IMPORTANT NOTICE

THIS DOCUMENT IS AVAILABLE ONLY TO INVESTORS WHO ARE PERSONS PURCHASING THE SECURITIES OUTSIDE THE UNITED STATES IN AN OFFSHORE TRANSACTION IN RELIANCE ON REGULATION S UNDER THE SECURITIES ACT.

IMPORTANT: You must read the following before continuing. If you are not the intended recipient of this message, please do not distribute or copy the information contained in this e-mail, but instead, delete and destroy all copies of this e-mail including all attachments. The following applies to the offering circular following this page, and you are therefore advised to read this carefully before reading, accessing or making any other use of the offering circular. In accessing the following offering circular, you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information from us as a result of such access.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES 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 MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES, EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE OR LOCAL SECURITIES LAWS.

THE FOLLOWING OFFERING CIRCULAR MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER, AND IN PARTICULAR, MAY NOT BE FORWARDED TO ANY U.S. ADDRESS. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORIZED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS. ANY INVESTMENT DECISION SHOULD BE MADE ON THE BASIS OF THE FINAL TERMS AND CONDITIONS OF THE RELEVANT SECURITIES. IF YOU HAVE GAINED ACCESS TO THIS TRANSMISSION CONTRARY TO ANY OF THE FOREGOING RESTRICTIONS, YOU ARE NOT AUTHORIZED AND WILL NOT BE ABLE TO PURCHASE ANY OF THE SECURITIES DESCRIBED THEREIN.

Confirmation of your Representation: In order to be eligible to view the following offering circular or make an investment decision with respect to the securities, investors must not be located in the United States. By accepting the e-mail and accessing the following offering circular, you shall be deemed to have represented to us that (1) the electronic mail address that you gave us and to which this e-mail has been delivered is not located in the United States, its territories or possessions and, to the extent you purchase the securities described in the following offering circular, you will be doing so pursuant to Regulation S under the Securities Act and (2) you consent to the delivery of such offering circular and any amendments and supplements thereto by electronic transmission.

You are reminded that the following offering circular has been delivered to you on the basis that you are a person into whose possession the following offering circular may be lawfully delivered in accordance with the laws of jurisdiction in which you are located and you may not, nor are you authorized to, deliver or disclose the contents of the following offering circular to any other person. If this is not the case, you must return this offering circular to us immediately.

The materials relating to the offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer and the underwriter or any affiliate of the underwriter is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the underwriter or such affiliate on behalf of the issuer in such jurisdiction.

The following 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 Korean Air Lines Co., Ltd. nor BOCI Asia Limited (the "Manager"), nor any person who controls any of them nor any director, officer, employee nor agent of any of them or affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the offering 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 announcement, 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

Offering Circular dated June 5, 2017

Korean Air Lines Co., Ltd.
U.S.$300,000,000 Senior Capital Securities

Issue Price: 100%

The U.S.$300,000,000 Senior Capital Securities (the "Securities") will be issued by Korean Air Lines Co., Ltd. (the "Company"). The Securities constitute unconditional, unsecured and unsubordinated obligations of the Company and will at all times rank *pari passu* without any preference among themselves and *pari passu* with all other present and future unsecured and unsubordinated obligations of the Company, except as may be required by mandatory provisions of law.

The Securities confer a right to receive cumulative interest at the following interest rates: (i) from (and including) June 12, 2017 (the "Issue Date") to (but excluding) December 12, 2020 (the "First Call Date"), at 6.875% per annum; and (ii) from (and including) the First Call Date to (but excluding) the immediately following Reset Date and thereafter from (and including) each Reset Date to (but excluding) the next following Reset Date, at a fixed rate equivalent to the prevailing 3-year Treasury Rate plus the Initial Credit Spread plus the Step Up Margin, in each case on the Principal Amount of each Security. Terms relating to the Securities and not otherwise defined have the meanings given to them in "*Terms and Conditions of the Securities*."

Subject to the provisions of the Securities relating to deferral of interest payments at the sole discretion of the Company (see "*Terms and Conditions of the Securities — Interest — Optional deferral of interest payments*"), interest shall be payable semi-annually in arrear on June 12 and December 12 of each year (each an "Interest Payment Date," with the first Interest Payment Date falling on December 12, 2017 in respect of the period from and including the Issue Date to but excluding such Interest Payment Date).

Unless redeemed or purchased and cancelled earlier in accordance with the terms of the Securities, the Company may redeem the Securities on June 12, 2047 at their Principal Amount plus any Interest Amount accrued up to (but excluding) such date and any outstanding Deferred Interest Payments and, if not redeemed, at the end of each subsequent 30-year period (each of such dates, an "Company Redemption Date") provided that, if the Securities are not redeemed at the option of the Company on a Company Redemption Date, the Securities will automatically be extended for 30 years from such date. The Company may redeem the Securities (in whole but not in part), on the First Call Date or on any Interest Payment Date thereafter at their Principal Amount plus any Interest Amount accrued up to (but excluding) such date and any outstanding Deferred Interest Payments upon giving the Holders of the Securities and the Agents not less than 30 and not more than 60 calendar days' irrevocable notice of redemption. The Securities may, subject to applicable laws, also be redeemed (in whole but not in part) at any time, on giving not less than 30 and not more than 60 calendar days' irrevocable notice of redemption to the Holders of the Securities and the Agents, at the option of the Company at the Principal Amount of the Securities plus any interest accrued up to (but excluding) the relevant Redemption Date and any outstanding Deferred Interest Payments, if (i) a Gross-up Event occurs, (ii) a Tax Event or an Accounting Event occurs or (iii) a Breach of Covenant or Senior Note Event of Default occurs.

Investing in the Securities involves certain risks. See "*Risk Factors*" beginning on page 10.

Approval in-principle has been received from the Singapore Exchange Securities Trading Limited (the "SGX-ST") for the listing and quotation of the Securities 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 listing and quotation of the Securities on, the SGX-ST are not to be taken as an indication of merits of the Company or the Securities.

The Securities have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the "Securities Act"), and, subject to certain exceptions, may not be offered or sold within the United States unless pursuant to an exemption from or in a transaction not subject to the registration requirements of the Securities Act. For a description of these and certain further restrictions on offers and sales of the Securities and the distribution of this Offering Circular, see "*Subscription and Sale*."

The Securities will initially be represented by beneficial interests in a global certificate (the "Global Certificate") in registered form which will be registered in the name of a nominee of, and shall be deposited on or about June 12, 2017 with a common depositary for, Euroclear Bank SA/NV ("Euroclear") and Clearstream Banking S.A. ("Clearstream"). Beneficial interests in the Global Certificate will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear and Clearstream. Except as described herein, certificates for Securities will not be issued in exchange for interests in the Global Certificate.

Sole Global Coordinator, Sole Bookrunner and Sole Lead Manager

BOC International

TABLE OF CONTENTS

You should rely only on the information contained in this Offering Circular. Neither the Company nor the Manager (as defined in "*Subscription and Sale*") has authorized anyone to provide you with information that is different or make any representation other than as contained in this Offering Circular in connection with the offering of the Securities. If anyone provides you with different or inconsistent information, you should not rely on it.

You should assume the information in this Offering Circular is accurate only as of the date of this Offering Circular or such other date as specified herein. The business, financial condition, results of operations and prospects of the Company may have changed since that date. Neither the delivery of this Offering Circular nor any sale of the Securities made in connection with this Offering Circular will, under any circumstances, constitute a representation or create any implication that the information in this Offering Circular is correct as of any date subsequent to the date of this Offering Circular or that there have been no changes in the affairs of the Company since the date of this Offering Circular. Statements contained in this Offering Circular as to the contents of any contract or other documents referred to in this Offering Circular may not set forth all of the terms and conditions of such contracts or other documents.

In making an investment decision, prospective investors must rely on their own examination of the Company and the terms of the Securities, including the merits and risks involved. The Company is not making any representation to any purchaser of the Securities regarding the legality of an investment in the Securities by such purchaser under any legal investment or similar laws or regulations. This Offering Circular should not be considered as a recommendation or constituting an invitation or offer by the Company or the Manager that any recipient of this Offering Circular should purchase the Securities. You should not construe the contents of this Offering Circular as legal, business, accounting or tax advice. You should consult your own attorney, business adviser and tax adviser for legal, business and tax advice regarding an investment in the Securities.

The Company has furnished the information contained in this Offering Circular. No representation, undertaking or warranty, express or implied, is made by the Manager, the Agents (as defined in "*Terms and Conditions of the Securities*") or any of their respective affiliates or advisers as to the accuracy or completeness of the information contained in this Offering Circular, and nothing contained in this Offering Circular is, or shall be relied upon as, a promise or representation by the Manager, the Agents or any of their respective affiliates or advisers. Neither the Manager nor the Agents assume responsibility for the accuracy, adequacy, reasonableness or completeness of any of the information contained in this Offering Circular or any other information (financial, legal or otherwise) provided by the Company in connection with the issue or distribution of the Securities or the future performance of the Securities. Each person receiving this Offering Circular acknowledges that such person has not relied on the Manager, the Agents or any of their respective affiliates or advisers in connection with investigation of the accuracy of such information or such person's investment decisions.

This Offering Circular may only be used where it is legal to sell the Securities. Neither the Company nor the Manager is making an offer to sell the Securities in any jurisdiction where the offer or sale is not permitted. This Offering Circular may not be used for, or in connection with, any offer to, or solicitation by, anyone in any jurisdiction in which it is unlawful to make such an offer or solicitation. The distribution of this Offering Circular and the offering of the Securities in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular may come must inform themselves about and observe these relevant restrictions. No action is being taken in any jurisdiction to permit an offering to the general public of the Securities or the distribution of this Offering Circular in any jurisdiction where action would be required for those purposes.

This Offering Circular is confidential. This Offering Circular has been prepared by the Company solely for use in connection with the proposed offering of the Securities described in this Offering Circular. This Offering Circular is personal to each prospective investor and does not constitute an offer to any other person or to the public generally to subscribe for, or otherwise acquire, the Securities. Distribution of this Offering Circular to any person other than the prospective investor and any person retained to advise such prospective investor with respect to its purchase is unauthorized and any disclosure of any of its contents or use of such information for any purpose other than making an investment decision, without the prior written consent of the Company, is prohibited. Each prospective investor, by accepting delivery of this Offering Circular, agrees to the foregoing.

The Securities are subject to restrictions on transferability and may not be transferred or resold except as permitted under applicable U.S. federal and state Securities laws pursuant to a registration statement or an exemption from registration. Any investor who purchases the Securities will be deemed to have made acknowledgements, representations, warranties and agreements intended to restrict the resale or other transfer of the Securities, as set forth under "*Subscription and Sale — Transfer Restrictions*." As a prospective purchaser, you should be aware that you may be required to bear the financial risks of this investment for an indefinite period of time.

In connection with this offering, the Manager (or person(s) acting on its behalf) may, subject to all applicable laws, rules and regulations, over-allot Securities or effect transactions that stabilize or maintain the market price of the Securities at a higher level than the Securities might otherwise achieve in the open market for a limited period of time after the issue date. However, there is no assurance that the Manager (or person(s) acting on its behalf) will undertake stabilization action. Such stabilizing, if commenced, may be discontinued at any time and must be brought to an end after a limited period. For a description of these activities, see "*Subscription and Sale*."

ENFORCEABILITY OF CIVIL LIABILITIES

The Company is a corporation with limited liability organized under the laws of Korea. All of the officers and directors of the Company named in this Offering Circular reside in Korea, and a substantial portion of the assets of the Company and of such officers and directors are located outside the United States.

As a result, it may not be possible for you to effect service of process within the United States upon such persons or to enforce against them or the Company in U.S. courts judgments predicated upon civil liability provisions of the federal securities laws of the United States. There is doubt as to the enforceability in Korea, either in original actions or in actions for enforcement of judgments of U.S. courts, of civil liabilities predicated on the U.S. federal securities laws.

AVAILABLE INFORMATION

Copies of the Fiscal Agency Agreement will be on file and available for inspection at the specified office of the Fiscal Agent (as defined in this Offering Circular) upon prior written request during normal office hours. In accordance with the Securities and the Fiscal Agency Agreement, the Fiscal Agent also will make available for inspection by holders of the Securities or, in certain cases, arrange for the mailing to such holders, certain documents or communications received from the Company. See "*Terms and Conditions of the Securities.*"

PRESENTATION OF FINANCIAL INFORMATION

The Company maintains its financial books and records and prepares its financial statements in Won in accordance with International Financial Reporting Standards as adopted by Korea ("Korean IFRS" or "K-IFRS"). The Company's consolidated financial statements and information as of and for the years ended December 31, 2015 and 2016 and as of March 31, 2017 and for the three months ended March 31, 2016 and 2017 included in this Offering Circular have been prepared in accordance with Korean IFRS.

CERTAIN DEFINED TERMS AND CONVENTIONS

All references to the “Company” in this Offering Circular are references to Korean Air Lines Co., Ltd. or Korean Air Lines Co., Ltd. and its consolidated subsidiaries collectively, unless otherwise specified or the context otherwise requires.

In this Offering Circular, all references to “Korea” are to the Republic of Korea, all references to “U.S.” or the “United States” are to the United States of America, all references to “Hong Kong” are to the Hong Kong Special Administrative Region of the People’s Republic of China, all references to the “EU” are to the European Union and all references to the “Government” are to the government of Korea.

Unless otherwise indicated, all references to “Won,” “Korean Won” or “₩” contained in this Offering Circular are to the currency of Korea, references to “U.S. dollars,” “US$” or “U.S.$” are to the currency of the United States of America, references to “Euro,” “EUR” or “€” are to the currency of the European Union, references to “Japanese Yen,” “JPY” or “¥” are to the currency of Japan and references to “Renminbi,” “Chinese Yuan” or “CNY” are to the currency of the People’s Republic of China.

In this Offering Circular, where information has been prepared in thousands, millions or billions of units, amounts may have been rounded up or down. Accordingly, actual numbers may differ from those contained herein due to rounding. All discrepancies in any table between totals and the sums of the amounts listed are due to rounding.

FORWARD-LOOKING STATEMENTS

This Offering Circular includes future expectations, projections or “forward-looking statements”, as defined in Section 27A of the Securities Act and Section 21E of the U.S. Securities Exchange Act of 1934, as amended. The words “believe”, “expect”, “anticipate”, “estimate”, “project” and similar words identify forward-looking statements. In addition, all statements other than statements of historical facts included in this Offering Circular are forward-looking statements. Although the Company believes that the expectations reflected in the forward-looking statements are reasonable, no assurance can be given that such expectations will prove correct. This Offering Circular discloses important factors that could cause actual results to differ materially from the Company’s expectations, including factors that could adversely affect the future performance of the Korean economy, as described below (collectively, the “Cautionary Statements”). All subsequent written and oral forward-looking statements attributable to the Company or persons acting on behalf of either of them are expressly qualified in their entirety by the Cautionary Statements.

SUMMARY

The following summary highlights information appearing elsewhere in this Offering Circular and does not contain all of the information you should consider in making your investment decision. You should read this summary together with the more detailed information, including the financial statements and the related notes of the Company, appearing in this Offering Circular. You should carefully consider, among other things, the matters discussed in "Risk Factors."

The Company is the leading airline in Korea in terms of total passengers and cargo carried, with market shares of 24% and 34%, respectively, in the twelve months ended December 31, 2016, according to data released by the Korea Airport Corporation and the Incheon Airport Corporation. The Company engages primarily in air transportation for passengers and cargo through the operation of both international and domestic flights, providing commercial airline services to destinations in Korea and around the world from its hub at Incheon Airport, one of the major air gateways in Asia.

The Company has maintained its leadership in the Korean market in terms of total international and domestic passengers carried since its incorporation in 1962 and has become a major international airline. To distinguish itself as a premium, full-service carrier, the Company seeks to provide premium service to its passengers and customers and continually upgrades its fleet to include aircraft that implement the latest technologies. The Company also has a significant international presence as an air cargo carrier, ranking third and fourth globally for 2015 and 2016, respectively, in terms of scheduled international freight ton-kilometers, according to the International Air Transport Association (the "IATA"). As of May 31, 2017, the Company provided services to 116 international destinations in 45 countries and 13 domestic destinations for its passenger and cargo services. The Company also operates related businesses in aerospace, catering and in-flight sales, and limousine transportation and hotels.

The Company is also one of the founding members of the SkyTeam alliance, a global alliance with 20 member airlines. SkyTeam passenger alliance is an important passenger revenue source for the Company, featuring a wide range of code-sharing and networks, as well as joint branding and marketing, frequent flyer programs, and pooling of airport facilities and resources.

The Company has received various awards and accolades over the years, including "Best airline service provider — 2015 Global Customer Satisfaction Competency Index (GCSI) organized by Korea Economic Daily in 2016; "Best airline service provider — 2015 Global Customer Satisfaction Competency Index" organized by Japan Management Association Consulting and "A330 Award for Top Operational Excellence" in 2015; "Global Times: Top 3 International Airline Most Preferred by Chinese Global Traveler" and "A380 Award for Top Operational Excellence 2013-2014" in 2014; and "World Travel Awards 2013 World's Most Innovative Airline" in 2013 and 2012.

In the years ended December 31, 2015 and 2016, the Company recognized consolidated revenues of Won 11,545 billion and Won 11,732 billion, respectively, and net loss of Won 563 billion and Won 557 billion, respectively. In the three months ended March 31, 2016 and 2017, the Company recognized consolidated revenues of Won 2,867 billion and Won 2,866 billion, respectively, and net loss of Won 175 billion and net income of Won 559 billion, respectively.

Recent Developments

As part of the restructuring within Hanjin Group and in order to harness greater synergies between the Company's air cargo and shipping businesses and counter the severe downturn in the global shipping industry caused by adverse conditions in the global economy and the resulting slowdown in global trade, coupled with an oversupply of capacity and the resulting decline in freight rates, in June 2014, the Company acquired 33.2% of the outstanding shares of Hanjin Shipping Co., Ltd. ("Hanjin Shipping"), Korea's biggest container shipping line and a member of the Hanjin Group listed on the Korea Exchange, through a capital injection of Won 400 billion and became the largest shareholder of Hanjin Shipping. Hanjin Shipping's financial position continued to deteriorate, however, and in May 2016, Hanjin Shipping submitted itself to joint management with its creditors in an effort to revive itself from financial difficulties. In August 2016, the creditors of Hanjin Shipping rejected its last funding plan, and Hanjin Shipping entered into court receivership in September 2016 and was declared bankrupt in February 2017. In March 2017, Hanjin Shipping was excluded from the Hanjin Group.

In the aggregate, the Company had invested Won 828 billion in Hanjin Shipping in the form of equity injections, acquisition of capital securities issued by Hanjin Shipping and guarantee of convertible bonds issued by Hanjin Shipping, all of which had been recognized as impairment losses in the financial statements as of and for the year ended December 31, 2016 included in this Offering Circular.

THE OFFERING

The following is a brief summary of certain terms of this offering. For a more complete description of the terms of the Securities, see "Terms and Conditions of the Securities" in this Offering Circular (the "Conditions"). Terms used and not otherwise defined in this summary have the meaning given to them in the Conditions.

Company	Korean Air Lines Co, Ltd., a corporation with limited liability established under the laws of Korea.
Securities	U.S.$300,000,000 Senior Capital Securities.
Issue Price	100%
Issue Date	June 12, 2017.
Form and Denomination	The Securities will be issued in registered form in denominations of U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof.
Status of the Securities	The Securities constitute unconditional, unsecured and unsubordinated obligations of the Company and will at all times rank *pari passu* without any preference among themselves and *pari passu* with all other present and future unsecured and unsubordinated obligations of the Company, except as may be required by mandatory provisions of law.
Covenants	The Securities will, among other things, limit the ability of the Company to issue guarantees, create liens, sell assets and make any payments to or enter into transactions with certain of its Affiliates, subject to certain exceptions. In addition, so long as any Securities are outstanding, the Company shall maintain a ratio of Total Liabilities to Total Equity of no greater than 1500%.
Interest	Each Security will entitle the Holder thereof to receive cumulative interest. The Interest on the Securities will accrue: (a) from (and including) the Issue Date to (but excluding) the First Call Date at 6.875% per annum; and (b) (1) from (and including) the First Call Date to (but excluding) the immediately following Reset Date and (2) thereafter from (and including) each Reset Date to (but excluding) the next following Reset Date, at a fixed rate equivalent to the prevailing 3-year Treasury Rate plus the Initial Credit Spread plus the Step Up Margin, in each case on the Principal Amount of each Security, which interest will be payable semi-annually in arrear in U.S. dollars on June 12 and December 12 of each year (each an "Interest Payment Date").
Increase in Interest Rate following a Breach of Covenant or Senior Note Event of Default	Following the occurrence of a Breach of Covenant or Senior Note Event of Default, the then applicable Interest Rate will increase by 5.0% per annum with effect from the following Interest Payment Date

	(or, if the relevant event occurs on or after the date that is five Business Days prior to the next Interest Payment Date, the next following Interest Payment Date).
Optional Deferral of Interest Payments	The Company may determine in its sole discretion (not less than five Business Days prior to the relevant Interest Payment Date) not to pay all or part of the Interest Amount falling due on that Interest Payment Date. If the Company determines not to pay all or part of the Interest Amount falling due on an Interest Payment Date, such interest (or part thereof, as the case may be) will not be due and payable, or be paid, until the relevant Payment Reference Date and for so long as the same remains unpaid will constitute a "Deferred Interest Payment." Additional interest will accrue on each Deferred Interest Payment as set out in Condition 5.3(a) and will be added to such Deferred Interest Payment (and thereafter accumulate additional interest accordingly) on each Interest Payment Date. Each Deferred Interest Payment and additional interest thereon will be payable in accordance with Condition 5.5. The Company is not subject to any limits as to the number of times the Interest Amount and Deferred Interest Payment can be deferred, except as specified in Condition 5.5.
Restrictions in the Case of Deferral	If (a) some or all of an Interest Amount is deferred pursuant to Condition 5.3(a); and (b) such Interest Amount has not been paid in full by the date which is 20 Business Days following the Interest Payment Date on which it would otherwise have been due, the Company will not: (i) declare or pay any discretionary dividends, distributions, interest, capital return or make any other discretionary payment, and will procure that no discretionary dividend, distribution, interest, capital return or other discretionary payment is made on any of its Equity Obligations (as defined in "*Terms and Conditions of the Securities*"); or (ii) redeem, reduce, cancel, purchase, buy-back or acquire for any consideration any of its Equity Obligations, (other than in respect of employee benefit plans or similar arrangements with or for the benefits of employees, officers, directors or consultants of the Company) until the date on which all Deferred Interest Payments have been paid in full.
Payment of Deferred Interest Payments	The Company may elect to pay any Deferred Interest Payment at any Interest Payment Date on the giving of at least five and not more than 15 Business Days' prior notice to the Agents.

	The Company must pay such Deferred Interest Payment, on the earlier to occur of: (i) the date on which all of the Securities are redeemed pursuant to the provisions of Condition 6; and (ii) the date on which an order is made or a resolution is passed for the Winding-Up of the Company. The Company must pay such Deferred Interest Payment on the next scheduled Interest Payment Date if, during the 12 month period ending on the day before the relevant scheduled Interest Payment Date, any discretionary dividend, distribution or capital return has been declared or paid on, or any redemption, reduction, cancellation, purchase, buy-back or acquisition has been made of, any Equity Obligations of the Company (other than in respect of the employee benefit plans or similar arrangements with or for the benefits of employees, officers, directors or consultants of the Company).
Maturity Date	Unless redeemed or purchased and cancelled earlier in accordance with the Conditions, the Securities may be redeemed on June 12, 2047 at their Principal Amount plus any Interest Amount accrued up to (but excluding) such date and any outstanding Deferred Interest Payments and, if not redeemed on such date, at each Company Redemption Date; provided that, if the Securities are not redeemed at the option of the Company on a Company Redemption Date, the Securities will automatically be extended for 30 years from such Company Redemption Date.
Early Redemption at the Option of the Company	Subject to applicable laws, the Company may redeem the Securities (in whole but not in part) on the First Call Date or on any Interest Payment Date thereafter at their Principal Amount plus any Interest Amount accrued up to (but excluding) the relevant Redemption Date and any outstanding Deferred Interest Payments, on the giving of not less than 30 and not more than 60 calendar days' irrevocable notice of redemption to the Holders and the Agents.
Early Redemption Due to a Gross-Up Event	The Company may, subject to applicable laws, redeem the Securities (in whole but not in part) at their Principal Amount plus any interest accrued up to (but excluding) the relevant Redemption Date and any outstanding Deferred Interest Payments on the giving of not less than 30 and not more than 60 calendar days' irrevocable notice of redemption to the Holders and the Agents, if, as a result of any change in, or amendment to, the laws (or any rules or regulations thereunder) of the Relevant Jurisdiction, or any change in or amendment to any official interpretation or application of those laws, rules or regulations, which change or amendment becomes effective on or after June 5, 2017, the Company pays or will become obliged to pay an Additional Amount under Condition 8.

Early Redemption due to a Tax Event or an Accounting Event	If a Tax Event or an Accounting Event occurs, the Company may, subject to applicable laws, redeem the Securities (in whole but not in part) at any time at the Principal Amount plus any interest accrued up to (but excluding) the relevant Redemption Date and any outstanding Deferred Interest Payments on the giving of not less than 30 and not more than 60 calendar days' irrevocable notice of redemption to the Holders and the Agents. Prior to giving such notice of redemption, the Company will deliver or procure that there is delivered to the Fiscal Agent a certificate signed by an Authorized Signatory of the Company stating that a Tax Event or an Accounting Event (as the case may be) has occurred and stating in the case of a Tax Event that the relevant loss of deduction cannot be avoided by the Company taking reasonable measures available to it and, in the case of a Tax Event, the opinion referred to in Condition 6.4(b) and, in the case of an Accounting Event, the opinion referred to in Condition 6.4(c).
Early Redemption on the Occurrence of a Breach of Covenant or Senior Note Event of Default	If a Breach of Covenant or Senior Note Event of Default occurs, the Company may, subject to applicable laws, redeem the Securities (in whole but not in part) at any time at their Principal Amount plus any interest accrued up to (but excluding) the relevant Redemption Date and any outstanding Deferred Interest Payments, on the giving of not less than 30 and not more than 60 calendar days' irrevocable notice of redemption to the Holders and the Agents.
Governing Law	The Securities are governed by, and will be construed in accordance with, the laws of the State of New York.
Fiscal Agent, Paying Agent, Transfer Agent, Calculation Agent and Registrar	Deutsche Bank AG, Hong Kong Branch
Listing	Approval in-principle has been received from the SGX-ST for the listing and quotation of the Securities on the SGX-ST. There can be no assurance, however, that the Securities will be listed and quoted on the SGX-ST. For as long as the Securities are listed on the SGX-ST and the rules of the SGX-ST so require, the Securities will be traded on the SGX-ST in a minimum board lot size of SGD200,000 (or its equivalent in foreign currencies).
Use of Proceeds	The Company expects to use the net proceeds from the Offering for general corporate purposes. See "Use of Proceeds."
Clearance and Settlement	The Securities have been accepted for clearance by Euroclear and Clearstream under the following codes: ISIN: XS1627752519 Common Code: 162775251

SUMMARY FINANCIAL INFORMATION

The following tables present summary financial information of the Company. The summary consolidated financial information as of and for the years ended December 31, 2015 and 2016 set forth below has been derived from the audited annual consolidated financial statements of the Company included in this Offering Circular. The summary consolidated financial information as of March 31, 2017 and for the three months ended March 31, 2016 and 2017 set forth below has been derived from the unaudited condensed consolidated interim financial statements of the Company included in this Offering Circular.

The Company's results of operations for the three months ended March 31, 2017 may not be indicative of its result of operations for any future interim period or for the full year 2017.

Selected Consolidated Statements of Comprehensive Income (Loss) Information

	For the year ended December 31,		For the three months ended March 31,	
	2015	**2016**	**2016**	**2017**
	(in billions of Won, except per share data)			
Revenue	₩11,545	₩11,732	₩ 2,867	₩2,866
Cost of sales	9,517	9,435	2,265	2,394
Gross profit	2,028	2,297	602	472
Selling and administrative expenses	1,144	1,176	279	280
Operating income	884	1,121	323	192
Finance income	56	51	19	29
Finance expenses	516	559	154	112
Gain (loss) on equity method valuation	17	(112)	(37)	(4)
Other non-operating income	386	511	292	968
Other non-operating expenses	1,313	1,730	615	354
Income (loss) before income tax	(486)	(718)	(174)	719
Income tax expense (benefit)	(85)	(161)	1	160
Income (loss) from continuing operations	(401)	(557)	(175)	559
Income (loss) from discontinued operations	(162)	—	—	—
Income (loss) for the period	₩ (563)	₩ (557)	₩ (175)	₩ 559
Income (loss) attributable to:				
Owners of the Parent Company	₩ (565)	₩ (565)	₩ (178)	₩ 558
Non-controlling interests	2	8	3	1
Earnings (loss) per share attributable to owners of the Parent Company (in Won)				
Continuing operation and discontinued operation:				
Attributable to common stock	₩(7,968)	₩(7,639)	₩(2,402)	₩7,118
Attributable to preferred stock	(7,868)	(7,589)	(2,352)	7,168
Continuing operation:				
Attributable to common stock	(5,713)	(7,639)	(2,402)	7,118
Attributable to preferred stock	(5,663)	(7,589)	(2,352)	7,168

Selected Consolidated Statements of Financial Position Information

	As of December 31, 2015	As of December 31, 2016	As of March 31, 2017
	(in billions of Won)		
Assets			
Cash and cash equivalents	₩ 967	₩ 1,090	₩ 1,132
Trade and other receivables	951	727	760
Other current assets	1,325	1,511	1,513
Assets held for sale	46	—	55
Total current assets	3,289	3,328	3,460
Investments in associates	520	24	18
Property, aircraft and equipment, net	17,851	17,873	17,853
Other non-current assets	2,520	2,731	2,579
Total non-current assets	20,891	20,628	20,450
Total assets	₩24,180	₩23,956	₩23,910
Liabilities			
Trade and other payables	₩ 870	₩ 846	₩ 889
Short-term borrowings	869	1,168	1,080
Current portion of long-term liabilities	3,926	3,461	3,654
Current portion of finance lease obligations	1,234	1,714	1,427
Other current liabilities	1,551	1,942	2,093
Total current liabilities	8,450	9,131	9,143
Long-term borrowings	1,095	1,016	799
Debentures	693	83	44
Asset-backed securitization loans	1,181	1,732	1,439
Finance lease obligations	7,155	6,774	6,301
Defined benefit obligations (net)	1,028	1,126	1,134
Provisions	171	179	160
Deferred revenue	1,702	1,868	1,913
Other non-current liabilities	206	173	146
Total non-current liabilities	13,231	12,951	11,936
Total liabilities	₩21,681	₩22,082	₩21,079
Equity			
Capital stock	₩ 370	₩ 370	₩ 480
Other capital surplus	818	1,198	1,542
Other capital components	405	385	336
Retained earnings	794	(193)	359
Equity attributable to owners of the Parent Company	2,387	1,760	2,717
Non-controlling interests	112	114	114
Total equity	₩ 2,499	₩ 1,874	₩ 2,831

Other Financial Information

	For the year ended December 31,		For the three months ended March 31,	
	2015	2016	2016	2017
	(in billions of Won)			
Net cash provided by (used in) operating activities	₩ 2,728	₩ 2,806	₩ 772	₩ 847
Net cash provided by (used in) investing activities	419	(874)	(303)	(485)
Capital expenditures[(1)]	(1,743)	(1,145)	(346)	(484)
Net cash provided by (used in) financing activities	(2,997)	(1,829)	(842)	(281)

Notes:

(1) Capital expenditures represent acquisition of property, aircraft and equipment and investment property as presented in the Company's statements of cash flows.

