 and 2014, are summarized as follows:

| | | December 31, 2015 | | December 31, 2014 | |
|---|---|---|---|---|---|
| *(In thousands of Korean won)* | | Current | Non-Current | Current | Non-Current |
| Periodical installment savings | ₩ | - | - | - | - |
| Fixed deposits | | 31,650,000 | 18,755 | 13,453,647 | 18,755 |
| Other | | - | - | 1,027,657 | - |
| MMF, MMDA and others | | 926,051 | - | 1,923,584 | - |
| Total | ₩ | 32,576,051 | 18,755 | 16,404,888 | 18,755 |

## 14. INVENTORIES:

Inventories as of December 31, 2015 and 2014, are detailed as follows:

| | | December 31, 2015 | | | |
|---|---|---|---|---|---|
| *(In thousands of Korean won)* | | Acquisition cost | Government grants | Provision for loss on valuation | Carrying amount |
| Raw materials | ₩ | 722,613 | - | (58,646) | 663,967 |
| Merchandises | | 10,977,313 | - | - | 10,977,313 |
| Work in progress | | 221,289,327 | (54,351,104) | (457,605) | 166,480,618 |
| Supplies | | 16,994,126 | - | - | 16,994,126 |
| Inventory in transit | | 3,788,146 | - | - | 3,788,146 |
| Total | ₩ | 253,771,525 | (54,351,104) | (516,251) | 198,904,170 |

| | | December 31, 2014 | | | |
|---|---|---|---|---|---|
| *(In thousands of Korean won)* | | Acquisition cost | Government grants | Provision for loss on valuation | Carrying amount |
| Raw materials | ₩ | 496,699 | - | (58,646) | 438,053 |
| Merchandises | | 6,981,148 | - | - | 6,981,148 |
| Work in progress | | 228,347,464 | (95,900) | (534,978) | 227,716,586 |
| Supplies | | 10,534,081 | - | - | 10,534,081 |
| Inventory in transit | | 2,077,091 | - | - | 2,077,091 |
| Total | ₩ | 248,436,483 | (95,900) | (593,624) | 247,746,959 |

## 15. NON-FINANCIAL ASSETS:

(1) Non-financial assets as of December 31, 2015 and 2014, are detailed as follows:

| *(In thousands of Korean won)* | | December 31, 2015 | | December 31, 2014 | |
|---|---|---|---|---|---|
| | | Current | Non-current | Current | Non-current |
| Prepayments | ₩ | 14,047,929 | - | 24,628,082 | - |
| Government grants | | (3,809,413) | - | - | - |
| Allowance for bad debts | | (70,583) | - | (148,313) | - |
| Prepaid expense | | 7,717,478 | 9,357,731 | 12,560,062 | 10,595,539 |
| Other non-financial assets | | 19,142,741 | 23,344 | 16,019,402 | 23,860 |
| Total | ₩ | 37,028,152 | 9,381,075 | 53,059,233 | 10,619,399 |

(2) Other non-financial assets as of December 31, 2015 and 2014, are as follows:

| *(In thousands of Korean won)* | | December 31, 2015 | | December 31, 2014 | |
|---|---|---|---|---|---|
| | | Current | Non-current | Current | Non-current |
| Deposits | ₩ | 15,990,984 | 23,344 | 15,861,816 | 23,860 |
| Non-financial assets - others | | 3,151,757 | - | 157,586 | - |
| Total | ₩ | 19,142,741 | 23,344 | 16,019,402 | 23,860 |

## 16. INVESTMENTS IN ASSOCIATES:

(1) Associates as of December 31, 2015 and 2014, are detailed as follows:

| *(In thousands of Korean won)* | Primary business | Location | December 31, 2015 Ownership (%) | Acquisition cost | Carrying amount |
|---|---|---|---|---|---|
| Uiwang ICD Co., Ltd. | Construction and operation of container depot | Republic of Korea | 25.00% | ₩ 1,765,000 | 1,799,303 |
| Dream Hub Project Financial Investment Co., Ltd. | Developing, trading and leasing of real estate | Republic of Korea | 25.00% | 250,000,000 | - |
| Yong San Station Around Development Co., Ltd. | Asset management | Republic of Korea | 29.90% | 897,000 | - |
| Daegu Combined Freight Terminal Co., Ltd. | Operation of cargo terminal | Republic of Korea | - | - | - |
| Sinchon Station Building Co., Ltd. | Development and operation of privatized station's sphere of influence | Republic of Korea | 33.33% | 1,700,000 | - |
| Lotte Station Building Co., Ltd. | Development and operation of privatized station's sphere of influence | Republic of Korea | 31.67% | 84,338,340 | 154,184,236 |
| Bupyeong Department Store Co., Ltd. | Development and operation of privatized station's sphere of influence | Republic of Korea | 25.00% | 682,300 | 906,643 |
| Changdong Station Building Co., Ltd. | Development and operation of privatized station's sphere of influence | Republic of Korea | 31.67% | 1,520,000 | - |
| Anyang Station Building Co., Ltd. | Development and operation of privatized station's sphere of influence | Republic of Korea | 26.08% | 699,962 | 2,678,447 |
| Donginchon Shopping Center Co., Ltd. | Development and operation of privatized station's sphere of influence | Republic of Korea | 21.28% | 798,000 | - |
| Bucheon Station Building Co., Ltd. | Development and operation of privatized station's sphere of influence | Republic of Korea | 25.00% | 6,833,050 | 7,380,957 |
| Hanwha Station Development Co., Ltd. | Development and operation of privatized station's sphere of influence | Republic of Korea | 32.04% | 12,953,517 | 37,737,892 |
| Noryangjin Station Building Co., Ltd. | Development and operation of privatized station's sphere of influence | Republic of Korea | 27.00% | 540,000 | - |
| Pyeongtaek Station Building Co., Ltd. | Development and operation of privatized station's sphere of influence | Republic of Korea | - | - | - |
| Shinsegae Uijeongbu Station Building Co., Ltd. | Development and operation of privatized station's sphere of influence | Republic of Korea | 27.55% | 1,102,000 | - |
| Seongbuk Station Building Co., Ltd. | Development and operation of privatized station's sphere of influence | Republic of Korea | 30.00% | 600,000 | - |
| Ansan Central Station Building Co., Ltd. | Development and operation of privatized station's sphere of influence | Republic of Korea | 25.00% | 500,000 | 71,336 |
| Bitplex Co., Ltd. | Development and operation of privatized station's sphere of influence | Republic of Korea | 23.78% | 4,862,340 | 478,939 |
| Total | | | | ₩ 369,791,509 | 205,237,753 |

Pyeongtaek Station Building Co., Ltd. is excluded from the Group during 2015 due to the decreased ownership from 20.84% to 6.1%. In addition, Daegu Combined Freight Terminal Co., Ltd. is also excluded from the Group due to finalizing its liquidation during 2015.

| (In thousands of Korean won) | Primary business | Location | December 31, 2014 | | |
|---|---|---|---|---|---|
| | | | Ownership | Acquisition cost | Carrying amount |
| Uiwang ICD Co., Ltd. | Construction and operation of container depot | Republic of Korea | 25.00% | ₩ 1,765,000 | 1,689,284 |
| Dream Hub Project Financial Investment Co., Ltd. | Developing, trading and leasing of real estate | Republic of Korea | 25.00% | 250,000,000 | - |
| Yong San Station Around Development Co., Ltd. | Asset management | Republic of Korea | 29.90% | 897,000 | - |
| Daegu Combined Freight Terminal Co., Ltd. | Operation of cargo terminal | Republic of Korea | 47.40% | 23,840,500 | - |
| Sinchon Station Building Co., Ltd. | Development and operation of privatized station's sphere of influence | Republic of Korea | 33.33% | 1,700,000 | - |
| Lotte Station Building Co., Ltd. | Development and operation of privatized station's sphere of influence | Republic of Korea | 31.67% | 84,338,340 | 156,617,898 |
| Bupyeong Department Store Co., Ltd. | Development and operation of privatized station's sphere of influence | Republic of Korea | 25.00% | 682,300 | 710,252 |
| Changdong Station Building Co., Ltd. | Development and operation of privatized station's sphere of influence | Republic of Korea | 31.67% | 1,520,000 | - |
| Anyang Station Building Co., Ltd. | Development and operation of privatized station's sphere of influence | Republic of Korea | 26.08% | 699,962 | 2,746,470 |
| Donginchon Shopping Center Co., Ltd. | Development and operation of privatized station's sphere of influence | Republic of Korea | 21.28% | 798,000 | - |
| Bucheon Station Building Co., Ltd. | Development and operation of privatized station's sphere of influence | Republic of Korea | 25.00% | 6,833,050 | 7,439,262 |
| Hanwha Station Development Co., Ltd. | Development and operation of privatized station's sphere of influence | Republic of Korea | 32.04% | 12,953,517 | 34,514,518 |
| Noryangjin Station Building Co., Ltd. | Development and operation of privatized station's sphere of influence | Republic of Korea | 27.00% | 540,000 | - |
| Pyeongtaek Station Building Co., Ltd. | Development and operation of privatized station's sphere of influence | Republic of Korea | 20.84% | 7,685,495 | - |
| AShinsegae Uijeongbu Station Building Co., Ltd. | Development and operation of privatized station's sphere of influence | Republic of Korea | 27.55% | 1,102,000 | - |
| Seongbuk Station Building Co., Ltd. | Development and operation of privatized station's sphere of influence | Republic of Korea | 30.00% | 600,000 | - |
| Ansan Central Station Building Co., Ltd. | Development and operation of privatized station's sphere of influence | Republic of Korea | 25.00% | 500,000 | 71,336 |
| Bitplex Co., Ltd. | Development and operation of privatized station's sphere of influence | Republic of Korea | 23.78% | 4,862,340 | - |
| Total | | | | ₩ 401,317,504 | 203,789,020 |

(2) Financial information of significant associates as of December 31, 2015 and 2014, is as follows:

| | | Lotte Station Building Co., Ltd. | | Hanwha Station Development Co., Ltd. | |
|---|---|---|---|---|---|
| *(In thousands of Korean won)* | | 2015 | 2014 | 2015 | 2014 |
| Current assets | ₩ | 277,785,204 | 304,776,545 | 6,528,896 | 6,634,475 |
| Non-current assets | | 450,437,532 | 431,325,339 | 437,985,349 | 448,944,150 |
| Current liabilities | | 232,636,368 | 222,362,757 | 57,317,348 | 53,018,152 |
| Non-current liabilities | | 8,688,779 | 19,156,292 | 269,424,245 | 294,846,441 |
| Revenue | | 612,650,790 | 651,673,622 | 62,553,210 | 61,903,285 |
| Profit for the year | | 42,184,892 | 49,127,180 | 14,560,047 | 13,709,452 |
| Total comprehensive profit for the year | | 46,705,025 | 45,471,674 | 14,643,671 | 13,300,956 |
| Dividend received | | 17,223,192 | 12,590,953 | 1,469,189 | 1,259,293 |

(3) Details of adjustments made for book value of associates as of December 31, 2014, are as follows:

| *(In thousands of Korean won)* | Net assets | Percentage of ownership | Share of interests in net assets | Book value |
|---|---|---|---|---|
| Uiwang ICD Co., Ltd. | 7,197,212 | 25.00% | 1,799,303 | 1,799,303 |
| Lotte Station Building Co., Ltd. | 486,897,588 | 31.67% | 154,184,236 | 154,184,236 |
| Bupyeong Department Store Co., Ltd. | 3,626,571 | 25.00% | 906,643 | 906,643 |
| Anyang Station Building Co., Ltd. | 10,272,090 | 26.08% | 2,678,447 | 2,678,447 |
| Bucheon Station Building Co., Ltd. | 29,523,828 | 25.00% | 7,380,957 | 7,380,957 |
| Hanwha Station Development Co., Ltd. | 117,772,652 | 32.04% | 37,737,575 | 37,737,892 |
| Ansan Central Station Building Co., Ltd. | 285,343 | 25.00% | 71,336 | 71,336 |
| Bit Plex Co., Ltd. | | | | |

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

| *(In thousands of Korean won)* | | Others |
|---|---|---|
| Book value | ₩ | 13,315,689 |
| Profit attributable to associates and joint ventures: | | |
| Profit from continuing operations | | 1,317,408 |
| Total comprehensive income for the year | | 1,317,408 |

(5) Changes in investments in associates for the years ended December 31, 2015 and 2014, were as follows:

*(In thousands of Korean won)*

| | 2015 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Book value as of Jan. 1, 2015 | Acquisitions | Disposals | Dividend | Share of profits | Change in equity method investments | Other increase (decrease) | Book value as of Dec. 31, 2015 |
| Uiwang ICD Co., Ltd. | ₩ 1,689,284 | - | - | - | 144,238 | - | (34,219) | 1,799,303 |
| Lotte Station Building Co., Ltd. | 156,617,886 | - | - | (17,223,192) | 13,358,549 | 1,431,375 | (394) | 154,184,224 |
| Bupyeong Department Store Co., Ltd. | 710,252 | - | - | - | 334,587 | (1,974) | (136,158) | 906,707 |
| Anyang Station Building Co., Ltd. | 2,746,469 | - | - | (78,225) | 92,769 | - | (82,566) | 2,678,447 |
| Bucheon Station Building Co., Ltd. | 7,439,261 | - | - | (2,500,000) | 1,802,719 | - | 638,977 | 7,380,957 |
| Hanwha Station Development Co., Ltd. | 34,514,516 | - | - | (1,469,189) | 4,665,482 | - | 27,031 | 37,737,840 |
| Ansan Central Station Building Co., Ltd. | 71,336 | - | - | - | - | - | - | 71,336 |
| Bit Plex Co., Ltd. | - | | | - | 478,939 | - | - | 478,939 |
| Total | ₩ 203,789,004 | - | - | (21,270,606) | 20,877,283 | 1,429,401 | 412,671 | 205,237,753 |

*(In thousands of Korean won)*

| | 2014 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Book value as of Jan. 1, 2014 | Acquisitions | Disposals | Dividend | Share of profits (loss) | Change in equity method investments | Other increase (decrease) | Book value as of Dec. 31, 2014 |
| Uiwang ICD Co., Ltd. | ₩ 1,724,186 | - | - | - | (17,756) | - | (17,146) | 1,689,284 |
| Lotte Station Building Co., Ltd. | 154,801,839 | - | - | (12,590,953) | 15,556,940 | (1,157,577) | 7,637 | 156,617,886 |
| Bupyeong Department Store Co., Ltd. | 212,839 | - | - | - | 496,663 | - | 750 | 710,252 |
| Anyang Station Building Co., Ltd. | 2,683,665 | - | - | (208,600) | 335,606 | - | (64,202) | 2,746,469 |
| Bucheon Station Building Co., Ltd. | 8,774,912 | - | - | (2,500,000) | 592,256 | - | 572,093 | 7,439,261 |
| Hanwha Station Development Co., Ltd. | 31,690,322 | - | - | (1,259,293) | 4,392,867 | - | (309,380) | 34,514,516 |
| Ansan Central Station Building Co., Ltd. | 100,124 | - | - | - | (25,831) | - | (2,957) | 71,336 |
| Yong San Station Around Development Co., Ltd. | 1,445,990 | | | - | (1,445,990) | - | - | - |
| Total | ₩ 201,433,877 | - | - | (16,558,846) | 19,884,755 | (1,157,577) | 186,795 | 203,789,004 |

(6) Details of unrecognized equity losses for the year ended December 31, 2015, and accumulated unrecognized equity losses due to discontinuance of equity method application are as follows:

| *(In thousands of Korean won)* | | Unrecognized equity losses for the year ended | Unrecognized equity losses accumulated |
|---|---|---|---|
| Donginchon Shopping Center Co., Ltd. | ₩ | (387,762) | (8,113,135) |
| Seongbuk Station Building Co., Ltd. | | - | (2,038,125) |
| Shinsegae Uijeongbu Station Building Co., Ltd. | | (66,614) | (4,259,723) |
| Sinchon Station Building Co., Ltd. | | (1,334,504) | (6,868,133) |

## 17. PROPERTY, TRAINS AND EQUIPMENT:

(1) Details of property, trains and equipment as of December 31, 2015 and 2014, are as follows:

| | | December 31, 2015 | | | |
|---|---|---|---|---|---|
| *(In thousands of Korean won)* | | Acquisition cost | Government grants | Accumulated depreciation | Book value |
| Land(*) | ₩ | 8,635,956,834 | (6,526,056) | - | 8,629,430,778 |
| Buildings(*) | | 1,877,158,346 | (81,118,815) | (363,334,667) | 1,432,704,864 |
| Structures | | 293,504,703 | (6,747,135) | (99,989,702) | 186,767,866 |
| Machinery | | 1,065,761,003 | (98,807,082) | (588,153,712) | 378,800,209 |
| Trains | | 7,152,462,640 | (364,110,309) | (1,906,667,156) | 4,881,685,175 |
| Vehicles | | 50,100,647 | (416,098) | (36,232,029) | 13,452,520 |
| Furniture and fixtures | | 16,686,792 | (2,856) | (12,770,053) | 3,913,883 |
| Tools | | 112,133,213 | (107,435) | (91,962,464) | 20,063,314 |
| Construction in progress | | 396,500,752 | (14,441,312) | - | 382,059,440 |
| Financial lease assets | | 1,717,071 | - | (1,717,064) | 7 |
| Other tangible assets | | 29,880,722 | - | (837,651) | 29,043,071 |
| Total | ₩ | 19,631,862,723 | (572,277,098) | (3,101,664,498) | 15,957,921,127 |

| (In thousands of Korean won) | | December 31, 2014 Acquisition cost | Government grants | Accumulated depreciation | Book value |
|---|---|---|---|---|---|
| Land(*) | ₩ | 8,541,517,337 | (6,526,056) | - | 8,534,991,281 |
| Buildings(*) | | 1,846,481,322 | (75,482,318) | (317,712,914) | 1,453,286,090 |
| Structures | | 291,541,813 | (6,031,366) | (94,493,607) | 191,016,840 |
| Machinery | | 1,040,747,428 | (89,090,008) | (527,038,988) | 424,618,432 |
| Trains | | 6,376,919,739 | (364,070,352) | (1,585,118,035) | 4,427,731,352 |
| Vehicles | | 48,528,615 | (611,839) | (35,230,758) | 12,686,018 |
| Furniture and fixtures | | 16,985,163 | - | (11,588,051) | 5,397,112 |
| Tools | | 107,454,000 | (193,383) | (89,102,113) | 18,158,504 |
| Construction in progress | | 191,171,125 | (8,541,731) | - | 182,629,394 |
| Financial lease assets | | 1,717,071 | - | (1,717,064) | 7 |
| Other tangible assets | | 29,349,107 | - | (633,193) | 28,715,914 |
| Total | ₩ | 18,492,412,720 | (550,547,053) | (2,662,634,723) | 15,279,230,944 |