RISK FACTORS

An investment in the Securities is subject to various risks, including those listed below. Investors should carefully consider the following risks as well as the other information contained in this Offering Circular before purchasing the Securities. These risks could materially affect the Company's ability to meet its obligations under the Securities or its financial statements, results of operations or business prospects. In such case, investors may lose all or part of their original investment in, and the expected return on, the Securities.

Risks Relating to the Airline Industry

Increased competition in the airline industry and competition from other forms of transportation and communication could negatively affect the Company's business.

As an international full service carrier, the Company competes for passengers with other major full service airlines. International airlines increasingly compete on the basis of international marketing and code-share alliances formed by domestic and foreign carriers. Such alliances allow international carriers to increase their ability to sell international transportation between Korea and other countries. The Company's ability to attract and retain customers is dependent upon, among other things, its ability to offer customers convenient access to desired markets. As of December 31, 2016, the Company is a member of the SkyTeam alliance and has entered into code-sharing agreements with 35 airlines, including 17 members of the SkyTeam alliance and 18 airlines outside of the SkyTeam alliance. The Company's business may be adversely affected if it is unable to maintain or obtain alliance and marketing relationships with other air carriers in desired markets. In addition, the Company's business may be harmed if international alliances competing with the SkyTeam alliance are able to offer their member airlines competitive advantages that the SkyTeam alliance cannot offer its member airlines.

In recent years, the emergence of low cost carriers ("LCCs") has increased competition in the airline industry. Although the low fares offered by the LCCs is believed to have resulted in an increase in aggregate demand for air travel, competition from LCCs has had a significant impact on the Korean air travel service market, on both domestic and short-haul international routes. According to statistics released by the Korean Ministry of Land, Infrastructure and Transport (the "MOLIT"), the number of domestic passengers on the two full service airlines in Korea increased 5.0% from 2013 to 2014, 4.4% from 2014 to 2015 and 4.8% from 2015 to 2016, while the number of domestic passengers on the five Korean LCCs increased 15.9% from 2013 to 2014, 22.4% from 2014 to 2015 and 14.0% from 2015 to 2016. Over the same periods, the number of international passengers on the two full service airlines in Korea increased 2.4% from 2013 to 2014, 4.9% from 2014 to 2015 and 7.8% from 2015 to 2016, while the number of international passengers on the five Korean LCCs increased 32.8% from 2013 to 2014, 37.6% from 2014 to 2015 and 16.6% from 2015 to 2016. While the Company will continue to focus on product differentiation, productivity improvements and cost management measures in order to maintain its competitiveness, there can be no assurance that these measures will mitigate the impact of intensified competition from the LCCs.

The Company also faces competition from ground and sea transportation alternatives, such as the KTX (Korea Train eXpress) and the SRT (Super Rapid Train), high-speed train networks in Korea that have made domestic travel faster and more efficient. Video teleconferencing and other methods of electronic communication, and improvements therein, also add a new dimension of competition to the industry as they, to a certain extent, provide lower-cost substitutes for air travel.

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

The airline industry tends to experience adverse financial results during general economic downturns.

Due to the discretionary nature of spending on leisure travel and, to a lesser extent, business travel, airline industry revenues are heavily influenced by general economic downturns. Sluggish economy also negatively affects demand for air cargo and, therefore, the air freight industry. Demand for air transportation services depends largely on global and domestic economic conditions, including unemployment levels, consumer confidence levels and the availability of consumer and business credit. Unfavorable economic conditions in recent years have resulted, and may result in the future, in decreased passenger demand for air travel and a reduction in fare levels as well as decreased demand for cargo transport. Stagnant or weakening global economic conditions or volatility in global financial and credit markets may have a material adverse effect on the Company's revenues, results of operations and liquidity. In addition, if such economic conditions were to disrupt capital markets in the future, the Company may be unable to obtain financing on acceptable terms, or at all, to satisfy its capital commitments.

The airline industry is affected by risks and events beyond its control, such as natural disasters, health epidemics, terrorist attacks, regional instability and extreme weather conditions, any of which could have a material adverse impact on the Company's business and results of operations.

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

- The terrorist attacks of September 11, 2001 and subsequent terrorist attacks have had a negative impact on the airline industry. The primary effects experienced by the airline industry have included increased security and insurance costs, increased concerns about future terrorist attacks, airport shutdowns, flight cancellations and delays due to security breaches and perceived safety threats and, especially in the period immediately thereafter, significantly reduced passenger traffic and yields due to a significant decrease in demand for air travel globally.
- The aviation industry has experienced disruption by the outbreaks of health epidemics such as the highly pathogenic H5N1 strain of the avian influenza virus in birds since late 2003; severe acute respiratory syndrome, or SARS, in 2003; the H1N1 strain of a new influenza, which is commonly known as "swine flu," in 2009; and the Middle East Respiratory Syndrome ("MERS"), in 2015.
- In March 2011, Japan experienced a powerful earthquake, triggering a violent tsunami and seriously damaging a nuclear power plant in Fukushima.

Any present or future occurrences of such events could result in a period of sustained disruption to the aviation industry, which could have a material adverse effect on the Company's business, prospects, financial condition and results of operations.

The Company could be materially and adversely affected by the cost and availability of aircraft fuel.

The Company's results of operations are significantly impacted by changes in the availability and price of aircraft fuel. Historically, fuel costs and availability have been subject to price volatility and fluctuations in supply and demand. Fuel costs and availability may be affected by a number of economic and political factors and events occurring throughout the world such as changes in global crude oil prices, aircraft fuel supply-demand balance, inventory levels, economic growth indicators, fuel tax policies, war and other geopolitical events. For instance, the average West Texas Intermediate ("WTI") oil price, a benchmark widely used for aircraft fuel prices, decreased from U.S.$93 per barrel in 2014 to U.S.$49 per barrel in 2015 and further to U.S.$43 in 2016 but increased to U.S.$52 in the first quarter of 2017. Although the Company is currently able to obtain adequate supplies of aircraft fuel, it cannot predict the future availability, price volatility or cost of aircraft fuel. Any decline in the availability of adequate supplies of fuel or any increase in the cost of fuel could have a material adverse effect on the Company's revenue, profitability and financial prospects.

Fuel is the largest component of the Company's total operating expenses, comprising 25.0%, 20.5% and 23.6% of its total operating expenses in the years ended December 31, 2015 and 2016 and the three months ended March 31, 2017, respectively. As a result, even a relatively small increase or decrease in the price of fuel can have a material impact on the Company's operating results and liquidity. In order to mitigate the effects of increases in fuel prices, the Company charges passengers a fuel surcharge which is dependent on the market price of fuel. Given the highly competitive nature of the airline industry, however, the Company may not be able to increase its fares or surcharges sufficiently to offset the full impact of increases in fuel prices.

The Company also implements various fuel management strategies to manage the risk of rising fuel prices, including by entering into derivative contracts to hedge against its exposure to potential increases in fuel prices. In addition, because all fuel costs are U.S. dollar denominated and therefore subject to the effects of currency exchange fluctuations, the Company enters into derivative contracts to hedge against foreign exchange fluctuation risk. See "*— Fluctuations in exchange rates may have a material adverse effect on the Company's business*." However, there can be no assurance that the Company's fuel hedging program will completely protect it from price increases or fuel shortages. There is no assurance that the Company will be able to continue its fuel management strategies, which include securing new fuel derivative contracts, on a commercially reasonable basis or at all.

Anti-competition regulations may adversely affect the Company.

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

From time to time, the Company is subject to investigations relating to antitrust violations in and outside of Korea. The Company agreed with the United States Department of Justice in August 2007, the Canadian Competition Bureau in July 2012, the Australian Competition and Consumer Commission in November 2011, the New Zealand Commerce Commission in July 2012 and the KFTC in January 2011 to plead guilty to price fixing charges and to pay U.S.$300 million, approximately U.S.$4 million, approximately U.S.$4 million, approximately U.S.$3 million and approximately U.S.$22 million, respectively, in fines or penalties for its role in conspiracies to fix one or more components of the passenger (in the case of the United States only) and cargo rates for flights between each respective country and Korea, of which an aggregate of U.S.$333 million has been paid as of December 31, 2016. See "*Business — Legal Proceedings.*"

Changes in international, national and local legislation and regulations could significantly increase the Company's costs of operations and result in a material adverse effect on the Company's business.

The Company's operations are subject to a high degree of regulation by international, national and local legislation and regulations, covering most aspects of its operations, including traffic rights, fare setting, operating standards, airport access and slot availability. Compliance with such various laws and regulations necessitates significant expenditures, and the Company expects to continue to incur such expenses. There can be no assurance that existing laws, regulations and treaties will not be amended in ways that adversely affect the Company. For example, new or amended regulations or guidelines could restrict the Company's ability to operate new routes or make new investments. Each additional regulation or other form of regulatory oversight increases costs and adds greater complexity to airline operations and, in some cases, may reduce demand for air travel. There can be no assurance that the Company's compliance with new rules, anticipated rules or other forms of regulatory oversight will not have a material adverse effect on the Company.

In addition, the airline industry is subject to environmental laws and regulations and will likely be subject to more stringent environmental laws and regulations in the future. These environmental laws and regulations relate to, among other issues, aircraft noise, the use and handling of hazardous materials, air emissions and environmental contamination clean-up. Compliance with these laws and regulation could increase the Company's expenses or restrict its ability to continue or expand some of its operations.

Changes in bilateral air services agreements and international capacity may adversely affect the profitability of the Company's business.

The international airline industry is subject to varying degrees of governmental regulation covering most aspects of airline operations including the routes which may be flown, the number of services which may be offered and operational standards (the most important of which relates to safety, security and aircraft noise). The basis for international regulation of airline operations is the Chicago Convention of 1944 to which nearly all countries are parties. The Chicago Convention established that each country has complete and exclusive sovereignty over the air space above its territory. In the absence of a multilateral agreement governing commercial access to foreign countries by the world's airlines, such access, primarily for scheduled services, has generally been granted under the terms of bilateral air services agreements negotiated between contracting parties. As of May 30, 2017, Korea had air service agreements with 100 countries and 'open skies' agreements with seven countries, consisting of the United States, Canada, Japan, Brazil, Chile, Panama and Ecuador. 'Open skies' agreements allow airlines from both parties to the agreement to use all international airports of the other, to form strategic alliances, to lease airplanes or crews and share international routes with other airlines.

The MOLIT negotiates, concludes and implements bilateral air services agreements and arrangements with other countries. The Government has the right to review the allocation of traffic rights granted to designated airlines in Korea. If the Company were to underutilize its routes (particularly where there is insufficient or competing claims for limited capacity), the Company runs the risk of suspension, removal and subsequent re-allocation of those rights to other competing eligible Korea-based airlines.

The Company's access to international routes is subject to changes in bilateral air services arrangements and decisions of the Government. Changes in the levels and mix of capacity or inability to access additional capacity could affect the Company's ability to maximize passenger yields and growth.

Risks Relating to the Company's Business

The Company's indebtedness is significant and could adversely affect its business and liquidity.

The Company's business is highly capital intensive, with substantial capital expenditures required to acquire aircraft and make investments in information technology and other areas. The Company has historically required debt financing and leases to acquire aircraft, and as of March 31, 2017, the Company's total long-term debt, which consists of the non-current portion of its long-term borrowings, debentures and finance lease obligations, amounted to Won 7,144 billion. As of March 31, 2017, its total current assets were Won 3,460 billion, while its total current liabilities were Won 9,143 billion. The Company also increasingly relies on the issuance of asset-backed securitization ("ABS") loans to meet its financing needs by using its future income, such as cash accounts receivable from the sales of air tickets, as underlying assets. As of March 31, 2017, the amount of the Company's outstanding ABS loans was Won 2,296 billion.

The Company's significant indebtedness could have important consequences. For example, they:

- may limit its ability to obtain additional financing for working capital, capital expenditures, acquisitions and general corporate purposes, and adversely affect the terms on which such financing can be obtained;
- require the Company to dedicate a substantial portion of its cash flow from operations to payments on its indebtedness and other obligations, thereby reducing the funds available for other purposes; and
- contain restrictive covenants that could limit its ability to incur additional indebtedness, constrain its operating activities and/or result in an event of default under its indebtedness.

The Company's failure to obtain additional financing may adversely affect its ability to grow its business and its future profitability.

The Company expects to incur significant amounts of debt in the future to fund the acquisition of additional aircraft, its operations, other anticipated capital expenditures and working capital requirements. To further modernize its fleet, the Company has firm orders for 67 new aircraft to be delivered by The Boeing Company, Airbus and Bombardier by the end of 2021 for an aggregate contract amount of U.S.$5,292 million. See "*Business — Services — Air Transport — Fleet*." Accordingly, the Company will need substantial financing or other capital resources. In addition, as of the date of this Offering Circular, the Company had not secured financing commitments for some of the aircraft that it has on order, and it cannot be assured of the availability or cost of that financing. If the Company is unable to arrange financing for such aircraft on terms and conditions acceptable to it, it may need to use cash from operations or cash on hand to purchase such aircraft or may need to seek to negotiate deferrals for such aircraft with the aircraft manufacturers.

Depending on numerous factors, many of which are out of the Company's control, such as the state of the domestic and global economies, the capital and credit markets' view of the Company's prospects and the airline industry in general, and the general availability of debt and equity capital at the time the Company seeks capital, the financing or other capital resources that the Company will need may not be available to it on terms and conditions acceptable to it, or at all. There can be no assurance that it will be successful in obtaining financing or other needed sources of capital to operate successfully. An inability to obtain necessary financing on acceptable terms would have a material adverse impact on the Company's business, financial condition and results of operation.

The Company's lenders have a security interest in its aircraft, which were purchased under finance leases and other secured loans, and may take possession of such aircraft in the event the Company fails to adhere to certain requirements under the terms of the relevant finance leases or financing documents.

As of April 30, 2017, the Company operated 162 aircraft in its fleet, 79 and 33 of which were acquired under finance leases and operating leases, respectively. Under the relevant financing and lease arrangements, the Company's lenders have security interests in such aircraft. If the Company were to default under any of the finance leases or the related financing documents, its lenders have the right to take possession of its aircraft, which if exercised would have a material adverse effect on its business, prospects, financial condition and results of operations. Furthermore, each finance lease contains cross-default provisions. Any breach of the terms of a finance lease could result in a cross-default under the Company's other finance leases, which could result in its lenders having a right to take possession of substantially all of its aircraft. This could put the Company in a position where it is unable to operate its business, which would have a material adverse effect on its business and profitability. In addition, the Export-Import Bank of the United States ("U.S. EXIM") and certain export credit agencies ("ECAs") have provided guarantees for the Company's obligations under its aircraft finance leases. Any breach or disavowal of these guarantees or other obligations under these agreements by U.S. EXIM or these ECAs, which is not within the Company's control, could also constitute a default under the relevant agreements and result in the loss of its aircraft. There is no assurance that either U.S. EXIM or ECAs will support the Company's future financing, which may in turn adversely affect the availability and cost of future finance leases and related financing.

Fluctuations in exchange rates may have a material adverse effect on the Company's business, financial condition and results of operations.

The Company is exposed to the effects of foreign exchange rate fluctuations because, while it prepares its financial statements in Won, it has significant foreign currency denominated revenues and expenses due to the international nature of the Company's business. In particular, a substantial majority of the Company's payment obligations, including fuel expenses and payments under aircraft leases, are denominated in U.S. dollar. As a result, an increase in the value of the U.S. dollar against the Won would negatively impact the Company's profitability because its costs would rise more rapidly than its revenues. The Company's largest exposures are from U.S. dollar, Renminbi and Japanese Yen. For the year ended December 31, 2016 and the three months ended March 31, 2017, revenue and operating expenses denominated in U.S. dollar, Renminbi and Japanese Yen collectively accounted for 36.7% and 34.6% of the Company's total revenue, respectively, and 41.4% and 44.8% of total operating expenses, respectively, all on a separate basis. For the year ended December 31, 2016, 22.9%, 7.7% and 6.1% of the Company's total revenue was denominated in U.S. dollar, Renminbi and Japanese Yen, respectively, and for the three months ended March 31, 2017, 21.2%, 7.2% and 6.2% of the Company's total revenue was denominated in U.S. dollar, Renminbi and Japanese Yen, respectively, all on a separate basis. For the year ended December 31, 2016, 36.7%, 1.7% and 3.0% of the Company's total operating expenses was denominated in U.S. dollar, Renminbi and Japanese Yen, respectively, and for the three months ended March 31, 2017, 40.3%, 1.6% and 2.9% of the Company's total operating expenses was denominated in U.S. dollar, Renminbi and Japanese Yen, respectively, all on a separate basis. In addition, as of March 31, 2017, 74% of the Company's total borrowings were denominated in foreign currencies.

The Company manages its foreign exchange exposure by a policy of matching, as much as possible, receipts and payments in each individual currency. Furthermore, the Company uses derivative instruments such as currency options and currency swap contracts in order to hedge against currency risks such as the weakening of the Japanese Yen. However, these hedging strategies do not cover all of the Company's foreign currency exposure and may not always be effective. Accordingly, significant increases in the value of the U.S. dollar against the Won, or fluctuations in other foreign exchange rates, could have a material adverse effect on the Company's business, financial condition and results of operations.

Significant increases in interest rates may adversely impact the Company's liquidity, financial condition and results of operations.

As of April 30, 2017, the Company had 79 aircraft under finance leases, nine of which were on fixed rates, and 33 aircraft under operating leases, all of which were on fixed rates. However, a substantial portion of the Company's indebtedness bears interest at fluctuating interest rates, primarily based on the London interbank offered rate for deposits of U.S. dollars ("LIBOR") which tends to closely track the U.S. federal funds rate over time. Accordingly, the Company's interest expense for any particular period will fluctuate based on LIBOR and other variable interest rates. To the extent these interest rates increase, the Company's interest expense will increase, and it may have difficulties making interest payments and funding its other fixed costs, and its available cash flow for general corporate requirements may be adversely affected. In order to manage such interest rate risk, the Company enters into interest rate swap contracts and seeks to maintain a balance between fixed-rate and floating-rate debt, but there can be no assurance that the Company's hedging program will be effective to protect it from increases in interest rates.

The Company may not be successful in implementing its growth strategy.

The Company's growth strategy involves increasing the frequency of flights to markets that it currently serves and expanding the number of markets that it serves for both the Company's passenger and cargo services businesses. The Company plans to continue to modernize its fleet with a view toward future growth. See "*Business — Services — Air Transport — Fleet*." The Company believes that by achieving these goals, it will benefit from cost efficiencies resulting from economies of scale and the Company's operating revenues and profitability will increase. The Company's efforts to increase its flight frequencies and the number of markets it serves and successfully identify the appropriate target markets will enable the Company to gain suitable airport access and landing rights in and to such markets. There is no assurance that such traffic rights will be granted to the Company or that new markets it enters will provide passenger traffic that is sufficient to make its operations in those new markets profitable. If the Company expands its fleet in anticipation of business growth and such growth does not occur at the levels it expects, this could negatively affect the Company's business.

Other factors that may negatively affect the implementation of the Company's growth strategy include:

- fluctuation of oil price, exchange rates and interest rates;
- demand for domestic and international air transportation in Korea and elsewhere;
- the general condition of the Korean, Asian and global economies;
- demand for air transportation among consumers who are positioned to transit through Korea, such as those travelling to and from China and Japan;
- the Company's ability to hire, train and retain sufficient numbers of pilots, flight crew and engineers for its aircraft;
- the Company's ability to secure a sufficient number of appropriate aircraft on favorable lease or purchase terms and on a timely basis; and
- the Company's ability to obtain the financing necessary to fund its expansion at cost-effective rates.

Many of these factors are beyond the Company's control. There is no assurance that the Company will be able to successfully expand within its existing markets or establish new markets, and its failure to do so may have a material adverse effect on its business, prospects, financial condition and results of operations.

The Company relies on a high daily aircraft utilization rate and operational efficiency to reduce the Company's unit costs and provide reliable service, making it particularly vulnerable to airport and air traffic control infrastructure constraints.

One of the key elements of the Company's business strategy is to maintain a high daily aircraft utilization rate and to be operationally efficient. High daily aircraft utilization allows the Company to generate more revenue from its aircraft and is achieved in part by reducing turnaround times at airports. Operational efficiency allows the Company to reduce unit costs and flight disruptions and provide reliable service. Several factors can affect the way the Company operates its aircraft and maintain the schedules of its flights and may have a material adverse effect on the Company's business and prospects.

The expansion of the Company's business to include new destinations and more frequent flights on current routes could increase the risk of delays to its scheduled flights. Such delays may reduce its operational efficiency and thus adversely affect its profitability and harm its reputation. High aircraft utilization also increases the risk that, in the event an aircraft falls behind schedule during the day, it could remain behind schedule during the remainder of that day, which can in turn disrupt timely operations and lead to passenger dissatisfaction. The Company has one large-size (Boeing 747), one medium-size (Airbus 330) and one small-size (Boeing 737) aircraft on standby to help prevent delays on its other routes. However, because the Company only has one aircraft of each size available at any one time, if multiple aircraft become unavailable for any reason such as due to unscheduled maintenance or repairs or other reasons, or if flights are delayed or cancelled due to the absence of replacement aircraft or spare parts, such as, for example, engines, of which the Company keeps a limited supply, it could suffer adverse financial and reputational impacts.

In addition, like other airlines, the Company is subject to delays caused by factors beyond its control, including weather conditions, traffic congestion at airports, air traffic control problems and increased security measures. Furthermore, during the typhoon season or periods of other adverse weather conditions, flights may be cancelled or significantly delayed. In the event that the Company delays or cancels flights for any of these reasons, it would negatively affect its aircraft utilization rates and operational efficiency, further reducing its revenues and profits. Notwithstanding that these events are beyond its control, passengers may also blame the Company for such delays and cancellations and the Company could further suffer a loss to its reputation which could result in a loss of customers.

The Company relies on third parties to provide facilities and services that are integral to its business, including airport facilities. If the Company is unable to lease, acquire or access airport facilities on reasonable terms to support its operations, it would have a material adverse effect on the Company's business, prospects, financial condition and results of operations.

The availability and cost of airport facilities such as terminal space, slots and aircraft parking are critical to the Company's operations. Ground and maintenance facilities, including gates and hangars, and support equipment will be required to operate additional aircraft in line with the Company's expansion plans. These and other required facilities and equipment may be unavailable in a timely or economic manner. The Company's operations also rely on the services of third parties, such as maintenance service providers, public safety officials, aircraft fuel handlers and baggage handlers. The Company's reliance on third parties to provide essential services on its behalf gives it less control over the efficiency, timeliness and quality of those services. The loss or expiration of the Company's agreements with such third parties or the Company's inability to renew such agreements or to negotiate new agreements with other providers at comparable rates could have a material adverse effect on its business, prospects, financial condition and results of operations.

The Company relies upon the availability of the airports to which it flies in order to conduct its operations. However, the Company is unable to guarantee that such airports will not be closed or their services suspended for reasons beyond its control. A significant disruption in service at such airports resulting from air traffic control delays, weather conditions, natural disasters, growth constraints, relations with third-party service providers, failure of computer systems, facility disruptions, labor relations, power supplies, fuel supplies, terrorist activities or otherwise could result in the cancellation or delay of a significant portion of the Company's flights and, as a result, could have a material adverse impact on the Company's business, financial condition and results of operations.

The Company could be materially and adversely affected in the event of an accident or incident involving its aircraft.

The Company is exposed to potentially significant losses in the event that any of its aircraft is lost or subject to an accident, terrorist incident or other disaster. In addition, any such event may give rise to significant costs related to passenger claims, repairs or replacement of a damaged aircraft and its temporary or permanent loss from service. Although the Company believes that it currently maintains liability insurance in amounts and of the type generally consistent with industry practice, its insurance coverage may not be adequate in the event such circumstances arise and any such event could cause a substantial increase in its insurance premiums. See *"— The Company is exposed to certain risks against which it does not insure, and may have difficulty obtaining insurance on commercially acceptable terms or at all.*" Moreover, aircraft accidents or incidents, even if fully insured, may change the Company's reputation for safety and reliability, which could significantly reduce its passenger volumes and have a material adverse effect on its business, prospects, financial condition and results of operations.

The Company relies on automated systems and the internet to operate its business, and any failure of these systems may have a material adverse effect on the Company.

The Company depends on automated systems and technology to operate its business, including, among others, its website and its reservation and departure control systems as well as telecommunication service providers. Its website and reservation system must be able to accommodate a high volume of traffic, maintain secure information and deliver important flight and schedule information, as well as process critical financial transactions. These systems could suffer substantial or repeated disruptions due to various events, some of which are beyond the Company's control, including natural disasters, power failures, computer viruses or cyber security attacks. There can be no assurance that system failures and disruption in telecommunication services will not occur in the future. Any disruption to the Company's website or its online reservation and telecommunication services may adversely affect the Company's business, financial condition, results of operations and reputation.

The Company depends on the efforts of its executive officers and other key management.

The Company's success depends to a significant extent upon the continued services of its executive officers and other key management personnel. The departure or loss of service of any of the Company's executive officers and other key management could have a material adverse effect on its business, prospects, financial condition and results of operations.

Any difficulties that the Company may experience in attracting and retaining qualified personnel at reasonable costs or any failure to maintain its corporate culture may have a material adverse effect on the Company.

The Company's business model requires it to have highly skilled, dedicated and efficient pilots, engineers and other personnel who require specific training, skills and qualifications in accordance with applicable regulations or the Company's own internal policies. From time to time, the airline industry has experienced a shortage of skilled personnel, particularly pilots and engineers. The Company believes that it offers wage and benefit packages that are comparable to those offered by its competitors. If the Company is unable to hire, train and retain qualified employees at a reasonable cost, it may be unable to execute its growth strategy, which would have a material adverse effect on its business, prospects, financial condition and results of operations. In addition, the Company may find it increasingly challenging to maintain its corporate culture as it replaces or hires additional personnel. The Company believes that one of its strengths is its service-oriented corporate culture that emphasizes friendly, helpful, team-oriented and customer-focused employees who strive to increase its productivity and help keep its costs low. However, there can be no assurance that the Company will be able to identify, hire or retain employees who meet these criteria on commercially acceptable terms, or at all.

The Company is exposed to certain risks against which it does not insure, and may have difficulty obtaining insurance on commercially acceptable terms or at all.

Insurance is fundamental to airline operations. The Company cannot guarantee that its insurance coverage will fully cover actual losses incurred. If the Company is unable to obtain insurance, on commercially acceptable terms or at all, or to the extent that actual losses incurred by the Company exceed the amount insured, the Company may have to incur substantial losses, which may have a material adverse effect on its business, prospects, financial condition and results of operations. Furthermore, in line with industry practice, the Company leaves certain amounts and types of business risks uninsured, including business interruptions, loss of profit or revenue and certain types of mechanical breakdown. To the extent that uninsured risks materialize, the Company's business, prospects, financial condition and results of operations could be materially and adversely affected. For further information on the Company's insurance coverage, see "*Business — Insurance.*"

If the Company is unable to obtain required regulatory approvals in the future, it may not be able to operate or conduct its business in certain markets or regions.

The Company requires certain statutory and regulatory licenses, permits and approvals to operate its business. Safety, environmental and similar regulations impose significant requirements and compliance costs on the Company's business. For the Company to maintain its air operator's certificate, it has to comply with regulations in Korea and elsewhere. Multilateral, bilateral and local regulations determine the access of the Company, competitors and potential competitors to international markets. While the Company has been able to maintain or obtain such licenses, permits and approvals, as and when required, there can be no assurance that the relevant authorities will continue to issue such licenses, permits or approvals in a timely manner, at all or on terms that are acceptable to the Company. The Company has no control over the regulations that applies to it. Changes in such regulations, or the administration of such regulations, could have an adverse impact on the Company's business by increasing costs, impeding normal service, restricting market access and benefiting its competitors.

The Company's financial performance and results of operations are subject to seasonality.

The Company generally records higher revenue from its passenger service business in the third quarter of the year due to greater demand for air travel during the summer holidays. Its revenue is relatively lower during the months of October and November due to decreased travel during those months, although its revenue from the cargo service business is generally stronger in the fourth quarter of the year. The Company's results of operations generally reflect this seasonality, but have also been impacted by numerous other factors that are not necessarily seasonal including, among others, fuel prices, natural disasters and changes in the competitive environment.

The Company relies on third party sales outlets to distribute a significant portion of its airline tickets.

While the Company generates a substantial portion of its ticket sales through its own sales office and its internet website, it relies on third party sales outlets as an important distribution channel for a significant majority of its sales. In each of the years ended December 31, 2015 and 2016, approximately 80% and 78%, respectively, of the Company's total bookings were derived from indirect sales channels that include distributors, general sales agents, preferred sales agents, wholesalers, travel agencies and sales made by other international airlines. In the three months ended March 31, 2017, approximately 78% of the Company's total bookings were derived from indirect sales channels. There can be no assurance that the Company will be able to maintain favorable relationships with them or be able to replace them on commercially acceptable terms or at all. The Company's revenues may be adversely impacted if third parties which sell its air services elect to prioritize sales for other airlines. The Company's relationship with third party sales outlets may be affected by the terms of business and economic packages offered to them by other airlines, changes in its arrangements with other distributors of air services and the introduction and growth of new methods of selling air services. Furthermore, these third parties interact with the Company's passengers and potential passengers. In the event they act improperly, such behavior may harm the Company's reputation and may adversely affect the Company's business.

The Company's operations depend heavily on a number of airports, and its business will be harmed by any circumstances that significantly disrupt operations at such airports.

The Company's international air transportation operations are heavily dependent on Incheon Airport and, to a lesser extent, Gimpo International Airport ("Gimpo Airport") near Seoul, and its domestic air transportation operations are heavily dependent on Gimpo Airport, Jeju International Airport in Jeju Island and Gimhae International Airport near Busan. A significant interruption or disruption in service at these airports resulting from air traffic control delays, weather conditions, natural disasters, growth constraints, relations with third-party service providers, failure of computer systems, facility disruptions, labor relations, power supplies, fuel supplies, terrorist activities or otherwise could result in the cancellation or delay of a significant portion of the Company's flights and, as a result, could have a material adverse effect on the Company's business, financial condition and results of operations.

The Company is a party to litigation in the normal course of business or otherwise, which could affect its financial position, liquidity and reputation.

From time to time, the Company is a party to or otherwise involved in legal proceedings, claims and government inspections or investigations and other legal matters, both inside and outside Korea, arising in the ordinary course of its business or otherwise. The Company is currently involved in various legal proceedings and claims that have not yet been fully resolved and additional claims may arise in the future. Litigation is subject to significant uncertainty and may be expensive, time-consuming and disruptive to the Company's operations. An adverse resolution of lawsuits, arbitrations, investigations or other proceedings or actions could have a material adverse effect on the Company's financial condition and results of operations, including as a result of non-monetary remedies. Additionally, any amount that the Company may be required to pay to satisfy a judgment, settlement, fine or penalty may not be covered by insurance. Legal proceedings, and any adverse resolution thereof, can also result in adverse publicity and damage to the Company's reputation, which could adversely impact its business. See "*Business — Legal Proceedings.*"

The Company's operations are highly dependent on Korean customers and a reduction in demand from Korean travelers would harm its business.

Both the Company's international and domestic passenger service operations are dependent to a large extent on Korean customers, as outbound travel by Korean nationals constitute a significant majority of the Company's international passenger operations. The Company's business could be harmed by any circumstances causing adverse changes in the economic conditions in Korea, a reduction in the demand for air transportation on the part of Korean travelers, or a disruption in its air transportation services in Korea due to factors such as natural disasters, terrorist attacks or significant airfare increases linked to increases in airport access costs and fees imposed on passengers such as surcharges. Although inbound travelers from overseas has increased in recent years as a proportion of the Company's international passengers, the Company expects that its reliance on travel by Korean nationals will continue to be substantial.

Labor disputes could negatively affect the Company's operations.

The Company is subject to the risk of labor disputes. For example, many of the Company's employees belong to one of three labor unions, and relations with labor unions can be highly complex and require significant dedication of management time and resources. While no strikes have occurred since December 2005, the Company periodically experiences labor disputes and has made certain concessions to its labor unions, and in the future, if the Company is unable to reach agreements with its labor unions on key issues, such as wages or increased working hours, on satisfactory terms, or if the Company has labor disputes with its workforce or strikes or stoppages take place, the Company's business, financial condition and results of operations may be adversely affected.

The Company would be subject to liability and regulatory action arising from its handling of customer data.

The Company maintains data regarding its customers through its computerized reservation system. In recent years, there have been many cases of personal information and records in the possession of corporations and institutions being leaked or improperly accessed. In the event that personal information in the Company's possession about its customers is leaked or improperly accessed, the Company may be subject to liability and regulatory action, which could disrupt the Company's operations, harm its reputation and materially and adversely affect its business, financial condition and results of operations.

Delays in scheduled aircraft deliveries or other loss of anticipated fleet capacity, and failure of new aircraft to perform as expected, may adversely impact the Company's business, financial condition and results of operations.

The success of the Company's business depends on, among other things, effective management of the number and types of aircraft it operates. In many cases, the aircraft the Company intends to operate are not yet in its fleet, but it has contractual commitments to purchase or lease them. If for any reason the Company were unable to accept or secure deliveries of new aircraft on contractually scheduled delivery dates, this could have a negative impact on its business, financial condition and results of operations. In addition, if the Company receives aircraft that do not meet expected performance or quality standards, including with respect to fuel efficiency and reliability, the Company's business, financial condition and results of operations could be adversely impacted.

The interests of Hanjin KAL, the largest shareholder of the Company and the holding company of the Hanjin Group, and any directors or officers nominated by it, may differ from or conflict with those of the Company or its other shareholders.

As of March 31, 2017, Hanjin KAL Corp. ("Hanjin KAL"), the largest shareholder of the Company and the holding company of the Hanjin Group, owned 29.92% of the Company's outstanding common shares and 0.86%

of the Company's preferred shares, and Mr. Yang-Ho Cho who serves as Chairman of Hanjin KAL also serves as Chairman of the Company. When exercising its rights as the Company's largest shareholder, Hanjin KAL may take into account not only the interests of the Company but also its own interests and the interests of other affiliates in the Hanjin Group, which may, at times, conflict with the Company's interests in a number of areas relating to its business and management, including business acquisitions, incurrence of indebtedness, financial commitments and indemnity arrangements. Hanjin KAL and Mr. Cho have significant influence over the Company's management affairs and may influence business decisions taken by the Company in transactions with other affiliates of the Hanjin Group, which may benefit Hanjin KAL's interests more than those of the Company and result in a material adverse effect on the Company's financial condition and results of operations.

The Korean regulatory authorities have imposed sanctions against Deloitte Anjin LLC, which may adversely affect its ability to continue to provide audit and related services to the Company and to satisfy any claims that may arise in relation to such services.

On March 24, 2017, the Securities and Futures Commission of the Financial Supervisory Service recommended, and on April 5, 2017, the Financial Services Commission approved, sanctions against Deloitte Anjin LLC, in connection with its role as the independent auditor for Daewoo Shipbuilding & Marine Engineering Co., Ltd., which is currently under investigation for alleged accounting irregularities. The sanctions include a prohibition against entering into new audit engagements for the year ending December 31, 2017 until April 5, 2018, a period of one year from the date of final determination of such sanctions. However, Deloitte Anjin LLC is permitted to bid for and enter into audit engagements for the fiscal year ending December 31, 2018. The Company is not in a position to assess the impact the sanctions will have on Deloitte Anjin LLC or whether any additional penalties, fines or damages will be imposed, including those resulting from related on-going criminal and civil proceedings against Deloitte Anjin LLC.

While Deloitte Anjin LLC has assured the Company that it will continue to audit and review its annual financial statements and interim financial statements in accordance with K-IFRS and applicable professional and firm auditing standards, including quality control standards, if, for whatever reason, Deloitte Anjin LLC is unable to perform required audit and related services for the Company, the Company's access to the capital markets and ability to make timely filings with the Financial Supervisory Service (including the filing of annual and quarterly business reports) could be impaired. In addition, the Company cannot exclude the possibility that events arising out of the sanctions and related legal proceedings may adversely affect the ability of Deloitte Anjin LLC to complete its audit engagement with the Company or to satisfy any claims relating to its provision of audit and related services to the Company, including claims that may arise out of Deloitte Anjin LLC's audit of the Company's consolidated financial statements included elsewhere in this Offering Circular.

Risks Relating to Korea

If economic conditions in Korea deteriorate, the Company's customers may face financial problems and its current business and future growth could be materially and adversely affected.

The Company is incorporated in Korea and a significant portion of its assets are located in Korea. As a result, the Company is subject to political, economic, legal and regulatory risks specific to Korea, and its performance and successful fulfillment of its operational strategies are dependent to a large extent on the overall Korean economy. The economic indicators in Korea in recent years have shown mixed signs of growth and uncertainty, and future growth of the Korean economy is subject to many factors beyond the Company's control, including developments in the global economy.

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

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

- increased sovereign default risks in selected countries and the resulting adverse effects on the global financial markets;
- adverse conditions or uncertainty 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, as well as increased uncertainty in the wake of a referendum in the United Kingdom in June 2016, in which the majority of voters voted in favor of an exit from the European Union (“Brexit”);
- adverse changes or volatility in foreign currency reserve levels, commodity prices (including oil prices), exchange rates (including fluctuation of the U.S. dollar, the euro or Japanese yen exchange rates or revaluation of the Chinese renminbi and the overall impact of Brexit on the value of the Korean Won), interest rates, inflation rates or stock markets;
- deterioration in economic or diplomatic relations between Korea and its trading partners or allies, including deterioration resulting from territorial or trade disputes or disagreements in foreign policy (such as the ongoing controversy between Korea and China, Korea’s largest export market, regarding the deployment of a Terminal High Altitude Area Defense system in Korea by the United States in March 2017 and the ensuing economic and other retaliatory actions by China against Korea);
- declines in consumer confidence and a slowdown in consumer spending in the Korean or global economy;
- a continuing rise in the level of household debt and increasing delinquencies and credit defaults by consumer and small- and medium-sized enterprise borrowers in Korea;
- further decreases in the market prices of Korean real estate;
- the recent impeachment and dismissal of former President Park Geun-hye and the resulting social unrest in Korea, as well as related investigations of large Korean business groups and their senior management for bribery, embezzlement and other possible misconduct;
- the economic impact of any pending or future free trade agreements or of any changes to existing free trade agreements;
- social and labor unrest;
- a decrease in tax revenues and a substantial increase in the Government’s expenditures for fiscal stimulus measures, unemployment compensation and other economic and social programs that, together, would lead to an increased Government budget deficit;
- financial problems or lack of progress in the restructuring of Korean conglomerates, other large troubled companies, their suppliers or the financial sector;
- loss of investor confidence arising from corporate accounting irregularities, allegations of corruption or corporate governance issues at certain Korean companies;
- increases in social expenditures to support an aging population in Korea or decreases in economic productivity due to the declining population size in Korea;
- geo-political uncertainty and risk of further attacks by terrorist groups around the world;
- the occurrence of severe health epidemics in Korea or other parts of the world (such as the Middle East Respiratory Syndrome outbreak in Korea in 2015);

- political uncertainty or increasing strife among or within political parties in Korea;
- natural or man-made disasters that have a significant adverse economic or other impact on Korea (such as the sinking of the Sewol ferry in 2014, which significantly dampened consumer sentiment in Korea) or its major trading partners;
- hostilities or political or social tensions involving oil producing countries in the Middle East or North Africa and any material disruption in the supply of oil or sudden 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.

Any future deterioration of the Korean and global economy could adversely affect the income, financial conditions and liquidity of Korean consumers in general, including the Company's customers, and in turn those of the Company.

Escalations in tensions with North Korea could have an adverse effect on the Company and the market value of the Securities.

Relations between Korea and North Korea have been tense throughout Korea's modern history. The level of tension between the two Koreas has fluctuated and may increase abruptly as a result of current and future events. In particular, there have been heightened security concerns in recent years stemming from North Korea's nuclear weapon and long-range missile programs as well as its hostile military actions against Korea. Some of the significant incidents in recent years include the following:

- From time to time, North Korea has conducted ballistic missile tests. In February 2016, North Korea launched a long-range rocket in violation of its agreement with the United States as well as United Nations sanctions barring it from conducting launches that use ballistic missile technology. Despite international condemnation, North Korea released a statement that it intends to continue its rocket launch program, and it conducted additional ballistic missile tests in June 2016, a submarine-launched ballistic missile test in August 2016 and a series of intermediate-range ballistic missile tests in the first half of 2017. In response, the United Nations Security Council issued unanimous statements condemning North Korea and agreeing to continue to closely monitor the situation and to take further significant measures.
- North Korea renounced its obligations under the Nuclear Non-Proliferation Treaty in January 2003 and conducted three rounds of nuclear tests between October 2006 and February 2013, which increased tensions in the region and elicited strong objections worldwide. In January 2016, North Korea conducted a fourth nuclear test, claiming that the test involved its first hydrogen bomb, which claim has not been independently verified. In response to such test (as well as North Korea's long-range rocket launches in February and March 2016), the United Nations Security Council unanimously passed a resolution in March 2016 condemning North Korea's actions and significantly expanding the scope of the sanctions applicable to North Korea, while the United States and the European Union also imposed additional sanctions on North Korea. In September 2016, North Korea conducted a fifth nuclear test, claiming to have successfully detonated a nuclear warhead that could be mounted on missiles, which claim has not been independently verified.
- In August 2015, two Korean soldiers were injured in a landmine explosion near the Korean demilitarized zone. Claiming the landmines were set by North Koreans, the Korean army re-initiated its propaganda program toward North Korea utilizing loudspeakers near the demilitarized zone. In retaliation, the North Korean army fired artillery rounds on the loudspeakers, resulting in the highest level of military readiness for both Koreas.
- In March 2010, a Korean naval vessel was destroyed by an underwater explosion, killing many of the crewmen on board. The Government formally accused North Korea of causing the sinking, while

North Korea denied responsibility. Moreover, in November 2010, North Korea fired more than one hundred artillery shells that hit Korea's Yeonpyeong Island near the Northern Limit Line, which acts as the de facto maritime boundary between Korea and North Korea on the west coast of the Korean peninsula, causing casualties and significant property damage. The Government condemned North Korea for the attack and vowed stern retaliation should there be further provocation.

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

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

There are special risks associated 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 section, together with all of the other information included in this Offering Circular, before you decide to invest in the Securities. As the Company is a Korean company, there are risks associated with investing in the Company's securities that are not typical investments in securities of U.S. or European companies. As a Korean company, the Company operates in a business and cultural environment that is different from that of other countries.

Under the Korean Foreign Exchange Transaction Law, if the Government determines 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.

In addition, the Company prepares and presents its financial statements in accordance with K-IFRS, which differ in many material respects from accounting principles applicable to companies in certain other countries. The Company also makes public disclosures regarding other aspects of its business in accordance with the rules and regulations of the Korea Exchange and accepted practice in Korea. These disclosure rules and practices differ in many material respects from those applicable to companies in certain other countries. There may also be less publicly available information about Korean companies, such as the Company, than is regularly made available by public or non-public companies in other countries. In making an investment decision, investors must rely upon their own examination of the Company and the terms of the Offering.

Holders may not be able to enforce a judgment of a foreign court against the Company.

The Company is a corporation with limited liability organized under the laws of Korea. Substantially all of the Company's directors and officers and other persons named in this Offering Circular reside in Korea, and all or a significant portion of the assets of its directors and officers and other persons named in this Offering Circular and a substantial majority of its assets are located in Korea. As a result, it may not be possible for Holders to effect service of process outside Korea, or to enforce against them or the Company outside Korea judgments obtained in foreign courts. There is doubt as to the enforceability in Korea, either in original actions or in actions for enforcement of judgments of foreign courts, of civil liabilities predicated on the securities laws of jurisdictions outside Korea.

Risks Relating to the Securities

The Securities may not be a suitable investment for all investors.

Each potential investor in the Securities must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- have sufficient knowledge and experience to make a meaningful evaluation of the Securities, the merits and risks of investing in the Securities and the information contained in this Offering Circular or any applicable supplement;
- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Securities and the impact the Securities will have on its overall investment portfolio;
- have sufficient financial resources and liquidity to bear all of the risks of an investment in the Securities, including where the currency for principal or interest payments is denominated in a currency different from that of the potential investor;
- understand thoroughly the terms of the Securities and be familiar with the behavior of any relevant financial markets; and
- be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

The Securities are complex investment securities. Sophisticated institutional investors generally do not purchase complex investment securities as stand-alone investments. They purchase complex investment securities as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in the Securities unless it has the expertise (either alone or with a financial adviser) to evaluate how the Securities will perform under changing conditions, the resulting effects on the value of the Securities and the impact this investment will have on the potential investor's overall investment portfolio.

The Company has the right to defer Interest Amounts on the Securities.

The Company may in its sole discretion defer Interest Amounts (as defined in "*Terms and Conditions of the Securities*"), in whole or in part, by delivering the relevant deferral notices to Holders. The Company is not subject to any limits as to the number of times the Interest Amount and Deferred Interest Payment (as defined in "*Terms and Conditions of the Securities*") can be deferred. A Deferred Interest Payment may, at the option of the Company, be paid at any time, and the circumstances in which it is required to be paid are set out in Condition 5.5 of the Securities.

Any deferral of Interest Amounts is likely to have an adverse effect on the market price of the Securities. In addition, as a result of the deferral provisions of the Securities, the market price of the Securities may be more volatile than the market prices of other securities on which interest or distributions accrues that are not subject to such deferrals and may be more sensitive generally to adverse changes in the Company's financial condition or results of operations.

The Company may redeem the Securities under certain circumstances.

Holders should be aware that the Securities may be redeemed at the option of the Company (in whole but not in part) at their principal amount (plus any interest accrued up to (but excluding) the relevant Redemption Date and any outstanding Deferred Interest Payment) on the First Call Date or on any Interest Payment Date thereafter (each capitalized term as defined in "*Terms and Conditions of the Securities*"), by delivering the relevant redemption notices to Holders.

The Securities are also subject to redemption (in whole but not in part) at the Company's option at their principal amount (plus any interest accrued up to (but excluding) the relevant Redemption Date and any outstanding Deferred Interest Payment) upon the occurrence of a Gross-Up Event, a Tax Event, an Accounting Event or a Breach of Covenant or Senior Note Event of Default (each as defined in "*Terms and Conditions of the Securities*"). The relevant redemption amount may be less than the then current market value of the Securities.

The date on which the Company elects to redeem the Securities may not accord with the preference of individual Holders. This may be disadvantageous to Holders in light of market conditions or the individual circumstances of the Holders. In addition, an investor may not be able to reinvest the redemption proceeds in comparable securities at an effective interest rate at the same level as that of the Securities.

There is no limitation on issuing pari passu securities.

There is no restriction on the amount of securities, guarantees or other liabilities which the Company may issue or incur and which rank *pari passu* with the Securities. The issue of any such securities or the incurrence of any such other liabilities may reduce the amount (if any) recoverable by Holders on a Winding-Up of the Company and/or may increase the likelihood of a deferral of interest under the Securities. Further, the terms of such securities, guarantees or other liabilities may include provisions resulting in the Company being required to defer interest under the Securities in circumstances where a deferral of interest is made on such other securities, guarantees or liabilities. The issue of any such securities or the incurrence of any such other liabilities might also have an adverse impact on the trading price of the Securities and/or the ability of Holders to sell their Securities.

The bankruptcy laws of Korea and other local bankruptcy laws may differ from those of another jurisdiction with which Holders are familiar.

Because the Company is incorporated under the laws of Korea, any bankruptcy or other similar proceeding relating to the Company would likely involve Korean bankruptcy laws, the procedural and substantive provisions of which may differ from comparable provisions of the local bankruptcy laws of jurisdictions with which Holders are familiar.

The liquidity and price of the Securities may be volatile.

The price and trading volume of the Securities may be highly volatile. Factors such as variations in the Company's revenues, earnings and cash flows and proposals for new investments, strategic alliances and/or acquisitions or dispositions, interest rates, fluctuations in price for comparable companies, government regulations and changes thereof applicable to the Company's industry and general economic conditions nationally or internationally could cause the price of the Securities to change. Any such developments may result in large and sudden changes in the trading volume and price of the Securities. There is no assurance that these developments will not occur in the future.

The applicable Reset Rate may decline on any Reset Date.

The interest rate in respect of the Securities will be reset on each Reset Date by reference to the then 3-year Treasury Rate (each capitalized term as defined in "*Terms and Conditions of the Securities*"). Accordingly, a Holder is exposed to the risk of a fluctuating interest rate and uncertain interest income. Fluctuations in the interest rate make it impossible to determine the yield of the Securities with respect to each reset period in advance.

An active trading market for the Securities may not develop.

The Securities are a new issue of securities for which there is currently no trading market. No assurance can be given that the Company will obtain or be able to maintain a listing of the Securities on the SGX-ST or that an active trading market for the Securities will develop or as to the liquidity or sustainability of any such market, the ability of Holders to sell their Securities or the price at which Holders will be able to sell their Securities. The Manager is not obliged to make a market in the Securities and any such market making, if commenced, may be discontinued at any time at the sole discretion of the Manager.

The Securities contain provisions regarding meetings, modification, waivers and substitution which may affect the rights of Holders.

The Conditions of the Securities and the Fiscal Agency Agreement contain provisions for calling meetings of Holders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Holders including Holders who did not attend and vote at the relevant meeting and Holders who voted in a manner contrary to the majority.

The Conditions of the Securities also provide that the Fiscal Agent may agree, without the consent of Holders, to the waiver or authorization of any breach or proposed breach of, any of the Conditions of the Securities or any of the provisions of the Fiscal Agency Agreement, provided that it is not, in the opinion of the Fiscal Agent, materially prejudicial to the interests of the Holders, or may agree, among other things, to make any modifications to the Securities or the Fiscal Agency Agreement of a formal, minor or technical nature or necessary in the reasonable opinion of the Fiscal Agent to correct a manifest error or to comply with mandatory provisions of the laws of Korea so long as such modification does not adversely affect the rights of any Holder in any material respect.

The Securities will be represented by a Global Certificate and holders of a beneficial interest in the Global Certificate must rely on the procedures of the relevant Clearing System(s).

Securities issued will be represented by the Global Certificate. Such Global Certificate will be deposited with a common depositary for Euroclear and Clearstream (each of Euroclear and Clearstream, a "Clearing System"). Except in the circumstances described in the relevant Global Certificate, Holders will not be entitled to receive definitive note certificates. The relevant Clearing System(s) will maintain records of the beneficial interests in the Global Certificate. While the Securities are represented by the Global Certificate, Holders will be able to trade their beneficial interests only through the Clearing Systems.

While the Securities are represented by the Global Certificate, the Company will discharge its payment obligations under the Securities by making payments to the relevant Clearing System for distribution to their account holders. A holder of a beneficial interest in the Global Certificate must rely on the procedures of the relevant Clearing System(s) to receive payments under the relevant Securities. The Company does not have any responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Certificate.

Holders of beneficial interests in the Global Certificate will not have a direct right to vote in respect of the relevant Securities. Instead, such holders will be permitted to act only to the extent that they are enabled by the relevant Clearing System(s) to appoint appropriate proxies.

The adoption of new accounting policies of K-IFRS may have a significant impact on the Company's financial condition and results of operations and/or may result in a change to the accounting treatment of the Securities, which could give the Company the right to elect to redeem the Securities.

The Korea Accounting Standards Board ("KASB") is continuing its policy of issuing K-IFRS and interpretations which are substantially based on International Financial Reporting Standards issued by the International Accounting Standards Board ("IASB"). KASB has issued and may in the future issue more new and revised standards and interpretations, including those required to conform with standards and interpretations issued from time to time by the IASB. Such factors may require adoption of new accounting policies. There can be no assurance that the adoption of new accounting policies or new K-IFRS will not have a significant impact on the Company's financial condition and results of operations. In addition, any change or amendment to, or any change or amendment to any interpretation of, K-IFRS may result in the reclassification of the Securities such that the Securities must not or must no longer be recorded as "equity" of the Company, and will give the Company the right to elect to redeem the Securities. See *"— The Company may redeem the Securities under certain circumstances"*.

TERMS AND CONDITIONS OF THE SECURITIES

The following terms and conditions will be endorsed on the back of the Definitive Certificates (as defined below) issued in respect of the Securities:

The US$300,000,000 Senior Capital Securities (the "**Securities**," which expression, unless the context otherwise requires, includes any further Securities issued pursuant to Condition 10 and forming a single series with the Securities) of Korean Air Lines Co., Ltd. (the "**Company**") are issued under a fiscal agency agreement dated June 12, 2017 (as amended from time to time, the "**Fiscal Agency Agreement**"), among the Company and Deutsche Bank AG, Hong Kong Branch, as fiscal agent (the "**Fiscal Agent**," which expression shall include its successor(s)), paying agent (the "**Paying Agent**," which expression shall include its successor(s)), transfer agent (the "**Transfer Agent**," which expression shall include its successor(s)), calculation agent (the "**Calculation Agent**," which expression shall include its successor(s)) and registrar (the "**Registrar**," which expression shall include its successor(s)). References herein to the "**Agents**" are to the Fiscal Agent, the Paying Agent, the Transfer Agent, the Calculation Agent and the Registrar, and any reference to an "**Agent**" is to any one of them. The Securities are issued, and may or must be redeemed by the Company, on the terms set out in these Terms and Conditions (the "**Conditions**").

The statements in these Conditions include summaries of, and are subject to, the detailed provisions of the Fiscal Agency Agreement. Copies of the Fiscal Agency Agreement are available for inspection upon reasonable prior notice with proof of holding statement during normal business hours by the Holders (as defined below) at the specified office of the Fiscal Agent. Holders are deemed to have notice of those provisions applicable to them of the Fiscal Agency Agreement.

1. FORM AND TRANSFER

1.1 Form and Principal Amount

The Securities are in registered form and are issued on their date of issue and transferable in minimum principal amounts (the "**Principal Amount**") of US$200,000 and integral multiples of US$1,000 in excess thereof. A security certificate (a "**Definitive Certificate**") will be issued to each Holder in respect of its registered holding of Securities. Each Definitive Certificate will be numbered serially with an identifying number which will be recorded on the relevant certificate and in the register of Holders (the "**Register**") which the Company will procure to be kept by the Paying Agent. The Securities will initially be represented by one or more certificates in global form (each, a "**Global Certificate**"). No individual certificates will be issued to Holders except upon the circumstances set forth in the Fiscal Agency Agreement. The Securities will be issued at the Issue Price.

1.2 Title

Title to the Securities passes only by registration in the Register. The holder of any Security will (except as otherwise required by law) be treated as its absolute owner for all purposes (regardless of any notice of ownership, trust or any interest or any writing on, or the theft or loss of, the Definitive Certificate issued in respect of it) and no person will be liable for so treating the holder. In these Conditions, "**Holder**" and (in relation to a Security) "**holder**" means the person in whose name a Security is registered in the Register (or, in the case of a joint holding, the first named thereof).

2. TRANSFERS OF SECURITIES AND ISSUE OF DEFINITIVE CERTIFICATES

2.1 Transfers

Subject as provided in Condition 2.4, a Security may be transferred by depositing the Definitive Certificate issued in respect of that Security, with the form of transfer on the back duly completed and signed, at the specified office of the Fiscal Agent (or, in the case of a Security represented by a Global Certificate, delivery of a duly executed form of transfer as set forth in the Fiscal Agency Agreement), together with such evidence as the Fiscal Agent may reasonably require to prove title to the Securities that are the subject of the transfer and the authority of the individuals who have executed the form of transfer. Legal title to the Securities will pass upon registration of such transfer in the Register.

All transfers of Securities and entries in the Register will be made subject to the terms concerning transfers of Securities provided in the Fiscal Agency Agreement.

2.2 **Delivery of new Definitive Certificates**

Each new Definitive Certificate to be issued upon transfer of Securities will, within five business days of receipt by the Fiscal Agent of the duly completed form of transfer endorsed on the relevant Definitive Certificate, be mailed by uninsured mail at the risk of the holder entitled to the Security to the address specified in the form of transfer. For the purposes of this Condition, "**business day**" shall mean a day on which banks are open for business in the city where the Agents have their specified offices.

Where some but not all of the Securities in respect of which a Definitive Certificate is issued are to be transferred, a new Definitive Certificate in respect of the Principal Amount of Securities not so transferred will, within 10 business days of receipt by the Fiscal Agent of the original Definitive Certificate, be mailed by uninsured mail at the risk of the holder of the Securities not so transferred to the address of such holder appearing on the Register (or, in the case of a joint holding, the first named thereof).

2.3 **Formalities free of charge**

Registration of transfer of Securities will be effected without charge by or on behalf of the Company or the Fiscal Agent but upon payment (or the giving of such indemnity as the Company or the Fiscal Agent may reasonably require) in respect of any tax or other governmental charges which may be imposed on the Company or the Fiscal Agent (as the case may be) in relation to such transfer.

2.4 **Closed periods**

No Holder may require the transfer of a Security to be registered during the period of 15 days ending on the due date for any payment of any principal or interest (including Deferred Interest Payments) on that Security.

3. STATUS

3.1 **Status of the Securities**

The Securities constitute unconditional, unsecured and unsubordinated obligations of the Company and will at all times rank *pari passu* without any preference among themselves and *pari passu* with all other present and future unsecured and unsubordinated obligations of the Company, except as may be required by mandatory provisions of law.

3.2 **No set-off**

To the extent and in the manner permitted by applicable law, no Holder may exercise, claim or plead any right of set-off, counterclaim, compensation or retention in respect of any amount owed to it by the Company in respect of, and arising from, the Securities and each Holder will, by virtue of its holding of any Security, be deemed to have waived all such rights of set-off, counterclaim, compensation or retention.

3.3 **No voting right**

The Securities do not confer any voting rights on Holders with respect to the Company's Common Shares or any other class of share capital of the Company.

4. COVENANTS

4.1 Financial Covenant

So long as any Securities remain outstanding, the Company shall, based on its annual audited consolidated financial statements as of the most recent balance sheet date for which such financial statements are available, ensure that its ratio of Total Liabilities to Total Equity does not exceed 15 to 1.

4.2 Limitation on Guarantees and Liens

So long as any Securities remain outstanding, the Company will not:

(a) guarantee any indebtedness of any person (a "**Guarantee**"); or

(b) incur, assume or permit to exist any Lien of any nature whatsoever on any of its assets or properties of any kind, whether owned at the Issue Date or thereafter acquired, unless the Securities are equally and ratably secured by such Lien;

provided, however, that the foregoing limitations in this Condition 4.2 shall not apply to:

(1) (i) any Guarantee to the extent of the Company's obligations thereunder and (ii) any Liens to the extent the fair market value of the assets or properties subject thereto do not exceed 400% of the Company's Total Equity in the aggregate;

(2) Security Obligations incurred or issued to secure indebtedness incurred to purchase property or assets (which assets include asset-backed securities purchased in the ordinary course of business);

(3) Security Obligations incurred or issued to secure the performance of tenders, bids, statutory or regulatory obligations, obligations imposed by any regulatory or governmental body or industrial associations or organization, or other obligations of similar nature incurred in the ordinary course of business (exclusive of obligations for the payment of borrowed money); and

(4) Security Obligations incurred or issued to refinance, extend or renew any existing secured indebtedness of the Company, so long as such refinancing, extension or renewal is no greater than original amount of secured indebtedness refinanced.

4.3 Limitation on Asset Sales

So long as any Securities remain outstanding, the Company will not, directly or indirectly, consummate any sale, transfer, lease or other disposition of any of its property or assets in one transaction or a series of related transactions (an "**Asset Sale**") by the Company to any person other than its Subsidiaries; provided, however, that the foregoing limitation shall not apply to:

(a) sales, transfers or other dispositions of assets which do not exceed Won 2.0 trillion in the aggregate in any financial year (the "**Asset Sale Limit**"); provided that, if the net proceeds of any Asset Sale are applied to the purchase of other property or assets in the same financial year, such amount shall not applied in calculating the Asset Sale Limit;

(b) any Asset Sale the purpose of which is to restructure the Company or any transfer of the Company's accounts receivables for the purpose of issuing asset-backed securities; and

(c) sales or other dispositions of inventory, receivables, financial assets and other current assets in the ordinary course of business, so long as such sales or dispositions are at fair market value.