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

(2) Changes in property, trains and equipment for the years ended December 31, 2015 and 2014, are as follows:

| (In thousands of Korean won) | | 2015 Book value as of January 1, 2015 | Acquisitions | Disposals | Depreciation | Other(*) | Government grants | Book value as of December 31, 2015 |
|---|---|---|---|---|---|---|---|---|
| Land | ₩ | 8,534,991,282 | 3,990,217 | - | - | 90,449,279 | - | 8,629,430,775 |
| Buildings | | 1,453,286,090 | 3,239,074 | (1,571,945) | (42,813,672) | 26,201,814 | (5,636,497) | 1,432,704,864 |
| Structures | | 191,016,841 | 6,463,257 | (2,943,135) | (11,728,957) | 4,675,629 | (715,769) | 186,767,866 |
| Machinery | | 426,618,432 | 14,666,764 | (1,439,308) | (64,699,452) | 15,370,847 | (9,717,074) | 378,800,209 |
| Trains | | 4,427,731,352 | 7,596,011 | (3,809,757) | (356,260,332) | 806,467,858 | (39,957) | 4,881,685,175 |
| Vehicles | | 12,686,018 | 4,649,290 | (544,393) | (3,236,023) | (298,113) | 195,741 | 13,452,520 |
| Furniture and fixtures | | 5,397,112 | 1,045,515 | (117,943) | (2,018,228) | (389,717) | (2,856) | 3,913,883 |
| Tools | | 18,158,504 | 7,491,836 | (45,741) | (6,135,715) | 508,482 | 85,948 | 20,063,314 |
| Construction in progress | | 182,629,393 | 936,950,112 | - | - | (731,620,485) | (5,899,580) | 382,059,440 |
| Financial lease assets | | 7 | - | - | - | - | - | 7 |
| Other tangible assets | | 28,715,914 | 444,389 | (8,443) | (212,469) | 103,680 | - | 29,043,071 |
| Total | ₩ | 15,279,230,945 | 986,536,465 | (10,480,665) | (487,104,848) | 211,469,274 | (21,730,044) | 15,957,921,127 |

| (In thousands of Korean won) | | 2014 | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | Book value as of January 1, 2014 | Acquisitions | Disposals | Depreciation | Other(*) | Government grants | Book value as of December 31, 2014 |
| Land | ₩ | 8,651,922,611 | 43,807,042 | (392,189) | - | (160,346,183) | - | 8,534,991,281 |
| Buildings | | 1,500,833,628 | 3,192,272 | (5,993,017) | (42,388,739) | 480,925 | (2,838,979) | 1,453,286,090 |
| Structures | | 188,899,234 | 6,939,868 | (1,280,753) | (14,908,162) | 12,227,249 | (860,596) | 191,016,840 |
| Machinery | | 474,550,670 | 9,103,101 | (922,774) | (73,284,699) | 9,486,202 | 5,685,932 | 424,618,432 |
| Trains | | 4,243,422,660 | 2,439,805 | (15,346,183) | (348,563,351) | 546,574,860 | (796,439) | 4,427,731,352 |
| Vehicles | | 14,213,778 | 3,015,268 | (541,100) | (2,896,538) | (1,303,026) | 197,636 | 12,686,018 |
| Furniture and fixtures | | 7,050,836 | 5,671,272 | (60,342) | (2,867,362) | (4,397,292) | - | 5,397,112 |
| Tools | | 23,261,670 | 5,231,927 | (493,962) | (7,711,991) | (2,248,885) | 119,745 | 18,158,504 |
| Construction in progress | | 217,350,494 | 630,797,784 | (1,460,139) | - | (667,544,021) | 3,485,276 | 182,629,394 |
| Financial lease assets | | 7 | - | - | - | - | - | 7 |
| Other tangible assets | | 28,930,855 | 442,213 | (491,332) | (165,822) | - | - | 28,715,914 |
| Total | ₩ | 15,350,436,443 | 710,640,552 | (26,981,791) | (492,786,664) | (267,070,171) | 4,992,575 | 15,279,230,944 |

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

(3) Change of accounting policy

The Group changed its accounting policy for land from the cost model to the revaluation model. The Group believes that the book value of Yongsan station area that the Group has reclaimed as a result of the cancellation of the project should be measured at fair value, as it would provide more reliable and relevant information of the Group's financial position and future cash flows. The Group requested value assessment to Cheil Appraisal and Assessment Institution and Korea Appraisal Board, the independent and publicly authorized appraisal institutions, to determine the fair value of the land. The fair value is measured based on actual market price, taking into account differences arising from specific assets' characteristics, location and condition of the market, and the date of revaluation is April 30, 2013. Fair value of the land as of December 31, 2015, has not been significantly changed from the assessed value as of December 31, 2014.

| (In thousands of Korean won) | | 2015 | 2014 |
|---|---|---|---|
| Beginning balance | ₩ | 3,073,787,934 | 3,076,453,314 |
| Gain on revaluation of the land | | - | - |
| Income taxes recognized in equity | | - | - |
| Reclassification of gain on revaluation of assets to retained earnings | | (38,750,535) | (2,665,380) |
| Ending balance | | 3,035,037,399 | 3,073,787,934 |

## 18. INVESTMENT PROPERTY:

(1) Investment property as of December 31, 2015 and 2014, is as follows:

| *(In thousands of Korean won)* | | December 31, 2015 | | | |
|---|---|---|---|---|---|
| | | Acquisition cost | Government grants | Accumulated depreciation | Book value |
| Land | ₩ | 242,830,679 | - | - | 242,830,679 |
| Buildings and structure | | 84,193,754 | (1,893,977) | (22,299,264) | 60,000,513 |
| Total | ₩ | 327,024,433 | (1,893,977) | (22,299,264) | 302,831,192 |

| *(In thousands of Korean won)* | | December 31, 2014 | | | |
|---|---|---|---|---|---|
| | | Acquisition cost | Government grants | Accumulated depreciation | Book value |
| Land | ₩ | 394,679,844 | - | - | 394,679,844 |
| Buildings and structure | | 87,345,501 | (239,596) | (18,268,924) | 68,836,981 |
| Total | ₩ | 482,025,345 | (239,596) | (18,268,924) | 463,516,825 |

(2) Changes in investment property for the years ended December 31, 2015 and 2014, are as follows:

| *(In thousands of Korean won)* | | 2015 | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | Book value as of January 1, 2015 | Acquisitions | Disposals | Depreciation | Government grants | Other(*) | Book value as of December 31, 2015 |
| Land | ₩ | 394,679,844 | - | - | - | - | (151,849,165) | 242,830,679 |
| Buildings and structure | | 68,836,981 | - | - | (2,464,986) | (1,654,381) | (4,717,101) | 60,000,513 |
| Total | ₩ | 463,516,825 | - | - | (2,464,986) | (1,654,381) | (156,566,266) | 302,831,192 |

| *(In thousands of Korean won)* | | 2014 | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | Book value as of January 1, 2014 | Acquisitions | Disposals | Depreciation | Government grants | Other(*) | Book value as of December 31, 2014 |
| Land | ₩ | 260,382,191 | - | - | - | 134,297,653 | - | 394,679,844 |
| Buildings and structure | | 57,877,421 | - | - | (2,670,128) | 12,567,830 | 1,061,858 | 68,836,981 |
| Total | ₩ | 318,259,612 | - | - | (2,670,128) | 146,865,483 | 1,061,858 | 463,516,825 |

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

(3) Income and expense from investment property for the years ended December 31, 2015 and 2014, are as follows:

| *(In thousands of Korean won)* | | 2015 | 2014 |
|---|---|---|---|
| Rental income | ₩ | 42,889,774 | 40,798,730 |
| Operating expense | | (2,778,636) | (2,637,068) |
| Total | ₩ | 40,111,138 | 38,161,662 |

(4) Fair value

| *(In thousands of Korean won)* | | 2015 | | 2014 | |
|---|---|---|---|---|---|
| | | Book value | Fair value | Book value | Fair value |
| Land | ₩ | 242,830,679 | 251,177,631 | 394,679,844 | 488,167,686 |
| Buildings and structure | | 60,000,513 | 60,000,513 | 68,836,981 | 81,519,972 |
| Total | ₩ | 302,831,192 | 311,178,144 | 463,516,825 | 569,687,658 |

The fair value of investment property as of December 31, 2015, was determined based on the appraisal performed by the independent appraisal institution, Korea Appraisal Board, on April 1, 2013. As a member of Korea Appraisal Association, Korea Appraisal Board has extensive experience and qualification in connection with the appraisal of real estates. The appraisal was performed in accordance with international standards and the appraisal value was measured based on the market price of the similar real estates.

## 19. CONSTRUCTION CONTRACTS:

(1) During the year ended December 31, 2015, changes in outstanding balance of construction contracts are as follows:

| *(In thousands of Korean won)* | | Contract price outstanding as of January 1, 2015 | Increase | Current construction revenue | Contract price outstanding as of December 31, 2015 |
|---|---|---|---|---|---|
| Domestic civil engineering works | ₩ | 8,647,741 | 3,303,728 | (7,545,181) | 4,406,288 |

Revenue from new construction contracts increased by ₩3,217,672 thousand (₩4,103,288 thousand in 2014) and revenue from changes in construction contracts increased by ₩86,056 thousand (₩1,102,113 thousand in 2014).

(2) Details of profit or loss related to the construction contract recognized during the year ended December 31, 2015 and 2014, are as follows:

| *(In thousands of Korean won)* | | 2015 Accumulated revenue of construction | 2015 Accumulated cost of construction | 2015 Accumulated profit or loss of construction |
|---|---|---|---|---|
| Domestic civil engineering works | ₩ | 12,045,399 | (10,922,701) | 1,122,698 |

| *(In thousands of Korean won)* | | 2014 Accumulated revenue of construction | 2014 Accumulated cost of construction | 2014 Accumulated profit or loss of construction |
|---|---|---|---|---|
| Domestic civil engineering works | ₩ | 9,662,933 | (8,571,153 ) | 1,091,780 |

(3) As of December 31, 2015 and 2014, there is no unbilled amount or deferred income.

## 20. GOODWILL:

(1) Goodwill as of December 31, 2015 and 2014, is as follows:

| *(In thousands of Korean won)* | | December 31, 2015 | December 31, 2014 |
|---|---|---|---|
| Acquisition costs | ₩ | 4,095,870 | 4,095,870 |
| Book value | ₩ | 3,732,906 | 3,732,906 |

(2) Changes in goodwill for the years ended December 31, 2015 and 2014, are as follows:

| *(In thousands of Korean won)* | | 2015 | 2014 |
|---|---|---|---|
| Beginning balance | ₩ | 3,732,906 | 3,637,677 |
| Additional recognition | | - | - |
| Other increase/decrease | | - | 95,229 |
| Ending balance | ₩ | 3,732,906 | 3,732,906 |

## 21. INTANGIBLE ASSETS:

(1) Intangible assets as of December 31, 2015 and 2014, are as follows:

| *(In thousands of Korean won)* | | December 31, 2015 | | | |
|---|---|---|---|---|---|
| | | Acquisition cost | Government grants | Accumulated amortization | Book value |
| Industrial property rights | ₩ | 511,199 | - | (231,198) | 280,001 |
| Development costs | | 49,985,415 | - | (42,454,428) | 7,530,987 |
| Computer software | | 66,245,337 | - | (47,886,303) | 18,359,034 |
| Service operating rights on donated assets | | 363,807 | - | - | 363,807 |
| Other intangible assets | | 20,189,233 | - | - | 20,189,233 |
| Developing intangible assets | | 14,050,854 | - | - | 14,050,854 |
| Total | ₩ | 151,345,845 | - | (90,571,929) | 60,773,916 |

| *(In thousands of Korean won)* | | December 31, 2014 | | | |
|---|---|---|---|---|---|
| | | Acquisition cost | Government grants | Accumulated amortization | Book value |
| Industrial property rights | ₩ | 538,735 | - | (230,484) | 308,251 |
| Development costs | | 49,286,949 | - | (40,572,986) | 8,713,963 |
| Computer software | | 54,184,612 | - | (43,254,807) | 10,929,805 |
| Service operating rights on donated assets | | 396,880 | - | - | 396,880 |
| Other intangible assets | | 18,382,695 | - | - | 18,382,695 |
| Total | ₩ | 122,789,871 | - | (84,058,277) | 38,731,594 |

(2) Changes in intangible assets for the years ended December 31, 2015 and 2014, are as follows:

| (In thousands of Korean won) | | 2015 | | | | | |
|---|---|---|---|---|---|---|---|
| | | Industrial property rights | Development costs | Computer software | Service operating rights on donated assets | Other intangible assets(*) | Total |
| Beginning balance | ₩ | 308,251 | 8,713,963 | 10,929,805 | 396,880 | 18,382,695 | 38,731,594 |
| Increase | | - | - | 210,265 | - | 181,223 | 391,488 |
| Disposal | | - | - | - | - | - | - |
| Amortization | | (715) | (1,881,442) | (4,631,496) | (33,073) | (1,621,820) | (8,168,546) |
| Government grants | | - | - | - | - | - | - |
| Other | | (27,535) | 698,466 | 11,850,460 | - | 17,297,989 | 29,819,380 |
| Ending balance | ₩ | 280,001 | 7,530,987 | 18,359,034 | 363,807 | 34,240,087 | 60,773,916 |

(*) Developing intangible assets are included and they increased by ₩14,050,854 thousand in ‘Other’ column.

| (In thousands of Korean won) | | 2014 | | | | | |
|---|---|---|---|---|---|---|---|
| | | Industrial property rights | Development costs | Computer software | Service operating rights on donated assets | Other intangible assets | Total |
| Beginning balance | ₩ | 58,525 | 9,426,764 | 20,455,550 | 429,952 | 19,530,886 | 49,901,677 |
| Increase | | 308,556 | 439,816 | 1,526,667 | - | 5,552,843 | 7,827,882 |
| Disposal | | - | - | - | - | - | - |
| Amortization | | (24,751) | (1,622,150) | (10,744,717) | (33,072) | (2,105,665) | (14,530,355) |
| Government grants | | - | - | 167,197 | - | - | 167,197 |
| Other | | (34,079) | 469,533 | (474,892) | - | (4,595,369) | (4,467,610) |
| Ending balance | ₩ | 308,251 | 8,713,963 | 10,929,805 | 396,880 | 18,382,695 | 38,731,594 |

(3) Details of important intangible assets for the years ended December 31, 2015 and 2014, are as follows:

| (In thousands of Korean won) | 2015 | | |
|---|---|---|---|
| | Details | Book value | Remaining amortization period |
| Development costs | ERP Upgrade and optimization of data | ₩ 1,404,709 | 3 years |
| Development costs | Building business homepage | 1,304,283 | 5 years |
| Development costs | Information security ISP | 2,414,412 | 4 years |
| Computer software | New generation of customer business system | 2,845,985 | 3 year |
| Computer software | Train Operation Planning System | 2,187,427 | 4 years |
| Computer software | New generation of customer business system_Second | 7,804,953 | 5 years |

| (In thousands of Korean won) | 2014 | | |
|---|---|---|---|
| | Details | Book value | Remaining amortization period |
| Development costs | ERP Upgrade and optimization of data | ₩ 1,827,668 | 5 years |
| Development costs | Information security ISP | 3,018,015 | 5 years |
| Computer software | New generation of customer business system | 3,794,646 | 4 year |
| Computer software | Train Operation Planning System | 2,745,920 | 5 years |

## 22. TRADE AND OTHER PAYABLES:

Details of trade and other payables as of December 31, 2015 and 2014, are as follows:

| (In thousands of Korean won) | | December 31, 2015 | | December 31, 2014 | |
|---|---|---|---|---|---|
| | | Current | Non-current | Current | Non-current |
| Trade payables | ₩ | 232,088,383 | - | 222,538,621 | - |
| Other payables | | 161,912,958 | - | 156,394,062 | - |
| Accrued expenses | | 252,168,110 | - | 220,793,351 | - |
| Other | | - | 1,503,451 | - | 5,901,072 |
| Total | ₩ | 646,169,451 | 1,503,451 | 599,726,034 | 5,901,072 |