4.4 Provision of Financial Statements and Reports

So long as any Securities remain outstanding, the Company will furnish, or instruct the Fiscal Agent to furnish, upon the request of a Holder or beneficial owner, to such Holder or beneficial owner the following documents:

(a) the most recently published audited consolidated annual financial statements of the Company (including at least a consolidated statement of comprehensive income, consolidated balance sheet, consolidated statement of changes in equity and consolidated cash flow statement); and

(b) the most recently published consolidated interim financial statements of the Company (including at least a consolidated statement of comprehensive income, consolidated balance sheet, consolidated statement of changes in equity and consolidated cash flow statement).

4.5 Limitation on Transactions with Sponsor Affiliates

So long as any Securities remain outstanding, the Company will not, and will not permit any of its Subsidiaries to, directly or indirectly, make any payment to, or enter into, renew or extend any transaction or arrangement with any Sponsor Affiliate (each, an "**Affiliate Transaction**"), unless:

(a) such Affiliate Transaction is in the ordinary course of business; or

(b) such Affiliate Transaction is in the nature of the Permitted Businesses; or

(c) such Affiliate Transaction is permitted under the Korean Monopoly Regulation and Fair Trade Act; or

(d) such Affiliate Transaction is otherwise permitted under these Conditions.

4.6 Definitions

For the purposes of these Conditions, the following terms shall have the meanings set out below:

"**Affiliate**" means, with respect to any person, any other person, directly or indirectly, controlling, controlled by, or under direct or indirect common control with, such person or who is a director or officer of such person or any Subsidiary of such person. For purposes of this definition, "control" (including, with correlative meanings, the terms "controlling" "controlled by" and "under common control with"), as applied to any person, means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such person, whether through the ownership of share capital, the possession of voting rights, contract or otherwise.

"**Lien**" shall mean any mortgage, pledge, security interest, encumbrance, lien or charge of any kind (including, without limitation, any conditional sale or other title retention agreement or lease in the nature thereof or any agreement to create any mortgage, pledge, security interest, lien, charge, easement or encumbrance of any kind).

"**Permitted Businesses**" means all or any of the businesses conducted or proposed to be conducted as permitted under the articles of association of the Company.

"**Security Obligations**" shall mean Liens and/or Guarantees.

"**Sponsor Affiliate**" means Topas Co., Ltd., Jin Air Co., Ltd., Jungseok Enterprise Co., Ltd., Hanjin Transportation Co., Ltd. and any Affiliate of Topas Co., Ltd., Jin Air Co., Ltd., Jungseok Enterprise Co., Ltd., Hanjin Transportation Co., Ltd.; provided, however, that, for the purposes of these Conditions, the Company's Subsidiaries are not Sponsor Affiliates.

"**Total Equity**" shall mean the line item "total equity" as shown on the Company's balance sheet contained in its annual audited consolidated financial statements and semi-annual unaudited consolidated financial statements.

"**Total Liabilities**" shall mean the line item "total liabilities" as shown on the Company's balance sheet contained in its annual audited consolidated financial statements and semi-annual unaudited consolidated financial statements.

5. INTEREST

5.1 Interest

Each Security shall entitle the Holder thereof to receive cumulative interest in accordance with the provisions of this Condition 5.

5.2 Interest Rate

Interest on the Securities will accrue:

(a) from (and including) the Issue Date to (but excluding) December 12, 2020 (the "**First Call Date**") at 6.875% per annum; and

(b) (1) from (and including) the First Call Date to (but excluding) the immediately following Reset Date and (2) thereafter from (and including) each Reset Date to (but excluding) the next following Reset Date, at a fixed rate equivalent to the prevailing 3-year Treasury Rate (as defined below) plus the Initial Credit Spread (as defined below) plus the Step Up Margin (as defined below) (such rate, the "**Reset Rate**");

(each an "**Interest Rate**") in each case on the Principal Amount of each Security, which interest will be payable semi-annually in arrear in U.S. dollars on June 12 and December 12 of each year (each an "**Interest Payment Date**").

The Interest Amount payable on any Interest Payment Date shall be calculated on the basis of a 360-day year consisting of twelve 30-day months.

5.3 Optional deferral of interest payments

(a) The Company may determine in its sole discretion (not less than five Business Days prior to the relevant Interest Payment Date) not to pay all or part of the Interest Amount falling due on that Interest Payment Date. If the Company determines not to pay all or part of the Interest Amount falling due on an Interest Payment Date, such interest (or part thereof, as the case may be) will not be due and payable, or be paid, until the relevant Payment Reference Date and for so long as the same remains unpaid will constitute a "**Deferred Interest Payment**". Additional interest will accrue on each Deferred Interest Payment:

(i) at the same Interest Rate as the Principal Amount of the Securities bears from time to time; and

(ii) from (and including) the date on which (but for such deferral) the Deferred Interest Payment would otherwise have been due to (but excluding) the date the Deferred Interest Payment is paid,

and will be added to such Deferred Interest Payment (and thereafter accumulate additional interest accordingly) on each Interest Payment Date. Each Deferred Interest Payment and additional interest accrued thereon will be payable in accordance with Condition 5.5.

(b) The Company will notify the Holders, the Agents and (if and for so long as the Securities are listed on the SGX-ST and the rules of the SGX-ST so require) the SGX-ST of any determination by it not to pay all or part of the Interest Amount which would otherwise fall due on an Interest Payment Date, not less than five Business Days prior to the relevant Interest Payment Date. Deferral of Interest Amounts pursuant to this Condition will not constitute a default of the Company or a breach of its obligations under the Securities or for any other purpose.

(c) The Company is not subject to any limits as to the number of times the Interest Amount and Deferred Interest Payment can be deferred, except as specified in Condition 5.5.

5.4 **Restrictions in the case of deferral**

If:

(a) some or all of an Interest Amount is deferred pursuant to Condition 5.3(a); and

(b) such Interest Amount has not been paid in full by the date which is 20 Business Days following the Interest Payment Date on which it would otherwise have been due,

the Company will not:

(i) declare or pay any discretionary dividends, distributions, interest, capital return or make any other discretionary payment, and will procure that no discretionary dividend, distribution, interest, capital return or other discretionary payment is made on any of its Equity Obligations; or

(ii) redeem, reduce, cancel, purchase, buy-back or acquire for any consideration any of its Equity Obligations,

(other than in respect of employee benefit plans or similar arrangements with or for the benefits of employees, officers, directors or consultants of the Company) until the date on which all Deferred Interest Payments have been paid in full. For the avoidance of doubt, nothing in this Condition shall restrict the ability of any Subsidiary of the Company to declare and pay dividends, advance loans or otherwise make payments to the Company.

5.5 **Payment of Deferred Interest Payments**

(a) The Company may elect to pay any Deferred Interest Payment at any Interest Payment Date on the giving of at least five and not more than 15 Business Days' prior notice to the Agents.

(b) The Company must pay such Deferred Interest Payment, on the earliest to occur of:

(i) the date on which all of the Securities are redeemed pursuant to the provisions of Condition 6; and

(ii) the date on which an order is made or a resolution is passed for the Winding-Up of the Company.

(c) The Company must pay such Deferred Interest Payment on the next scheduled Interest Payment Date if, during the 12 month period ending on the day before the relevant scheduled Interest Payment Date, any discretionary dividend, distribution or capital return has been declared or paid on, or any redemption, reduction, cancellation, purchase, buy-back or acquisition has been made of, any Equity Obligations of the Company (other than in respect of the employee benefit plans or similar arrangements with or for the benefits of employees, officers, directors or consultants of the Company).

(d) Any partial payment of outstanding Deferred Interest Payment (and any additional interest accrued thereon) by the Company shall be shared by the holders of all outstanding Securities on a pro rata basis.

5.6 **Increase in Interest Rate following a Breach of Covenant or Senior Note Event of Default**

On the first to occur of:

(a) the Company failing to comply with any of the covenants set out in Condition 4 and such breach continuing for a period of 60 consecutive days after written notice to the Company by the Holders of

25% or more in aggregate principal amount of the Securities (a "**Breach of Covenant**") is provided; or

(b) the occurrence of a Senior Note Event of Default,

the then applicable Interest Rate will increase by 5.0% per annum with effect from the next following Interest Payment Date (or, if the relevant event occurs on or after the date that is five Business Days prior to the next Interest Payment Date, the next following Interest Payment Date), which increase will remain in effect and be cumulative to the Reset Rate following any Reset Date thereafter.

"**Senior Note Event of Default**" means an event of default occurring pursuant to the terms and conditions of any of the Company's outstanding unsubordinated notes or bonds in the aggregate principal amount equal to or greater than US$50,000,000 which 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.

5.7 **Accrual**

Interest will cease to accrue on each Security from and including its due date for redemption unless, upon due presentation, payment of the principal in respect of the Security is improperly withheld or refused or unless default is otherwise made in respect of payment, in which event interest shall continue to accrue.

5.8 **Determination and publication of Reset Rates**

The Reset Rate for each Reset Period will be determined by the Calculation Agent on the relevant Reset Determination Date and promptly notified by the Calculation Agent to the Company and the other Agents and, if required by the rules of any stock exchange on which the Securities are listed from time to time, to such stock exchange, and to the Holders, without undue delay but, in any case, not later than the relevant Reset Date.

5.9 **Notifications, etc. to be final**

All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of these Conditions, whether by the Reference Treasury Dealers (or any of them) or the Calculation Agent, will (in the absence of manifest error, negligence or willful default) be binding upon the Company, the Agents and all Holders and (in the absence of negligence or willful default) no liability to the Company or the Holders will attach to the Reference Treasury Dealers (or any of them) or the Calculation Agent in connection with the exercise or non-exercise by any of them of their powers, duties and discretions pursuant to such provisions.

6. REDEMPTION AND PURCHASE

6.1 **Maturity**

Unless redeemed or purchased and cancelled earlier in accordance with these Conditions, the Securities may be redeemed on June 12, 2047 at their Principal Amount plus any Interest Amount accrued up to (but excluding) such date and any outstanding Deferred Interest Payments and, if not redeemed on such date, at the end of each subsequent 30-year period (each of such dates, a "**Company Redemption Date**"); provided that, if the Securities are not redeemed at the option of the Company on an Company Redemption Date, the maturity date of the Securities will automatically be extended for 30 years from such Company Redemption Date.

6.2 **Early redemption at the option of the Company**

Subject to applicable laws, the Company may redeem the Securities (in whole but not in part) on the First Call Date or on any Interest Payment Date thereafter at their Principal Amount plus any Interest Amount accrued up to (but excluding) the relevant Redemption Date and any outstanding Deferred Interest Payments, on the giving of not less than 30 and not more than 60 calendar days' irrevocable notice of redemption to the Holders and the Agents.

6.3 **Early redemption due to a Gross-Up Event**

(a) If a Gross-Up Event occurs, the Company may, subject to applicable laws, redeem the Securities (in whole but not in part) at any time at their Principal Amount plus any interest accrued up to (but excluding) the relevant Redemption Date and any outstanding Deferred Interest Payments, on the giving of not less than 30 and not more than 60 calendar days' irrevocable notice of redemption to the Holders and the Agents.

(b) In such event:

(i) no such notice of redemption may be given earlier than 90 calendar days prior to the earliest calendar day on which the Company would for the first time be obliged to pay the Additional Amounts in question on payments due in respect of the Securities; and

(ii) prior to the giving of any such notice of redemption, the Company will deliver or procure that there is delivered to the Fiscal Agent:

(A) a certificate signed by an Authorized Signatory of the Company stating that the Company is entitled to effect such redemption and setting out a statement of facts showing that the conditions to the exercise of the right of the Company to redeem have been satisfied and that the obligation to pay Additional Amounts cannot be avoided by the Company taking reasonable measures available to it; and

(B) an opinion of an independent legal or tax adviser of recognized standing to the effect that the Company has or will become obliged to pay the Additional Amounts in question as a result of a Gross-Up Event,

and the Fiscal Agent shall be entitled, without liability to any person, to accept the above certificate and opinion as sufficient evidence of the satisfaction of the conditions precedent set out above, in which event it shall be conclusive and binding on the Holders.

(c) "**Gross-Up Event**" means that as a result of any change in, or amendment to, the laws (or any rules or regulations thereunder) of the Relevant Jurisdiction, or any change in or amendment to any official interpretation or application of those laws, rules or regulations, which change or amendment becomes effective on or after June 5, 2017, the Company pays or will become obliged to pay an Additional Amount under Condition 8 in respect of the Securities.

6.4 **Early redemption due to a Tax Event or an Accounting Event**

(a) If a Tax Event or an Accounting Event occurs, the Company may, subject to applicable laws, redeem the Securities (in whole but not in part) at any time at the Principal Amount plus any interest accrued up to (but excluding) the relevant Redemption Date and any outstanding Deferred Interest Payments on the giving of not less than 30 and not more than 60 calendar days' irrevocable notice of redemption to the Holders and the Agents. Prior to giving such notice of redemption, the Company will deliver or procure that there is delivered to the Fiscal Agent a certificate signed by an Authorized Signatory of the Company stating that a Tax Event or an Accounting Event (as the case may be) has occurred and stating in the case of a Tax Event that the relevant loss or deduction cannot be avoided by the Company taking reasonable measures available to it and, in the case of a Tax Event, the opinion referred to in Condition 6.4(b) and, in the case of an Accounting Event, the opinion referred to in Condition 6.4(c). The Fiscal Agent shall be entitled, without liability to any person, to accept such certification and, in the case of a Tax Event or an Accounting Event, opinion as sufficient evidence that a Tax Event or an Accounting Event (as the case may be) has occurred, in which event it shall be conclusive and binding on the Holders.

(b) "**Tax Event**" means that, in the opinion of a recognized independent tax adviser, on or after , 2017 as a result of:

   (i) any amendment to, or change in, the laws (or any rules or regulations thereunder) of the Relevant Jurisdiction which is enacted, promulgated, issued or becomes effective otherwise on or after June 5, 2017; or

   (ii) any amendment to, or change in, an official and binding interpretation of any such laws, rules or regulations by any legislative body, court, governmental agency or regulatory authority (including the enactment of any legislation and the publication of any judicial decision or regulatory determination) which is enacted, promulgated, issued or becomes effective otherwise on or after June 5, 2017; or

   (iii) any generally applicable official interpretation or pronouncement that provides for a position with respect to such laws or regulations that differs from the previous generally accepted position which is issued or announced on or after June 5, 2017,

   interest paid by the Company on the Securities is no longer, or within 90 calendar days of the date of that opinion will no longer be, deductible (or the entitlement to make such deduction shall be materially reduced) by or on behalf of the Company for corporate income tax purposes in the Relevant Jurisdiction.

(c) An "**Accounting Event**" will occur if after June 5, 2017 the Company has received an opinion from internationally recognized independent auditors, which may be the Company's independent auditors, stating that the Securities, in whole or in part, will no longer be recorded as "equity" in the consolidated financial statements of the Company prepared in accordance with Korean International Financial Reporting Standards or any other accounting regime that is the primary accounting regime under which the Company presents such financial statements.

6.5 Early Redemption on the Occurrence of a Breach of Covenant or Senior Note Event of Default

If a Breach of Covenant or Senior Note Event of Default occurs, the Company may, subject to applicable laws, redeem the Securities (in whole but not in part) at any time at their Principal Amount plus any interest accrued up to (but excluding) the relevant Redemption Date and any outstanding Deferred Interest Payments, on the giving of not less than 30 and not more than 60 calendar days' irrevocable notice of redemption to the Holders and the Agents.

6.6 Purchase of Securities

The Company or any of its Subsidiaries may, subject to applicable laws and any rules of any stock exchange or exchanges on which any of the Securities are listed from time to time, at any time purchase any amount of Securities in the open market or otherwise at any price. Such acquired Securities may at the Company's election be cancelled or held or resold.

6.7 Minimum Outstanding Amount

In the event that the Company and/or any Subsidiary of the Company has, individually or in aggregate, purchased (and not resold) Securities equal to or in excess of 80% of the aggregate Principal Amount of the Securities issued on the Issue Date, the Company may redeem the remaining Securities (in whole but not in part) at any time at their Principal Amount plus any interest accrued up to (but excluding) the relevant Redemption Date and any outstanding Deferred Interest Payments, on the giving of not less than 30 and not more than 60 calendar days' irrevocable notice of redemption to the Holders and the Agents.

6.8 Cancellations

All Securities which are (a) redeemed or (b) purchased by or on behalf of the Company, or any of the Company's Subsidiaries and which the Company elects to cancel, will forthwith be cancelled.

7. PAYMENTS

7.1 Payments of principal and interest in respect of each Security will be made by transfer to the registered account of the Holder or by U.S. dollar check drawn on a bank (nominated in writing to the Paying Agent by the Holder) that processes payments in U.S. dollars mailed to the registered address of the Holder if it does not have a registered account, provided that the nomination is received by the Paying Agent not later than 10 Payment Business Days before any date on which payment is scheduled. Interest on Securities due on an Interest Payment Date will be paid to the holder shown on the Register on the Record Date (as defined on the face of the applicable Global Certificate or Definitive Certificate).

A Holder's "**registered account**" means the U.S. dollar account maintained by or on behalf of it with a bank that processes payments in U.S. dollars, details of which appear on the Register at the close of business on the relevant Record Date, and a Holder's "**registered address**" means its address appearing on the Register at that time.

7.2 Where payment is to be made by transfer to a registered account, payment instructions (for value the due date or, if that is not a Payment Business Day, for value the first following day which is a Payment Business Day) will be initiated and, where payment is to be made by check, the check will be mailed on the due date for payment, or if that is not a Payment Business Day, on the next succeeding Payment Business Day, without any interest or payment in respect of such delay.

7.3 Payments in respect of amounts payable by way of interest (including Deferred Interest Payments) and on redemption of the Securities will be subject in all cases to: (i) any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 8; and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the "**Code**") or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or (without prejudice to the provisions of Condition 8) any law implementing an intergovernmental approach thereto. No commissions or expenses shall be charged to the Holders in respect of such payments.

7.4 In this Condition, "**Payment Business Day**" means a day which is both: (a) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the city in which the Paying Agent has its registered office from time to time; and (b) a day on which banks are open for business in New York, Hong Kong and Seoul.

7.5 Unless the context otherwise requires, any reference in these Conditions to principal in respect of the Securities shall be deemed to include any other amounts (other than interest) which may be payable by the Company under or in respect of the Securities.

8. TAXATION AND GROSS-UP

8.1 Payment without withholding

All payments in respect of the Securities by or on behalf of the Company will be made free and clear of, and without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of a Relevant Jurisdiction ("**Relevant Taxes**"), unless the withholding or deduction of such Relevant Taxes is required by law. In that event, the Company will pay such additional amounts ("**Additional Amounts**") as may be necessary in order that the net amounts received by the Holders after the withholding or deduction (including any withholding or deduction in respect of such payment of Additional Amounts) will equal the respective amounts which would otherwise have been receivable in respect of the Securities in the absence of withholding or deduction; except that no Additional Amounts will be payable in relation to any Relevant Taxes imposed on, withheld or deducted from any payment in respect of any Security:

(a) held by or on behalf of a Holder or beneficial owner who is liable for such Relevant Taxes in respect of such Security by reason of having some connection with the Relevant Jurisdiction other than the mere holding of the Security or the receipt of payments or enforcement of rights thereunder; or

(b) held by or on behalf of a Holder or beneficial owner who is liable for such Relevant Taxes in respect of the Security by reason of having some relationship with the Company for Korean tax purposes other than the mere holding of such Security; or

(c) where such withholding or deduction is imposed by reason of a failure of a Holder or any other person to (i) comply with any certification, identification, information-provision or documentation requirement concerning the nationality, residence, identity or connection with the Relevant Jurisdiction of the Holder or beneficial owner or (ii) comply with any other certification, identification, information-provision or documentation requirement, or enter into any agreement with any taxing authority, provided that (x) the Company or the Fiscal Agent has given the Holder at least 30 calendar days prior notice of an opportunity to satisfy such a requirement and (y) compliance is required or imposed by a statute, treaty, rule, regulation, agreement or administrative practice of the Relevant Jurisdiction as a condition or precondition to relief or exemption from all or part of such Relevant Taxes; or

(d) where such withholding or deduction is imposed only by virtue of a Holder or any other person not having presented the Security (where presentation is required) for payment within 30 days after the date on which such payment becomes due and payable or the date on which such payment thereof is duly provided for, whichever occurs earlier, except to the extent such Holder or other person would be entitled to Additional Amounts had the Security been surrendered during such 30-day period; or

(e) in the event that a Holder or any other person who holds an interest in the Security is a fiduciary, a partnership or any person other than the sole beneficial owner of such payment, where such withholding or deduction would not have been imposed had the beneficiary or settlor with respect to such fiduciary, member of such partnership or beneficial owner of such payment been the actual Holder of the Security; or

(f) where such withholding or deduction is imposed as a result of any combination of (a) through (e) above.

Additionally, the obligation of the Company to pay such Additional Amounts shall not apply with respect to (i) any estate, inheritance, gift, sales, transfer or personal property tax or any similar taxes, duties, assessments or other governmental charges or (ii) any taxes, duties, assessments or other governmental charges that are payable otherwise than by deduction or withholding from payments on the Securities.

8.2 **Additional Amounts**

Any reference in these Conditions to any amounts in respect of the Securities (including in relation to any Deferred Interest Payments and any additional interest accumulated thereon pursuant to Condition 5.3(a)) will be deemed also to refer to any Additional Amounts which may be payable under this Condition 8 or under any undertakings given in addition to, or in substitution for, this Condition pursuant to the Fiscal Agency Agreement.

8.3 **Documentation**

The Company will provide the Fiscal Agent with the official acknowledgment, if any, of the Relevant Jurisdiction (or, if such acknowledgment is not available, other reasonable documentation) evidencing payment of any Relevant Taxes in respect of which the Company has paid any Additional Amounts. Copies of such documentation will be made available to the Holders or beneficial owners of the Securities by the Fiscal Agent upon written request therefor.

8.4 **Other Taxes**

The Company will pay any stamp, issue, excise, registration, documentary or other similar taxes and duties, including interest and penalties, imposed by a Relevant Jurisdiction in respect of the creation, issue, delivery, registration and offering of the Securities. The Company will also pay and indemnify the Holders and beneficial owners of the Securities from and against all court taxes or other taxes and duties, including interest and penalties, paid by any of them in any jurisdiction in connection with any action permitted to be taken by the Holders and beneficial owners to enforce the Company's obligations under the Securities.

9. PRESCRIPTION

A claim against the Company for payment under these Conditions will become void unless made within periods of 10 years (in the case of principal) and five years (in the case of interest, including any Deferred Interest Payments and any additional interest accumulated thereon pursuant to Condition 5.3(a)) from the Relevant Date relating thereto.

10. FURTHER ISSUES

Subject to applicable law, the Company may from time to time without the consent of the Holders create and issue further securities or incur further debt obligations either (a) having the same terms and conditions as the Securities in all respects (or in all respects save for the first payment of Interest Amount thereon) and so that the same will be consolidated and form a single series with the Securities; or (b) upon such terms as the Company may determine at the time of issue.

11. NON-PAYMENT

If:

(a) the Company does not pay any principal or any interest or other amount due and payable in respect of the Securities or any of them, in each case in full within 30 days of its due date; or

(b) an order is made (other than an order successfully appealed or permanently stayed within 60 days) by a court in the Republic of Korea or a resolution is passed by the shareholders of the Company, for the Winding-Up of the Company (other than for the purposes of Solvent Reorganization of the Company),

then the Company shall be deemed to be in default under the Securities, and the Holders of at least one-quarter in Principal Amount of the Securities then outstanding may, subject to satisfaction of the relevant requirements of applicable laws and regulations, initiate steps, actions or proceedings for the Winding-Up of the Company and/or prove in the Winding-Up of the Company in respect of the Securities.

Notwithstanding the above, this Condition 11 shall not apply to the following:

(A) the non-payment by the Company of any amount due and payable in respect of any of the Securities:

   (i) in order to comply with any fiscal or other law or regulation or with the order of any court of competent jurisdiction, in each case applicable to such payment; or

   (ii) during any period where there is doubt as to the validity or applicability of any such law, regulation or order, in accordance with advice given by an independent law firm as to such validity or applicability; or

(B) the deferral of any Interest Amount pursuant to Condition 5.3; or

(C) the automatic extension of the term of the Securities as a result of non-redemption at the option of the Company on June 12, 2047 or any subsequent Company Redemption Dates pursuant to Condition 6.1.

12. VARIATION OF RIGHTS

12.1 Variation without consent

The Fiscal Agent may agree with the Company, without the approval of Holders, to amend, modify, alter or add to either these Conditions or the provisions of the Fiscal Agency Agreement, if the Fiscal Agent is of the opinion that the amendment, modification, alteration or addition is:

(a) of a formal, minor or technical nature;

(b) made to correct an error which, in the opinion of the Fiscal Agent, is proven;

(c) not materially prejudicial to the interests of Holders as a whole; or

(d) required to comply with mandatory provisions of law.

12.2 Substitution

(a) Subject to applicable laws, the Company may, without the authority, assent or approval of Holders, substitute all (but not some only) of the Securities for other securities issued directly or indirectly by the Company, provided that such securities:

(i) have terms not materially less favorable to Holders than the terms of the Securities (as reasonably determined by the Company); and

(ii) are listed on the SGX-ST or another internationally recognized stock exchange selected by the Company.

(b) The Fiscal Agent shall (at the expense of the Company and following receipt by the Fiscal Agent of a certificate signed by an Authorized Signatory of the Company confirming (i) and (ii) above) use reasonable efforts to assist the Company in such substitution of the Securities (including, but not limited to, entering into such documents or deeds as may be necessary to give effect thereto), provided that the Fiscal Agent shall not be obliged to participate in, or assist with, any such substitution if the substitution, or the securities into which the Securities are to be substituted, or if the assistance with such substitution, would impose, in the Fiscal Agent's opinion, more onerous obligations upon it, expose it to liabilities or reduce its protections.

(c) The Fiscal Agent may, without the consent of the Holders, agree with the Company to the substitution in place of the Company (or of any previous substitute under this Condition 12.2(c)) as the principal debtor under the Securities, subject to:

(i) the Fiscal Agent being satisfied that the interests of the Holders will not be materially prejudiced by the substitution; and

(ii) compliance with certain other conditions set out in the Fiscal Agency Agreement.

12.3 Meetings

(a) The Fiscal Agency Agreement contains provisions for convening meetings of the Holders to consider any matter relating to the Securities and/or the Fiscal Agency Agreement, including the modification or abrogation of any of these Conditions or any of the provisions of the Fiscal Agency Agreement, upon either the written consent of the Holders of not less than a majority in Principal Amount of the outstanding Securities or the approval of persons entitled to vote not less than a majority of the Principal Amount of such Securities represented and voting at a meeting of the Holders duly called. The quorum at such meeting shall be one or more persons entitled to vote a majority in Principal Amount of the outstanding Securities, or at an adjourned meeting, one or more persons entitled to vote 25% in Principal Amount of the outstanding Securities.

(b) Notwithstanding Condition 12.3(a) above, for the purposes of passing a resolution at a meeting the business of which includes a Special Matter, no amendment, modification or abrogation shall be made to the Securities (including these Conditions) or the Fiscal Agency Agreement without the approval or written consent of the Holders of not less than 90% in Principal Amount of the then outstanding Securities or the approval of persons entitled to vote not less than 75% of the Principal Amount of such Securities represented and voting at a meeting of the Holders duly called, and where at such meeting a special quorum shall be required comprising one or more persons entitled to vote two-thirds in Principal Amount of the then outstanding Securities, or at an adjourned meeting, one or more persons entitled to vote one-third in Principal Amount of the then outstanding Securities.

(c) On a poll each Holder of a Security present in person or by proxy and entitled to vote shall have one vote in respect of each US$1,000 in Principal Amount of such Holder's Securities.

(d) The Company and the Fiscal Agent may, at any time and from time to time, without the consent of any Holders, amend or supplement the Fiscal Agency Agreement or these Conditions: (i) to evidence the succession of another person to the Company and the assumption by any such successor of the covenants of the Company in the Fiscal Agency Agreement and the Securities; (ii) to add to the covenants of the Company for the benefit of the Holders or to surrender any right or power conferred on the Company; (iii) to provide for the issuance of additional Securities in accordance with the limitations set forth in these Conditions and the Fiscal Agency Agreement; (iv) to cure any ambiguity or to correct or supplement any provision in the Fiscal Agency Agreement or these Conditions, which may be inconsistent with any other provision therein, or to make any other provisions with respect to matters or questions arising under the Fiscal Agency Agreement that are not inconsistent with the provisions of the Fiscal Agency Agreement; provided that such action shall not adversely affect the interests of the Holders in any material respect; or (v) to make any other modifications to the Securities or the Fiscal Agency Agreement of a formal, minor or technical nature or necessary in the reasonable opinion of the Fiscal Agent to correct a manifest error or, in reliance on an opinion of counsel delivered to the Fiscal Agent, to comply with mandatory provisions of the laws of Korea so long as such modification does not adversely affect the rights of any Holder in any material respect.

12.4 **Waiver, authorization and determination**

The Fiscal Agent may agree, without the consent of the Holders, to the waiver or authorization of any breach or proposed breach of, any of these Conditions or any of the provisions of the Fiscal Agency Agreement, provided that it is not, in the opinion of the Fiscal Agent, materially prejudicial to the interests of the Holders.

12.5 **Notification to the Holders**

Any modification, abrogation, waiver, determination, authorization or substitution pursuant to or described in this Condition 12 shall be (i) binding on the Holders, whether or not they are present at any meeting and whether or not they voted, and (ii) notified by the Company to the Holders as soon as practicable thereafter in accordance with Condition 13.

12.6 **Compliance with stock exchange rules**

In connection with any amendment, modification, alteration, addition or substitution under this Condition 12, the Company will comply with the rules of any stock exchange on which the Securities are for the time being listed or admitted to trading.

13. NOTICES

All notices regarding the Securities shall be valid if sent by post to the Holders at their respective addresses in the Register (which, in the case of a Global Certificate, is expected to consist solely of the common depositary of

Euroclear or Clearstream or its nominee, or any successor thereto) and, if, and for so long as the Securities are listed on the SGX-ST and the rules of the SGX-ST so require, published on the SGX-ST's website. The Company shall also ensure that notices are duly given or published in a manner which complies with the rules and regulations of any stock exchange or other relevant authority on which the Securities are for the time being listed. Any notice shall be deemed to have been given on the second day after being so mailed or on the date of publication or, if so published more than once or on different dates, on the date of the first publication.