## 23. FINANCIAL LIABILITIES:

(1) Financial liabilities as of December 31, 2015 and 2014, are as follows:

| *(In thousands of Korean won)* | | December 31, 2015 | December 31, 2014 |
|---|---|---|---|
| Current liabilities | | | |
| Short-term borrowings | ₩ | 221,589,755 | 8,503,864 |
| Current portion of long-term borrowings | | 30,812,500 | 30,875,000 |
| Current bonds | | 1,524,400,000 | 1,849,840,000 |
| Deduct: Bond issuance discount | | (732,221) | (484,031) |
| Subtotal | | 1,776,070,034 | 1,888,734,833 |
| Non-current liabilities | | | |
| Long-term borrowings | | 133,000,000 | 152,812,500 |
| Bonds | | 9,381,361,200 | 11,056,643,150 |
| Deduct: Bond issuance discount | | (5,810,740) | (10,027,299) |
| Subtotal | | 9,508,550,460 | 11,199,428,351 |
| Total | ₩ | 11,284,620,494 | 13,088,163,184 |

(2) Short-term borrowings as of December 31, 2015 and 2014, are as follows:

| *(In thousands of Korean won)* | Type of borrowings | Interest rate | | December 31, 2015 | December 31, 2014 |
|---|---|---|---|---|---|
| Hana Bank | Working fund borrowings | 4.45% | ₩ | 1,415,000 | 1,500,000 |
| Hana Bank | Working fund borrowings | 4.07% | | 1,500,000 | 1,500,000 |
| Woori Bank | Working fund borrowings | 3.95% | | 1,974,755 | 931,588 |
| NH Bank | Working fund borrowings | 2.21% | | 16,700,000 | 3,800,000 |
| Hana Bank | Loans on others | 1.82% | | 100,000,000 | - |
| Shinhan Bank | Loans on others | 1.87% | | 100,000,000 | - |
| Hana Bank | Working fund borrowings | - | | - | 678,445 |
| KB Bank | Working fund borrowings | - | | - | 93,831 |
| Ending balance | | | ₩ | 221,589,755 | 8,503,864 |

(3) Long-term borrowings as of December 31, 2015 and 2014, are as follows:

| *(In thousands of Korean won)* | Type of borrowings | Interest rate | Maturity | December 31, 2015 Borrowings denominated in foreign currency | December 31, 2015 Borrowings denominated in Korean won |
|---|---|---|---|---|---|
| Ministry of Strategy and Finance | Public management fund financing | Variable | 2020 | - | 150,000,000 |
| Korea Workers' Compensation and Welfare Service | Financing on foundation of day care center in workplace | 2.00% | 2023 | - | 1,000,000 |
| Woori Bank | Facility fund debt | 5.55% | 2018 | - | 1,000,000 |
| Kookmin Bank | Facility fund debt | 5.15% | 2016 | - | 812,500 |
| NH Bank | Facility fund debt | 2.13% | 2018 | - | 11,000,000 |
| Subtotal | | | | - | 163,812,500 |
| | | | | - | 163,812,500 |
| Deduct: reclassified to current borrowings | | | | - | (30,812,500) |
| Total | | | | - | 133,000,000 |

| *(In thousands of Korean won)* | Type of borrowings | Interest rate | Maturity | December 31, 2014 Borrowings denominated in foreign currency | December 31, 2014 Borrowings denominated in Korean won |
|---|---|---|---|---|---|
| Ministry of Strategy and Finance | Public management fund financing | Variable | 2020 | - | 180,000,000 |
| Woori Bank | Facility fund debt | 5.55% | 2017 | - | 2,000,000 |
| Kookmin Bank | Facility fund debt | 5.18% | 2016 | - | 687,500 |
| Korea Workers' Compensation and Welfare Service | Financing on foundation of day care center in workplace | 2.00% | 2023 | - | 1,000,000 |
| Subtotal | | | | - | 183,687,500 |
| | | | | - | 183,687,500 |
| Deduct: reclassified to current borrowings | | | | - | (30,875,000) |
| Total | | | | - | 152,812,500 |

(4) Bonds as of December 31, 2015 and 2014, are as follows:

*(In thousands of Korean won)*

| | | | December 31, 2015 | | |
|---|---|---|---|---|---|
| | Interest rate | Maturity | Borrowings denominated in foreign currency | | Borrowings denominated in Korean won |
| Korea Railroad Corporation12 | 5.05% | 2016-09-08 | - | ₩ | 100,000,000 |
| Korea Railroad Corporation18 | 5.05% | 2016-12-12 | - | | 140,000,000 |
| Korea Railroad Corporation48 | 5.25% | 2019-04-15 | - | | 110,000,000 |
| Korea Railroad Corporation50 | 5.29% | 2018-05-14 | - | | 150,000,000 |
| Korea Railroad Corporation52 | 5.67% | 2019-09-03 | - | | 150,000,000 |
| Korea Railroad Corporation53 | 5.67% | 2019-09-17 | - | | 130,000,000 |
| Korea Railroad Corporation54 | 5.61% | 2017-09-24 | - | | 150,000,000 |
| Korea Railroad Corporation56 | 5.56% | 2016-10-16 | - | | 140,000,000 |
| Korea Railroad Corporation58 | 5.69% | 2018-10-29 | - | | 120,000,000 |
| Korea Railroad Corporation60 | 5.45% | 2020-02-04 | - | | 150,000,000 |
| Korea Railroad Corporation61 | 5.43% | 2020-02-17 | - | | 200,000,000 |
| Korea Railroad Corporation63 | 5.03% | 2017-04-15 | - | | 150,000,000 |
| Korea Railroad Corporation65 | 5.12% | 2020-04-27 | - | | 50,000,000 |
| Korea Railroad Corporation67 | 5.24% | 2020-05-13 | - | | 160,000,000 |
| Korea Railroad Corporation68 | 5.19% | 2018-05-25 | - | | 200,000,000 |
| Korea Railroad Corporation71 | 4.66% | 2020-08-23 | - | | 150,000,000 |
| Korea Railroad Corporation74 | 4.53% | 2017-11-11 | - | | 150,000,000 |
| Korea Railroad Corporation76 | 5.03% | 2021-02-17 | - | | 150,000,000 |
| Korea Railroad Corporation77 | 4.56% | 2016-02-25 | - | | 50,000,000 |
| Korea Railroad Corporation78 | 4.40% | 2018-03-17 | - | | 100,000,000 |
| Korea Railroad Corporation79 | 4.67% | 2021-04-08 | - | | 100,000,000 |
| Korea Railroad Corporation81 | 4.40% | 2016-04-28 | - | | 150,000,000 |
| Korea Railroad Corporation82 | 4.27% | 2026-08-08 | - | | 120,000,000 |
| Korea Railroad Corporation83 | 4.10% | 2021-08-23 | - | | 80,000,000 |
| Korea Railroad Corporation84 | 4.06% | 2026-09-06 | - | | 100,000,000 |
| Korea Railroad Corporation85 | 3.99% | 2016-09-26 | - | | 150,000,000 |
| Korea Railroad Corporation86 | 3.91% | 2015-04-14 | - | | - |
| Korea Railroad Corporation87 | 4.06% | 2016-10-21 | - | | 180,000,000 |
| Korea Railroad Corporation88 | 4.17% | 2021-11-08 | - | | 170,000,000 |
| Korea Railroad Corporation89 | 4.00% | 2022-02-24 | - | | 130,000,000 |
| Korea Railroad Corporation90 | 4.26% | 2027-03-19 | - | | 130,000,000 |
| Korea Railroad Corporation91 | 3.94% | 2017-04-05 | - | | 200,000,000 |
| Korea Railroad Corporation92 | 4.09% | 2027-04-23 | - | | 200,000,000 |
| Korea Railroad Corporation93 | 3.84% | 2022-05-22 | - | | 190,000,000 |
| Korea Railroad Corporation94 | CD (91 days)+0.28% | 2016-07-06 | - | | 120,000,000 |
| Korea Railroad Corporation95 | 3.12% | 2019-07-26 | - | | 130,000,000 |
| Korea Railroad Corporation96 | 3.16% | 2027-09-11 | - | | 90,000,000 |
| Korea Railroad Corporation97 | 3.08% | 2017-09-26 | - | | 130,000,000 |
| Korea Railroad Corporation98 | 3.06% | 2022-10-09 | - | | 130,000,000 |
| Korea Railroad Corporation99 | 3.12% | 2027-10-18 | - | | 100,000,000 |
| Foreign public bond4 | CHF 1.00% | 2018-11-16 | CHF 300,000,000 | | 355,617,000 |
| Korea Railroad Corporation101 | 2.95% | 2017-01-17 | - | | 120,000,000 |
| Korea Railroad Corporation102 | 3.20% | 2023-02-07 | - | | 100,000,000 |
| Korea Railroad Corporation104 | 3.20% | 2016-08-22 | - | | 70,000,000 |

| | | | | |
|---|---|---|---|---|
| Foreign public bond5 | LIBOR (3M)+0.95% | 2016-08-29 | USD 200,000,000 | 234,400,000 |
| Korea Railroad Corporation106 | 4.04% | 2033-09-06 | - | 90,000,000 |
| Korea Railroad Corporation107 | 3.62% | 2023-09-26 | - | 100,000,000 |
| Korea Railroad Corporation109 | 3.05% | 2016-04-15 | - | 80,000,000 |
| Korea Railroad Corporation110 | 3.68% | 2023-10-29 | - | 50,000,000 |
| Korea Railroad Corporation111 | 3.48% | 2018-11-08 | - | 90,000,000 |
| Korea Railroad Corporation113 | 3.24% | 2016-11-21 | - | 110,000,000 |
| Foreign public bond6 | CHF 1.50% | 2019-12-02 | CHF 315,000,000 | 373,397,850 |
| Korea Railroad Corporation114 | 3.89% | 2024-01-15 | - | 110,000,000 |
| Korea Railroad Corporation115 | 3.57% | 2019-01-15 | - | 100,000,000 |
| Korea Railroad Corporation116 | 3.52% | 2019-01-24 | - | 150,000,000 |
| Korea Railroad Corporation117 | 3.11% | 2017-02-10 | - | 250,000,000 |
| Korea Railroad Corporation118 | 3.81% | 2034-02-17 | - | 40,000,000 |
| Foreign public bond7 | LIBOR (3M)+0.7% | 2017-02-28 | USD 200,000,000 | 234,400,000 |
| Korea Railroad Corporation119 | 3.41% | 2019-03-06 | - | 100,000,000 |
| Korea Railroad Corporation120 | 3.22% | 2018-03-12 | - | 80,000,000 |
| Korea Railroad Corporation121 | 3.82% | 2029-03-12 | - | 60,000,000 |
| Korea Railroad Corporation122 | 3.36% | 2019-03-19 | - | 90,000,000 |
| Korea Railroad Corporation123 | 3.70% | 2024-03-19 | - | 40,000,000 |
| Korea Railroad Corporation124 | 3.10% | 2017-03-27 | - | 200,000,000 |
| Korea Railroad Corporation125 | 3.68% | 2024-03-31 | - | 60,000,000 |
| Korea Railroad Corporation126 | 3.40% | 2019-04-04 | - | 150,000,000 |
| Korea Railroad Corporation127 | 3.30% | 2018-10-16 | - | 200,000,000 |
| Korea Railroad Corporation128 | 3.84% | 2034-04-18 | - | 50,000,000 |
| Korea Railroad Corporation129 | 3.39% | 2019-04-23 | - | 200,000,000 |
| Korea Railroad Corporation130 | 3.70% | 2024-04-29 | - | 100,000,000 |
| Korea Railroad Corporation131 | 3.16% | 2018-05-14 | - | 140,000,000 |
| Korea Railroad Corporation132 | 3.62% | 2024-05-14 | - | 70,000,000 |
| Korea Railroad Corporation133 | 3.55% | 2024-05-21 | - | 70,000,000 |
| Korea Railroad Corporation134 | 3.00% | 2017-05-26 | - | 150,000,000 |
| Korea Railroad Corporation135 | 3.52% | 2024-06-10 | - | 150,000,000 |
| Korea Railroad Corporation136 | 3.26% | 2024-07-04 | - | 150,000,000 |
| Korea Railroad Corporation137 | 3.25% | 2029-07-24 | - | 150,000,000 |
| Foreign public bond8 | SGD 1.76% | 2018-09-04 | SGD 65,000,000 | 53,825,850 |
| Foreign public bond9 | LIBOR (3M)+0.55% | 2017-09-18 | USD 100,000,000 | 117,200,000 |
| Korea Railroad Corporation138 | 2.93% | 2029-10-28 | - | 100,000,000 |
| Korea Railroad Corporation139 | 2.86% | 2026-11-12 | - | 220,000,000 |
| Foreign public bond10 | AUD BBSW (3M)+0.85% | 2018-08-13 | AUD 55,000,000 | 46,920,500 |
| Korea Railroad Corporation140 | 2.79% | 2024-11-25 | - | 200,000,000 |
| Subtotal | | KRW | - | 9,490,000,000 |
| | | USD | 700,000,000 | 586,000,000 |
| | | CHF | 615,000,000 | 729,014,850 |
| | | SGD | 65,000,000 | 53,825,850 |
| | | AUD | 55,000,000 | 46,920,500 |
| Deduct: reclassified to current borrowings | | KRW | - | 1,290,000,000 |
| | | USD | (200,000,000) | 234,400,000 |
| Total | | KRW | - | 8,200,000,000 |
| | | USD | 500,000,000 | 351,600,000 |
| | | CHF | 615,000,000 | 729,014,850 |
| | | SGD | 65,000,000 | 53,825,850 |

| | | | |
|---|---|---|---|
| AUD | 55,000,000 | | 46,920,500 |
| Total | | ₩ | 9,381,361,200 |

*(In thousands of Korean won)*

| | | | December 31, 2014 | |
|---|---|---|---|---|
| | Interest rate | Maturity | Borrowings denominated in foreign currency | Borrowings denominated in Korean won |
| | | | - | |
| Korea Railroad Corporation12 | 5.05% | 2016-09-08 | - | ₩ 100,000,000 |
| Korea Railroad Corporation18 | 5.05% | 2016-12-12 | - | 140,000,000 |
| Korea Railroad Corporation45 | 5.30% | 2015-03-06 | - | 90,000,000 |
| Korea Railroad Corporation46 | 5.20% | 2016-03-18 | - | 100,000,000 |
| Korea Railroad Corporation47 | 5.11% | 2015-04-02 | - | 150,000,000 |
| Korea Railroad Corporation48 | 5.25% | 2019-04-15 | - | 110,000,000 |
| Korea Railroad Corporation50 | 5.29% | 2018-05-14 | - | 150,000,000 |
| Korea Railroad Corporation51 | 5.27% | 2015-07-15 | - | 160,000,000 |
| Korea Railroad Corporation52 | 5.67% | 2019-09-03 | - | 150,000,000 |
| Korea Railroad Corporation53 | 5.67% | 2019-09-17 | - | 130,000,000 |
| Korea Railroad Corporation54 | 5.61% | 2017-09-24 | - | 150,000,000 |
| Korea Railroad Corporation56 | 5.56% | 2016-10-16 | - | 140,000,000 |
| Korea Railroad Corporation58 | 5.69% | 2018-10-29 | - | 120,000,000 |
| Korea Railroad Corporation60 | 5.45% | 2020-02-04 | - | 150,000,000 |
| Korea Railroad Corporation61 | 5.43% | 2020-02-17 | - | 200,000,000 |
| Korea Railroad Corporation63 | 5.03% | 2017-04-15 | - | 150,000,000 |
| Korea Railroad Corporation64 | 4.79% | 2015-04-22 | - | 70,000,000 |
| Korea Railroad Corporation65 | 5.12% | 2020-04-27 | - | 50,000,000 |
| Korea Railroad Corporation66 | 4.70% | 2015-04-28 | - | 130,000,000 |
| Korea Railroad Corporation67 | 5.24% | 2020-05-13 | - | 160,000,000 |
| Korea Railroad Corporation68 | 5.19% | 2018-05-25 | - | 200,000,000 |
| Korea Railroad Corporation71 | 4.66% | 2020-08-23 | - | 150,000,000 |
| Korea Railroad Corporation73 | 4.35% | 2015-11-05 | - | 130,000,000 |
| Korea Railroad Corporation74 | 4.53% | 2017-11-11 | - | 150,000,000 |
| Korea Railroad Corporation76 | 5.03% | 2021-02-17 | - | 150,000,000 |
| Korea Railroad Corporation77 | 4.56% | 2016-02-25 | - | 150,000,000 |
| Korea Railroad Corporation78 | 4.40% | 2018-03-17 | - | 100,000,000 |
| Korea Railroad Corporation79 | 4.67% | 2021-04-08 | - | 100,000,000 |
| Korea Railroad Corporation81 | 4.40% | 2016-04-28 | - | 150,000,000 |
| Korea Railroad Corporation82 | 4.27% | 2026-08-08 | - | 120,000,000 |
| Korea Railroad Corporation83 | 4.10% | 2021-08-23 | - | 80,000,000 |
| Korea Railroad Corporation84 | 4.06% | 2026-09-06 | - | 100,000,000 |
| Korea Railroad Corporation85 | 3.99% | 2016-09-26 | - | 150,000,000 |
| Korea Railroad Corporation86 | 3.91% | 2015-04-14 | - | 110,000,000 |
| Korea Railroad Corporation87 | 4.06% | 2016-10-21 | - | 180,000,000 |
| Korea Railroad Corporation88 | 4.17% | 2021-11-08 | - | 170,000,000 |
| Korea Railroad Corporation89 | 4.00% | 2022-02-24 | - | 130,000,000 |
| Korea Railroad Corporation90 | 4.26% | 2027-03-19 | - | 130,000,000 |
| Korea Railroad Corporation91 | 3.94% | 2017-04-05 | - | 200,000,000 |
| Korea Railroad Corporation92 | 4.09% | 2027-04-23 | - | 200,000,000 |
| Korea Railroad Corporation93 | 3.84% | 2022-05-22 | USD 200,000,000 | 190,000,000 |
| Foreign public bond3 | LIBOR (3M)+1.60% | 2015-06-14 | - | 219,840,000 |
| Korea Railroad Corporation94 | CD (91 days)+0.28% | 2016-07-06 | - | 120,000,000 |

| | | | | | |
|---|---|---|---|---|---|
| Korea Railroad Corporation95 | 3.12% | 2019-07-26 | | - | 130,000,000 |
| Korea Railroad Corporation96 | 3.16% | 2027-09-11 | | - | 90,000,000 |
| Korea Railroad Corporation97 | 3.08% | 2017-09-26 | | - | 130,000,000 |
| Korea Railroad Corporation98 | 3.06% | 2022-10-09 | | - | 130,000,000 |
| Korea Railroad Corporation99 | 3.12% | 2027-10-18 | | - | 100,000,000 |
| Korea Railroad Corporation100 | 3.02% | 2015-12-07 | CHF | 300,000,000 | 130,000,000 |
| Foreign public bond4 | CHF 1.00% | 2018-11-16 | | - | 333,429,000 |
| Korea Railroad Corporation101 | 2.95% | 2017-01-17 | | - | 120,000,000 |
| Korea Railroad Corporation102 | 3.20% | 2023-02-07 | | - | 100,000,000 |
| Korea Railroad Corporation103 | 2.99% | 2015-08-14 | | - | 200,000,000 |
| Korea Railroad Corporation104 | 3.20% | 2016-08-22 | | - | 80,000,000 |
| Korea Railroad Corporation105 | 2.98% | 2015-08-28 | USD | 200,000,000 | 170,000,000 |
| Foreign public bond5 | LIBOR (3M)+0.95% | 2016-08-29 | | - | 219,840,000 |
| Korea Railroad Corporation106 | 4.04% | 2033-09-06 | | - | 90,000,000 |
| Korea Railroad Corporation107 | 3.62% | 2023-09-26 | | - | 100,000,000 |
| Korea Railroad Corporation108 | 2.97% | 2015-10-07 | | - | 140,000,000 |
| Korea Railroad Corporation109 | 3.05% | 2016-04-15 | | - | 100,000,000 |
| Korea Railroad Corporation110 | 3.68% | 2023-10-29 | | - | 50,000,000 |
| Korea Railroad Corporation111 | 3.48% | 2018-11-08 | | - | 90,000,000 |
| Korea Railroad Corporation112 | 3.00% | 2015-11-20 | | - | 150,000,000 |
| Korea Railroad Corporation113 | 3.24% | 2016-11-21 | | - | 110,000,000 |
| Foreign public bond6 | CHF 1.50% | 2019-12-02 | CHF | 315,000,000 | 350,100,450 |
| Korea Railroad Corporation114 | 3.89% | 2024-01-15 | | - | 110,000,000 |
| Korea Railroad Corporation115 | 3.57% | 2019-01-15 | | - | 100,000,000 |
| Korea Railroad Corporation116 | 3.52% | 2019-01-24 | | - | 150,000,000 |
| Korea Railroad Corporation117 | 3.11% | 2017-02-10 | | - | 250,000,000 |
| Korea Railroad Corporation118 | 3.81% | 2034-02-17 | | - | 40,000,000 |
| Foreign public bond7 | LIBOR (3M)+0.7% | 2017-02-28 | USD | 200,000,000 | 219,840,000 |
| Korea Railroad Corporation119 | 3.41% | 2019-03-06 | | - | 100,000,000 |
| Korea Railroad Corporation120 | 3.22% | 2018-03-12 | | - | 80,000,000 |
| Korea Railroad Corporation121 | 3.82% | 2029-03-12 | | - | 60,000,000 |
| Korea Railroad Corporation122 | 3.36% | 2019-03-19 | | - | 90,000,000 |
| Korea Railroad Corporation123 | 3.70% | 2024-03-19 | | - | 40,000,000 |
| Korea Railroad Corporation124 | 3.10% | 2017-03-27 | | - | 200,000,000 |
| Korea Railroad Corporation125 | 3.68% | 2024-03-31 | | - | 60,000,000 |
| Korea Railroad Corporation126 | 3.40% | 2019-04-04 | | - | 150,000,000 |
| Korea Railroad Corporation127 | 3.30% | 2018-10-16 | | - | 200,000,000 |
| Korea Railroad Corporation128 | 3.84% | 2034-04-18 | | - | 50,000,000 |
| Korea Railroad Corporation129 | 3.39% | 2019-04-23 | | - | 200,000,000 |
| Korea Railroad Corporation130 | 3.70% | 2024-04-29 | | - | 100,000,000 |
| Korea Railroad Corporation131 | 3.16% | 2018-05-14 | | - | 140,000,000 |
| Korea Railroad Corporation132 | 3.62% | 2024-05-14 | | - | 70,000,000 |
| Korea Railroad Corporation133 | 3.55% | 2024-05-21 | | - | 70,000,000 |
| Korea Railroad Corporation134 | 3.00% | 2017-05-26 | | - | 150,000,000 |
| Korea Railroad Corporation135 | 3.52% | 2024-06-10 | | - | 150,000,000 |
| Korea Railroad Corporation136 | 3.26% | 2024-07-04 | | - | 150,000,000 |
| Korea Railroad Corporation137 | 3.25% | 2029-07-24 | | - | 150,000,000 |
| Foreign public bond8 | SGD 1.76% | 2018-09-04 | SGD | 65,000,000 | 54,063,750 |
| Foreign public bond9 | LIBOR (3M)+0.55% | 2017-09-18 | USD | 100,000,000 | 109,920,000 |
| Korea Railroad Corporation138 | 2.93% | 2029-10-28 | | - | 100,000,000 |
| Korea Railroad Corporation139 | 2.86% | 2026-11-12 | | - | 220,000,000 |

| | | | | |
|---|---|---|---|---|
| Foreign public bond10 | AUD BBSW (3M)+0.85% | 2018-08-13 | AUD 55,000,000 | 49,449,950 |
| Korea Railroad Corporation140 | 2.79% | 2024-11-25 | - | 200,000,000 |
| Subtotal | | KRW | - | 11,350,000,000 |
| | | USD | 700,000,000 | 769,440,000 |
| | | CHF | 615,000,000 | 683,529,450 |
| | | SGD | 65,000,000 | 54,063,750 |
| | | AUD | 55,000,000 | 49,449,950 |
| Deduct: reclassified to current borrowings | | KRW | - | 1,630,000,000 |
| | | USD | 200,000,000 | 219,840,000 |
| Total | | KRW | - | 9,720,000,000 |
| | | USD | 500,000,000 | 549,600,000 |
| | | CHF | 615,000,000 | 683,529,450 |
| | | SGD | 65,000,000 | 54,063,750 |
| | | AUD | 55,000,000 | 49,449,950 |
| | | Total | - | 11,056,643,150 |

## 24. OTHER FINANCIAL LIABILITIES:

Other Financial Liabilities as of December 31, 2015 and 2014, are as follows:

| | | December 31, 2015 | | December 31, 2014 | |
|---|---|---|---|---|---|
| *(In thousands of Korean won)* | | Current | Non-current | Current | Non-current |
| Other financial liabilities(*) | ₩ | - | 96,270,000 | - | 47,200,000 |

(*) Regarding the capital increase of SR Co., Ltd., the Group's subsidiary, the Group may have to purchase stocks from non-controlling interest of SR Co., Ltd. at the purchasing amount, plus annual compound interest of 5.6% from three years and six months to eight years and six months after the date of capital increase. The Group recognizes the present value of the repayment related to this transaction as financial liability.

## 25. FINANCE LEASE LIABILITIES:

(1) The Group maintains finance lease agreement with Lotte Capital Corporation and HP Financial Corporation for the usage of tools and equipment, and recognizes assets and liabilities related to the lease agreements.

(2) Details of assets under the finance lease are as follows:

| | | December 31, 2015 | December 31, 2014 |
|---|---|---|---|
| *(In thousands of Korean won)* | | Installation structures | Installation structures |
| Acquisition cost | ₩ | 1,717,071 | 1,717,071 |
| Accumulated depreciation | | (1,717,064) | (1,717,064) |
| Carrying amounts | ₩ | 7 | 7 |

## 26. EMPLOYEE BENEFITS:

(1) Defined contribution plan

The Group operates a defined contribution plan for employees of Korea Railroad Corporation, KORAIL Networks Co., Ltd., KORAIL Logis Co., Ltd. and KORAIL Tech Co., Ltd. Plan assets are operated independently from the Group's other assets in the form of funds.

Total expense included in the consolidated statement of comprehensive loss for the year ended December 31, 2015, amounting to ₩2,940,272 thousand (2014: ₩3,429,944 thousand), which represents the contributions to the retirement benefit plan according to the ratio pursuant to retirement benefit plan.

(2) Defined benefits retirement plan

The Group operates a defined benefit retirement plan for all other employees who do not participate in the defined contribution plan.

The major actuarial calculation of the plan asset and the defined benefit retirement liabilities was performed by HMC Securities Actuary whose report was dated December 31, 2015. Present value of defined benefit liabilities, current service costs and past service costs are calculated using the projected credit method.

(i) The component of defined benefit liabilities as of December 31, 2015 and 2014, is as follows:

| *(In thousands of Korean won)* | | December 31, 2015 | December 31, 2014 |
|---|---|---|---|
| Present value of defined benefit obligations | ₩ | 838,053,652 | 793,960,712 |
| Fair value of plan assets | | (43,862,222) | (33,928,746) |
| Recognized as defined benefit liabilities in the consolidated statement of financial position | ₩ | 794,191,430 | 760,031,966 |

(ii) Changes in defined benefit liabilities for the years ended December 31, 2015 and 2014, are as follows:

| *(In thousands of Korean won)* | | 2015 | 2014 |
|---|---|---|---|
| Beginning balance | ₩ | 793,960,712 | 682,733,685 |
| Current service costs | | 138,725,214 | 123,182,960 |
| Interests(*) | | 27,847,439 | 31,169,970 |
| Actuarial gains or losses | | (52,432,986) | 38,573,942 |
| Benefit paid | | (70,273,483) | (81,854,807) |
| Gain due to calculation adjustment | | 11,327 | 5,660 |
| Other | | 215,429 | 149,302 |
| Ending balance | ₩ | 838,053,652 | 793,960,712 |

(*) Interest rate applied for defined benefit liabilities is the market interest rate of government bonds.

(iii) Changes in plan assets for the years ended December 31, 2015 and 2014, are as follows:

| *(In thousands of Korean won)* | | 2015 | 2014 |
|---|---|---|---|
| Beginning balance | ₩ | 33,928,746 | 35,464,661 |
| Expected return on plan assets(*) | | 670,914 | 1,066,056 |
| Benefit paid by the plan | | (135,615) | (473,634) |
| Actuarial gains or losses | | (2,419,726) | (2,528,780) |
| Contributions paid into the plan | | 7,769,178 | 719,569 |
| Employee contribution | | 4,048,725 | (319,126) |
| Ending balance | ₩ | 43,862,222 | 33,928,746 |

(iv) Expense recognized in profit or loss

| *(In thousands of Korean won)* | | 2015 | 2014 |
|---|---|---|---|
| Current service costs | ₩ | 138,725,214 | 123,182,960 |
| Interests | | 27,847,439 | 31,169,970 |
| Expected return on plan assets | | (670,914) | (1,066,056) |
| Total | ₩ | 165,901,739 | 153,286,874 |

Expense presented above is recognized in the consolidated statements of comprehensive loss as follows:

| *(In thousands of Korean won)* | | 2015 | 2014 |
|---|---|---|---|
| Cost of sales | ₩ | 152,955,154 | 141,115,305 |
| Selling, general and administrative expense | | 12,946,585 | 12,171,568 |
| Total | ₩ | 165,901,739 | 153,286,873 |

(v) Remeasurement factors recognized in other comprehensive income for the years ended December 31, 2015 and 2014, are as follows:

| *(In thousands of Korean won)* | | 2015 | 2014 |
|---|---|---|---|
| Actuarial gain (loss) | ₩ | 52,432,986 | (38,573,942) |
| Interests of plan assets | | (135,615) | (473,634) |
| Subtotal | | 52,297,371 | (39,047,576) |
| Tax effect | | (15,262) | (78,166) |
| Total | ₩ | 52,282,109 | (39,125,742) |

Remeasurement factors were directly reclassified to retained earnings in the consolidated statement of financial position

(vi) Plan assets details:

| *(In thousands of Korean won)* | | December 31, 2015 | December 31, 2014 |
|---|---|---|---|
| Equity securities | ₩ | 43,862,222 | 33,928,746 |

(vii) Principal actuarial assumptions at the reporting date.

| | December 31, 2015 | December 31, 2014 |
|---|---|---|
| Discount rate (expected return on plan assets) | 3.15% | 3.71% |
| Future salary increases | 3.42% | 3.50% |

## 27. PROVISIONS:

(1) Provisions as of December 31, 2015 and 2014, are as follows:

| *(In thousands of Korean won)* | | December 31, 2015 | | December 31, 2014 | |
|---|---|---|---|---|---|
| Provision for employee benefits | ₩ | 163,173,475 | - | 153,155,831 | - |
| Provision for pending litigations | | - | 2,197,865 | - | 7,075,910 |
| Provisions for recovery (*) | | - | 208,235,581 | - | 212,605,445 |
| Provisions for others | | - | 317,327 | - | 537,180 |
| Total | ₩ | 163,173,475 | 210,750,773 | 153,155,831 | 220,218,535 |

(*) As the Group is obligated to restore contamination of lands in use, the Group recognizes the future expenditure amount as provisions for losses incurred during construction every year. Above provisions for recovery include estimations on additional burden in the Group's recovery that resulted in the cancelation of development project for Yongsan Station area that took place in the year ended December 31, 2013.

(2) Changes in provisions for the years ended December 31, 2015 and 2014, are as follows:

| | | 2015 | | | | | |
|---|---|---|---|---|---|---|---|
| *(In thousands of Korean won)* | | Beginning balance | Increase | Used | Reversal | Others(*) | Ending balance |
| Provision for employee benefits | ₩ | 153,155,831 | 163,173,475 | (153,155,831) | - | - | 163,173,475 |
| Provision for pending litigations | | 7,075,910 | 417,354 | (31,579) | (5,263,820) | - | 2,197,865 |
| Provision for restoration (Note 49) | | 212,605,445 | - | - | (12,880,702) | 8,510,838 | 208,235,581 |
| Provisions for others | | 537,180 | 213,010 | (318,390) | - | (114,473) | 317,327 |
| Total | ₩ | 373,374,366 | 163,803,839 | (153,505,800) | (18,144,522) | 8,396,365 | 373,924,248 |

(*) As explained in Notes 40 and 50, provision of Airport Railroad Co., Ltd. is reclassified as liabilities held for sale.

| (In thousands of Korean won) | | 2014 | | | | | |
|---|---|---|---|---|---|---|---|
| | | Beginning balance | Increase | Used | Reversal | Others | Ending balance |
| Provision for employee benefits | ₩ | 229,540,046 | 153,155,831 | (229,540,046) | - | - | 153,155,831 |
| Provision for pending litigations | | 9,601,017 | 1,719,017 | (3,183,786) | (1,060,338) | - | 7,075,910 |
| Provision for restoration (Note 49) | | 206,449,961 | 274,065 | (782,921) | (28,605) | 6,692,945 | 212,605,445 |
| Provisions for others | | 43,998,792 | 8,733,653 | (154,295) | - | (52,040,970) | 537,180 |
| Total | ₩ | 489,589,816 | 163,882,566 | (233,661,048) | (1,088,943) | (45,348,025) | 373,374,366 |

## 28. GOVERNMENT GRANTS:

(1) Accounting treatment for government grants

In accordance with Korean Government-owned and Quasi-government Accounting Regulation and Standards, government grants used for the acquisition of certain assets are deducted from the acquisition cost of the acquired assets and such grants are offset against the depreciation expenses of the acquired assets during the useful lives of the assets.