So long as the Securities are represented by the Global Certificate and the Global Certificate is held on behalf of Euroclear or Clearstream or an alternative clearing system appointed in accordance with the terms of the Securities and the Fiscal Agency Agreement, notices to Holders may be given by delivery of the relevant notice to the clearing systems in accordance with the applicable rules and procedures of the clearing systems for communication by them to entitled accountholders. Any such notice shall be deemed validly given on the day after it has been delivered to Euroclear, Clearstream or an alternative clearing system as aforesaid.

14. AGENTS

Under the terms of the Fiscal Agency Agreement, the Company has the right to terminate the appointment of any Agent and appoint a successor provided that there shall at all times be:

(a) at least one paying agent, provided that so long as the Securities are listed on the SGX-ST and the rules of the SGX-ST so require, in the event that a Global Certificate is exchanged for Definitive Certificates, the Company will appoint and maintain a paying agent in Singapore where the Definitive Certificates may be presented or surrendered for payment or redemption. In addition, in the event that a Global Certificate is exchanged for Definitive Certificates, announcement of such exchange shall be made by or on behalf of the Company through the SGX-ST and such announcement will include all material information with respect to the delivery of the Definitive Certificates, including details of the paying agent in Singapore;

(b) a fiscal agent;

(c) a registrar;

(d) a transfer agent; and

(e) a calculation agent.

15. GOVERNING LAW AND SUBMISSION TO JURISDICTION

15.1 Governing law

The Securities are governed by, and will be construed in accordance with, the laws of the State of New York.

15.2 Jurisdiction

In relation to any suit, legal action or proceedings arising out of or in connection with the Securities, each of the Company will irrevocably submit to the non-exclusive jurisdiction of the New York State and United States Federal courts sitting in the Borough of Manhattan, New York City.

15.3 Appointment of process agent

The Company has irrevocably and unconditionally appointed Korean Air Lines Co., Ltd., New York Office at 609 5th Ave., Suite 1108, New York, NY 10017, United States as its agent for service of process in respect of any suit, legal action or proceedings arising out of or in connection with the Securities and has undertaken that in the event of such agent ceasing so to act it will appoint another person as its agent for that purpose.

16. DEFINITIONS

Unless the context otherwise requires, the following terms will have the following meanings in these Conditions:

"**Accounting Event**" has the meaning specified in Condition 6.4(c).

"**Additional Amounts**" has the meaning specified in Condition 8.1.

"**Agent**" has the meaning specified in the preamble to these conditions.

"**Authorized Signatory**" has the meaning given to it in the Fiscal Agency Agreement.

"**Breach of Covenant**" has the meaning specified in Condition 5.6.

"**Business Day**" means a day which is both: (a) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the city in which the Paying Agent has its registered office from time to time; and (b) a day on which banks are open for business in New York, Hong Kong and Seoul.

"**Calculation Agent**" has the meaning specified in the preamble to these Conditions.

"**Calculation Amount**" means US$1,000 in Principal Amount of Securities.

"**Common Share**" means a fully paid common share in the capital of the Company.

"**Company**" means Korean Air Lines Co., Ltd.

"**Company Redemption Date**" has the meaning specified in Condition 6.1.

"**Comparable Treasury Issue**" means the U.S. Treasury security selected by the Calculation Agent as having a maturity of three years that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities with a maturity of three years.

"**Comparable Treasury Price**" means, with respect to a determination date, (i) the average of three Reference Treasury Dealer Quotations for such determination date, after excluding the highest and lowest of such Reference Treasury Dealer Quotations, or (ii) if fewer than three such Reference Treasury Dealer Quotations are available, the average of all such quotations.

"**Conditions**" means these terms and conditions of the Securities.

"**Deferred Interest Payment**" has the meaning specified in Condition 5.3(a) and will, where relevant, include any amount of additional interest accrued thereon in accordance with Condition 5.3(a).

"**Definitive Certificate**" has the meaning specified in Condition 1.1.

"**Equity Obligations**" means, in relation to the Company, any class of the Company's share capital or any other securities qualifying as equity under the International Financial Reporting Standards as adopted in the Republic of Korea ("**Korea**", and such standards, "**K-IFRS**") or under any other accounting regime that is the primary accounting regime under which the Company presents its financial statements at the time such discretionary dividend, distribution or other payment is paid or declared, except for the Securities.

"**First Call Date**" has the meaning specified in Condition 5.2(a).

“**Fiscal Agency Agreement**” has the meaning specified in the preamble to these Conditions.

“**Fiscal Agent**” means has the meaning specified in the preamble to these Conditions.

“**Global Certificate**” has the meaning specified in Condition 1.1.

“**Gross-Up Event**” has the meaning specified in Condition 6.3(c).

“**Holder**” has the meaning specified in Condition 1.2.

“**Initial Credit Spread**” means 5.44% per annum.

“**Interest Amount**” means the amount payable per Calculation Amount on an Interest Payment Date.

“**Interest Payment Date**” has the meaning specified in Condition 5.2.

“**Interest Rate**” has the meaning specified in Condition 5.2.

“**Issue Date**” means June 12, 2017.

“**Issue Price**”, in relation to a Security, has the meaning specified in the prospectus or other issuance documentation in respect of that Security.

“**Paying Agent**” has the meaning specified in the preamble to these Conditions.

“**Payment Business Day**” has the meaning specified in Condition 7.4.

“**Payment Reference Date**” means: (i) the next following Interest Payment Date on which the Company elects to pay the relevant Deferred Interest Payment at its discretion pursuant to Condition 5.5(a); or (ii) the date on which the Company is required to pay the relevant Deferred Interest Payment pursuant to Conditions 5.5(b) and 5.5(c).

“**Principal Amount**” has the meaning specified in Condition 1.1.

“**Record Date**” has the meaning specified on the face of the applicable Global Certificate or Definitive Certificate.

“**Redemption Date**” means any date on which the Securities become due for redemption in accordance with these Conditions.

“**Reference Treasury Dealer**” means each of the three internationally recognized investment banking firms selected by the Company that are primary U.S. Government securities dealers.

“**Reference Treasury Dealer Quotations**” means with respect to each Reference Treasury Dealer and any determination date, the average, as determined by the Calculation Agent, of the bid and asked prices for the Comparable Treasury Issue, expressed in each case as a percentage of its principal amount, quoted in writing to the Calculation Agent by such Reference Treasury Dealer at 5:00 p.m., New York City time, on the two Business Days immediately preceding such determination date.

“**Register**” has the meaning specified in Condition 1.1.

“**registered account**” has the meaning specified in Condition 7.1.

"**registered address**" has the meaning specified in Condition 7.1.

"**Registrar**" has the meaning specified in the preamble to these Conditions.

"**Relevant Date**" means the date on which the relevant payment first becomes due but, if the full amount of the money payable has not been received by the relevant Agent on or before the due date, it means the date on which, the full amount of the money having been so received, notice to that effect has been duly given to the Holders by the Company.

"**Relevant Jurisdiction**" means the Republic of Korea or any political subdivision or any authority thereof or therein having power to tax the Company or, in the event of any substitution, Solvent Reorganization or other corporate action resulting in the Company being tax resident in any other jurisdiction, that other jurisdiction or any political subdivision or any authority thereof or therein having power to tax the Company.

"**Relevant Taxes**" has the meaning specified in Condition 8.1.

"**Reset Date**" means the First Call Date and each date that falls three, or a multiple of three, years following the First Call Date.

"**Reset Determination Date**" means the second Business Day prior to the relevant Reset Date.

"**Reset Period**" means the period from (and including) the First Call Date to (but excluding) the next Reset Date, and each successive period from (and including) a Reset Date to (but excluding) the next succeeding Reset Date.

"**Reset Rate**" has the meaning specified in Condition 5.2(d).

"**Securities**" has the meaning specified in the preamble to these Conditions, and "Security" shall be construed accordingly.

"**Senior Note Event of Default**" has the meaning specified in Condition 5.6.

"**SGX-ST**" means Singapore Exchange Securities Trading Limited.

"**Solvent Reorganization**" means, with respect to the Company, solvent Winding-Up, deregistration, dissolution, scheme of arrangement or other reorganization of the Company solely for the purposes of a consolidation, amalgamation, merger or reconstruction under which the continuing or resulting corporation effectively assumes the obligations of the Company under the Securities and the Fiscal Agency Agreement.

"**Special Matter**" means each of the following matters:

(i) reduction or cancellation of the amount payable or, where applicable, modification, except where such modification is in the opinion of the Fiscal Agent bound to result in an increase of any principal or interest (including Deferred Interest Payments) in respect of the Securities;

(ii) modification of the date of payment in respect of any principal or interest (including Deferred Interest Payments) in respect of the Securities;

(iii) alteration of the currency in which payments under the Securities are to be made;

(iv) alteration of the obligations of the Company under Conditions 6 (Redemption and Purchase) or 8 (Taxation and Gross-up);

(v) reduction of any of the percentage voting and quorum provisions in Condition 12.3 (Meetings); or

(vi) modification of any of the above matters constituting the Special Matters.

"**Step Up Margin**" means 5.0% per annum.

"**Subsidiary**" means any corporation or other business entity of which one person owns or controls (in either case, either directly or through another Subsidiary or other Subsidiaries) 50% or more of the issued share capital or other ownership interest having ordinary voting power to elect directors, managers or trustees of such corporation or other business entity (other than capital stock or other ownership interest of any other class or classes which has voting power only upon the occurrence of any contingency).

"**Tax Event**" has the meaning specified in Condition 6.4(b).

"**Transfer Agent**" has the meaning specified in the preamble to these Conditions.

"**Treasury Rate**" means, in relation to a Reset Period and the Reset Determination Date in relation to such Reset Period, the rate in % per annum equal to the yield, under the heading that represents the average for the week immediately prior to such Reset Determination Date, appearing in the most recently published statistical release designated "H.15(519)" or any successor publication that is published weekly by the Board of Governors of the Federal Reserve System (available on the website of the Board of Governors Federal Reserve System at http://www.federalreserve.gov/release/h15/, or any successor site) and that establishes yields on actively traded U.S. Treasury securities adjusted to constant maturity under the caption "Treasury constant maturities" for the maturity corresponding to the Comparable Treasury Issue. If such release (or any successor release) is not published during the week preceding the Reset Determination Date or does not contain such yields, "Treasury Rate" means the rate equal to the semi-annual equivalent yield to maturity of the Comparable Treasury Issue, calculated using a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for the Reset Determination Date.

"**Winding-Up**" means, with respect to the Company, a final and effective order or resolution for the bankruptcy (as set forth in Part 3 of the Debtor Rehabilitation and Bankruptcy Act of Korea), winding up, liquidation or any other proceedings in respect of the Company, which commences with a view to liquidation of the Company.

THE GLOBAL CERTIFICATE

The Global Certificate contains provisions that apply to the Securities in respect of which it is issued, some of which modify the effect of the Conditions of the Securities set out in this Offering Circular. The following is a summary of provisions of the Securities while in global form.

Meetings

The registered holders of the Securities in respect of which the Global Certificate is issued will be treated as being one person for the purposes of any meeting of Holders, and at any such meeting, as having one vote in respect of each U.S.$1,000 in principal amount of the Securities in respect of which the Global Certificate is issued.

Cancellation

Cancellation of any Securities following its redemption or purchase by the Company will be effected by a reduction in the principal amount of the Securities in the register of Holders.

Transfers

Transfers of interests in the Securities will be effected through the records of Euroclear and Clearstream, and their respective participants in accordance with their respective rules and operating procedures.

Notices

So long as the Securities are represented by the Global Certificate and the Global Certificate is held on behalf of Euroclear, Clearstream or an alternative clearing system appointed in accordance with the terms of the Securities and the Fiscal Agency Agreement, notices to the Holders may be given by delivery of the relevant notice to the clearing systems in accordance with the applicable rules and procedures of the clearing systems for communication by them to entitled accountholders. Any such notice shall be deemed validly given on the day after it has been delivered to Euroclear, Clearstream or an alternative clearing system.

USE OF PROCEEDS

The Company intends to use the net proceeds from this offering for general corporate purposes, including repayment of maturing debt.

CAPITALIZATION

The following table sets forth the Company's capitalization, defined as the sum of its long-term debt and its equity, as of March 31, 2017:

	As of March 31, 2017[1]	
	(in billions of Won)	
	Actual	As adjusted
Long-term debt[2]	₩ 843	₩ 843
Equity		
Capital stock, par value Won 5,000		
Authorized — 250,000,000 shares		
Issued and outstanding shares — 95,955,428 shares (including 1,110,794 preferred shares)	480	480
Other capital surplus	1,542	1,542
Other capital components	336	336
Retained earnings	359	359
Securities to be issued hereby	—	335
Non-controlling interest	114	114
Total equity	₩ 2,831	₩ 3,166
Total capitalization	₩ 3,674	₩ 4,009

Notes:

(1) Other than as described herein, there has been no material change in the capitalization of the Company since March 31, 2017.

(2) Consists of long-term borrowings of Won 799 billion and debentures of Won 44 billion.

EXCHANGE RATES

The table below sets forth, for the periods and dates indicated, information concerning the market average exchange rate (the "Market Average Exchange Rate") announced by the Seoul Money Brokerage Services, Ltd. No representation is made that the Won or U.S. dollar amounts referred to herein could have been or could be converted into U.S. dollars or Won, as the case may be, at any particular rate or at all.

Period	At End of Period	Average Rate[1]	High	Low
	(Won per US$1.00)			
2012	1,071.1	1,126.9	1,181.8	1,071.1
2013	1,055.3	1,095.0	1,159.1	1,051.5
2014	1,099.2	1,053.2	1,118.3	1,008.9
2015	1,172.0	1,131.5	1,203.1	1,068.1
2016	1,208.5	1,160.5	1,240.9	1,093.2
2017 (through May 31)	1,123.9	1,144.6	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	1,123.9	1,125.3	1,134.5	1,117.1

Source: Seoul Money Brokerage Services, Ltd.

Note:

(1) The average rate for each year is calculated as the average of the Market Average Exchange Rate announced by Seoul Money Brokerage Services, Ltd. on each business day during the relevant year (or portion thereof). The average rate for a month is calculated as the average of the Market Average Exchange Rates on each business day during the relevant month (or portion thereof).

SELECTED FINANCIAL INFORMATION

The following tables present selected financial information of the Company. The selected consolidated financial information as of and for the years ended December 31, 2015 and 2016 set forth below has been derived from the audited annual consolidated financial statements of the Company included in this Offering Circular. The selected consolidated financial information as of March 31, 2017 and for the three months ended March 31, 2016 and 2017 set forth below has been derived from the unaudited condensed consolidated interim financial statements of the Company included in this Offering Circular.

The Company's results of operations for the three months ended March 31, 2017 may not be indicative of its result of operations for any future interim period or for the full year 2017.

Selected Consolidated Statements of Comprehensive Income (Loss) Information

	For the year ended December 31, 2015	For the year ended December 31, 2016	For the three months ended March 31, 2016	For the three months ended March 31, 2017
	(in billions of Won, except per share data)			
Revenue	₩ 11,545	₩ 11,732	₩ 2,867	₩ 2,866
Cost of sales	9,517	9,435	2,265	2,394
Gross profit	2,028	2,297	602	472
Selling and administrative expenses	1,144	1,176	279	280
Operating income	884	1,121	323	192
Finance income	56	51	19	29
Finance expenses	516	559	154	112
Gain (loss) on equity method valuation	17	(112)	(37)	(4)
Other non-operating income	386	511	292	968
Other non-operating expenses	1,313	1,730	615	354
Income (loss) before income tax	(486)	(718)	(174)	719
Income tax expense (benefit)	(85)	(161)	1	160
Income (loss) from continuing operations	(401)	(557)	(175)	559
Income (loss) from discontinued operations	(162)	—	—	—
Income (loss) for the period	₩ (563)	₩ (557)	₩ (175)	₩ 559
Income (loss) attributable to:				
Owners of the Parent Company	₩ (565)	₩ (565)	₩ (178)	₩ 558
Non-controlling interests	2	8	3	1
Earnings (loss) per share attributable to owners of the Parent Company (in Won)				
Continuing operation and discontinued operation:				
Attributable to common stock	₩ (7,968)	₩ (7,639)	₩ (2,402)	₩ 7,118
Attributable to preferred stock	(7,868)	(7,589)	(2,352)	7,168
Continuing operation:				
Attributable to common stock	(5,713)	(7,639)	(2,402)	7,118
Attributable to preferred stock	(5,663)	(7,589)	(2,352)	7,168

Selected Consolidated Statements of Financial Position Information

	As of December 31, 2015	As of December 31, 2016	As of March 31, 2017
	(in billions of Won)		
Assets			
Cash and cash equivalents	₩ 967	₩ 1,090	₩ 1,132
Trade and other receivables	951	727	760
Other current assets	1,325	1,511	1,513
Assets held for sale	46	—	55
Total current assets	3,289	3,328	3,460
Investments in associates	520	24	18
Property, aircraft and equipment, net	17,851	17,873	17,853
Other non-current assets	2,520	2,731	2,579
Total non-current assets	20,891	20,628	20,450
Total assets	₩24,180	₩23,956	₩23,910
Liabilities			
Trade and other payables	₩ 870	₩ 846	₩ 889
Short-term borrowings	869	1,168	1,080
Current portion of long-term liabilities	3,926	3,461	3,654
Current portion of finance lease obligations	1,234	1,714	1,427
Other current liabilities	1,551	1,942	2,093
Total current liabilities	8,450	9,131	9,143
Long-term borrowings	1,095	1,016	799
Debentures	693	83	44
Asset-backed securitization loans	1,181	1,732	1,439
Finance lease obligations	7,155	6,774	6,301
Defined benefit obligations (net)	1,028	1,126	1,134
Provisions	171	179	160
Deferred revenue	1,702	1,868	1,913
Other non-current liabilities	206	173	146
Total non-current liabilities	13,231	12,951	11,936
Total liabilities	₩21,681	₩22,082	₩21,079
Equity			
Capital stock	₩ 370	₩ 370	₩ 480
Other capital surplus	818	1,198	1,542
Other capital components	405	385	336
Retained earnings	794	(193)	359
Equity attributable to owners of the Parent Company	2,387	1,760	2,717
Non-controlling interests	112	114	114
Total equity	₩ 2,499	₩ 1,874	₩ 2,831

Other Financial Information

	For the year ended December 31,		For the three months ended March 31,	
	2015	2016	2016	2017
	(in billions of Won)			
Net cash provided by (used in) operating activities	₩ 2,728	₩ 2,806	₩ 772	₩ 847
Net cash provided by (used in) investing activities	419	(874)	(303)	(485)
Capital expenditures[(1)]	(1,743)	(1,145)	(346)	(484)
Net cash provided by (used in) financing activities	(2,997)	(1,829)	(842)	(281)

Note:

(1) Capital expenditures represent acquisition of property, aircraft and equipment and investment property as presented in the Company's statements of cash flows.

BUSINESS

Overview

The Company is the leading airline in Korea in terms of total passengers and cargo carried, with market shares of 24% and 34%, respectively, in the twelve months ended December 31, 2016, according to data released by the Korea Airport Corporation and the Incheon Airport Corporation. The Company engages primarily in air transportation for passengers and cargo through the operation of both international and domestic flights, providing commercial airline services to destinations in Korea and around the world from its hub at Incheon Airport, one of the major air gateways in Asia.

The Company has maintained its leadership in the Korean market in terms of total international and domestic passengers carried since its incorporation in 1962 and has become a major international airline. To distinguish itself as a premium, full-service carrier, the Company seeks to provide premium service to its passengers and customers and continually upgrades its fleet to include aircraft that implement the latest technologies. The Company also has a significant international presence as an air cargo carrier, ranking third and fourth globally for 2015 and 2016, respectively, in terms of scheduled international freight ton-kilometers, according to the IATA. As of May 31, 2017, the Company provided services to 116 international destinations in 45 countries and 13 domestic destinations for its passenger and cargo services. The Company also operates related businesses in aerospace, catering and in-flight sales, and limousine transportation and hotels.

The Company is also one of the founding members of the SkyTeam alliance, a global alliance with 20 member airlines. SkyTeam passenger alliance is an important passenger revenue source for the Company, featuring a wide range of code-sharing and networks, as well as joint branding and marketing, frequent flyer programs, and pooling of airport facilities and resources.

The Company has received various awards and accolades over the years, including "Best airline service provider — 2015 Global Customer Satisfaction Competency Index (GCSI) organized by Korea Economic Daily in 2016; "Best airline service provider — 2015 Global Customer Satisfaction Competency Index" organized by Japan Management Association Consulting and "A330 Award for Top Operational Excellence" in 2015; "Global Times: Top 3 International Airline Most Preferred by Chinese Global Traveler" and "A380 Award for Top Operational Excellence 2013-2014" in 2014; and "World Travel Awards 2013 World's Most Innovative Airline" in 2013 and 2012.

In the years ended December 31, 2015 and 2016, the Company recognized consolidated revenues of Won 11,545 billion and Won 11,732 billion, respectively, and net loss of Won 563 billion and Won 557 billion, respectively. In the three months ended March 31, 2016 and 2017, the Company recognized consolidated revenues of Won 2,867 billion and Won 2,866 billion, respectively, and net loss of Won 175 billion and net income of Won 559 billion, respectively.

History

The Company was originally incorporated in 1962 as the state airline of Korea. The Company was subsequently listed on the Korea Stock Exchange through an initial public offering in 1966 and was acquired by the Hanjin Group in 1969. The Company began transpacific cargo services in 1971 and transpacific passenger services in 1972. It introduced the Boeing 707 into service in 1971, the Boeing 747 in 1974, the Airbus 300 in 1975, the Airbus 380 in 2011 and the Boeing 747-8I in 2015.

In August 2013, a new holding company, Hanjin KAL, was established within the Hanjin Group, and the Company transferred its investment business, including all of its ownership in its LCC subsidiary Jin Air, to Hanjin KAL. As of March 31, 2017, Hanjin KAL was the largest shareholder of the Company and owned 29.92% of the Company's outstanding common shares and 0.86% of the Company's preferred shares.

The Company's headquarters and registered office are at 260 Haneul-gil (Gonghang-dong), Gangseo-gu, Seoul, Korea 07505. The Company's website is http://www.koreanair.com. The information on the Company's website does not constitute a part of this Offering Circular.

Competitive Strengths

The Company believes its leading market position, continued success and potential for future growth provide it with the following competitive strengths:

- ***Premium service***. The Company provides premium service to its passengers and customers through its intricate route network, technologically advanced features such as "audio video on demand" for all long haul flights, "Kosmo Suites" for first class cabins and fully flat "Prestige Suites" for business class cabins as well as friendly and helpful in-flight and ground staff.
- ***Technologically advanced and frequently updated fleet***. The Company's fleet is frequently upgraded to include aircraft that implement the latest technologies. The Company was one of the first airlines in Asia to order and receive Airbus 380 aircraft and the first airline in the world to configure it with unique service amenities such as hosted bars and lounges, duty free showcases, and an upper deck exclusively designated for business class passengers.
- ***Convenient hub location***. Incheon Airport, the Company's main hub, is one of the major air gateways in Asia and easily accessible from neighboring countries such as China, Japan and Russia. By using Incheon Airport as its hub location, the Company is strategically positioned to capture the increase in demand for air travel to and from such neighboring countries.
- ***Member of the SkyTeam alliance***. The Company is a member of the SkyTeam alliance, which is the second-largest worldwide airline alliance as of March 31, 2017 in terms of number of passengers and number of member airlines. Being a member of the SkyTeam alliance enables the Company to exploit synergy benefits by utilizing other members' worldwide networks as well as costs savings from joint cargo operations.

Services

The Company's primary business segment is air transport, consisting of the passenger services business and cargo services business. The Company also operates in the areas of aerospace, catering of in-flight meals and in-flight sales and limousine transportation and hotel operations.

The table below shows the components of the Company's revenues, and their percentages of total revenues, for the periods indicated:

	Year Ended December 31,				Three Months Ended March 31,			
	2015		2016		2016		2017	
	(in billions of Won)	*(%)*	*(in billions of Won)*	*(%)*	*(in billions of Won)*	*(%)*	*(in billions of Won)*	*(%)*
Air Transport								
Passenger	6,673	57.8%	6,966	59.4%	1,718	59.9%	1,679	58.6%
Cargo	2,615	22.7	2,444	20.8	561	19.6	640	22.3
Other(1)	1,070	9.3	1,219	10.4	280	9.8	325	11.3
Other Services								
Aerospace	914	7.9	899	7.7	243	8.5	169	5.9
Catering	94	0.8	98	0.8	24	0.8	25	0.9
Hotel/Limousine	39	0.3	44	0.4	10	0.3	11	0.4
Other(2)	140	1.2	62	0.5	31	1.1	17	0.6
Total	**11,545**	**100.0%**	**11,732**	**100.0%**	**2,867**	**100.0%**	**2,866**	**100.0%**

Notes:

(1) Includes revenues from ground services and other airport operations related services.

(2) Includes revenues from the provision of goods (such as uniforms) or services (such as training) to the Company's subsidiaries.

Air Transport

The Company's air transport business, which comprises domestic and international air transportation services for passengers as well as for cargo, has historically been and continues to be its largest revenue source. Air transport generated revenues of Won 10,358 billion, Won 10,629 billion and Won 2,644 billion, or 89.7%, 90.6% and 92.2% of the Company's total revenues, respectively, for the years ended December 31, 2015 and 2016 and the three months ended March 31, 2017, respectively.

Passenger Services Business

The Company maintains a global network of passenger services. As of May 31, 2017, the Company operated passenger flights connecting 116 destinations (13 domestic and 103 international) in 40 countries. The Company focuses on managing strategic routes to optimize flight schedules by analyzing the flow of demand, the Company's presence in the market and the available resources, as well as on expanding the network through exploring new consumer demands and developing potential new markets. For instance, in 2017, the Company will inaugurate service to Barcelona and increase capacity on routes to the United States with higher demand, such as San Francisco and Seattle.

The following table sets forth the Company's passenger route network as of May 31, 2017:

Regions	Routes	Destination Cities
Domestic	13	Seoul, Incheon, Busan, Jeju, Cheongju, Daegu, Gunsan, Gwangju, Jinju, Pohang, Ulsan, Wonju, Yeosu
Japan	12	Tokyo, Osaka, Nagoya, Fukuoka, Sapporo, Aomori, Niigata, Komatsu, Okayama, Oita, Kagoshima, Okinawa
China	27	Beijing, Changsha, Dalian, Guangzhou, Guiyang, Hangzhou, Hefei, Hong Kong, Huangshan, Jinan, Kunming, Mudanjiang, Nanjing, Nanning, Qingdao, Shanghai, Shenyang, Shenzhen, Taipei, Tianjin, Urumqi, Weihai, Wuhan, Xian, Xiamen, Yanji, Zhengzhou
Southeast Asia and India	22	Bangkok, Cebu, Chiang Mai, Colombo, Da Nang, Delhi, Denpasar-Bali, Hanoi, Ho Chi Minh City, Jakarta, Kathmandu, Koror, Kuala Lumpur, Malé, Manila, Mumbai, Nha Trang, Phnom Penh, Phuket, Siem Reap, Singapore, Yangon
Oceania and Guam	5	Auckland, Brisbane, Guam, Nadi, Sydney
Americas	13	Atlanta, Chicago, Dallas, Honolulu, Houston, Las Vegas, Los Angeles, New York, San Francisco, Seattle, Toronto, Vancouver, Washington D.C.
Europe	12	Amsterdam, Barcelona, Frankfurt, Istanbul, London, Madrid, Milan, Paris, Prague, Rome, Vienna, Zurich
Russia, Mongolia and Central Asia	6	Irkutsk, Moscow, St. Petersburg, Tashkent, Ulaanbaatar, Vladivostok
Middle East and Africa	6	Dubai, Cairo, Jeddah, Nairobi, Riyadh, Tel Aviv
Total	**116**	

The key statistics for the Company's passenger service are compiled by standards commonly used in the airline industry, including revenue, available seat kilometers ("ASKs"), revenue passenger kilometers ("RPKs"), load factor and yield. ASKs are a measure of the number of seats made available for sale multiplied by the distance flown in kilometers on a route. RPKs are a measure of the number of revenue-paying passengers, including those who redeem their miles to fly, multiplied by the distance flown in kilometers on a route. Load factor is a measure of the rate of utilization of the Company's capacity and is calculated by dividing RPKs by ASKs. Yield is a measure of the revenue from each RPK and is measured by dividing revenues by RPKs.

The following table sets forth selected operating information of the Company's passenger business for the periods indicated:

	Year Ended December 31,		Three Months Ended March 31,	
	2015	2016	2016	2017
Number of seats flown (in thousands)	33,365	34,850	8,558	8,397
Domestic	10,078	10,180	2,316	2,379
International	23,287	24,670	6,242	6,019
Passengers carried (in thousands)	24,968	26,910	6,542	6,605
Domestic	7,380	7,861	1,663	1,779
International	17,589	19,049	4,879	4,826
Load factor (%)	77%	79%	77%	80%
Domestic (%)	74%	78%	72%	75%
International (%)	77%	79%	77%	80%
Yield (Won)	93	92	92	91
ASK (millions)	93,142	96,654	24,202	23,185
Domestic	3,665	3,708	835	850
International	89,477	92,946	23,367	22,335
RPK (millions)	71,647	75,908	18,611	18,565
Domestic	2,699	2,879	604	640
International	68,948	73,029	18,006	17,925

Cargo Services Business

The Company's cargo services extended to 44 cities in 26 countries as of May 31, 2017. The Company's cargo business is important to the Company as it provides a stable revenue stream. The Company's cargo transportation business accounted for Won 2,615 billion, Won 2,444 billion and Won 640 billion in revenues, which constituted approximately 22.7%, 20.8% and 22.3% of total revenues, respectively, in the years ended December 31, 2015 and 2016 and the three months ended March 31, 2017, respectively. In addition to providing cargo services on dedicated flights, the Company transports cargo on its passenger flights.

The Company endeavors to create new demand by developing new markets for its cargo services. For example, as Korean manufacturers have recently focused their offshore manufacturing in Vietnam, the Company has increased direct cargo routes to and from Vietnam to import parts from Korea to Vietnam and to export the finished goods, manufactured in Vietnam, to America, Europe and other regions. The Company has also developed a customized sales method for specialized products, including medical supplies, fresh products (such as fruit from the United States and seafood from Canada and Europe) and electronic equipment, to improve profitability. In addition, the Company conducts corporate sales and seeks to secure base demand through cooperation with global forwarders.