(2) Government grants as of December 31, 2015 and 2014, are as follows:

| (In thousands of Korean won) | | December 31, 2015 | December 31, 2014 |
|---|---|---|---|
| Cash and cash equivalents | ₩ | (116,190,367) | (197,099,794) |
| Supplies | | (54,351,104) | (95,900) |
| Prepayments | | (3,809,413) | - |
| Land | | (6,526,056) | (6,526,056) |
| Buildings | | (81,118,815) | (75,482,318) |
| Structures | | (6,747,135) | (6,031,366) |
| Machinery | | (98,807,082) | (89,090,008) |
| Trains | | (364,110,309) | (364,070,352) |
| Vehicles | | (416,098) | (611,839) |
| Tools | | (107,435) | (193,383) |
| Fixtures | | (2,856) | - |
| Construction in progress | | (14,441,312) | (8,541,732) |
| Investment property (buildings) | | (1,893,977) | (239,596) |
| Total | ₩ | (748,521,959) | (747,982,344) |

(3) Changes in government grants for the year ended as of December 31, 2015 and 2014, are as follows:

| *(In thousands of Korean won)* | | 2015 | | | | | |
|---|---|---|---|---|---|---|---|
| | | Book value as of January 1, 2015 | Receipt | Acquisition of assets | Offsetting with depreciation cost | Disposal | Others | Book value as of December 31, 2015 |
| Cash and cash equivalents | ₩ | (197,099,794) | (361,158,032) | 117,238,203 | - | 582,867 | 324,246,389 | (116,190,367) |
| Supplies | | (95,900) | - | (54,255,204) | - | - | - | (54,351,104) |
| Prepayments | | - | - | - | - | - | (3,809,413) | (3,809,413) |
| Land | | (6,526,056) | - | - | - | - | - | (6,526,056) |
| Buildings | | (75,482,318) | - | (9,250,529) | 1,921,567 | - | 1,692,465 | (81,118,815) |
| Structures | | (6,031,366) | - | (1,162,879) | 447,110 | - | - | (6,747,135) |
| Machinery | | (89,090,008) | - | (23,102,312) | 13,380,007 | - | 5,231 | (98,807,082) |
| Trains | | (364,070,352) | - | (23,077,390) | 22,969,933 | - | 67,500 | (364,110,309) |
| Vehicles | | (611,839) | - | - | 195,741 | - | - | (416,098) |
| Tools | | (193,383) | - | - | 85,948 | - | - | (107,435) |
| Fixture | | - | - | (3,233) | 377 | - | - | (2,856) |
| Construction in progress | | (8,541,732) | - | (6,386,656) | - | - | 487,076 | (14,441,312) |
| Investment property (buildings) | | (239,596) | - | - | 39,426 | - | (1,693,807) | (1,893,977) |
| Total | ₩ | (747,982,344) | (361,158,032) | - | 39,040,109 | 582,867 | 320,995,441 | (748,521,959) |

| (In thousands of Korean won) | | 2014 | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | Book value as of January 1, 2014 | Receipt | Acquisition of assets | Offsetting with depreciation cost | Disposal | Others | Book value as of December 31, 2014 |
| Cash and cash equivalents | W | (227,503,033) | (356,445,800) | 28,825,167 | - | 61,383 | 357,962,489 | (197,099,794) |
| Supplies | | (470,645) | (95,900) | - | - | - | 470,645 | (95,900) |
| Land | | (6,526,056) | - | - | - | - | - | (6,526,056) |
| Buildings | | (72,643,339) | (165,973) | - | 1,754,763 | - | (4,427,769) | (75,482,318) |
| Structures | | (5,170,770) | (831,810) | (369,369) | 311,335 | - | 29,248 | (6,031,366) |
| Machinery | | (94,775,940) | (4,476,898) | - | 10,207,082 | 322 | (44,574) | (89,090,008) |
| Trains | | (363,273,913) | (23,239,343) | - | 21,887,228 | 555,676 | - | (364,070,352) |
| Vehicles | | (809,475) | - | - | 5,636 | - | 192,000 | (611,839) |
| Tools | | (313,128) | - | - | 118,055 | 1,690 | - | (193,383) |
| Construction in progress | | (12,027,008) | (15,243) | - | - | 369,369 | 3,131,150 | (8,541,732) |
| Investment property (buildings) | | (1,301,454) | - | - | 33,061 | - | 1,028,797 | (239,596) |
| Computer software | | (167,197) | - | - | 167,197 | | - | - |
| Total | W | (784,981,958) | (385,270,967) | 28,455,798 | 34,484,357 | 988,440 | 358,341,986 | (747,982,344) |

(4) Revenues from government grants for the years ended December 31, 2015 and 2014, are as follows:

| *(In thousands of Korean won)* | | 2015 | 2014 |
|---|---|---|---|
| Revenues from government grants | ₩ | 372,425,367 | 348,472,193 |
| Others | | 39,040,109 | 34,484,357 |
| Total | | 411,465,476 | 382,956,550 |

## 29. OTHER NON-FINANCIAL LIABILITIES:

Non-financial liabilities as of December 31, 2015 and 2014, are as follows:

| *(In thousands of Korean won)* | | December 31, 2015 | | December 31, 2014 | |
|---|---|---|---|---|---|
| | | Current | Non-current | Current | Non-current |
| Advance payments | ₩ | 41,695,739 | 801,856 | 55,112,332 | 604,543 |
| Unearned revenues | | 29,004,085 | 17,498,498 | 22,925,796 | 20,377,362 |
| Withholdings | | 148,532,982 | - | 136,014,663 | - |
| Other | | - | - | - | - |
| Total | ₩ | 219,232,806 | 18,300,354 | 214,052,791 | 20,981,905 |

## 30. SHARE CAPITAL:

(1) Share capital as of December 31, 2015 and 2014, is as follows:

| *(In thousands of Korean won)* | | December 31, 2015 | December 31, 2014 |
|---|---|---|---|
| Subscription certificate(*) | ₩ | 9,994,028,991 | 9,603,718,818 |

(*) 100% of the Group's equity is contributed by the Korean government.

(2) Changes in subscription certificate issued for the years ended December 31, 2015 and 2014, are as follows:

| *(In thousands of Korean won)* | | 2015 | 2014 |
|---|---|---|---|
| Beginning balance | ₩ | 9,603,718,818 | 9,585,148,818 |
| Cash contribution | | 390,310,173 | 18,570,000 |
| Ending balance | ₩ | 9,994,028,991 | 9,603,718,818 |

(3) Discount on subscription certificate issued as of December 31, 2015 and 2014, is as follows:

| *(In thousands of Korean won)* | | December 31, 2015 | December 31, 2014 |
|---|---|---|---|
| Discount on subscription certificate issued | ₩ | (4,991,513) | (4,835,310) |

## 31. ACCUMULATED DEFICIT:

(1) Accumulated deficit as of December 31, 2015 and 2014, is as follows:

| *(In thousands of Korean won)* | | December 31, 2015 | December 31, 2014 |
|---|---|---|---|
| Accumulated deficit | ₩ | (8,283,041,210) | (8,458,108,033) |

(2) Changes in accumulated deficit for the years ended December 31, 2015 and 2014, are as follows:

| *(In thousands of Korean won)* | | 2015 | 2014 |
|---|---|---|---|
| Beginning balance | ₩ | (8,458,108,033) | (8,068,092,071) |
| Income (loss) for the year | | 82,289,572 | (354,150,271) |
| Change in retained earnings by applying equity method | | 412,658 | 186,795 |
| Gain (loss) on remeasurement factors | | 52,282,110 | (39,111,800) |
| Reclassification of gain on revaluation of assets to retained earnings | | 38,750,535 | 2,665,380 |
| Others | | 1,331,948 | 393,934 |
| Ending balance | ₩ | (8,283,041,210) | (8,458,108,033) |

(3) Changes in retain earnings of equity method investment for the years ended December 31, 2015 and 2014, are as follows

| (In thousands of Korean won) | | 2015 | 2014 |
|---|---|---|---|
| Beginning balance | ₩ | (5,463,790) | (5,650,585) |
| Changes | | 412,658 | 186,795 |
| Ending balance | ₩ | (5,051,132) | (5,463,790) |

(4) Changes in gain (loss) on remeasurement factors of defined benefit plan for the years ended December 31, 2015 and 2014, are as follows:

| (In thousands of Korean won) | | 2015 | 2014 |
|---|---|---|---|
| Beginning balance | ₩ | (29,317,494) | 9,794,306 |
| Changes | | 52,282,110 | (39,111,800) |
| Ending balance | ₩ | 22,964,616 | (29,317,494) |

## 32. CONSOLIDATED STATEMENT OF DISPOSITION OF ACCUMULATED DEFICIT:

Date of Disposition for 2015: March 31, 2016
Date of Disposition for 2014: March 31, 2015

| *(In thousands of Korean won)* | | 2015 | 2014 |
|---|---|---|---|
| **Undisposed accumulated deficit** | | | |
| Balance at beginning of year | ₩ | (9,043,181,674) | (8,532,562,427) |
| Income (loss) for the year | | 577,639,907 | (475,399,104) |
| Gain (loss) on remeasurement factors of defined benefit plan | | 52,799,920 | (37,885,524) |
| Reclassification of gain on revaluation of assets to retained earnings | | 38,750,535 | 2,665,381 |
| **Balance at end of year before disposition** | | (8,373,991,312) | (9,043,181,674) |
| **Appropriation of disposition of accumulated deficit** | | - | - |
| **Undisposed accumulated deficit to be carried over to subsequent year** | ₩ | (8,373,991,312) | (9,043,181,674) |

## 33. OTHER EQUITY COMPONENTS:

(1) As of December 31, 2015 and 2014, other equity components are as follows:

| *(In thousands of Korean won)* | | December 31, 2015 | December 31, 2014 |
|---|---|---|---|
| Other accumulated comprehensive income | ₩ | 3,043,321,828 | 3,058,507,396 |
| Other additional paid-up capital | | (92,627,235) | (43,657,235) |
| Total | ₩ | 2,950,694,593 | 3,014,850,161 |

(2) Other accumulated comprehensive income or loss for the years ended December 31, 2015 and 2014, is detailed as follows:

| *(In thousands of Korean won)* | | December 31, 2015 | December 31, 2014 |
|---|---|---|---|
| Gain on valuation of available-for-sale securities | ₩ | 11,961,329 | 11,092,013 |
| Change in equity of equity method investment | | (1,791,952) | (3,221,352) |
| Loss on valuation of derivatives | | (1,884,948) | (23,151,198) |
| Gain on reassessment of assets | | 3,035,037,399 | 3,073,787,934 |
| Total | ₩ | 3,043,321,828 | 3,058,507,397 |

## 34. REVENUE:

Details of revenues for the years ended December 31, 2015 and 2014, are summarized as follows:

| *(In thousands of Korean won)* | December 31, 2015 | | December 31, 2014 | |
|---|---|---|---|---|
| | Domestic | Overseas | Domestic | Overseas |
| Revenue from goods sold | 275,884,480 | 3,494,628 | 261,000,017 | 17,428,199 |
| Revenue from services rendered | | | | |
| Transportation business | 4,004,999,407 | - | 3,713,759,901 | - |
| - Normal passenger transportation | 513,511,862 | - | 515,950,389 | - |
| - Express passenger transportation | 1,926,671,005 | - | 1,672,324,896 | - |
| -Long-distance passenger transportation | 828,400,132 | - | 776,690,151 | - |
| - Freight and other transportation | 385,553,408 | - | 402,094,465 | - |
| - PSO | 350,863,000 | - | 346,700,000 | - |
| Revenue from other multiple business | 175,484,863 | 2,456,388 | 154,169,672 | 769,595 |
| Subtotal | 4,180,484,270 | 2,456,388 | 3,867,929,573 | 769,595 |
| Revenue from entrusted business: | | | | |
| Normal entrusted business | 61,208,600 | - | 62,887,820 | - |
| Government entrusted business | 984,957,741 | - | 876,401,614 | - |
| Subtotal | 1,046,166,341 | - | 939,289,434 | - |
| Construction-related revenue | 7,545,181 | - | 7,276,021 | - |
| Total | 5,510,080,272 | 5,951,016 | 5,075,495,044 | 18,197,794 |

## 35. SELLING, GENERAL AND ADMINISTRATIVE EXPENSE:

(1) Details of selling, general and administrative expense for the years ended December 31, 2015 and 2014, are as follows:

*(In thousands of Korean won)*

| | | 2015 | 2014 |
|---|---|---|---|
| Contributions for employee welfare business | ₩ | 40,911 | 35,100 |
| Salaries and wages | | 144,877,230 | 123,941,647 |
| Expenses related to retirement benefits | | 13,085,776 | 12,171,568 |
| Other employee benefits | | 16,535,337 | 23,199,568 |
| Insurance | | 2,350,984 | 2,493,092 |
| Depreciation | | 19,408,579 | 23,481,744 |
| Amortization | | 8,168,546 | 12,860,340 |
| Bad debts expenses | | 2,060,605 | 903,876 |
| Reversals of bad debts expenses | | - | (996,666) |
| Professional service fees | | 36,161,515 | 28,452,729 |
| Advertising | | 3,589,807 | 3,903,126 |
| Training | | 5,712,558 | 3,736,021 |
| Vehicles | | 289,349 | 219,375 |
| Printing | | 746,489 | 718,438 |
| Business development expenses | | 815,335 | 775,565 |
| Rent | | 4,825,143 | 4,595,103 |
| Communications | | 2,020,391 | 2,035,596 |
| Transportation costs | | 78,225 | 18,843 |
| Taxes and dues | | 6,814,170 | 7,596,062 |
| Supplies | | 2,321,133 | 1,882,321 |
| Utilities | | 4,724,614 | 4,891,110 |
| Maintenance | | 9,113,702 | 6,473,319 |
| Research | | 733,426 | 514,499 |
| Travel | | 2,215,901 | 1,905,114 |
| Uniform | | 239,217 | 38,290 |
| Analysis | | 695,389 | 1,852,661 |
| Annual fees | | 380,134 | 363,716 |
| Selling expenses | | 565,703 | 1,837,040 |
| Others | | 4,937,440 | 3,290,288 |
| Total | ₩ | 293,507,609 | 273,189,485 |

(2) Details of other selling, general and administrative expense for the years ended December 31, 2015 and 2014, are as follows:

| *(In thousands of Korean won)* | | 2015 | 2014 |
|---|---|---|---|
| Conference | ₩ | 29,645 | 34,547 |
| Cooperation | | 1,272,020 | 891,149 |
| Rewards | | 850,808 | 505,911 |
| Honorary retirement | | 1,019,722 | 348,181 |
| Others | | 1,765,245 | 1,510,500 |
| Total | ₩ | 4,937,440 | 3,290,288 |

## 36. OTHER REVENUES, OTHER EXPENSES AND OTHER INCOME:

(1) Details of other revenues for the years ended December 31, 2015 and 2014, are as follows:

| *(In thousands of Korean won)* | | 2015 | 2014 |
|---|---|---|---|
| Reversal of other provisions | ₩ | 18,144,522 | 1,088,943 |
| Government grants | | 3,167,460 | 1,772,193 |
| Reversal of bad debts expenses | | 42,270 | 228,272 |
| Gains from assets contributed | | 1,301,721 | 6,487,294 |
| Others | | 8,178 | 347,787 |
| Total | ₩ | 22,664,151 | 9,924,489 |

(2) Details of other expenses for the years ended December 31, 2015 and 2014, are as follows:

| *(In thousands of Korean won)* | | 2015 | 2014 |
|---|---|---|---|
| Increase in provisions | ₩ | 417,355 | 1,993,082 |
| Depreciation on assets not in use | | 661,248 | (689,950) |
| Other bad debts expenses | | 29,133,579 | 26,990,483 |
| Donations | | 3,439,310 | 2,447,585 |
| Total | ₩ | 33,651,492 | 30,741,200 |

(3) Details of other income (costs) for the years ended December 31, 2015 and 2014, are as follows:

| *(In thousands of Korean won)* | | 2015 | 2014 |
|---|---|---|---|
| Gains on sale of property, trains and equipment | ₩ | 1,011,843 | 1,113,211 |
| Gains on disposal of non-current assets held for sale | | 47,599,819 | 8,194,405 |
| Gain from foreign currency translation (related to operating activities) | | - | 4,442 |
| Gains on foreign currency transaction (related to operating activities) | | 649,506 | 513,055 |
| Other income | | 89,311,657 | 119,158,567 |
| Losses on sale of property, trains and equipment | | (1,697,091) | (9,464,827) |
| Losses on disposal of other non-current assets | | (255,706) | (538,836) |
| Impairment losses on property, trains and equipment | | (6,983,578) | (9,096,003) |
| Impairment losses on other non-current assets | | - | (91,701) |
| Losses on foreign currency transaction (related to operating activities) | | (616,987) | (300,253) |
| Other costs | | (59,398,057) | (232,273,893) |
| Total | ₩ | 69,621,406 | (122,781,833) |

(3-1) Details of other gains for the years ended December 31, 2015 and 2014, are as follows:

| *(In thousands of Korean won)* | | 2015 | 2014 |
|---|---|---|---|
| Gains on disposal of inventories | ₩ | 6,849,690 | 8,282,601 |
| Miscellaneous gains (*) | | 82,461,967 | 110,875,966 |
| Total | ₩ | 89,311,657 | 119,158,567 |

(3-2) Details of other losses for the years ended December 31, 2015 and 2014, are as follows:

| *(In thousands of Korean won)* | | 2015 | 2014 |
|---|---|---|---|
| Impaired loss on fixed assets intended for disposal | ₩ | 1 | - |
| Losses from inventory obsolescence | | 325,006 | 60,795 |
| Losses from correction of errors in prior periods | | - | 153,306 |
| Miscellaneous losses | | 59,073,050 | 232,059,792 |
| Total | ₩ | 59,398,057 | 232,273,893 |

## 37. FINANCE INCOME:

(1) During 2015 and 2014, finance income is detailed as follows:

| *(In thousands of Korean won)* | | 2015 | 2014 |
|---|---|---|---|
| Interest income | ₩ | 17,035,301 | 14,774,595 |
| Dividend income | | 848,084 | 834,563 |
| Gain on valuation of derivative instruments | | 81,885,400 | 31,938,750 |
| Gains on settlement of derivative instruments | | - | 2,122,944 |
| Gain from foreign currency transactions | | | |
| (borrowings denominated in foreign currency) | | 2,819,739 | 49,802,934 |
| Gain from foreign currency translation | | | |
| (borrowings denominated in foreign currency) | | 81,227 | 3,510,339 |
| Total | ₩ | 102,669,751 | 102,984,125 |

(2) During 2015 and 2014, interest income included in the financial income by related assets is detailed as follows:

| *(In thousands of Korean won)* | | 2015 | 2014 |
|---|---|---|---|
| Cash and cash equivalents | ₩ | 13,423,074 | 10,303,058 |
| Current financial instruments recognized in profit or loss | | (94) | 383 |
| Available-for-sale financial assets | | 1,300 | 45 |
| Held-to-maturity financial assets | | 104,626 | 166,549 |
| Loans and receivables | | 3,343,893 | 4,101,899 |
| Short-term financial instruments | | 89,063 | 116,299 |
| Long-term financial instruments | | 422 | 563 |
| Other financial assets | | 73,017 | 85,799 |
| Total | ₩ | 17,035,301 | 14,774,595 |

## 38. FINANCE COSTS:

(1) During 2015 and 2014, finance costs are detailed as follows:

| *(In thousands of Korean won)* | | 2015 | 2014 |
|---|---|---|---|
| Interest expenses | ₩ | 480,668,462 | 539,039,383 |
| Losses on disposal of available-for-sale financial assets | | 5,255 | 19,411 |
| Losses on valuation of derivative instruments | | 2,767,350 | 33,749,600 |
| Losses on settlement of derivative instruments | | 1,960,000 | 3,685,900 |
| Losses from early extinguishment of debt | | 2,212,192 | - |
| Losses on foreign currency translation (foreign borrowing) | | 81,905,109 | 31,983,444 |
| Losses on repayment of foreign borrowings | | 2,604,131 | 6,928,725 |
| Total | ₩ | 572,122,499 | 615,406,463 |

(2) During 2015 and 2014, interest expense included in finance costs by related liabilities is detailed as follows:

| *(In thousands of Korean won)* | | 2015 | 2014 |
|---|---|---|---|
| Accounts payables and other payables | ₩ | 7,738,838 | 6,688,979 |
| Short-term borrowings | | 1,492,381 | 32,243,545 |
| Long-term borrowings | | 3,528,932 | 7,803,941 |
| Bonds | | 470,711,384 | 493,926,476 |
| Convertible bonds | | - | 580,966 |
| Other financial liabilities | | - | 126 |
| Subtotal | | 483,471,535 | 541,244,032 |
| Deduct: Capitalization of borrowing costs | | (2,803,073) | (2,204,649) |
| Total | ₩ | 480,668,462 | 539,039,383 |

Weighted-average capitalization interest rate for borrowings for the years ended December 31, 2015 and 2014, was 3.63% and 3.81%, respectively.

## 39. INCOME TAXES RELATED TO CONTINUING OPERATION:

(1) The component of income tax benefit for the years ended December 31, 2015 and 2014, is as follows:

*(In thousands of Korean won)*

| | | 2015 | 2014 |
|---|---|---|---|
| Current tax expense | ₩ | 708,631 | 2,767,277 |
| Adjustment for prior periods | | (216,562,266) | (5,947,878) |
| Origination and reversal of temporary differences | | (2,801,901) | (1,059,323) |
| Income tax recognized in other comprehensive income | | (776,230) | 177,486 |
| Income tax benefit | ₩ | (219,431,766) | (4,062,438) |

(2) Reconciliation between income tax benefit and accounting income is detailed as follows:

*(In thousands of Korean won)*

| | | 2015 | 2014 |
|---|---|---|---|
| Loss before income tax benefit | ₩ | (276,367,472) | (536,084,077) |
| Tax rate | | 22.0% | 22.00% |
| Income tax benefit using the Company's statutory tax rate | | 736,698 | 1,660,037 |
| Adjustments: | | | |
| Tax effect of non-taxable income | | (86) | (445,517) |
| Tax effect of non-deductible expenses | | 52,553 | 39,174 |
| Current adjustments for prior periods | | (216,562,266) | (6,158,132) |
| Changes in unrecognized deferred tax assets | | - | - |
| Tax expenses directly added to, or deducted from, equity | | (776,230) | 177,486 |
| Other (tax rate differences, etc.) | | (2,882,435) | 664,514 |
| Income tax benefit | | (219,431,766) | (4,062,438) |
| Average effective tax rate | | N/A | N/A |

(3) Deferred income tax recognized directly in other comprehensive income for the years ended December 31, 2015 and 2014, is as follows:

*(In thousands of Korean won)*

| | | 2015 | 2014 |
|---|---|---|---|
| Deferred income tax: | | | |
| Gains/losses on valuation of available-for-sale securities | ₩ | 227 | - |
| Gains/losses on remeasurement factors of defined benefit plan | | (3,858) | 177,486 |
| Change in equity method investees | | - | - |
| Gains/losses on revaluation of assets | | (772,599) | - |
| Total | ₩ | (776,230) | 177,486 |

(4) Changes in deferred income tax assets (liabilities) during the year ended December 31, 2015 and 2014, are detailed as follows:

| | | 2015 | | | | |
|---|---|---|---|---|---|---|
| *(In thousands of Korean won)* | | Beginning balance | Profit or loss | Other comprehensive income | Reclassify to held for sale | Ending balance |
| The Company: | | | | | | |
| Deferred income tax assets | ₩ | - | - | - | - | - |
| Deferred income tax liabilities | | - | - | - | - | - |
| Subsidiary: | | | | | | |
| Deferred income tax assets | | 5,119,338 | 4,005,080 | (776,230) | - | 8,348,188 |
| Deferred income tax liabilities | | (7,937,472) | 773,681 | - | - | (7,163,791) |
| The Group: | | | | | | |
| Deferred income tax assets | | 5,119,338 | 4,005,080 | (776,230) | - | 8,348,188 |
| Deferred income tax liabilities | | (7,937,472) | 773,681 | - | - | (7,163,791) |

| | | 2014 | | | | |
|---|---|---|---|---|---|---|
| *(In thousands of Korean won)* | | Beginning balance | Profit or loss | Other comprehensive income | Reclassify to held for sale | Ending balance |
| The Company: | | | | | | |
| Deferred income tax assets | ₩ | - | - | - | - | - |
| Deferred income tax liabilities | | - | - | - | - | - |
| Subsidiary: | | | | | | |
| Deferred income tax assets | | 4,359,556 | 191,461,480 | 177,486 | (190,879,184) | 5,119,338 |
| Deferred income tax liabilities | | (282,475,283) | (225,958,287) | - | 500,496,098 | (7,937,472) |
| The Group: | | | | | | |
| Deferred income tax assets | | 4,359,556 | 191,461,480 | 177,486 | (190,879,184) | 5,119,338 |
| Deferred income tax liabilities | | (282,475,283) | (225,958,287) | - | 500,496,098 | (7,937,472) |

## 40. ASSETS HELD FOR SALE:

(1) Details of assets and liabilities held for sale and related to discontinued operation as of December 31, 2015 and 2014, are detailed as follows:

| *(In thousands of Korean won)* | | December 31, 2015 | December 31, 2014 |
|---|---|---|---|
| Held for sale: land (Note 1) | ₩ | 7,042,189 | 20,098,131 |
| Held for sale: buildings and structures (Note 1) | | 31,209 | 412,339 |
| Assets related to discontinued operation (Note 2) | | - | 4,539,835,347 |
| Liabilities related to discontinued operation (Note 2) | | - | 2,678,855,480 |

Note 1.

During the period, some assets of land and buildings of the Group were classified as held for sale through the approval of the overall asset management. Each regional headquarters is in the process of disposal of public land by consultation of compensation for loss with the government. Assets are expected to be sold within a year from the end of reporting period.

Note 2.

As mentioned in Note 50, Discontinued operation, the Company is in the process of disposal of Airport Railroad Co., Ltd., and expects it to be sold within a year.

(2) Details of major assets and liabilities used for the discontinued operation as of December 31, 2015, is ₩0 and as of December 31, 2014, is as follows:

*(In thousands of Korean won)*

| | | December 31, 2015 |
|---|---|---|
| Cash and cash equivalent | ₩ | 5,217,745 |
| Inventories | | 10,014,355 |
| Financial assets | | 419,206,219 |
| Other current assets | | 7,983,180 |
| Account receivable | | 541,567,427 |
| Long-term account receivable | | 3,541,494,919 |
| Non-current financial assets | | 486,414 |
| Property, trains and equipment | | 7,576,115 |
| Intangible assets | | 6,288,973 |
| Total assets | | 4,539,835,347 |
| | | |
| Borrowings | | 2,227,796,000 |
| Other current liabilities | | 65,444,059 |
| Account payable | | 14,176,995 |
| Deferred income tax liabilities | | 312,101,613 |
| Provisions | | 58,354,482 |
| Defined benefit liabilities | | 982,331 |
| Total liabilities | | 2,678,855,480 |

In the above assets and liabilities, the amounts of internal transactions between entities in the Group are not included.

## 41. NATURE OF EXPENSES:

Details of nature of expenses for the years ended December 31, 2015 and 2014, are as follows:

| *(In thousands of Korean won)* | | 2015 | | | |
|---|---|---|---|---|---|
| | | Changes in inventories | Selling, general and administrateive expenses | Cost of sales | Total |
| Goods | ₩ | 126,523,580 | - | - | 126,523,580 |
| Manufactured goods | | 637,279 | - | - | 637,279 |
| Salaries | | - | 144,877,230 | 1,784,585,762 | 1,929,462,992 |
| Retirement benefits | | - | 13,085,776 | 155,756,236 | 168,842,012 |
| Employee benefits | | - | 16,576,248 | 203,737,623 | 220,313,871 |
| Insurance | | - | 2,350,984 | 6,434,821 | 8,785,805 |
| Depreciation expense | | - | 19,408,579 | 317,858,815 | 447,277,405 |
| Amortization of intangibles | | - | 8,168,546 | 451,056 | 8,619,602 |
| Bad debts expenses | | - | 2,060,605 | - | 2,060,605 |
| Commissions paid | | - | 36,161,515 | 308,601,060 | 344,762,575 |
| Advertising | | - | 3,589,807 | 47,613 | 3,637,420 |
| Education and training | | - | 5,712,558 | 383,776 | 6,096,334 |
| Vehicle maintenance | | - | 289,349 | 461,308,820 | 461,598,169 |
| Printing | | - | 746,489 | 784,358 | 1,530,847 |
| Project initiatives | | - | 815,335 | 134,288 | 949,623 |
| Rental | | - | 4,825,143 | 889,493,972 | 894,319,115 |
| Communication | | - | 2,020,391 | 1,398,966 | 3,419,357 |
| Transportation | | - | 78,225 | 10,690 | 88,915 |
| Taxes and dues | | - | 6,814,170 | 13,792,632 | 20,606,802 |
| Supplies | | - | 2,321,133 | 14,930,643 | 17,251,776 |
| Utilities | | - | 4,724,614 | 60,919,444 | 65,644,058 |
| Maintenance | | - | 9,113,702 | 608,551,204 | 617,664,906 |
| Ordinary development expenses | | - | 733,426 | 1,409,519 | 2,142,945 |
| Business trip and transportation expenses | | - | 2,215,901 | 20,077,732 | 22,293,633 |
| Uniforms | | - | 239,217 | 7,719,602 | 7,958,819 |
| Research and analysis | | - | 695,389 | 11,379 | 706,768 |
| Annual fees | | - | 380,134 | 98,773 | 478,907 |
| Sales promotion | | - | - | 895,744 | 895,744 |
| Sales commissions | | - | 565,703 | 21,799 | 587,502 |
| Others | | - | 4,937,440 | 12,362,554 | 17,299,994 |
| Total | ₩ | 127,160,859 | 293,507,609 | 4,981,788,892 | 5,402,457,360 |

| (In thousands of Korean won) | | 2014 | | | |
|---|---|---|---|---|---|
| | | Changes in inventories | Selling, general and administrateive expenses | Cost of sales | Total |
| Goods | ₩ | 120,861,942 | - | - | 120,861,942 |
| Manufactured goods | | 586,130 | - | - | 586,130 |
| Salaries | | - | 123,941,647 | 1,490,263,869 | 1,614,205,516 |
| Retirement benefits | | - | 12,171,568 | 141,115,306 | 153,286,874 |
| Employee benefits | | - | 23,234,668 | 297,662,250 | 320,896,918 |
| Insurance | | - | 2,493,092 | 5,051,881 | 7,544,973 |
| Depreciation expense | | - | 23,481,744 | 433,670,004 | 457,151,748 |
| Amortization of intangibles | | - | 12,860,340 | 417,243 | 13,277,583 |
| Bad debts expenses | | - | (92,790) | - | (92,790) |
| Commissions paid | | - | 28,452,729 | 298,822,066 | 327,274,795 |
| Advertising | | - | 3,903,127 | 66,879 | 3,970,006 |
| Education and training | | - | 3,736,021 | 130,263 | 3,866,284 |
| Vehicle maintenance | | - | 219,375 | 491,002,439 | 491,221,814 |
| Printing | | - | 718,438 | 1,337,226 | 2,055,664 |
| Project initiatives | | - | 775,565 | 136,739 | 912,304 |
| Rental | | - | 4,595,103 | 773,701,658 | 778,296,761 |
| Communication | | - | 2,035,596 | 1,455,952 | 3,491,548 |
| Transportation | | - | 18,843 | 20,199 | 39,042 |
| Taxes and dues | | - | 7,596,062 | 12,906,033 | 20,502,095 |
| Supplies | | - | 1,882,321 | 11,415,790 | 13,298,111 |
| Utilities | | - | 4,891,110 | 55,897,768 | 60,788,878 |
| Maintenance | | - | 6,473,319 | 543,896,355 | 550,369,674 |
| Ordinary development expenses | | - | 514,499 | 2,979,078 | 3,493,577 |
| Business trip and transportation expenses | | - | 1,905,115 | 19,914,449 | 21,819,564 |
| Uniforms | | - | 38,290 | 7,408,102 | 7,446,392 |
| Research and analysis | | - | 1,852,661 | 30,671 | 1,883,332 |
| Annual fees | | - | 363,716 | 127,274 | 490,990 |
| Sales promotion | | - | - | 78,066 | 78,066 |
| Sales commissions | | - | 1,837,040 | 18,756 | 1,855,796 |
| Others | | - | 3,290,286 | 9,476,915 | 12,767,201 |
| Total | ₩ | 121,448,072 | 273,189,485 | 4,599,003,230 | 4,993,640,788 |

## 42. ENTRUSTED BUSINESS:

(1) Revenues and expenses for the government entrusted business reported in the consolidated financial statements as of December 31, 2015 and 2014, are as follows:

| *(In thousands of Korean won)* | | December 31, 2015 | | December 31, 2014 | |
|---|---|---|---|---|---|
| | | Revenue | Expense | Revenue | Expense |
| Government | ₩ | 984,957,741 | 954,354,384 | 876,401,614 | 847,532,261 |
| Local government | | 61,208,600 | 42,214,782 | 62,887,820 | 39,564,125 |
| Total | ₩ | 1,046,166,341 | 996,569,166 | 939,289,434 | 887,096,386 |

(2) Changes in the deferred revenue from the trusted business for the years ended December 31, 2015 and 2014, are as follows:

| *(In thousands of Korean won)* | | | 2015 | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | January 1, 2015 | Received | Executed | Returned | Others | December 31, 2015 |
| Cash and cash equivalent | Government | ₩ | (157,083,824) | (1,004,043,577) | 1,041,007,239 | 40,885,221 | 1,281,880 | (77,953,061) |
| Cash and cash equivalent | Local government | | (77,070,305) | (82,326,162) | 62,638,308 | 19,061,835 | 10,437,968 | (67,258,356) |
| Total | | ₩ | (234,154,129) | (1,086,369,739) | 1,103,645,547 | 59,947,056 | 11,719,848 | (145,211,417) |

| *(In thousands of Korean won)* | | | 2014 | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | January 1, 2014 | Received | Executed | Returned | Others | December 31, 2014 |
| Cash and cash equivalent | Government | ₩ | (193,883,601) | (850,411,244) | 876,401,614 | 8,404,946 | 2,404,461 | (157,083,824) |
| Cash and cash equivalent | Local government | | (51,322,582) | (91,770,525) | 62,887,820 | 16,472,300 | (13,337,318) | (77,070,305) |
| Total | | ₩ | (245,206,183) | (942,181,769) | 939,289,434 | 24,877,246 | (10,932,857) | (234,154,129) |

## 43. CATEGORIES OF FINANCIAL INSTRUMENTS:

(1) Categories of financial instruments as of December 31, 2015 and 2014, are as follows:

*(In thousands of Korean won)*

| | | December 31, 2015 | | | | |
|---|---|---|---|---|---|---|
| | | Loans and receivables | Available-for-sale financial assets | Held-to-maturity financial assets | Derivative instruments for hedging | Total |
| Current assets | | | | | | |
| Short-term loans | ₩ | 208,376 | - | - | - | 208,376 |
| Derivative instrument assets | | - | - | - | 10,597,473 | 10,597,473 |
| Short-term financial instruments | | 32,576,051 | - | - | - | 32,576,051 |
| Accounts receivables and other receivables | | 448,694,904 | - | - | - | 448,694,904 |
| Subtotal | | 481,479,331 | - | - | 10,597,473 | 492,076,804 |
| Non-current assets | | | | | | |
| Available-for-sale financial assets | | - | 34,305,585 | - | - | 34,305,585 |
| Long-term loans | | 45,372,293 | - | - | - | 45,372,293 |
| Long-term financial instruments | | 18,755 | - | - | - | 18,755 |
| Derivative instrument assets | | - | - | - | 51,986,225 | 51,986,225 |
| Accounts receivables and other receivables | | 566,059,152 | - | - | - | 566,059,152 |
| Subtotal | | 611,450,200 | 34,305,585 | - | 51,986,225 | 697,742,010 |
| Total | ₩ | 1,092,929,531 | 34,305,585 | - | 62,583,698 | 1,189,819,614 |