Navoi International Airport in Uzbekistan is a semi-hub station for flights bound for Europe and Commonwealth of Independent States. Air cargo transported to Navoi by the Company is sent via Uzbekistan Airways to onward destinations pursuant to a block space arrangement that provides the Company with access to an agreed space on the flights operated by Uzbekistan Airways.

The following table sets forth the Company's cargo route structure as of May 31, 2017:

Destination	Routes	Destination Cities
Domestic	1	Incheon
Japan	2	Tokyo, Osaka
China	5	Tianjin, Shanghai, Guangzhou, Chengdu, Hong Kong
Southeast Asia	7	Bangkok, Singapore, Jakarta, Kuala Lumpur, Penang, Hanoi, Ho Chi Minh City
Americas	15	Los Angeles, New York, Chicago, Atlanta, Dallas, San Francisco, Seattle, Miami, Anchorage, Toronto, Vancouver, São Paulo, Lima, Guadalajara, Santiago
Europe/Middle East/CIS/Africa	14	Paris, Frankfurt, London, Basel, Amsterdam, Milan, Stockholm, Vienna, Zaragoza, Oslo, Tel Aviv, Moscow, St. Petersburg, Navoi
Total	**44**	

The key statistics for the Company's cargo services are compiled by standards commonly used in the cargo industry, including revenue, available freight ton-kilometers ("AFTKs"), revenue freight ton-kilometers ("RFTKs"), load factor and yield. AFTKs are a measure of the available cargo capacity in tons multiplied by the distance flown in kilometers. RFTKs are a measure of cargo loads in tons multiplied by the distance flown in kilometers. Load factor is a measure of the rate of utilization of the Company's capacity and is calculated by dividing RFTKs divided by AFTKs. Yield is a measure of the revenue from each RFTK and is measured by dividing revenues by RFTKs.

The following table presents selected operating information of the Company's cargo business for the periods indicated:

	Year Ended December 31,		Three Months Ended March 31,	
	2015	2016	2016	2017
AFTK (millions)	10,614	10,621	2,504	2,584
RFTK (millions)	8,266	8,164	1,872	2,020
Load Factor (%)	78%	77%	75%	78%
Yield (Won)	287	269	269	286

The Company has dedicated cargo terminals at key airports including Incheon, Tokyo, Osaka, New York and Los Angeles. The following table sets forth the comparative capacity of the Company's cargo terminals by tons of annual cargo capacity:

Airports	Opened	Capacity (in tons)	Owned/Leased
Incheon Terminal 1	March 2001	1,430,000	Owned
Incheon Terminal 2	August 2007	260,000	Owned
Los Angeles	December 1981	125,000	Owned
New York	October 2000	200,000	Owned
Tokyo	January 1985	46,000	Leased
Osaka	September 1994	34,000	Leased
Gimpo	October 1988	18,200	Leased
Busan	May 1993	9,600	Leased
Jeju	August 2000	10,400	Leased

The Company has developed and operates "KOBIS," a consolidated revenue management system comprising cargo transportation, reservation and sales systems that allows revenue management controllers to collect data and communicate with world-wide Korean Air reservation agents in real time.

Fleet

As of April 30, 2017, the Company operated a fleet of 162 aircraft, including 131 passenger aircraft and 31 cargo aircraft. The average age of the Company's fleet was nine years. In addition to operating "all-cargo" freighter aircraft, the Company also provides cargo transportation services using the lower deck of its passenger aircraft.

The following table sets forth additional information regarding the Company's fleet as of April 30, 2017:

Aircraft Type	Owned	Leased	Total
Passenger aircraft:			
Airbus 380-800	2	8	10
Airbus 330-300	8	13	21
Airbus 330-200	3	5	8
Boeing 747-400	5	0	5
Boeing 747-8I	0	8	8
Boeing 777-200ER	9	5	14
Boeing 777-300/300ER	3	21	24
Boeing 737-900/900ER	11	11	22
Boeing 737-800	0	17	17
Boeing 787-9	0	2	2
Total Passenger	41	90	131
Cargo aircraft:			
Boeing 747-400F/ERF	9	4	13
Boeing 747-8F	0	7	7
Boeing 777-F	0	11	11
Total Cargo	9	22	31
Total Fleet	50	112	162

The Company plans to continue to modernize its fleet with a view toward future growth. The Company plans to phase out older aircraft, such as the 747-400s, and to build a core fleet with fuel-efficient and environmentally-friendly aircraft such as 777-300ERs, 787-9s, 747-8Is, 747-8Fs, 777-Fs, 737MAXs and Airbus 321NEOs. Based on this modernization plan, a total of 67 new aircraft are to be delivered between 2017 and 2021 from Boeing, Airbus and Bombardier. Currently, the Company is operating five types of aircraft, including the Airbus 380s, which are next generation eco-friendly aircraft that consume less fuel, with lower noise levels and exhaust gas emissions than other large aircraft. Besides the Airbus 380 aircraft, the Company is increasing the operational rates of its fleet by boosting the assignment of high-density aircraft such as the 747-8Is to long-haul routes. The Company was the first Asian airline to acquire Boeing's 747-8. The 747-8F cargo aircraft were introduced in 2012, and 747-8I passenger aircraft were introduced in 2015. By operating the 747-8Is, 777-300Ers and Airbus 380s on long-haul routes such as New York, Los Angeles, Atlanta and Paris, the Company has improved profitability and strengthened its competitiveness in those markets. Currently, the Company only operates three types of freighters in its cargo fleet: 747-400F/ERFs, 747-8Fs and 777-Fs.

The foregoing fleet operation plan will require the Company to make capital expenditures of U.S.$4,689 million from 2017 to 2021. The Company plans to fund such acquisitions primarily through finance leases and cash purchases. The Company's finance leases are provided through foreign export credit agencies (including U.S. EXIM, COFACE of France, Hermes Kreditversicherung-AG of Germany, Export Credit Guarantee Department of the United Kingdom and Export Development Canada), The Export-Import Bank of Korea, The Korea Development Bank or other global and domestic financial institutions and secured by the aircraft itself. A small minority of aircraft that are not purchased or acquired through finance leases would be acquired though operating leases.

Under finance leases, the Company makes lease payments that finance most of the purchase price of an aircraft over the lease term and bear substantially all of the economic risks and rewards of owning the aircraft. Under all of the Company's finance lease arrangements, the Company has the option to purchase the aircraft upon the expiration of the lease and the right to obtain title to the aircraft upon payment of all amounts owed under such lease. In a finance lease, the lessee assumes some of the risks of ownership and enjoys some of the benefits. Consequently, the lease, when signed, is recognized both as an asset and as a liability (for the lease payments) on the balance sheet, which increases the lessee's overall indebtedness, but the lessee can claim depreciation each year on the asset and also deduct the interest expense component of the lease payment each year.

On the other hand, under the Company's operating lease arrangements, the Company is entitled to use the aircraft and is obligated to make rental payments according to the relevant lease agreements. Unlike finance leases, the Company's operating leases typically have no purchase options, and the lessor bears the economic benefits and risks of ownership, including the risk of the residual value of the aircraft at the end of the lease term. The Company is required to return the aircraft in the agreed condition at the end of the lease term. Although the title remains with the lessor, the Company is responsible during the lease term for legal and regulatory compliance, maintenance, servicing, insurance, taxes and repair of the aircraft.

Hub

The main hub of the Company is Incheon Airport, one of the major air gateways in Asia. According to data released by the Incheon International Airport Corporation, Incheon Airport can operate 410,000 flights per year with rated capacity for 44 million passengers and 4.5 million tons of cargo. The volume of cargo traffic in 2016 was approximately 2.7 million tons, which represented the third-largest among the international airports in the world after the Hong Kong and Dubai airports, according to Airports Council International ("ACI"). In 2016, Incheon Airport was ranked the eighth largest in the world in terms of number of international passengers, according to ACI, with approximately 58 million travelers. To address the capacity issue, a new passenger terminal at Incheon Airport was completed in 2017, which will allow Incheon Airport to handle a total of approximately 62 million passengers and approximately 5.8 million cargo tons per year when it opens (tentatively in 2018). In 2016, the Company accounted for approximately 24% and 34% of passenger and cargo services, respectively, of the total traffic at Incheon Airport, according to statistics provided by Incheon Airport.

The Company operates a substantial portion of its domestic flights out of Gimpo Airport. Gimpo Airport is the second largest airport in Korea after Incheon Airport. Gimpo Airport primarily serves domestic and limited regional international flights to Japan and China. In 2016, Gimpo Airport had approximately 25 million travelers. The volume of cargo traffic was approximately 274,705 tons. In 2016, the Company accounted for approximately 25.6% and 38.6% of passenger and cargo services, respectively, of the total traffic at Gimpo Airport, according to statistics provided by Gimpo Airport.

Airport Operations

At Incheon Airport and Gimpo Airport, the Company provides most of the operational services it requires for the handling of passengers and cargo. At other Korean airports and at overseas airports, the Company subcontracts the provision of most of its ground handling requirements.

Runway, ramp and terminal facilities are provided by airport operators that charge airlines for the use of these facilities, principally through landing, parking and passenger charges. Navigation services are provided to the aircraft by countries through whose airspace they fly or by international bodies such as Eurocontrol. Navigation charges are generally based on distance flown and weight of aircraft.

The Company's ability to obtain slots at airports for the purpose of creating schedules attractive to passengers is very important. Allocation of slots at a significant number of airports is decided by the relevant airport coordinator who acts in accordance with guidelines laid down by the IATA, sometimes supported by the local scheduling committee or coordination committee.

Other Businesses

Aerospace

The Company designs and manufactures airplanes and aircraft parts, provides maintenance services for commercial and military aircraft and conducts research and development for unmanned aerial vehicles. The Company aims to be a world leader in the aerospace industry based on its experience and expertise accumulated over the past 40 years in the design and production of manned aircraft for both domestic and foreign clients.

In 1976, the Company started the licensed production of 500MD (*Jegong-ho*) helicopters for the Korean military which marked the beginning of the Korean aerospace industry. Since the 1980's, the Company has successfully produced various aircraft such as UH-60 helicopters for the Korean military and the Chang-Gong 91, the first commercial aircraft in Korea which received a type-certification. Since the 1980's, the Company has also actively participated in international joint-development projects for commercial aircraft. Today the Company supplies Boeing and Airbus with various cutting-edge aircraft components such as cargo doors for the Airbus 350, sharklets (specialized winglets) for the Airbus 320 and wing structures and fuselage components for the Boeing 787. The Company operates a research and development center located in Daejeon, Korea that focuses on research and development of combat aircraft, passenger aircraft, unmanned aircraft, satellites, rockets and cutting-edge simulators.

The Company performs heavy maintenance on its commercial aircraft as well as those of foreign airlines in addition to performing various maintenance and overhaul programs for military aircraft. In 2004, the Company commenced the maintenance, repair and overhaul ("MRO") business for overseas commercial airlines. The Company has also performed engine heavy maintenance for Thai Airways since 2008. In aircraft line maintenance, the Company supports almost 30 airlines, including Delta Airlines, Air France-KLM and China Eastern Airlines. Other MRO services, such as component repair and pooling and training, are provided for a number of other customers. The Company is capable of providing heavy maintenance services for up to 100 commercial aircraft and approximately 25,000 units of aircraft components annually.

In December 2010, the Company and Pratt & Whitney, a leading aircraft engine manufacturer, formed a joint venture, Incheon Aviation Tech Co., Ltd. ("IAT"), to build the first-ever MRO center in Korea. In June 2016, IAT completed the construction of the world's largest engine test cell, marking the completion of the first phase of the MRO center and allowing testing of the largest engines currently available as well as the Company's next-generation engines that are still being developed.

In 2016, the Company recorded U.S.$0.1 billion in MRO business sales, and major customers include Jin Air, GE and Pratt & Whitney and comprised in aggregate 88% of such MRO business sales. Other MRO customers include China Eastern Airlines and other international and domestic carriers.

Catering and In-flight Sales

The Company provides catering services to prepare and serve food and beverage catering to the varying tastes and travel schedules of flight passengers. The Company participates in the complete process of the catering business from ingredient selection and procurement to food production and distribution. For the Company's flights originating from Korea, the Company procures catering services from its own facilities. To provide catering services for the Company's flights departing from overseas airports, the Company enters into agreements with local catering service providers in relevant countries. The Company also provides catering services to other airlines for their flights departing from Korea. As of March 31, 2017, the Company had 57 catering services contracts under which the Company provides catering services to other airlines. In 2000, the Company's catering facility obtained Hazard Analysis Critical Control Points accreditation ("HACCP") from the Ministry of Food and Drug Safety of Korea. HACCP is internationally regarded as a scientific and effective food safety management system. The Company's Food Safety Research Center at Inha University systematically manages the production process ranging from raw ingredient handling to meal preparation and customer service.

In addition to catering of in-flight meals, the Company provides in-flight sales service of duty-free products for passengers on international flights.

Limousine Transportation and Hotels

The Company provides ground transportation services linking Gimpo Airport and Incheon Airport and major hotels in downtown Seoul, through its limousine bus business operated by Air Total Service Co., a wholly-owned subsidiary. Through Hanjin International Corporation, a U.S. subsidiary, the Company operated the Wilshire Grand Hotel in Los Angeles until 2011 and is currently engaged in its renovation project, scheduled for completion in June 2017. In 2016, the Company made additional equity investments in Hanjin International Corporation in the total amount of approximately Won 764 billion.

Bilateral Agreements and Traffic Rights

The MOLIT negotiates bilateral or multilateral air services agreements with other countries, including on the number of airlines and details of the traffic rights such as the routes and frequencies. A bilateral air services agreement is an agreement to liberalize aviation services between two contracting states and allows the airlines of both contracting states to launch commercial flights and to use international airports of the other, among others. Once negotiated, the traffic rights are allocated to airlines in Korea based on factors such as the airlines' applications and preferences, thorough scrutiny of the airlines' competitiveness and contribution to the market development of the route and balance of allocation among airlines. As of May 30, 2017, Korea had air service agreements with 100 countries and 'open skies' agreements with seven countries, consisting of the United States, Canada, Japan, Brazil, Chile, Panama and Ecuador. 'Open skies' agreements allow airlines from both parties to the agreement to use all international airports of the other, to form strategic alliances, to lease airplanes or crews and share international routes with other airlines.

Flight Safety

Safety is the Company's top priority. The Company completed its seventeenth consecutive fatal-accident-free year of operation in 2016 and will continuously strive to improve operational safety. The Company runs a series of pilot training programs to ensure that its pilots and co-pilots continue to be qualified and dependable. In addition to in-house service training, the Company's cabin crew undergoes safety training programs approved by the MOLIT and carried out at its cabin crew training center.

In October 2009, the Company established the integrated safety management IT system named "SafeNet." Through SafeNet, the Company established the company-wide standardization of safety data management by:

- encouraging active safety reporting by all employees;
- identifying, analyzing and correcting any safety hazard before it becomes an issue; and
- accumulating and utilizing safety data.

The Company's Corporate Safety, Security and Compliance Department supports the SafeNet system by:

- anticipating and identifying systemic trends;
- coordinating and suggesting appropriate, scientifically-based countermeasures targeted at mitigating human-induced error;
- eliminating human-induced error wherever possible; and
- ensuring that management control exists over all critical safety processes, including a well-designed system of procedural controls.

In 2009, the Company also introduced the Human Factors Analysis & Classification System ("HFACS"), developed by U.S. experts in 2000, to efficiently manage human-induced errors that cause approximately 70% of flight safety issues. HFACS is a model which classifies human-induced errors into four categories. The Company uses this model to find and analyze the fundamental reasons for safety issues.

In January 2005, the Company became the first carrier in Korea and among the SkyTeam alliance member airlines to obtain the IATA Operational Safety Audit (the "IOSA") certificate, which is known as an internationally recognized aviation safety certification authorized by the IATA based on over 900 check items in the areas of Organization and Management System, Flight Operations, Operational Control and Flight Dispatch, Aircraft Engineering and Maintenance, Cabin Operations, Aircraft Ground Handling, Cargo Operations and Operational Security. A renewal audit is conducted every two years through a documentation audit to verify whether the IOSA's criteria are reflected in the Company's policies, processes and procedures and through an implementation audit to check whether the Company has adhered to such policies, processes and procedures. The Company passed all check items during the last audit in October 2016. The next renewal audit is scheduled for January 2019.

In addition to strengthening flight safety, the Company has upgraded its Flight Operational Quality Assurance ("FOQA") animation program yearly after first developing it in 2004. The FOQA animation program provides realistic displays by using high-resolution satellite airport photographs and topographical maps, enabling realistic safety management. In October 2010, the Company introduced a new FOQA animation program to prepare FOQA analysis capability for the new fleet of Airbus 380s and Boeing 787s, improve the flight data analysis process, enhance the FOQA risk management link with SafeNet and expand analysis capability for Maintenance Operational Quality Assurance and Fuel Management.

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

Maintenance

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

For its operational performance, the Company has received numerous awards from both The Boeing Company and Airbus. The Company was awarded the "Top Operational Excellence Award" from Airbus for the Airbus 330 in 2012 and 2015 and the "A380 Award for Top Operational Excellence" in 2012 and 2014. In 2014, the Company was also recognized by The Boeing Company with the "Best Reliability" award for its Boeing 747-8. The Company recorded on-time performance of 99.8% from September 2014 to August 2016.

Sales, Distribution and Marketing

Sales and Distribution

Passenger Services Business

The Company has two principal distribution channels: direct sales and indirect sales. Direct sales include sales through the Company's own sales network, including its website, booking sales offices and call centers. Indirect sales include sales through external networks of third-party sales outlets distributors, general sales agents, preferred sales agents, wholesalers and travel agencies and sales made by other international airlines. In each of the years ended December 31, 2015 and 2016, approximately 80% of the Company's total bookings were derived from indirect sales channels.

To improve its sales network, the Company endeavors to improve the ease of use of its website, including by improving accessibility from smartphones, and operated 108 sales offices in 36 countries as of May 30, 2017. The Company also works with third-party travel agencies to promote sales, offering them commissions and access to the Company's own reservation system.

Cargo Services Business

The Company uses a combination of direct sales to customers through the Company's sales offices, indirect sales through third-party freight forwarders that dispatch shipments via carriers, and inter-airline sales through carriers that procure the Company's air cargo service for their own customers or freight forwarders. Freight forwarders are the principal sales channel for the Company's cargo services.

Marketing

The Company aims to promote its Korean Air brand image as a leading premium, full-service airline and cargo services provider. The Company utilizes a variety of publicity channels, including print media, radio, TV and the internet, to reach international and local markets.

The Company's frequent flyer program, SKYPASS, was introduced in 1984 as the first frequent flyer program in Asia. SKYPASS is designed to retain and enhance customer loyalty by offering awards and services to frequent travelers for their continued patronage. SKYPASS members can earn miles by flying on Korean Air, other members of the SkyTeam passenger alliance, and other airlines that participate in the program. Customers can also earn miles by using services of other participants in the program, such as credit card companies, hotels and car rental companies. Customers can redeem SKYPASS miles for free or upgraded travel on Korean Air or other participating airlines and for other non-travel awards. SKYPASS members are also eligible to receive the status benefits accorded to premium customers, including privileges such as priority check-in and the use of designated airport lounges. As of December 31, 2016, SKYPASS had approximately 24 million members.

As the miles issued to SKYPASS members have value to the customer and obligate the Company to provide future service, the Company recognizes a liability for the fair value of the outstanding mileage credits and defers revenue for the miles redeemed until its performance obligations are satisfied. For further details on the miles recognized as deferred revenue, see Note 26 of the notes to the Company's condensed consolidated interim financial statements as of March 31, 2017 and December 31, 2016 and for the three months ended March 31, 2017 and 2016 included in this Offering Circular.

SkyTeam and Other Alliances

SkyTeam

In order to enhance its competitiveness against members of other airline alliances, the Company founded a global alliance of passenger airlines, the SkyTeam alliance, with Delta Air Lines, Air France and Aeroméxico in 2000.

The member airlines in the SkyTeam alliance aim to develop a shared system for managing revenue and expenses, cooperate on frequent flyer schemes, share airport facilities and lounges, resources and information technology to provide seamless service around the world. As of March 31, 2017, the SkyTeam passenger alliance had 20 members and was the world's second largest airline alliance in terms of number of passengers and number of member airlines, collectively serving more than 1,000 destinations in approximately 177 countries with approximately 17,000 daily flights and approximately 665 million annual passengers. Today, SkyTeam is focusing on the development and enhancement of products such as mileage sharing and ticket redemption among members' frequent flyer programs as well as a global distribution system that prioritizes the display of alliance members' flight schedules on the systems of alliance members' agents. As a result of such efforts, the SkyTeam alliance received the Airline Alliance of the Year award at the Air Transport News Awards for two consecutive years in 2015 and 2016.

In 2000, the Company also formed the world's first global cargo alliance, SkyTeam Cargo, which remains the only air cargo alliance in the world and collectively operates more than 14,500 daily flights to more than 175 countries. The SkyTeam cargo alliance's vision is to become a competitive logistics provider offering global network access, standardized products and one-stop and seamless service across carriers. Similar to the SkyTeam passenger alliance, the SkyTeam cargo alliance seeks to explore synergy benefits from utilizing each member's worldwide network and cost savings by selecting a single ground handling company, which lowers ground handling fees. As of March 31, 2017, the SkyTeam cargo alliance had 12 members.

The following table sets forth members of the SkyTeam passenger alliance and the SkyTeam Cargo as of March 31, 2017:

SkyTeam Alliance	Number of member airlines	Members
Passenger	20	Aeroflot, Aerolíneas Argentinas, Aeroméxico, Air Europa, Air France, Alitalia, China Airlines, China Eastern Airlines, China Southern Airlines, Czech Airlines, Delta Air Lines, Garuda Indonesia, Kenya Airways, KLM Royal Dutch Airlines, Korean Air, Middle East Airlines, Saudi Arabian Airlines, TAROM Romanian Air Transport, Vietnam Airlines and Xiamen Airlines
Cargo	12	Aeroflot Cargo, Aerolíneas Argentinas Cargo, Aeroméxico Cargo, Air France Cargo, Alitalia Cargo, China Airlines Cargo, China Cargo Airlines, China Southern Cargo, Czech Airlines Cargo, Delta Cargo, KLM Cargo and Korean Air Cargo

The Company views the SkyTeam alliance as an important revenue source through a wide range of code-sharing and networks. In 2016, the SkyTeam alliance received the Airline Alliance of the Year award at the Air Transport News Awards for two consecutive years.

Code-Sharing

The Company has developed partnerships beyond the SkyTeam alliance through bilateral code-sharing agreements. Code-sharing is an operation under which an airline's flights can be marketed by a non-operating (code-sharing) airline, thereby allowing two or more carriers to sell seats on one aircraft. Code-sharing allows the non-operating airline to offer convenient, seamless flight services to its customers by expanding the number of destinations covered through the use of other airlines' flight services. As of December 31, 2016, the Company had bilateral code-sharing agreements with 35 airlines, including 17 members of the SkyTeam alliance and 18 airlines outside of the SkyTeam alliance.

The Company acquired a 44% interest in Czech Airlines in April 2013 and remains the largest shareholder of Czech Airlines as of March 31, 2017. The Company maintains a strategic partnership with Czech Airlines through code-share arrangements on 30 routes, including between Incheon and Prague, which strengthens the Company's European network and offers customers more convenient travel schedules.

Competition

Passenger Services Business

The Company is the largest provider of airline passenger services in terms of number of passengers in Korea's airline passenger services market. In terms of number of passengers for international flights in 2016, the Company had approximately 24% of the total number of passengers travelling from Incheon Airport, according to airport statistics released by Incheon Airport. In terms of number of passengers for domestic flights in 2016, the Company's market share was approximately 24% of the total number of passengers travelling domestically, according to airport statistics released by the Korea Airports Corporation The Company competes based on fare pricing, customer service, safety record and reputation, on-time performance, routes served, flight schedules, types of aircraft, code-sharing relationships, in-flight entertainment systems, frequent flyer programs, effectiveness of marketing, promotional activity and the ability to identify and satisfy consumer preferences. Recently, competition in international markets has intensified due to aggressive marketing, either by foreign carriers independently or through airline alliances formed by domestic and foreign carriers. The Company also faces competition from ground transportation alternatives. The Company believes its main competitors are high-speed trains in the domestic market and major flag carriers in the international markets.

Cargo Services Business

Between 2004 and 2009, the Company was the largest provider of international cargo services in the world in terms of FTK globally, according to the IATA. From 2010 to 2011, however, the Company was the second largest provider of cargo services in the world in terms of FTK as Cathay Pacific Airlines increased its supply in order to catch up with increasing demand in China market. Since 2012, the Company has been a top four provider of cargo services, its main competitors in this area being Emirates Airlines and Cathay Pacific Airlines.

Insurance

The Company has an aviation insurance policy arranged by AON, providing insurance coverage in respect of all of its aircraft for liabilities connected with aircraft hull, aircraft third party liability, general third party liability and passenger, cargo and mail on each aircraft. The aviation insurance policy is provided by a syndicate of insurers in the international market, and the maximum coverage for hull insurance under the policy is U.S.$400 million per aircraft and an aggregate maximum coverage for liability under any one accident is U.S.$2.25 billion per aircraft, subject to certain deductibles.

The Company also maintains a package property insurance policy providing insurance coverage for buildings, machines and other assets (other than aircraft and spare parts), subject to an agreed full replacement value of each property, with KB Insurance Co., Ltd., as well as a workers' compensation insurance policy with Korea Workers' Compensation & Welfare Service, a government agency, for its staff.

The Company believes its insurance is adequate and in conformity with airline industry standards. No assurance can be given, however, that the amount of insurance the Company carries will be sufficient to protect it from material loss.

Employees and Labor Relations

Employees

As of March 31, 2017, the Company had approximately 18,692 full-time employees, including pilots, cabin crew, ground support employees, ground-handling employees and other staff members in its air transport, aerospace, in-flight catering and other business operations.

The Company has developed various educational programs to meet employees' needs for education and training and offers a challenging learning environment to cultivate globally competent human resources. The Company's basic education system is divided into a number of levels depending on the roles and the responsibilities required by one's position.

Labor Relations

The Company has three labor unions: two flight crew unions, the Korean Air Pilot Union ("KPU") and the New Korean Air Pilot Union ("KAPU"), and one union for non-flight crew staff, the Korean Air Labor Union ("KALU"). Currently, approximately half of the Company's employees are KALU members and approximately 46% and 33% of the Company's total Korean flight crew members are KPU and KAPU members, respectively.

KALU and the flight crew union that holds the majority of the members as of April 1 of each year have the right to negotiate salary and employee welfare related matters with the Company's management. The salary agreements between the unions and the Company generally last for one year, with effect from April 1 of each year, and the collective bargaining agreements, which generally cover other welfare matters of the employees such as working hours and working environment, usually last for two years.

KPU had disagreements with the Company's management over flight allowances, working hours and conditions and called a four-day strike in December 2005. See "*Risk Factors — Risks Relating to the Company's Business — Labor disputes could negatively affect the Company's operations.*" While no strikes have occurred since such time, the Company periodically experiences labor disputes and has made certain concessions to its labor unions. In 2016, the Company entered into an agreement with KALU for a 3.2% increase in wages. The Company is still currently in negotiations with KPU and KAPU.

Legal Proceedings

The Company is subject to various claims and is a party to various legal and regulatory proceedings that are incidental to the normal course of its business. The Company's management believes that the Company has adequate insurance coverage against these claims.

In connection with the investigation by the U.S. Department of Justice since February 2006 alleging an antitrust law violation relating to the Company and other air carriers colluding on price fixing, the Company agreed in 2007 to plead guilty and pay fines totaling U.S.$300 million in installments. As of March 31, 2017, the Company has paid the amount in full.

In 2006 and 2007, civil class action lawsuits were filed in the United States against the Company and certain foreign air carriers, alleging that the defendants violated U.S. antitrust laws by illegally conspiring to set prices and surcharges on cargo and passenger transportation, respectively. In the passenger class action, in 2013, the Company reached a settlement with the plaintiffs to pay U.S.$39 million in cash and U.S.$26 million in travel coupons for future travel, which was approved by the court. The Company paid the plaintiffs U.S.$39 million in 2013, and the remaining U.S.$26 million has been recognized as provision for passenger flight ticket coupon in its financial statements. In the cargo class action, in 2013, the Company reached a settlement with the plaintiffs to pay U.S.$115 million in installments, which was approved by the court in 2015. As of March 31, 2017, the Company has paid the settlement amount in full.

In Canada, cargo and passenger antitrust civil class action suits were filed against the Company from 2006 through 2007. With respect to the cargo class actions, in 2015, the Company reached a settlement with the plaintiffs to pay CAD$4.1 million in installments, which was approved by the courts in Canada. As of March 31, 2017, the Company has paid the settlement amount in full. With respect to the passenger class actions, complaints were filed in Ontario in 2007 and 2015, but no notable developments have been made as the class actions are yet to be certified.

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

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

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

In June 2015, five airline companies including Lufthansa which are named as defendants in a civil damage litigation, filed third-party proceedings against 28 airline companies, including the Company, in the Netherlands, alleging that the defendants had fixed certain fuel surcharges. As the proceeding is at an early stage, as of March 31, 2017, the outcome or impact of the litigation to the Company is not predictable.

In December 2016, Singapore Airlines, which was named as a defendant among 11 airline companies in an antitrust civil class action suit, filed third-party proceedings against the Company in Germany, alleging that the defendants had fixed certain fuel surcharges. As the proceeding is at an early stage, as of March 31, 2017, the outcome or impact of the litigation to the Company is not predictable.

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

Commitments

In the ordinary course of business, the Company enters into contractual obligations and commitments for various aspects of its operations. For a description of the amounts and types of contractual obligations and commitments, see Notes 16, 27 and 45 of the notes to the Company’s condensed consolidated interim financial statements as of March 31, 2017 and December 31, 2016 and for the three months ended March 31, 2017 and 2016 included in this Offering Circular.

GOVERNMENT REGULATION

The Company is subject to the rules and regulations governing the aviation industry such as the Air Transportation Business Promotion Act, the Aviation Act and the Act on Promotion of Aerospace Industry Development.

In Korea, primary legislation is supported by a presidential decree or ordinance, which in turn is supported by regulations. This section provides a brief summary of the legislation concerning the regulation of the aviation industry in Korea. It does not consider any other facets of regulation such as company law and taxation.