*(In thousands of Korean won)*

| | | December 31, 2014 | | | | |
|---|---|---|---|---|---|---|
| | | Loans and receivables | Available-for-sale financial assets | Held-to-maturity financial assets | Derivative instruments for hedging | Total |
| Current assets | | | | | | |
| Available-for-sale financial assets | ₩ | - | 800 | - | - | 800 |
| Short-term loans | | 495,493 | - | - | - | 495,493 |
| Short-term financial instruments | | 16,404,888 | - | - | - | 16,404,888 |
| Derivative instrument assets | | 395,796,862 | - | - | - | 395,796,862 |
| Accounts receivables and other receivables | | 412,697,243 | 800 | - | - | 412,698,043 |
| Subtotal | | | | | | |
| Non-current assets | | - | 29,730,771 | - | - | 29,730,771 |
| Available-for-sale financial assets | | 48,286,218 | - | - | - | 48,286,218 |
| Long-term loans | | 18,755 | - | - | - | 18,755 |
| Long-term financial instruments | | - | - | - | 8,225,781 | 8,225,781 |
| Accounts receivables and other receivables | | 598,312,922 | - | - | - | 598,312,922 |
| Subtotal | | 646,617,895 | 29,730,771 | - | 8,225,781 | 684,574,447 |
| Total | ₩ | 1,059,315,138 | 29,731,571 | - | 8,225,781 | 1,097,272,490 |

(2) Categories of financial liabilities as of December 31, 2015 and 2014, are as follows:

| *(In thousands of Korean won)* | | December 31, 2015 | | |
|---|---|---|---|---|
| | | Financial liabilities measured at amortized costs | Derivative instruments for hedging | Total |
| Current liabilities | | | | |
| Accounts payables and other payables | ₩ | 646,169,452 | - | 646,169,452 |
| Short-term borrowings | | 221,589,755 | - | 221,589,755 |
| Current portion of long-term borrowings | | 30,812,500 | - | 30,812,500 |
| Current bonds | | 1,523,667,779 | - | 1,523,667,779 |
| Derivative instrument liabilities | | - | 1,491,143 | 1,491,143 |
| Subtotal | | 2,422,239,486 | 1,491,143 | 2,423,730,629 |
| Non-current liabilities | | | | |
| Account payables and other payables | | 1,503,451 | - | 1,503,451 |
| Long-term borrowings | | 133,000,000 | - | 133,000,000 |
| Bonds | | 9,375,550,460 | - | 9,375,550,460 |
| Derivative instrument liabilities | | - | 6,790,303 | 6,790,303 |
| Other financial liabilities | | 96,270,000 | - | 96,270,000 |
| Subtotal | | 9,606,323,911 | 6,790,303 | 9,613,114,214 |
| Total | ₩ | 12,028,563,397 | 8,281,446 | 12,036,844,843 |

| *(In thousands of Korean won)* | | December 31, 2014 | | |
|---|---|---|---|---|
| | | Financial liabilities measured at amortized costs | Derivative instruments for hedging | Total |
| Current liabilities | | | | |
| Accounts payables and other payables | ₩ | 599,726,034 | - | 599,726,034 |
| Short-term borrowings | | 8,503,864 | - | 8,503,864 |
| Current portion of long-term borrowings | | 30,875,000 | - | 30,875,000 |
| Current bonds | | 1,849,355,969 | - | 1,849,355,969 |
| Derivative instrument liabilities | | - | 13,225,965 | 13,225,965 |
| Subtotal | | 2,488,460,867 | 13,225,965 | 2,501,686,832 |
| Non-current liabilities | | | | |
| Account payables and other payables | | 5,901,072 | - | 5,901,072 |
| Long-term borrowings | | 152,812,500 | - | 152,812,500 |
| Bonds | | 11,046,615,851 | - | 11,046,615,851 |
| Derivative instrument liabilities | | - | 50,041,863 | 50,041,863 |
| Other financial liabilities | | 47,200,000 | - | 47,200,000 |
| Subtotal | | 11,252,529,423 | 50,041,863 | 11,302,571,286 |
| Total | ₩ | 13,740,990,290 | 63,267,828 | 13,804,258,118 |

(3) Gain and loss of financial instruments by categories for the years ended December 31, 2015 and 2014, are as follows:

| *(In thousands of Korean won)* | | 2015 | 2014 |
|---|---|---|---|
| Loans and receivables: | | | |
| Interest income | ₩ | 17,035,301 | 14,774,595 |
| Available-for-sale financial assets: | | | |
| Dividends income | | 848,084 | 834,563 |
| Loss on disposal of available-for-sale securities | | (5,255) | (675) |
| Comprehensive income or loss recognized for the year | | 869,316 | (1,076,624) |
| Held-to-maturity financial assets: | | | |
| Loss on disposal of held-to-maturity financial assets | | - | (18,736) |
| Derivative instrument assets for hedging: | | | |
| Gains on valuation of derivative instruments, net | | 81,885,400 | 31,938,750 |
| Gains on settlement of derivative instruments, net | | - | 2,122,944 |
| Losses on valuation of derivative instruments, net | | (2,767,350) | (33,749,600) |
| Losses on settlement of derivative instruments, net | | (1,960,000) | (3,685,900) |
| Comprehensive income or loss recognized in the reporting period | | 21,266,250 | (18,353,864) |
| Financial liabilities measured at amortized costs: | | | |
| Gain on foreign currency transaction related to borrowings | | 81,227 | 3,510,339 |
| Gain on foreign currency translation related to borrowings | | 2,819,739 | 49,802,933 |
| Interest expense | | (480,668,462) | (539,039,383) |
| Loss on Redemption of Finance debt | | (2,212,192) | - |
| Gain on foreign currency transaction | | (2,604,132) | (6,928,725) |
| Gain on foreign currency translation | | (81,905,109) | (31,983,443) |
| Total | ₩ | (447,317,183) | (531,852,826) |

## 44. FINANCIAL RISK MANAGEMENT:

(1) Credit risk

As of December 31, 2015 and 2014, the Group's maximum exposure to credit risk is as follows:

| *(In thousands of Korean won)* | | December 31, 2015 | December 31, 2014 |
|---|---|---|---|
| Available-for-sale financial assets | ₩ | - | 800 |
| Loans | | 45,580,669 | 48,781,710 |
| Long- and short-term financial instruments | | 32,594,805 | 16,423,643 |
| Derivative instrument assets | | 62,583,698 | 8,225,781 |
| Trade receivables and other receivables | | 1,014,754,056 | 994,109,784 |
| Cash and cash equivalents | | 208,608,820 | 230,032,865 |
| Total | ₩ | 1,364,122,048 | 1,297,574,583 |

(2) Liquidity risk

As of December 31, 2015, contractual maturity of financial liabilities is summarized as follows:

| *(In thousands of Korean won)* | | December 31, 2015 | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | Carrying amount | Contractual cash flow | 6 months or less | 6–12 months | 1 year–2 years | 2–5 years | More than 5 years |
| Borrowings | ₩ | 385,402,255 | 391,325,216 | 232,972,225 | 21,672,331 | 31,603,211 | 104,457,961 | 619,488 |
| Bonds | | 10,899,218,240 | 12,878,077,513 | 475,835,783 | 1,454,809,172 | 1,454,809,172 | 4,572,796,095 | 4,192,597,600 |
| Trade payables and other payables | | 647,672,902 | 647,674,743 | 646,169,452 | - | 1,505,291 | - | - |
| Derivative financial liabilities | | 8,281,446 | 8,281,446 | - | 1,491,143 | - | 6,790,303 | - |
| Total liabilities | ₩ | 11,940,574,843 | 13,925,358,918 | 1,354,977,460 | 1,477,972,646 | 2,215,147,365 | 4,684,044,359 | 4,193,217,088 |

The Group does not expect the cash outflow to occur significantly earlier or at a significantly different amount.

As of December 31, 2014, contractual maturity of financial liabilities is summarized as follows:

| *(In thousands of Korean won)* | | December 31, 2014 | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | Carrying amount | Contractual cash flow | 6 months or less | 6–12 months | 1 year–2 years | 2–5 years | More than 5 years |
| Borrowings | ₩ | 192,191,364 | 204,345,338 | 20,848,335 | 16,706,127 | 38,493,956 | 97,077,868 | 31,219,052 |
| Bonds | | 12,895,971,820 | 15,362,639,425 | 1,005,641,756 | 1,321,459,267 | 2,152,663,894 | 5,832,302,558 | 5,050,571,950 |
| Trade payables and other payables | | 605,627,106 | 605,628,868 | 588,475,755 | 1,520,988 | 6,918,196 | 6,512,035 | 2,201,894 |
| Derivative financial liabilities | | 63,267,828 | 63,267,828 | 13,225,965 | - | 7,708,581 | 42,333,282 | - |
| Total liabilities | ₩ | 13,757,058,118 | 16,235,881,459 | 1,628,191,811 | 1,339,686,382 | 2,205,784,627 | 5,978,225,743 | 5,083,992,896 |

The following table indicates the periods in which the cash flows associated with cash flow hedges are expected to occur as of December 31, 2015.

| (In thousands of Korean won) | | December 31, 2015 | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | Book value | Contractual cash flow | 6 months or less | 6–12 months | 1 year–2 years | 2–5 years | More than 5 years |
| Interest rate swap | | | | | | | | |
| Liabilities | ₩ | 1,491,143 | (1,491,143) | - | - | (1,491,143) | - | - |
| Currency swap | | | | | | | | |
| Assets | | 62,583,698 | 62,583,698 | - | 10,597,473 | 31,901,738 | 20,084,487 | - |
| Liabilities | | 6,790,303 | (6,790,303) | - | - | - | (6,790,303) | - |
| Total | ₩ | 70,865,144 | 54,302,252 | - | 10,597,473 | 30,410,595 | 13,294,184 | - |

The following table indicates the periods in which the cash flows associated with cash flow hedges are expected to occur as of December 31, 2014.

| (In thousands of Korean won) | | December 31, 2014 | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | Book value | Contractual cash flow | 6 months or less | 6–12 months | 1 year–2 years | 2–5 years | More than 5 years |
| Interest rate swap | | | | | | | | |
| Liabilities | ₩ | 2,507,073 | (2,507,073) | - | - | (2,507,073) | - | - |
| Currency swap | | | | | | | | |
| Assets | | 8,225,781 | 8,225,781 | - | - | - | 8,225,781 | - |
| Liabilities | | 60,760,755 | (60,760,755) | (13,225,965) | - | (5,201,508) | (42,333,282) | - |
| Total | ₩ | 71,493,609 | (55,042,047) | (13,225,965) | - | (7,708,581) | (34,107,501) | - |

(3) Currency risk

(i) Exposure to currency risk

As of December 31, 2015 and 2014, monetary assets and liabilities denominated in currencies other than functional currency are detailed as follows:

| | December 31, 2015 | | | | |
|---|---|---|---|---|---|
| *(in USD, CHF, EUR, SGD and AUD)* | USD | CHF | EUR | SGD | Others |
| Assets denominated in foreign currency | | | | | |
| Cash and cash equivalents | 760,853 | - | 117,244 | 1,655 | 151,028 |
| Total assets denominated in foreign currency | 760,853 | - | 117,244 | 1,655 | 151,028 |
| Liabilities denominated in foreign currency | | | | | |
| Bonds | 586,000,000 | 729,014,850 | - | 53,825,850 | 46,920,500 |
| Long-term borrowings | - | - | - | - | - |
| Total liabilities denominated in foreign currency | 586,000,000 | 729,014,850 | - | 53,825,850 | 46,920,500 |

| | December 31, 2014 | | | | |
|---|---|---|---|---|---|
| *(in USD, CHF, EUR, SGD and AUD)* | USD | CHF | EUR | SGD | Others |
| Assets denominated in foreign currency | | | | | |
| Cash and cash equivalents | 928,605 | - | 82,199 | 99,052 | - |
| Total assets denominated in foreign currency | 928,605 | - | 82,199 | 99,052 | - |
| Liabilities denominated in foreign currency | | | | | |
| Bonds | 769,440,000 | 683,529,450 | - | 54,063,750 | 49,449,950 |
| Long-term borrowings | - | - | - | - | - |
| Total liabilities denominated in foreign currency | 769,440,000 | 683,529,450 | - | 54,063,750 | 49,449,950 |

Foreign exchange rate applied as of December 31, 2015 and 2014, is as follows:

| | Reporting date spot rate | |
|---|---|---|
| | December 31, 2015 | December 31, 2014 |
| USD | 1172.0 | 1099.2 |
| CHF | 1185.4 | 1111.4 |
| EUR | 1280.5 | 1322.4 |
| SGD | 828.1 | 832.0 |
| AUD | 853.1 | 899.0 |
| JPY | 972.0 | - |
| CNY | 180.6 | - |

(ii) Sensitivity analysis of changes in exchange rate

A strengthening of the Korean won, as indicated below, against the USD, CHF, EUR, SGD and AUD at December 31, 2015, would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis is based on foreign currency exchange rate variances that the Group considered to be reasonably possible at the reporting date. The analysis assumes that all other variables, in particular interest rates, remain constant and ignores any impact of forecasted sales and purchases. The analysis is performed on the same basis for 2014, albeit that the reasonably possible foreign exchange rate variances are different, as indicated below.

| *(In thousands of Korean won)* | | 10% increase | 10% decrease |
|---|---|---|---|
| Net profit or loss before income taxes | ₩ | (1,500,000) | 1,500,000 |

A weakening of the Korean won against the above currencies at December 31, 2015, would have the equal, but opposite effect on the above currencies to the amounts shown above on the basis that all other variables remain constant. As the Group manages foreign exchange rate risk with currency swap, the exposure to exchange rate risk is non-significant.

(4) Interest rate risk

(i) The Group has foreign currency bonds and foreign currency long-term borrowings, which has significant effect on profit or loss and equity depending on fluctuations in interest rates. The Group manages interest rate risk by interest rate swap agreements, and fluctuation in interest rates does not have significant impact on the financial position and financial results.

| *(In thousands of Korean won)* | Interest rate | | December 31, 2015 | December 31, 2014 |
|---|---|---|---|---|
| Public fund management capital | Government bonds-three-year interest rate - 0.5% | ₩ | 150,000,000 | 180,000,000 |

(ii) Cash flow sensitivity analysis of variable interest rate financial instruments

The Group does not account fixed-rate financial instruments as current financial instruments recognized in profit or loss, and does not designate derivative instruments, such as interest swap, to avoid fair value risk. As such, fluctuation of interest rate does not have effect on profit or loss.

(iii) Sensitivity analysis of cash flow from variable interest rate financial instruments on cash flow

Changes of 100 BP in interest rates as of December 31, 2015, would result in increase or decrease in equity and profit or loss. The analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2014. Changes in equity and profit or loss are detailed as follows:

| *(In thousands of Korean won)* | | Profit of loss | | Equity | |
|---|---|---|---|---|---|
| | | 100 BP Increase | 100 BP Decrease | 100 BP Increase | 100 BP Decrease |
| As of December 31, 2015-borrowings in Korean won | ₩ | (1,500,000) | 1,500,000 | (1,500,000) | 1,500,000 |
| As of December 31, 2014-borrowings in Korean won | | (1,800,000) | 1,800,000 | (1,800,000) | 1,800,000 |

(5) Fair value measurement

(i) Carrying value and the fair value of financial assets and liabilities are detailed as below:

| *(In thousands of Korean won)* | | December 31, 2015 | | December 31, 2014 | |
|---|---|---|---|---|---|
| | | Carrying Amount | Fair value | Carrying Amount | Fair value |
| Assets carried at fair value | | | | | |
| Available-for-sale financial assets | ₩ | 34,305,585 | 34,305,585 | 29,730,771 | 29,730,771 |
| Currency swap (hedging) | | 62,583,698 | 62,583,698 | 8,225,781 | 8,225,781 |
| Subtotal | | 96,889,283 | 96,889,283 | 37,956,552 | 37,956,552 |
| Assets carried at amortized cost | | | | | |
| Available-for-sale financial assets | | - | - | 800 | 800 |
| Loans and other receivables | | 1,060,334,724 | 1,060,334,724 | 455,923,495 | 455,923,495 |
| Long/short-term financial instrument | | 32,594,805 | 32,594,805 | 16,423,643 | 16,423,643 |
| Cash and cash equivalents | | 208,608,820 | 208,608,820 | 230,032,865 | 230,032,865 |
| Subtotal | | 1,301,538,349 | 1,301,538,349 | 702,380,803 | 702,380,803 |
| Total | ₩ | 1,398,427,632 | 1,398,427,632 | 740,337,355 | 740,337,355 |
| Liabilities carried at fair value | | | | | |
| Currency swap (hedging) | ₩ | 6,790,303 | 6,790,303 | 60,760,755 | 60,760,755 |
| Interest rate swap | | 1,491,143 | 1,491,143 | 2,507,073 | 2,507,073 |
| Subtotal | | 8,281,446 | 8,281,446 | 63,267,828 | 63,267,828 |
| Liabilities carried at amortized cost(*) | | | | | |
| Borrowings | | 385,402,255 | 385,402,255 | 192,191,364 | 192,191,364 |
| Trade payables and other payables | | 647,672,902 | 647,672,902 | 605,627,106 | 605,627,106 |
| Bonds | | 10,899,218,240 | 10,899,218,240 | 12,895,971,820 | 12,895,971,820 |
| Subtotal | | 11,932,293,397 | 11,932,293,397 | 13,693,790,290 | 13,693,790,290 |
| Total | ₩ | 11,940,574,843 | 11,940,574,843 | 13,757,058,118 | 13,757,058,118 |

(*) The Group recognized some of the financial assets and liabilities at book value as it believes book value is a reasonable measurement of fair value.