Regulations on Aviation Transportation Business and Aerospace Industry

The Aviation Act provides that any person that intends to engage in the domestic or international aviation transportation business shall obtain a license from the MOLIT. Prior to the launch of an aviation transportation business, an aviation transportation operator (an "Operator") shall obtain from the MOLIT a certification of safe operations (an "Air Operator Certificate"). Although an Air Operator Certificate is, in principle, valid for an indefinite period of time, it may be revoked or suspended for a period not exceeding six months upon an Operator's violation of any applicable law and regulation under the Aviation Act. An Operator shall comply with the operation specifications issued by the MOLIT and maintain its original operation conditions. When an Operator's operational safety system changes due to circumstances, such as the establishment of a new air route, it will be subject to inspection by MOLIT. An Operator shall also establish and adhere to internal regulations pertaining to the operation and repair of aircraft, and report to the MOLIT in case regulations on flights or repairs are newly implemented or amended, provided that certain matters under such regulations that are determined by the decree of the MOLIT (including a list of equipment required at a minimum on air crew training programs) will be subject to approval by the MOLIT.

An international aviation transportation operator shall set fares for passenger or freight service of international air routes as prescribed by the aviation accords concerning such international air routes, and may have to obtain prior approval from the MOLIT or file a report with the MOLIT. Also, a domestic aviation transportation operator must announce any proposed changes to fares for passengers of its freight service at least 20 days in advance of implementing such changes.

An Operator shall obtain the approval of the MOLIT prior to the implementation of, or amendment to, its business plan, and it shall operate in accordance with its business plan unless it becomes difficult to do so due to weather conditions or other unavoidable circumstances that are outside the Operator's control.

If an Operator executes or amends an agreement with another aviation transportation operator (including a foreign aviation transportation operator) that relates to operations, such as a joint operation agreement or a business alliance for common flight schedules, fares, promotions or sales, such agreement shall become effective only after the Operator has obtained approval by the MOLIT.

In order for an Operator to sell or purchase a domestic or international aviation transportation business, or merge with another aviation transportation operator or a third party operating business other than aviation transportation business, it must first obtain prior approval from the MOLIT. Also, if an Operator intends to cease some or all of its international aviation transportation business (for example, the suspension of certain of its international flights), it must first obtain approval from the MOLIT. If an Operator intends to cease some or all of its domestic aviation transportation business (for example, suspension of certain of its domestic flights), it shall file a report to the MOLIT.

Also, an Operator shall take out aviation insurance pursuant to the Act on Promotion of Aviation Transportation and take all necessary measures to secure the safety of passengers and the security of aircraft in accordance with the laws and regulations on aviation safety and security.

In addition, if an Operator, which is engaged in aerospace industry, produces aircraft, spacecraft, equipment or materials, such aircraft, spacecraft, equipment or materials shall be subject to the performance and quality tests of the Ministry of Trade, Industry and Energy, unless they are used solely for experimental purposes.

Regulations on Aircraft

Any person entitled to own, lease or use an aircraft under the Aviation Act (an "Aircraft Owner") shall register the aircraft with the MOLIT, and any change, transfer or cancellation of such registration must also be registered with the MOLIT. In order to operate an aircraft, a certificate of airworthiness shall be obtained (which certificate shall be valid for one year, unless revoked earlier) and if the Aircraft Owner wants to repair, remodel or modify such aircraft, or its equipment or any part thereof, within the scope prescribed by the MOLIT, it must obtain the approval of the MOLIT for the conformity of such repair or modification with the technical standards set by the MOLIT. In addition, a certificate of conformity with noise standards (as set by the MOLIT) must be obtained to operate an aircraft, when the Aircraft Owner obtains the certification of airworthiness from the MOLIT and when the aircraft's noise level has been altered after repair and remodeling.

Any person who intends to manufacture aircraft parts or equipment must be certified by the MOLIT that they are equipped with the necessary manpower, facilities, technology and inspection system to manufacture such parts or equipment. In case an Aircraft Owner repairs its aircraft or any equipment or part thereof, it shall obtain the confirmation from the licensed aircraft repair mechanic that such aircraft, equipment or part satisfies the required technology standard.

Regulations on Aircrew

Any person who intends to engage in the aviation business must first obtain a certification of qualification based on the type of business from the MOLIT and be subject to medical examination prior to their employment. Depending on the type of business and their position, such person may need to obtain a certification of instrument flight (to operate an instrument flight), a certification of flight instruction (to give instructions for flight) or a certification of proficiency of spoken English for aviation (for use of an aircraft operated in the airspace of two or more countries).

Regulations on Operation of Aircraft

In relation to the operation of aircraft, the Aviation Act sets out the details on the requirements of radio equipment, aeronautical instrument, first-aid kit and fuel, aviation safety reporting obligations, rights and obligations of the captain, obligation to comply with applicable accords and restrictions on the shipping of hazardous materials.

MANAGEMENT

Board of Directors

The board of directors has the ultimate responsibility for the administration of the Company's affairs. The Company's articles of incorporation provide for a board of directors. The Company's board of directors has 10 members, including six independent non-standing directors.

Article 542-8(1) of the Korean Commercial Code provides that (i) the Company must have at least three non-standing directors at all times and (ii) a majority of the members of the Company's board of directors must be non-standing directors. Non-standing directors are elected from among those persons who do not have a special relationship with the Company that would interfere with the exercise of their independent judgment. The Non-Standing Director Nominating Committee recommends the candidates for non-standing directors to the general meeting of shareholders.

The table below sets forth the Company's directors and their positions. The business address of each of the Company's directors is that of the Company's registered office at 260 Haneul-gil, Gangseo-gu, Seoul, Korea 07505. Except for non-standings directors, all of the Company's directors are employed by the Company on a full-time basis.

Name	Age	Position	Position Held Since	End of Current Term	Concurrent Positions in the Hanjin Group
Yang-Ho Cho	68	Representative Director; Chairman	February 1992	March 2019	Representative Director, Hanjin Transportation Co., Ltd.; Representative Director, Jungseok Enterprise Co., Ltd.; Hanjin KAL Corp.; Representative Director, Hanjin Shipping Co., Ltd.; Director, Hanjin Information Systems & Telecommunication Co., Ltd.; Director, Hanjin Travel Service Co., Ltd.; Director, TOPAS Co., Ltd.
Won-Tae Cho	41	Representative Director; President	March 2016	March 2018	Representative Director, Hanjin KAL Corp.; Representative Director, Uniconverse; Representative Director, Korea Airport Service Co., Ltd.; Representative Director, TOPAS Co., Ltd.; Representative Director, Jin Air Co., Ltd.; Representative Director, Hanjin Information Systems & Telecommunication Co., Ltd.; Director, Hanjin Transportation Co., Ltd.; Director, Jedong Leisure Co., Ltd.; Director, Uniconverse Investment Co., Ltd.; Director, Hanjin New Port Co.
Ki-Hong Woo	54	Representative Director	March 2017	March 2020	Director, Wangsan Leisure Development Co., Ltd.; Director, Jedong Leisure Co., Ltd.

Name	Age	Position	Position Held Since	End of Current Term	Concurrent Positions in the Hanjin Group
Soo-Geun Lee	56	Standing Director	March 2017	March 2020	Representative Director, IAT Co., Ltd., Director, Wangsan Leisure Development Co., Ltd.; Director, Korean Air Lines Co., Ltd.; Director, Jin Air Co., Ltd.
Yun-Woo Lee	67	Non-standing Director	March 2009	March 2018	—
Seung-Yu Kim	73	Non-standing Director	March 2012	March 2018	—
Yong-Seok Ahn	55	Non-standing Director	March 2014	March 2020	—
Jang-Shik Ban	60	Non-standing Director	March 2015	March 2018	—
Jae-Il Kim	64	Non-standing Director	March 2016	March 2019	—
Jin-Soo Chung	55	Non-standing Director	March 2017	March 2020	—

Yang-Ho Cho has served as Representative Director and Chairman of the Company since February 1992 and currently also serves as Representative Director and Chairman of Hanjin KAL Corp. among other positions in the Hanjin Group. Mr. Cho received a B.S. in industrial engineering from Inha University and an M.B.A. from the University of Southern California.

Won-Tae Cho has served as Representative Director and President of the Company since March 2016 and currently also serves as Representative Director of Hanjin KAL Corp. among other positions in the Hanjin Group. Mr. Cho received a B.A. in business management from Inha University and an M.B.A. from the University of Southern California.

Ki-Hong Woo has served as Representative Director and Vice President of the Company since March 2017 and currently also serves as Director of Wangsan Leisure Development Co., Ltd. among other positions in the Hanjin Group. Mr. Woo received a B.A. in business management from Seoul National University.

Soo-Geun Lee has served as Standing Director and Vice President of the Company since March 2017 and currently also serves as Representative Director of IAT Co., Ltd. among other positions in the Hanjin Group. Mr. Lee received a B.S. in aeronautical engineering from Inha University.

Yun-Woo Lee has served as Non-standing Director of the Company since March 2009 and currently also serves as Chairman of Geoje Big Island Asset Management. Previously, Mr. Lee served as Chairman of FLC. Mr. Lee received a B.A. in business management from Seoul National University.

Seung-Yu Kim has served as Non-standing Director of the Company since March 2012 and currently also serves as Chairman of the board of directors of Hana Academy. Previously, Mr. Kim served as representative director and chairman of Hana Financial Group. Mr. Kim received a B.A. from Korea University and an M.B.A. from the University of Southern California.

Yong-Seok Ahn has served as Non-standing Director of the Company since March 2014 and is currently also an officer of the International Bar Association Antitrust Committee and a partner at Lee & Ko. Mr. Ahn received an LL.B. from Seoul National University and an LL.M. from University of Michigan Law School.

Jang-Shik Ban has served as Non-standing Director of the Company since March 2015 and currently also serves as Dean of Sogang University Graduate School of Management of Technology. Mr. Ban received an LL.B. from Kookje University, M.A. in administration from Seoul National University, an LL.M. and an M.A. in policy from the University of Wisconsin-Madison and a Ph.D. in policy from Korea University.

Jae-Il Kim has served as Non-standing Director of the Company since March 2016 and between 2002 to 2011. Mr. Kim is currently also a professor Seoul National University College of Business Administration. Mr. Kim received a B.A. in business administration and an M.B.A. from Seoul National University and a Ph.D. in business administration from the University of California, Berkeley.

Jin-Soo Chung has served as Non-standing Director of the Company since March 2017. Mr. Chung is currently also a partner at Yoon & Yang LLC. Mr. Chung received an LL.B. from Seoul National University.

Committees of the Board of Directors

The Company currently has four committees that serve under its board of directors:

- Audit Committee;
- Management Committee;
- Non-Standing Director Nominating Committee; and
- Internal Transactions Committee.

The Company's board of directors may establish other committees if it deems them to be necessary.

Audit Committee

Under Korean law and the Company's articles of incorporation, the Company is required to have an Audit Committee consisting of three or more directors at least two-thirds of whom must be non-standing directors. Members of the Audit Committee are elected by the Company's shareholders at the general meeting of shareholders and all of the Company's non-standing directors meet the applicable independence criteria set forth under Korean law.

The Company's Audit Committee is responsible for auditing the Company's accounting practices and overall corporate matters and has the authority to request reports on overall corporate matters and inspect the financial status of the Company. The Company is required to appoint independent certified public accountants with the approval of its Audit Committee and to report such appointment to its shareholders at the general meeting of shareholders. Currently, the Company's Audit Committee consists of three non-standing directors.

The Audit Committee holds regular meetings at least once each quarter, and more frequently as needed. The committee is currently composed of three non-standing Directors, Yun-Woo Lee, Jang-Shik Ban and Jin-Soo Chung, and Yun-Woo Lee is the chairperson of the committee.

Management Committee

The Company's Management Committee is responsible for deciding on important business decisions of the Company. The committee is currently composed of three standing directors, Yang-Ho Cho, Chang-Hoon Chi and Ki-Hong Woo, and three non-standing directors, Seung-Yu Kim, Yong-Seok Ahn and Jin-Soo Chung, and Yang-Ho Cho is the chairperson of the committee.

Non-Standing Director Nominating Committee

The Company's Non-Standing Director Nominating Committee is responsible for identifying candidates qualified to be its non-standing directors and recommending nominees prior to the general meeting of shareholders. The committee is currently composed of two standing directors, Yang-Ho Cho and Ki-Hong Woo, and four non-standing directors, Seung-Yu Kim, Jae-Il Kim, Jang-Shik Ban and Jin-Soo Chung, and Yang-Ho Cho is the chairperson of the committee.

Internal Transaction Committee

The Company's Internal Transaction Committee is responsible for approving transactions with special related parties as defined under the Fair Trade Act to ensure that the transaction is lawful. The committee is currently composed of one standing director, Soo-Geun Lee, and two non-standing directors, Yun-Woo Lee and Jin-Soo Chung.

Compensation of Directors

Shareholders of the Company approved the maximum amount of total compensation for registered directors at Won 5 billion for 2017.

As of March 31, 2017, there were no outstanding transactions other than in the ordinary course of business undertaken by the Company in which its directors or senior management were interested parties.

PRINCIPAL SHAREHOLDERS

The following table sets forth certain information relating to the principal shareholders of the Company's capital stock with voting rights as of March 31, 2017:

Principal shareholders[1]	Number of shares held	Percentage of total shares outstanding
		(%)
Hanjin KAL Corp.[2]	28,385,064	29.6
National Pension Service[3]	7,188,516	7.5
Total	35,573,580	37.1

Notes:

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

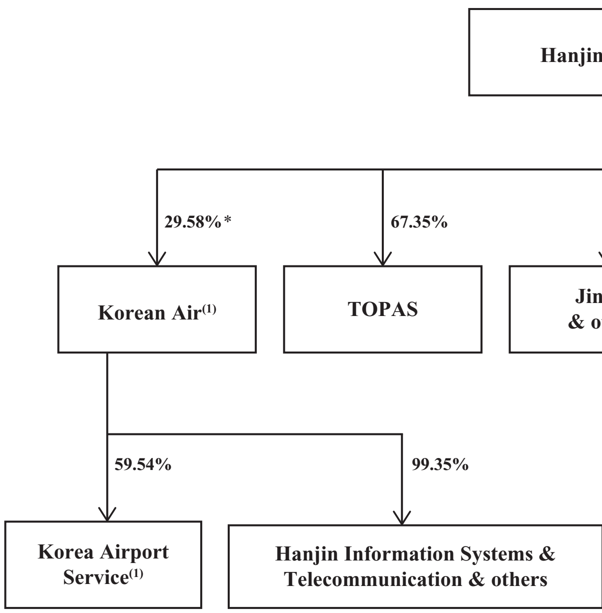
(2) Mr. Yang-Ho Cho, Chairman of the Company, is the largest shareholder of Hanjin KAL Corp. with an equity interest of 17.7% as of March 31, 2017.

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

HANJIN GROUP

The Hanjin Group is one of the largest business groups in Korea. Founded in 1945 as a transportation company, the Hanjin Group has played a key part in the development of the Korean economy, encouraged by the government's focus on export-oriented industrialization, and has evolved into a leader in the global logistics industry with interests in, among others, airline, travel and information systems and telecommunications industries. Hanjin KAL became the holding company of the group in August 2013. As of March 31, 2017, Hanjin Group had a presence on six continents and consisted of 32 companies, including four that are listed on the Korea Exchange.

The following chart shows select member companies of the Hanjin Group and the percentage of stock ownership as of March 31, 2017:



Note:

* Hanjin KAL owns 29.92% of the Company's common stock.

(1) Listed on the Korea Exchange.

RELATED PARTY TRANSACTIONS

The Company engages from time to time in various transactions with related parties. The Company believes it has conducted these transactions with related parties as it would in comparable arm's-length transactions with a non-related party, on a basis substantially as favorable to the Company as would be obtainable in such transactions.

Under Korean law, in the event that (i) the Company provide funds, securities or assets to, or enter into a transaction with, a "specially-related" party, which includes affiliates, and (ii) the value of such transaction or provision is greater than either (x) 5% of the greater of its paid-in capital and total capital or (y) Won 5 billion, the Company is required to obtain approval for such transaction or provision by resolution of its board of directors and to disclose the main terms and conditions of such transaction or provision to the public. The Company is currently required to disclose any such transaction or provision within one day following adoption of the relevant board resolution.

In the event that the Company plans to enter into a transaction with (i) a major shareholder who owns or beneficially owns more than 10% of the total number of the Company's issued and outstanding shares (other than non-voting shares), (ii) a director, (iii) a spouse or lineal ascendant or descendent of the persons described in (i) and (ii), (iv) a company in which half or more of the total number of issued and outstanding voting shares is held by a person falling under (i) through (iii), solely or jointly with others, or his/her subsidiary company, or (v) a company in which half or more of the total number of issued and outstanding voting shares is held by a person falling under (i) through (iii) together with a company falling under (iv), the Company is required to obtain approval by more than two thirds of its board of directors. In connection with the approval by the board of directors, the major terms of the transaction must be disclosed, and the terms and conditions as well as the procedure of the transaction are required be structured and conducted in a fair manner.

Furthermore, as a publicly listed company in Korea, the Company is restricted under the Korean Commercial Code (subject to certain exceptions) from providing any loan, guarantee or collateral to or for the benefit of any of its major shareholders, specially-related parties, directors or auditors. In addition, as the Company is listed on the KRX KOSPI Market of the Korea Exchange with total assets of not less than Won 2 trillion as of the end of the most recent fiscal year, if the Company intends to engage in any of the following transactions with its largest shareholder (or such shareholder's specially-related parties) or with any of the Company's other specially-related parties, the Korean Commercial Code generally requires the Company to obtain approval of its board of directors for such transaction and report relevant information (such as the purpose of the transaction, the identities of the counterparties, the terms and conditions of the transaction, and the estimated value of the transaction) at the first regular general meeting of shareholders held after the board meeting approving such transaction, unless certain exceptions apply: (i) any single transaction the value of which amounts to 1% or more of the value of the Company's total assets or total revenue as of the end of the most recent fiscal year; or (ii) a series of transactions executed during a fiscal year the aggregate value of which amounts to 5% or more of the Company's total assets or total revenue as of the end of the most recent fiscal year.

For additional information regarding the Company's transactions with related parties, see Note 42 of the notes to the Company's annual consolidated financial statements as of and for the years ended December 31, 2015 and 2016 and Note 42 of the notes to the Company's consolidated interim financial statements as of March 31, 2017 and December 31, 2016 and for the three months ended March 31, 2016 and 2017, each included in this Offering Circular.

TAXATION

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.

Furthermore, it is not entirely clear how the Securities are treated for Korean tax purposes. In this regard, the Korean tax authorities have issued a tax ruling confirming that the payments made in accordance with the terms and conditions of the capital securities issued in the form of bonds should be treated as interest income. Relying upon this tax ruling, it is likely that the Securities should be taxed in the same manner applicable to bonds. If the Securities are taxed in the same manner applicable to bonds, the Non-Residents are taxed in the manner described below. If the Securities are not taxed in the same manner applicable to bonds, the Non-Residents are taxed in accordance with different rules.

Income Tax and Corporation Tax on Interest

Interest on the Securities paid to Non-Residents is exempt from income tax and corporation tax (whether payable by withholding or otherwise) pursuant to the Special Tax Treatment Control Law (the "STTCL"), provided that the Securities are "foreign currency denominated bonds issued outside of Korea" under the STTCL. The term "foreign currency denominated bonds issued outside of Korea" in this context is not defined under the STTCL.

It is not clear under the Korean tax law whether any premium (which is the difference between (A) the redemption amount of the Securities to be paid pursuant to the terms and conditions of the Securities upon the early redemption of the Securities and (B) the issuance price of the Securities) paid upon the redemption of the Securities will be treated as interest income (which is exempt from Korean income taxation by virtue of the STTCL as discussed above), capital gains or possibly "other income." However, the Korean tax authorities have issued a tax ruling confirming that the premium paid with respect to the early redemption in whole is interest income. Based on this and several other similar rulings, it is likely that the premium paid with respect to the early redemption of the Securities will be treated as interest income by the Korean tax authorities. As a result, unless the Korean tax authorities change their position on the previous rulings regarding the above matter, it is likely that the premium on the Securities paid to a Non-Resident holder will not subject to withholding of Korean income tax or corporation tax under the STTCL.

If not exempt under the STTCL, the rate of income tax or corporation tax applicable to interest or any premium on the Securities, for a Non-Resident, is currently 14%. In addition, a tax surcharge, called a local income tax, is imposed at the rate of 10% of the income tax or corporation tax (raising the total tax rate to 15.4%). The withholding agent of the Securities is obliged under Korean law to withhold the applicable amount of Korean income tax or corporation tax and make payment thereof to the relevant Korean tax authority. Any amounts withheld by the withholding agent must be paid to the relevant Korean tax authority no later than the tenth day of the month following the month in which the interest is paid. Failure to transmit the withheld tax to the Korean tax authorities in time technically subjects the withholding agent to penalties under Korean tax laws.

The tax rates may be reduced or exempted by applicable tax treaty between Korea and the residence country of the beneficial owner of the interest. The relevant tax treaties are discussed below. If the Non-Resident holder could not obtain the benefit of a exempted or reduced rate due to the failure of the timely submission of the below-mentioned application, the Non-Resident holder can get the tax refunded if the application of the claim for tax refund is submitted within five years from the end of the month to which the days of withholding belongs.

Capital Gains Tax

The Korean tax laws currently exclude from Korean taxation gains made by a Non-Resident from the sale of the Securities to another non-resident (other than to the other non-resident's Permanent Establishment in Korea). In addition, capital gains earned by a Non-Resident from the transfer outside Korea of the Securities are currently exempt from taxation by virtue of the STTCL, provided that the issuance of the Securities is deemed to be an overseas issuance.

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

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

The tax may be exempted by applicable tax treaty between Korea and the residence country of the beneficial owner of the capital gains. The relevant tax treaties are discussed below. If the Non-Resident holder could not obtain the benefit of a exempted rate due to the failure of the timely submission of the below-mentioned application, the Non-Resident holder can get the tax refunded if the application of the claim for tax refund is submitted within five years from the end of the month to which the days of withholding belongs.

Inheritance Tax and Gift Tax

Korean inheritance tax is imposed upon (a) 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 (b) all property located in Korea which passes on death (irrespective of the domicile of the deceased). Gift tax is imposed in similar circumstances to the above. The taxes are imposed if the value of the relevant property is above a certain limit and tax rates vary from 10 to 50% according to the value of the relevant property and the identity of the persons involved. At present, Korea has not entered into any tax treaties on inheritance taxes or gift taxes.

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

Stamp Duty and Securities Transaction Tax

No stamp, issue or registration duties will be payable in Korea by the holders of the Securities in connection with the issue of the Securities except for a nominal amount of stamp duty on certain documents executed in Korea which will be paid by the Company. A securities transaction tax will not be imposed on the transfer of the Securities.

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 15% (including a local income tax), and the tax on capital gains is often eliminated.

Each holder of the Securities should inquire for himself or herself whether he or she is entitled to the benefit of a tax treaty with Korea with respect to any transaction involving the Securities. It is the responsibility of the party claiming the benefits of a tax treaty in respect of interest payments to file with the Company, the purchaser or the withholding agent, as applicable, a certificate as to his tax residence. In the absence of sufficient proof, the Company, 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.

The Proposed Financial Transactions Tax

The European Commission has published a proposal (the "Commission's Proposal") for a Directive for a common financial transactions tax ("FTT") in Austria, Belgium, Estonia, France, Germany, Greece, Italy, Portugal, Slovakia, Slovenia and Spain (the "participating Member States"). However, Estonia has since stated that it will not participate.

The Commission's Proposal has very broad scope and could, if introduced in its current form, apply to certain dealings in the Securities in certain circumstances.

Under the Commission's Proposal, the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in the Securities where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

The FTT remains subject to negotiation between participating Member States. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate and/or certain of the participating Member States may decide to withdraw.

Prospective holders of the Securities are advised to seek their own professional advice in relation to the FTT.

SUBSCRIPTION AND SALE

BOCI Asia Limited (the "Manager") has, pursuant to a Subscription Agreement (the "Subscription Agreement") dated June 5, 2017, agreed to subscribe and pay for, or to procure subscriptions and payment for, the principal amount of the Securities subject to certain conditions contained therein.

The Company will also reimburse the Manager in respect of certain of its expenses, and the Company has agreed to indemnify the Manager against certain liabilities (including liabilities under the Securities Act), incurred in connection with the issue and sale of the Securities. The Subscription Agreement may be terminated in certain circumstances prior to payment of the issue price to the Company.

The initial issue price is set forth on the cover of this Offering Circular. After the Securities are released for sale, the Manager may change the issue price and other selling terms. The offering of the Securities by the Manager is subject to receipt and acceptance and subject to the Manager's right to reject any order in whole or in part.

The Manager and certain of its affiliates have, from time to time, performed, and may in the future perform, certain investment banking, commercial banking and advisory services for the Company and/or its affiliates for which they have received or will receive customary fees and expenses.

The Manager and its affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. In the ordinary course of their various business activities, the Manager and its affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investments and securities activities may involve securities and instruments of the Company.

The Manager or its affiliates may subscribe the Securities for its or their own account and enter into transactions, including credit derivatives, such as asset swaps, repackaging and credit default swaps relating to the Securities and/or other securities of the Company, its subsidiaries or associates at the same time as the offer and sale of the Securities or in secondary market transactions. Such transactions would be carried out as bilateral trades with selected counterparties and separately from any existing sale or resale of the Securities to which this Offering Circular relates (notwithstanding that such selected counterparties may also be subscribers of the Securities).

Selling Restrictions

The Manager has agreed that it will (to the best of its knowledge and belief) comply with all applicable securities laws and regulations in force in any jurisdiction in which it purchases, offers, sells or delivers Securities or possesses or distributes this Offering Circular and will obtain any consent, approval or permission required by it for the purchase, offer, sale or delivery by it of Securities under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers, sales or deliveries and neither the Company nor the Manager shall have any responsibility therefor.

If a jurisdiction requires that any offering of Securities 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 offering shall be deemed to be made by such dealer or such affiliate on behalf of the Company in such jurisdiction.

United States

The Securities have not been and will not be registered under the Securities Act, and may not be offered or sold within the United States except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act ("Regulation S").

The Securities are being offered and sold outside of the United States in offshore transactions in reliance on Regulation S.

In addition, until 40 days after the commencement of the offering of the Securities, an offer or sale of Securities within the United States by a dealer that is not participating in the offering may violate the registration requirements of the Securities Act.

United Kingdom

The Manager has represented and agreed that:

(a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000 (the "FSMA")) received by it in connection with the issue or sale of the Securities in circumstances in which Section 21(1) of the FSMA does not 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 Securities in, from or otherwise involving the United Kingdom.

Hong Kong

The Manager has represented and agreed that:

(a) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Securities other than (a) to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made under that Ordinance; or (b) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance; and

(b) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Securities, 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 Securities 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 and any rules made under that Ordinance.

Japan

The Securities have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended, the "Financial Instruments and Exchange Act"). Accordingly, the Manager has represented and agreed that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell any Securities in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organized under the laws of Japan) or to others for re-offering or re-sale, 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 other relevant laws and regulations of Japan.

Singapore

The Manager has acknowledged that 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 and agreed that it has not offered or sold any Securities or caused such Securities to be made the subject of an invitation for subscription or purchase and will not offer or sell such Securities or cause such Securities 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 such Securities, 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.

This Offering Circular has not been and will not be registered as a prospectus with the Monetary Authority of Singapore under the SFA. Accordingly, this Offering Circular and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Securities may not be circulated or distributed, nor may the Securities be offered or sold, or be made the subject of an invitation for subscription or purchase, 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 Securities 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 Securities pursuant to an offer made under Section 275 of the SFA except:

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

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

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

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

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

Korea

The Securities have not been and will not be registered with the FSC under the FSCMA. Accordingly, the Securities have not been 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 its Enforcement Decree) or to others for re-offering or resale, except as otherwise permitted by applicable Korean laws and regulations. In addition, within one year following the issuance of the Securities, the Securities may not be transferred to any resident of Korea other than a qualified institutional buyer (or a "QIB," as defined in the Regulation on Issuance, Public Disclosure, etc. of Securities of Korea) registered with the Korea Financial Investment Association (the "KOFIA") as a QIB and subject to the requirement of monthly reports with the KOFIA of its holding of QIB bonds as defined in the Regulation on Issuance, Public Disclosure, etc. of Securities of Korea, provided that (a) the Securities are denominated, and the principal and interest payments thereunder are made, in a currency other than Korean Won, (b) the amount of the Securities acquired by such QIBs in the primary market is limited to less than 20% of the aggregate issue amount of the Securities, (c) the Securities are listed on one of the major overseas securities markets designated by the FSS, or certain procedures, such as registration or report with a foreign financial investment regulator, have been completed for offering of the Securities in a major overseas securities market, (d) the one-year restriction on offering, delivering or selling of Securities to a Korean resident other than a QIB is expressly stated in the Securities, the relevant underwriting agreement, subscription agreement, and the offering circular and (e) the Company and the Manager shall individually or collectively keep the evidence of fulfillment of conditions (a) through (d) above after having taken necessary actions therefor.

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 Securities.

Transfer Restrictions under Korean Law

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

(a) The Securities have not been and will not be registered with the FSC under the FSCMA. Accordingly, the Securities have not been 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 its Enforcement Decree) or to others for re-offering or resale, except as otherwise permitted by applicable Korean laws and regulations. In addition, within one year following the issuance of the Securities, the Securities may not be transferred to any resident of Korea other than a QIB registered with the KOFIA as a QIB and subject to the requirement of monthly reports with the KOFIA of its holding of QIB bonds as defined in the Regulation on Issuance, Public Disclosure, etc. of Securities of Korea, provided that (a) the Securities are denominated, and the principal and interest payments thereunder are made, in a currency other than Korean Won, (b) the amount of the Securities acquired by such QIBs in the primary market is limited to less than 20% of the aggregate issue amount of the Securities, (c) the Securities are listed on one of the major overseas securities markets designated by the FSS, or certain procedures, such as registration or report with a foreign financial investment regulator, have been completed for offering of the Securities in a major overseas securities market, (d) the one-year restriction on offering, delivering or selling of Securities to a Korean resident other than a QIB is expressly stated in the Securities, the relevant underwriting agreement, subscription agreement, and the offering circular and (e) the Company and the Manager shall individually or collectively keep the evidence of fulfillment of conditions (a) through (d) above after having taken necessary actions therefor.

(b) The Securities will bear legends to the effect described in paragraph (a) above.

Other Transfer Restrictions Applicable to the Securities

The Securities have not been and will not be registered under the Securities Act. The Securities may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

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

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

(a) The Securities 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 or any other jurisdiction and are subject to significant restrictions on transfer.

(b) Until forty (40) days after the commencement of offering of the Securities, an offer or sale of Securities within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act.