(ii) Interest rate used to determine the fair value

At the end of reporting period, interest rate used to determine the expected cash flow was determined by adding interest rate of government bonds and credit spread. As of December 31, 2015 and 2014, interest rates applied are detailed as follows:

| *(In percentage)* | December 31, 2015 | December 31, 2014 |
|---|---|---|
| Derivative instruments | 2.38%–3.64% | 2.9%–3.64% |
| Available-for-sale financial assets | 4.60%–5.83% | 6.65%–7.98% |

(iii) The level of fair value hierarchy is as follows:

| | Significance of inputs |
|---|---|
| Level 1 | Quoted prices (unadjusted) in active markets for identical assets or liabilities |
| Level 2 | Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices) |
| Level 3 | Inputs for the asset or liability that are not based on observable market data (unobservable inputs) |

As of December 31, 2015, details of fair value, carrying amount and secured assets are as follows:

| *(In thousands of Korean won)* | | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|---|
| Available-for-sale financial assets(*1) | ₩ | - | - | 34,305,585 | 34,305,585 |
| Derivative instrument assets(*2) | | - | 62,583,698 | - | 62,583,698 |
| Total | ₩ | - | 62,583,698 | 34,305,585 | 96,889,283 |
| Derivative instrument liabilities(*2) | ₩ | - | 8,281,446 | - | 8,281,446 |
| Total | ₩ | - | 8,281,446 | - | 8,281,446 |

(*1) Available-for-sale financial assets are not quoted in an active market and measured at valuation amount evaluated by an independent valuation agency.
(*2) Derivative assets and liabilities are measured at fair value in accordance with terms of contract with financial institutions.

The following table shows changes in financial instruments of Level 3 (fair value) for the years ended December 31, 2015 and 2014:

| *(In thousands of Korean won)* | | Available-for-sale financial assets | |
|---|---|---|---|
| | | 2015 | 2014 |
| Beginning balance | ₩ | 29,730,771 | 30,441,442 |
| Acquisition | | 3,678,691 | - |
| Loss for the period | | - | - |
| Other comprehensive income | | 869,930 | 716,768 |
| Disposal | | - | (123,142) |
| Reclassification to other level | | 26,193 | (1,304,297) |
| Ending balance | ₩ | 34,305,585 | 29,730,771 |

## 45. RELATED PARTIES:

(1) As of December 31, 2015, the controlling company that prepares the consolidated financial statements is Korea Railroad Corporation, and the related parties of the Group are detailed as follows:

| | Name of Related Parties |
|---|---|
| Controlling company (parent company) | Korea Railroad Corporation |
| Subsidiaries | KORAIL Retail Co., Ltd., KORAIL Networks Co., Ltd., KORAIL Tech Co., Ltd., KORAIL Logis Co., Ltd., KORAIL Tourism Development Co., Ltd., SR Co., Ltd. and Korean Insurance Brokerage Co., Ltd. |
| Related companies | Hanwha Station Development Co., Ltd., Noryangjin Station Building Co., Ltd., Uiwang ICD Co., Ltd., Lotte Station Building Co., Ltd., Bucheon Station Building Co., Ltd., Bupyeong Department Store Co., Ltd., Shinsegae Uijeongbu Station Building Co., Ltd., Sinchon Station Building Co., Ltd. , Anyang Station Building Co., Ltd., Donginchon Shopping Center Co., Ltd., Bitplex Co., Ltd. , Changdong Station Building Co., Ltd., Pyeongtaek Station Building Co., Ltd., Dream Hub Project Financial Investment Co., Ltd., Seongbuk Station Building Co., Ltd., Ansan Central Station Building Co., Ltd. and Yong San Station Around Development Co., Ltd. |

(2) Significant transactions that occurred in the normal course of business with related companies for the years ended December 31, 2015 and 2014, are as follows:

*(In thousands of Korean won)*

| | Name | | Revenue 2015 | Revenue 2014 | Costs 2015 | Costs 2014 |
|---|---|---|---|---|---|---|
| Related companies | Bitplex Co., Ltd. | ₩ | 107,712 | 311,230 | 311,230 | 97,096 |
| | Dream Hub Project Financial Investment Co., Ltd. | | - | - | - | - |
| | Lotte Station Building Co., Ltd. | | 13,779,853 | 10,641,122 | 10,641,122 | 32,203,345 |
| | Bucheon Station Building Co., Ltd. | | 2,507,353 | 2,507,613 | 2,507,613 | 2,757,853 |
| | Bupyeong Department Store Co., Ltd. | | 6 | - | - | - |
| | Seongbuk Station Building Co., Ltd. | | 16,752 | 15,924 | 15,924 | 19,341 |
| | Shinsegae Uijeongbu Station Building Co., Ltd. | | 13,543 | 13,543 | 13,543 | 11,487 |
| | Ansan Central Station Building Co., Ltd. | | 6,558 | 1,508 | 1,508 | 10,139 |
| | Anyang Station Building Co., Ltd. | | 85,394 | 200,328 | 200,328 | 210,292 |
| | Yong San Station Around Development Co., Ltd. | | 95,744 | 153,663 | 153,663 | 577,031 |
| | Uiwang ICD Co., Ltd. | | 6,651,007 | 6,948,924 | 6,948,924 | 6,943,089 |
| | Pyeongtaek Station Building Co., Ltd. | | 1,083,459 | 676,761 | 676,761 | 659,516 |
| | Hanwha Station Development Co., Ltd. | | 1,516,353 | 1,313,403 | 1,313,403 | 1,167,321 |
| Total | | ₩ | 25,863,734 | 22,784,019 | 22,784,019 | 44,656,510 |

(3) Account balances with related companies as of December 31, 2015 and 2014, are as follows:

*(In thousands of Korean won)*

| | Name | | Receivables 2015 | Receivables 2014 | Payables 2015 | Payables 2014 |
|---|---|---|---|---|---|---|
| Related companies | Noryangjin Station Building Co., Ltd. | ₩ | 782 | 782 | 624 | 624 |
| | Donginchon Shopping Center Co., Ltd. | | - | 12,998 | - | - |
| | Dream Hub Project Financial Investment Co., Ltd. | | - | - | 65,268,912 | 65,268,912 |
| | Lotte Station Building Co., Ltd. | | 2,639 | 2,459 | 679,834 | 550,100 |
| | Bucheon Station Building Co., Ltd. | | 379 | 836 | 244 | 73,420 |
| | Bupyeong Department Store Co., Ltd. | | 9 | 278 | 13,548 | 10,731 |
| | Bitplex Co., Ltd. | | 35 | - | 110,499 | 1,722 |
| | Seongbuk Station Building Co., Ltd. | | 231 | 5,005 | 4,979 | 4,747 |
| | Ansan Central Station Building Co., Ltd. | | 10,033 | 5,164 | - | - |
| | Anyang Station Building Co., Ltd. | | 1 | 1 | 21,334 | 10,352 |
| | Yongsan Development Co., Ltd. | | 360,529 | 454,261 | - | - |
| | Uiwang ICD Co., Ltd. | | 989,484 | - | 808,581 | 787,944 |
| | Pyeongtaek Station Building Co., Ltd. | | - | - | - | 2,627 |
| | Hanwha Station Development Co., Ltd. | | - | - | - | 30 |
| Total | | ₩ | 1,364,122 | 481,784 | 66,908,555 | 66,711,209 |

(4) During the year ended December 31, 2015 and 2014, compensation to management is detailed as follows:

| *(In thousands of Korean won)* | | 2015 | 2014 |
|---|---|---|---|
| Short-term employees benefits | ₩ | 631,237 | 564,424 |
| Accrual for retirement and severance benefits | | 42,606 | 18,655 |
| Total | ₩ | 673,843 | 583,079 |

## 46. NON-CASH INVESTING AND FINANCING ACTIVITIES:

| *(In thousands of Korean won)* | | 2015 | 2014 |
|---|---|---|---|
| Reclassification of construction in progress to buildings | ₩ | 731,620,485 | 580,998,170 |
| Reclassification of current portion of long-term borrowings | | 30,812,500 | 100,428,000 |
| Reclassification of current portion of bonds | | 1,524,400,000 | 1,849,840,000 |
| Reclassification of current portion of unbilled amount construction contracts | | - | 189,373,533 |
| Provision for restoration | | 35,855,669 | - |

## 47. COMMITMENTS AND CONTINGENCIES:

(1) Details of contingent liabilities as of December 31, 2015 and 2014, are as follows:

| *(In thousands of Korean won)* | | 2015 (*1) | 2014 (*2) |
|---|---|---|---|
| Pending litigations | ₩ | 629,003,068 | 455,399,997 |

(*1) The Group is a defendant for 113 litigations, such as claims for payment of KTX San-chun.
(*2) The Group was a defendant for 104 litigations, such as claims for payment of KTX San-chun.

(2) Details of contingent assets as of December 31, 2015 and 2014, are as follows:

| *(In thousands of Korean won)* | | 2015(*3) | 2014(*4) |
|---|---|---|---|
| Pending litigations | ₩ | 2,280,914,256 | 1,077,861,885 |

(*3) The Group is a plaintiff for 92 litigations, such as claims for damage of Gu-mi station complex.
(*4) The Group was a plaintiff for 41 litigations, such as claims for damage of Gu-mi station complex.

(3) Pledged assets and guarantees

(i) Assets pledged as collateral for the Group's borrowings as of December 31, 2015, are summarized as follows:

| *(In thousands of Korean won)* | Carrying amount | Guaranteed amount | Type of borrowings | Lender |
|---|---|---|---|---|
| Promissory notes | ₩ 500,000,000 | 500,000 | Performance bonds | Mitsui-soko |
| Land and buildings | 3,024,403 | 100,000 | Guarantee money | Seoul Election Commission |
| Buildings | 1,699,206 | 45,000 | Guarantee money | Korea Seven |

(ii) Collaterals and guarantees provided by third parties on behalf of the Group as of December 31, 2015, are as follows:

| *(In thousands of Korean won)* | Type of guarantees | | Amount | Notes |
|---|---|---|---|---|
| Seoul Guarantee Insurance Co., Ltd. (SGI) | Performance bonds | KRW | 28,710,881 | - |
| Woori Bank | Performance bonds | USD | 6,060,692 | |
| | Operating capital Loans | KRW | 54,000,000 | |
| | Operating capital Loans | KRW | 1,000,000 | |
| Hana Bank | L/C (Import) | USD | 3,146,699 | |
| | L/C (Import) | EUR | 17,471,923 | |
| | L/C (Import) | JPY | 75,974,360 | |
| | L/C (Import) | CHF | 488,250 | |
| | L/C (Import) | GBP | 204,240 | |
| | Operating capital Loans | KRW | 2,915,000 | |
| Kookmin Bank | Operating capital Loans | KRW | 100,000,000 | |
| | Payment guarantee in foreign currency | USD | 1,507,880 | |
| | Payment guarantee in foreign currency | EUR | 6,673,821 | |
| | Payment guarantee in foreign currency | JPY | 66,008,000 | |
| | Payment guarantee in foreign currency | CHF | 36,589 | |
| | Payment guarantee in foreign currency | AUD | 132 | |
| | Business purchasing Card | KRW | 4,000,000 | |
| NH Bank | Operating capital Loans | KRW | 85,000,000 | |
| Korea Speciality Contractor Financial Cooperative (KSCFC) | Contract guarantee | KRW | 2,766,975 | - |
| | Maintenance bonds | KRW | 927,368 | |
| | Advance bonds | KRW | 2,898,096 | |
| Electric Contractors' Financial Cooperative (ECFC) | Bidding guarantee | KRW | 1,200,000 | - |
| | Contract guarantee | KRW | 1,440,000 | |
| | Performance bonds | KRW | 720,000 | |

## 48. TRANSACTIONS WITH THE GOVERNMENT AND OTHER PUBLIC INSTITUTIONS:

(1) Transactions with the Government and other public institutions for the years ended December 31, 2015 and 2014, are as follows.

| | | Revenue | | Costs | |
|---|---|---|---|---|---|
| Name | | 2015 | 2014 | 2015 | 2014 |
| Ministries | ₩ | 466,840,771 | 424,274,817 | 104,504,327 | 12,897,370 |
| Local governments | | 129,325,522 | 127,418,418 | 38,327,962 | 66,519,841 |
| Public companies | | 5,202,568 | 11,578,496 | 360,734,750 | 322,523,860 |
| Semipublic institutions | | 1,048,627,304 | 921,766,440 | 929,083,855 | 827,877,052 |
| Other public institutions | | 798,280,231 | 309,257,538 | 76,943,596 | 75,534,436 |
| Total | ₩ | 2,448,276,396 | 1,794,295,709 | 1,509,594,490 | 1,305,352,559 |

(2) Account balances with government and other public institutions as of December 31, 2015 and 2014, are as follows.

| | | Receivables | | Payables | |
|---|---|---|---|---|---|
| Name | | 2015 | 2014 | 2015 | 2014 |
| Ministries | ₩ | 1,721,253 | 304,263 | 1,138,763 | 502,947 |
| Local governments | | 34,529,069 | 21,140,398 | 10,742 | 395 |
| Public companies | | 620,876 | 3,674,573 | 6,009 | 14,792 |
| Semipublic institutions | | 133,839 | 304,396 | 1,887,117 | 1,491,471 |
| Other public institutions | | 6,509,662 | 5,222,201 | 14,278,675 | 14,733,933 |
| Total | ₩ | 43,514,699 | 30,645,831 | 17,321,306 | 16,743,538 |

(3) Government grants and receivables for entrusted business with the Government and other public institutions as of December 31, 2015 and 2014 are as follows.

| | | Government grants | | Receivables for entrusted business | |
|---|---|---|---|---|---|
| Name | | 2015 | 2014 | 2015 | 2014 |
| Ministries | ₩ | 116,190,367 | 197,099,794 | 77,953,061 | 157,083,824 |
| Local Governments | | - | - | 67,258,356 | 77,070,305 |
| Total | ₩ | 116,190,367 | 197,099,794 | 145,211,417 | 234,154,129 |

## 49. DEVELOPMENT OF YONGSAN STATION AREA (INTERNATIONAL BUSINESS DISTRICT):

(1) Summary
In 2007, the Group had established the Dream Hub Project Financial Investment Co., Ltd. ("DHPFI") (the Group: 25.0%, City of Seoul (SH Construction): 4.9% and Dream Hub Consortium: 70.1%) with the Dream Hub Consortium and had proceeded with the development of Yongsan Station area. Due to a number of amendments to the contracts to cope with the economic recession and financing difficulty, the Board of Directors of the controlling company concluded that factors such as the default of DHPFI made it impossible to carry the project forward and decided to cancel the project in 2013.

(2) The progress of the project
In the prior period, the Group notified the business cancellation to DHPFI and the members of Dream Hub Consortium and claimed ₩240,000 million to SGI as a contract performance bond based on the project agreements and land disposal contracts. As a result, the Group recognized business cancellation losses of

₩4,662,000 million, primarily composed of uncollected proceeds from the original sale of the land that was to be developed into the Yongsan Station Area.

In 2013, the Group returned the payment of ₩2,416,700 million and regained the ownership on part of the land disposed to DHPFI (138,908.4 ㎡, 38.97% of total area), which had been placed into a trust according to the real estate collateral trust agreement with Daehan Real Estate Trust Ltd. (the "Trust Company") in relation to the outstanding balance that DHPFI borrowed in order to purchase land in Yongsan from the Group. The Group also regained the land equivalent to the amount of the special buyback registration that expired during the year ended December 31, 2015 (1,288.3 ㎡, 0.36% of total area).

(3) Expectation of Business
In October 2013, the Group appealed to the Tax Tribunal for rectification of the corporate tax amounting to ₩880,000 million related to the disposal of the land in Yongsan. In January 2014, the Group filed a lawsuit against DHPFI over the ownership of remaining area in Yongsan (217,582.0 ㎡, 60.28% of total area) and has been planning to seek ways to regain and utilize the land.

## 50. DISCONTINUED OPERATION:

(1) Selling Airport Railroad Co., Ltd. business department

The Group sold its interests in Airport Railroad Co., Ltd. to the consortium of Kookmin Bank and Industrial Bank on June 23, 2015. The selling satisfied the definition of discontinued operation according to K-IFRS 1105.

(2) Analysis over the income from discontinued operation

The combined performance from the discontinued operation included in the consolidated statements of comprehensive income is as follows.

(i) Income from discontinued operation

| *(In thousands of Korean won)* | | 2015 | 2014 |
|---|---|---|---|
| Operation revenues | ₩ | 156,387,156 | 236,088,858 |
| Operation expenses | | (64,920,545) | (86,265,090) |
| Other revenue and expenses | | 43,814,962 | 82,368,972 |
| Income tax expense | | (19,807,881) | (38,496,715) |
| Gain/loss on disposition | | 27,857,979 | - |
| Income from discontinued operation | | 143,331,671 | 193,696,025 |
| Equity attributable to owners of the Company | | 130,398,617 | 172,002,070 |
| Non-controlling interests | | 12,933,054 | 21,693,955 |

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