(c) Such purchaser will not offer, sell, pledge or otherwise transfer any interest in the Securities except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

(d) The Securities will bear legends to the following effect, unless the Company determines otherwise in compliance with applicable law, and such purchaser will observe the restrictions contained therein:

THE SECURITIES EVIDENCED HEREBY (THE "SECURITIES") OF KOREAN AIR LINES CO, LTD. HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT").

THE SECURITIES HAVE NOT BEEN REGISTERED WITH THE FINANCIAL SERVICES COMMISSION OF KOREA UNDER THE FINANCIAL INVESTMENT SERVICES AND CAPITAL MARKETS ACT OF KOREA (THE "FSCMA"). ACCORDINGLY, THE SECURITIES 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. IN ADDITION, WITHIN ONE YEAR FOLLOWING THE ISSUANCE OF THE SECURITIES, THE SECURITIES MAY NOT BE TRANSFERRED TO ANY RESIDENT OF KOREA OTHER THAN A QUALIFIED INSTITUTIONAL BUYER (OR A "QIB", AS DEFINED IN THE REGULATION ON ISSUANCE, PUBLIC DISCLOSURE, ETC. OF SECURITIES OF KOREA) REGISTERED WITH THE KOREA FINANCIAL INVESTMENT ASSOCIATION (THE "KOFIA") AS A QIB AND SUBJECT TO THE REQUIREMENT OF MONTHLY REPORTS WITH THE KOFIA OF ITS HOLDING OF QIB BONDS AS DEFINED IN THE REGULATION ON ISSUANCE, PUBLIC DISCLOSURE, ETC. OF SECURITIES OF KOREA, PROVIDED THAT (A) THE SECURITIES ARE DENOMINATED, AND THE PRINCIPAL AND INTEREST PAYMENTS THEREUNDER ARE MADE, IN A CURRENCY OTHER THAN KOREAN WON, (B) THE AMOUNT OF THE SECURITIES ACQUIRED BY SUCH QIBS IN THE PRIMARY MARKET IS LIMITED TO LESS THAN 20% OF THE AGGREGATE ISSUE AMOUNT OF THE SECURITIES, (C) THE SECURITIES ARE LISTED ON ONE OF THE MAJOR OVERSEAS SECURITIES MARKETS DESIGNATED BY THE FINANCIAL SUPERVISORY SERVICE OF KOREA, OR CERTAIN PROCEDURES, SUCH AS REGISTRATION OR REPORT WITH A FOREIGN FINANCIAL INVESTMENT REGULATOR, HAVE BEEN COMPLETED FOR OFFERING OF THE SECURITIES IN A MAJOR OVERSEAS SECURITIES MARKET, (D) THE ONE-YEAR RESTRICTION ON OFFERING, DELIVERING OR SELLING OF SECURITIES TO A KOREAN RESIDENT OTHER THAN A QIB IS EXPRESSLY STATED IN THE SECURITIES, THE RELEVANT UNDERWRITING AGREEMENT, SUBSCRIPTION AGREEMENT, AND THE OFFERING CIRCULAR AND (E) THE COMPANY AND THE INITIAL PURCHASERS SHALL INDIVIDUALLY OR COLLECTIVELY KEEP THE EVIDENCE OF FULFILLMENT OF CONDITIONS (A) THROUGH (D) ABOVE AFTER HAVING TAKEN NECESSARY ACTIONS THEREFOR.

LEGAL MATTERS

Certain legal matters relating to the issue and sale of the Securities will be passed upon for the Company by Cleary Gottlieb Steen & Hamilton LLP as to matters of New York law and by Kim & Chang as to matters of Korean law, and for the Manager by Linklaters LLP as to matters of New York law. Kim & Chang may rely as to all matters of New York law on the opinion of Cleary Gottlieb Steen & Hamilton LLP and Linklaters LLP, and Cleary Gottlieb Steen & Hamilton LLP and Linklaters LLP may rely as to all matters of Korean law on the opinion of Kim & Chang.

INDEPENDENT AUDITORS

The Company's annual consolidated financial statements as of and for the year ended December 31, 2016 have been audited by Deloitte Anjin LLC, independent auditor, as stated in their report included in this Offering Circular. The Company's annual consolidated financial statements as of and for the year ended December 31, 2015 have been audited by KPMG Samjong Accounting Corp., independent auditor, as stated in their report included in this Offering Circular, which contains an emphasis of matter paragraph regarding material uncertainty.

The Company's condensed consolidated interim financial statements as of March 31, 2017 and December 31, 2016 and for the three months ended March 31, 2016 and 2017 have been reviewed by Deloitte Anjin LLC, independent accountants, as stated in their report included in this Offering Circular. With respect to the unaudited condensed consolidated interim financial statements of the Company included in this Offering Circular, independent accountants have reported that they applied limited procedures in accordance with professional standards for a review of such information. However, their report appearing herein states that they did not audit and they do not express an opinion on such interim financial information. Accordingly, the degree of reliance on their report on such information should be restricted in light of the limited nature of the review procedures applied.

Under the Act on External Audit of Stock Companies, the Securities and Futures Commission ("SFC") in Korea must require a company to substitute its current auditor with an auditor nominated by the SFC for a period of up to three years, where, based on such company's latest financial statements, (i) its debt-to-equity ratio exceeds 150% of the industry average, (ii) its debt-to-equity ratio exceeds 200% and (iii) its operating profit is less than its interest expense. As the Company's financial statements for the previous year met these criteria, the SFC required the Company to change its auditor to KPMG Samjong Accounting Corp. in 2015 for a one year period. After the expiration of the one year period, the Company appointed Deloitte Anjin LLC as its auditor for 2016, 2017 and 2018.

INDEX TO THE FINANCIAL STATEMENTS

Independent Accountants' Review Report

To the Shareholders and the Board of Directors of
Korean Air Lines Co., Ltd.:

We have reviewed the accompanying condensed consolidated financial statements of Korean Air Lines Co., Ltd. and its subsidiaries (the "Group"). The condensed consolidated financial statements consist of the condensed consolidated statement of financial position as of March 31, 2017, and the related condensed consolidated statements of comprehensive income (loss), condensed consolidated statements of changes in shareholders' equity and condensed consolidated statements of cash flows, all expressed in Korean won, for the three months ended March 31, 2017 and 2016, respectively, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the condensed consolidated financial statements

Management is responsible for the preparation and fair presentation of these condensed consolidated financial statements in accordance with Korean International Financial Reporting Standards ("K-IFRSs"), and for such internal control as management determines is necessary to enable the preparation of condensed consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Independent accountants' responsibility

Our responsibility is to express a conclusion on the accompanying condensed consolidated financial statements based on our reviews.

We conducted our reviews in accordance with standards for review of interim financial statements in the Republic of Korea. A review is limited primarily to inquiries of company personnel and analytical procedures applied to financial data, and this provides less assurance than an audit. We have not performed an audit, and accordingly, we do not express an audit opinion.

Review conclusion

Based on our reviews, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated financial statements of the Group are not presented fairly, in all material respects, in accordance with K-IFRS 1034, *Interim Financial Reporting*.

Emphasis of matter

We draw attention to the condensed consolidated financial statements that are described as follows. Our opinion is not qualified with respect to this matter.

(1) The independent accountants' emphasis of matter about additional stated matters based on Korean Practice Guide on Auditing about engineering to order and others.

Additional stated matters based on Korean Practice Guide on Auditing mean selecting significant matters on the accompanying condensed consolidated financial statements based on our review through the independent accountants' professional judgments and communication with those charged with governance in accordance with Korean Practice Guide on Auditing 2016-1. Additional stated matters based on Korean Practice Guide on Auditing are dealt with a view of our review about the condensed consolidated financial statements, and we do not provide a separate opinion on these matters.

As discussed in 'Independent accountants' responsibility', we perform primarily inquiries of company personnel and analytical procedures applied to financial data related to additional stated matters based on Korean Practice Guide on Auditing 2016-1 about engineering to order as our responsibility is to express a conclusion on the accompanying condensed consolidated financial statements based on our review.

a) General matter

In relation to additional stated matters based on Korean Practice Guide on Auditing about engineering to order, which is described in the independent accountants' review report, the common contents are as follows:

As of March 31, 2017, the Company recognizes revenue of the aerospace division, which is exceeding 5% of the Group's total revenue, in accordance with the stage of completion determined by reference to the contract costs incurred to date and when the outcome of a construction contract can be estimated reliably, contract revenue and contract costs associated with the construction contract shall be recognized as revenue and expenses, respectively, by reference to the stage of completion of the contract activity. The stage of completion is determined by the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs, except for contract costs that do not reflect work performed. The gross amount due from customers for contract work is the net amount of contracts in progress for which costs incurred, plus recognized profits (less recognized losses) exceed progress billings, and the gross amount due to customers for contract work is the net amount of contracts in progress for which progress billings exceed costs incurred, plus recognized profits (less recognized losses).

b) Revenue recognition in accordance with the stage of completion determined by reference to the contract costs incurred to date

The gross amount of contract revenue is measured by the initial amount of revenue agreed in the contract, but the measurement of contract revenue is affected by a variety of uncertainties related to the outcome of future events as the gross amount of contract revenue may increase in accordance with variations in contract work, claims and incentive payments or may decrease as a result of penalties arising from delays caused by the Group in the completion of the contract. Also, amount of contract revenue is influenced by the stage of completion determined by reference to the contract costs incurred to date, and the gross amount of contract costs is estimated by the expectations of the materials costs, labor costs and contract period. As discussed in Note 46, estimated increase (decrease) in contract revenue and cost is ₩(6,499) million ($(5,823) thousand) and ₩18,290 million ($16,387 thousand), respectively, for the three months ended March 31, 2017, and current profit decrease ₩21,514 million ($19,276 thousand) and future profit decrease ₩3,275 million ($2,934 thousand), in accordance with the variations of estimated increase (decrease) in contract revenue and cost. We selected revenue recognition in accordance with the stage of completion determined by reference to the contract costs incurred to date as a significant risk because there is a possibility that the variations of estimated increase (decrease) in contract revenue and cost can influence future profit negatively.

As of March 31, 2017, we performed the following review procedures about revenue recognition in accordance with the stage of completion determined by reference to the contract costs incurred to date:

- Inquiries of major contracts
- Inquiries of accounting policy of revenue recognition and changes of accounting policy
- Inquiries of current progress and significant changes of major projects
- Analytic review of the initial amount of revenue agreed in the contract, the estimated total contract costs, the cost ratio, the amount due from customers for contract work ratio and others

c) Uncertainty of estimated total contract costs

Total contract costs are estimated based on future expectations, including material cost, labor cost, construction period and others, and we selected the uncertainty of estimated total contract costs as a significant risk because there is a possibility that the increase of the uncertainty of estimated total contract costs and the estimation change in accordance with process delays or process inefficiency can influence future profit negatively.

As of March 31, 2017, we performed the following review procedures about the impact on the condensed consolidated financial statements caused by the uncertainty of estimated total contract costs:

- Inquiries and analytic review of fluctuations in the major cost items in the estimated total contract costs of each reporting period
- Inquiries of the cause of variations about the project, which has significant variations of the estimated total contract costs and others
- Inquiries of the cause of variations related to the project, which has significant difference between the expected cost ratio and the actual cost ratio and others

d) Determination of the stage of completion

As discussed in Note 46, the estimated increase in contract cost is ₩18,290 million ($16,387 thousand) for the three months ended March 31, 2017, and as of March 31, 2017, cost incurred to date is ₩895,268 million ($802,139 thousand). We selected the determination of the stage of completion as a significant risk because there is a possibility that the increase of the contract cost in comparison with the estimated total contract cost due to the unexpected process delay before the prior period and others and the increase of the uncertainty of estimated total contract costs can influence future profit negatively.

We performed the following review procedures with regard to the estimated total contract costs and cost incurred to date that can affect the determination of the stage of completion:

- Inquiries of the cause of variations of the stage of completion quarterly
- Analytical review of the fluctuation about the estimated total contract costs and cost incurred to date

e) Recoverability of the amount due from customers for contract work

As discussed in Note 46, the amount due from customers for contract work is ₩191,499 million ($171,579 thousand), and we selected the recoverability of the amount due from customers for contract work as a significant risk because there is a possibility that the increase of the amount due from customers for contract work and the increase rate of the amount due from customers for contract work exceeding the increase rate of revenues incurred to date can influence future profit negatively.

We performed the following review procedures about the project such that the amount due from customers for contract work increases significantly for the three months ended March 31, 2017:

- Inquiries of the payment condition, delay compensation, delivery period and other obligations of the contract
- Inquiries of the expiry of the payment date under the contract and the financial solvency of customer

f) Accounting for variations in contract work

The total contract revenue can be measured on the initial amount of revenue agreed in the contract, but the measurement of contract revenue is affected by the various uncertainties related to the result of future events because the total contract revenue may increase as a result of variations in contract work and others or may decrease as a result of penalties arising from delays caused by the Group in the completion of the contract. We selected the accounting for variations in contract work as a significant risk because there is a possibility that such uncertainties can influence future profit negatively.

We performed the following review procedures about the accounting for variations in contract work and disclosures:

- Inquiries of the reason for the significant variation of a contract price
- Inquiries of the possibility that the customer can approve the amount of revenue due to variations in contract work
- Inquiries of the impact of estimated total contract costs and the stage of completion due to the variations in contract work

Others

We audited the consolidated statement of financial position as of December 31, 2016, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the year ended December 31, 2016(not presented in the accompanying financial statements), in accordance with Korean Standards on Auditing("KSAs"). We expressed an unqualified opinion in our independent auditors' report dated on March 16, 2017. The condensed consolidated statement of financial position as of December 31, 2016, presented as a comparative purpose in the accompanying financial statements does not differ, in all material respects, from the audited statement of financial position as of December 31, 2016.

Our review also comprehended the translation of Korean won amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis of condensed consolidated financial statement presentation in Note 2. Such U.S. dollar amounts are presented solely for the convenience of readers outside of Korea.

/s/ Deloitte Anjin LLC

May 11, 2017

Notice to Readers

This report is effective as of May 11, 2017, the independent accountants' review report date. Certain subsequent events or circumstances may have occurred between the independent accountants' review report date and the time the independent accountants' review report is read. Such events or circumstances could significantly affect the accompanying condensed consolidated financial statements and may result in modifications to the independent accountants' review report.

KOREAN AIR LINES CO., LTD. AND ITS SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

AS OF MARCH 31, 2017 AND DECEMBER 31, 2016

		Korean won		Translation into U.S. dollars (Note 2)	
ASSETS	NOTES	2017	2016	2017	2016
		(In millions)		(In thousands)	
CURRENT ASSETS:					
Cash and cash equivalents	5,6	₩ 1,132,186	₩ 1,089,927	$ 1,014,413	$ 976,550
Short-term financial instruments	6	142,056	176,914	127,279	158,510
Current portion of financing lease receivables	11	23,433	18,698	20,995	16,753
Trade and other receivables	7,42	759,808	726,913	680,770	651,297
Amount due from customers for contract work	46	191,499	195,389	171,579	175,064
Current portion of held-to-maturity investments	6,9	120	129	108	115
Inventories	10	612,291	564,705	548,599	505,963
Current tax assets		4,600	5,576	4,121	4,996
Other current assets	20,22	539,073	549,738	482,997	492,554
Assets held for sale	47	54,733	—	49,040	—
Total current assets		3,459,799	3,327,989	3,099,901	2,981,802
NON-CURRENT ASSETS:					
Long-term financial instruments	6	42,606	45,951	38,174	41,171
Long-term trade and other receivables	7	48	239	43	214
Available-for-sale (“AFS”) financial assets	6,8,41	241,075	219,456	215,997	196,628
Held-to-maturity investments	6,9	994	1,001	891	897
Finance lease receivables	11	88,823	49,721	79,583	44,549
Investments in associates	13,16,42	18,141	24,387	16,254	21,850
Property, aircraft and equipment	14,15,16	17,852,789	17,873,282	15,995,689	16,014,051
Investment property	16,17	321,292	324,881	287,870	291,086
Intangible assets	16,18	394,125	405,030	353,127	362,898
Derivative financial assets	27,41	154	27	138	24
Other financial assets	19,22	358,268	329,751	321,000	295,450
Deferred tax assets	37	947,582	1,107,329	849,012	992,141
Other non-current assets	20,22	184,648	247,491	165,441	221,745
Total non-current assets		20,450,545	20,628,546	18,323,219	18,482,704
Total assets		₩23,910,344	₩23,956,535	$21,423,120	$21,464,506

(Continued)

KOREAN AIR LINES CO., LTD. AND ITS SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (CONTINUED)

AS OF MARCH 31, 2017 AND DECEMBER 31, 2016

		Korean won		Translation into U.S. dollars (Note 2)	
LIABILITIES AND SHAREHOLDERS' EQUITY	NOTES	2017	2016	2017	2016
		(In millions)		(In thousands)	
CURRENT LIABILITIES:					
Trade and other payables	21,42,45	₩ 888,537	₩ 846,152	$ 796,109	$ 758,133
Short-term borrowings	16,22	1,080,418	1,167,972	968,030	1,046,476
Short-term debentures	22	229,742	336,230	205,844	301,254
Current portion of long-term borrowings	6,16,19, 20,22,42	3,653,759	3,460,677	3,273,685	3,100,687
Current portion of finance lease obligations	16,23	1,426,747	1,714,470	1,278,333	1,536,126
Current portion of financial derivative liabilities	27,41	3,683	—	3,300	—
Current portion of provisions	25	4,063	5,431	3,641	4,866
Amount due to customers for contract work	46	53,881	24,696	48,276	22,127
Current tax liabilities		8,417	3,747	7,541	3,358
Other current liabilities	26,28	1,794,248	1,571,743	1,607,603	1,408,245
Total current liabilities		9,143,495	9,131,118	8,192,362	8,181,272
NON-CURRENT LIABILITIES:					
Long-term trade and other payables	21,42,45	24,825	30,273	22,243	27,124
Long-term borrowings	16,22	798,645	1,016,089	715,568	910,393
Debentures	22	44,180	83,169	39,584	74,517
Asset-backed securitization ("ABS") loans	19,20,22, 42	1,438,670	1,731,952	1,289,015	1,551,789
Finance lease obligation	16,23	6,300,957	6,774,326	5,645,513	6,069,640
Net defined benefit obligation	24	1,134,468	1,126,332	1,016,457	1,009,168
Provisions	25,45	160,279	178,674	143,606	160,088
Deferred revenue	26	1,912,748	1,868,288	1,713,779	1,673,943
Financial derivative liabilities	27,41	24,165	39,725	21,651	35,593
Deferred tax liabilities	37	23,562	25,748	21,111	23,070
Other non-current liabilities	28	72,948	76,491	65,360	68,534
Total non-current liabilities		11,935,447	12,951,067	10,693,887	11,603,859
Total liabilities		21,078,942	22,082,185	18,886,249	19,785,131
SHAREHOLDERS' EQUITY:					
Capital stock	1,29	479,777	369,753	429,869	331,290
Other capital surplus	30	1,541,724	1,198,374	1,381,349	1,073,715
Other capital components	15,32	336,610	385,436	301,595	345,342
Retained earnings	31	359,501	(192,877)	322,105	(172,813)
NON-CONTROLLING INTERESTS:		113,790	113,664	101,953	101,841
Total shareholders' equity		2,831,402	1,874,350	2,536,871	1,679,375
Total liabilities and shareholders' equity		₩23,910,344	₩23,956,535	$21,423,120	$21,464,506

(Concluded)

See accompanying notes to condensed consolidated financial statements.

KOREAN AIR LINES CO., LTD. AND ITS SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

FOR THE THREE MONTHS ENDED MARCH 31, 2017 AND 2016

		Korean won		Translation into U.S. dollars (Note 2)	
	NOTES	2017	2016	2017	2016
		(In millions except for earnings (loss) per share)		(In thousands except for earnings (loss) per share)	
SALES	4,33,42	₩2,866,005	₩2,866,961	$2,567,874	$2,568,731
COST OF SALES	38,42	2,394,035	2,265,451	2,145,000	2,029,792
GROSS PROFIT		471,970	601,510	422,874	538,939
Selling and administrative expenses	34,38,42	280,458	278,253	251,284	249,308
OPERATING INCOME		191,512	323,257	171,590	289,631
Financial income	35	28,707	18,666	25,721	16,725
Financial expenses	35	111,572	154,329	99,967	138,276
Loss on equity method valuation	13	(3,854)	(37,044)	(3,453)	(33,190)
Other non-operating income	36	968,390	291,573	867,655	261,242
Other non-operating expenses	36	353,965	615,577	317,145	551,543
INCOME (LOSS) BEFORE INCOME TAX EXPENSE		719,218	(173,454)	644,401	(155,411)
INCOME TAX EXPENSE	37	160,044	1,447	143,394	1,296
NET INCOME (LOSS)		₩ 559,174	₩ (174,901)	$ 501,007	$ (156,707)
OTHER COMPREHENSIVE INCOME (LOSS) AFTER INCOME TAX:					
Items not to be reclassified subsequent to income or loss:					
Remeasurement of the net defined benefit liabilities	24,31	₩ (673)	₩ (184)	$ (603)	$ (165)
Change in retained earnings – equity method – accounted investments	13	—	(72)	—	(65)
Revaluation surplus	15	99	(713)	89	(639)
		₩ (574)	₩ (969)	$ (514)	$ (869)

(Continued)

KOREAN AIR LINES CO., LTD. AND ITS SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (CONTINUED)

FOR THE THREE MONTHS ENDED MARCH 31, 2017 AND 2016

	NOTES	Korean won 2017	Korean won 2016	Translation into U.S. dollars (Note 2) 2017	Translation into U.S. dollars (Note 2) 2016
		(In millions except for earnings (loss) per share)		(In thousands except for earnings (loss) per share)	
Items to be reclassified subsequent to income or loss:					
Gain (loss) on AFS financial assets, net	32	₩ 15,725	₩ (300)	$ 14,089	$ (269)
Change in capital adjustments – equity method – accounted investments	13,32	(1,897)	(2,772)	(1,699)	(2,484)
Gain (loss) on foreign operation translation	32	(62,779)	(8,357)	(56,249)	(7,487)
		(48,951)	(11,429)	(43,859)	(10,240)
COMPREHENSIVE INCOME (LOSS)		₩509,649	₩(187,299)	$456,634	$(167,816)
NET INCOME (LOSS) ATTRIBUTABLE TO:					
Owners of the Company		₩557,725	₩(177,552)	$499,709	$(159,083)
Non-controlling interests		1,449	2,651	1,298	2,376
COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO:					
Owners of the Company		508,406	(189,808)	455,520	(170,064)
Non-controlling interests		1,243	2,509	1,114	2,248
EARNINGS (LOSS) PER SHARE:	39				
Attributable to common stock		7,118	(2,402)	6	(2)
Attributable to preferred stock		7,168	(2,352)	6	(2)

(Concluded)

See accompanying notes to condensed consolidated financial statements.

KOREAN AIR LINES CO., LTD. AND ITS SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE THREE MONTHS ENDED MARCH 31, 2017 AND 2016

	Korean won							
	Owners of the Company							
		Other capital surplus						
	Capital stock	Additional paid-up capital	Others	Other capital components	Retained earnings	Subtotal	Non-controlling interests	Total
	(In millions)							
January 1, 2016	₩369,753	₩602,855	₩214,928	₩405,311	₩ 794,265	₩2,387,112	₩111,923	₩2,499,035
Dividends	—	—	—	—	—	—	(638)	(638)
Net loss	—	—	—	—	(177,552)	(177,552)	2,651	(174,901)
Other comprehensive income (loss)	—	—	—	(12,046)	(210)	(12,256)	(142)	(12,398)
Dividends from hybrid securities	—	—	—	—	(5,490)	(5,490)	—	(5,490)
Change in retained earnings of associates and subsidiaries	—	—	—	—	(1,312)	(1,312)	(18)	(1,330)
Others	—	—	149	—	3,693	3,842	1,677	5,519
March 31, 2016	₩369,753	₩602,855	₩215,077	₩393,265	₩ 613,394	₩2,194,344	₩115,453	₩2,309,797
January 1, 2017	₩369,753	₩602,855	₩595,519	₩385,436	₩(192,877)	₩1,760,686	₩113,664	₩1,874,350
Dividends	—	—	—	—	—	—	(667)	(667)
Net income	—	—	—	—	557,725	557,725	1,449	559,174
Other comprehensive income (loss)	—	—	—	(48,826)	(493)	(49,319)	(206)	(49,525)
Increase in paid-up capital	110,024	343,350	—	—	—	453,374	—	453,374
Dividends from hybrid securities	—	—	—	—	(3,360)	(3,360)	—	(3,360)
Change in retained earnings of associates and subsidiaries	—	—	—	—	(827)	(827)	(395)	(1,222)
Others	—	—	—	—	(667)	(667)	(55)	(722)
March 31, 2017	₩479,777	₩946,205	₩595,519	₩336,610	₩ 359,501	₩2,717,612	₩113,790	₩2,831,402

(Continued)

KOREAN AIR LINES CO., LTD. AND ITS SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (CONTINUED)

FOR THE THREE MONTHS ENDED MARCH 31, 2017 AND 2016

	Translation into U.S. dollars (Note 2)							
	Owners of the Company							
		Other capital surplus						
	Capital stock	Additional paid-up capital	Others	Other capital components	Retained earnings	Subtotal	Non-controlling interests	Total
					(In thousands)			
January 1, 2016	$331,290	$540,144	$192,571	$363,150	$ 711,643	$2,138,798	$100,281	$2,239,079
Dividends	—	—	—	—	—	—	(572)	(572)
Net loss	—	—	—	—	(159,083)	(159,083)	2,376	(156,707)
Other comprehensive income (loss)	—	—	—	(10,793)	(188)	(10,981)	(127)	(11,108)
Dividends from hybrid securities	—	—	—	—	(4,919)	(4,919)	—	(4,919)
Change in retained earnings of associates and subsidiaries	—	—	—	—	(1,175)	(1,175)	(16)	(1,191)
Others	—	—	133	—	3,309	3,442	1,502	4,944
March 31, 2016	$331,290	$540,144	$192,704	$352,357	$ 549,587	$1,966,082	$103,444	$2,069,526
January 1, 2017	$331,290	$540,144	$533,571	$345,342	$(172,813)	$1,577,534	$101,841	$1,679,375
Dividends	—	—	—	—	—	—	(598)	(598)
Net income	—	—	—	—	499,709	499,709	1,298	501,007
Other comprehensive income (loss)	—	—	—	(43,747)	(442)	(44,189)	(184)	(44,373)
Increase in paid-up capital	98,579	307,634	—	—	—	406,213	—	406,213
Dividends from hybrid securities	—	—	—	—	(3,010)	(3,010)	—	(3,010)
Change in retained earnings of associates and subsidiaries	—	—	—	—	(741)	(741)	(354)	(1,095)
Others	—	—	—	—	(598)	(598)	(50)	(648)
March 31, 2017	$429,869	$847,778	$533,571	$301,595	$ 322,105	$2,434,918	$101,953	$2,536,871

(Concluded)

See accompanying notes to condensed consolidated financial statements.

KOREAN AIR LINES CO., LTD. AND ITS SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE THREE MONTHS ENDED MARCH 31, 2017 AND 2016

	Korean won		Translation into U.S. dollars (Note 2)	
	2017	2016	2017	2016
	(In millions)		(In thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:				
Cash flows from operations:				
Net income (loss)	₩ 559,174	₩(174,901)	$ 501,007	$(156,707)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:				
Provision for leased aircraft maintenance	10,626	7,775	9,521	6,966
Retirement benefit costs	38,412	37,987	34,416	34,036
Depreciation	404,679	427,165	362,583	382,730
Amortization	11,203	8,980	10,037	8,046
Bad debt expenses	420	400	376	358
Interest expense	102,432	94,951	91,777	85,074
Loss on valuation of derivatives	9,138	48,637	8,188	43,578
Loss on valuation of equity method	3,854	37,044	3,453	33,190
Loss on foreign currency translation	125,265	70,067	112,235	62,778
Loss on foreign currency transaction	—	57,810	—	51,796
Other bad debt expenses	378	196	339	176
Loss on disposal of property, aircraft and equipment	113,379	5,947	101,585	5,328
Loss on disposal of assets held for sale	—	306	—	275
Impairment loss on property, aircraft and equipment	41,625	65,301	37,295	58,508
Impairment loss on AFS financial assets	—	110,006	—	98,563
Impairment loss on investments in associates	—	215,714	—	193,275
Income tax expenses	160,044	1,447	143,396	1,296
Other expenses	1,823	4,248	1,632	3,806
Interest income	(4,595)	(7,607)	(4,117)	(6,816)
Dividend income	(4,597)	(3,778)	(4,119)	(3,385)
Gain on valuation of derivatives	(18,812)	(7,215)	(16,855)	(6,464)
Gain on foreign currency translation	(816,422)	(225,460)	(731,495)	(202,007)
Reversal of allowance for doubtful accounts	(337)	—	(302)	—
Reversal of allowance for other doubtful accounts	—	(212)	—	(190)
Gain on disposal of AFS financial assets	(4,503)	—	(4,034)	—
Gain on disposal of property, aircraft and equipment	(23,356)	(3,807)	(20,926)	(3,411)
Gain on foreign currency transaction	(60,329)	—	(54,054)	—
Other income	(2)	(5,078)	(2)	(4,551)
	90,325	940,824	80,929	842,955

(Continued)

KOREAN AIR LINES CO., LTD. AND ITS SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

FOR THE THREE MONTHS ENDED MARCH 31, 2017 AND 2016

	Korean won		Translation into U.S. dollars (Note 2)	
	2017	2016	2017	2016
	(In millions)		(In thousands)	
Changes in assets and liabilities resulting from operations:				
Increase in trade receivables	₩ (30,261)	₩ (34,954)	$ (27,113)	$ (31,318)
Decrease (increase) in other receivables	(2,756)	3,735	(2,469)	3,347
Decrease in amount due from customers for contract work	3,085	827	2,764	741
Increase in inventories	(20,577)	(11,682)	(18,436)	(10,467)
Decrease in financial derivative assets	3	—	2	—
Decrease (increase) in advance payments	9,668	(21,869)	8,662	(19,594)
Decrease (increase) in prepaid expenses	(26,828)	16,682	(24,037)	14,947
Decrease in trade payables	(52,473)	(36,055)	(47,015)	(32,305)
Increase (decrease) in non-trade payables	(6,390)	11,095	(5,726)	9,940
Increase (decrease) in accrued expenses	77,516	(45,928)	69,452	(41,150)
Increase in advances	199,290	77,550	178,560	69,483
Increase in unearned revenues	6,991	—	6,264	—
Increase (decrease) in amount due to customers for contract work	29,190	(10,373)	26,154	(9,294)
Decrease in financial derivative liabilities	(1,173)	(15,784)	(1,051)	(14,142)
Decrease in plan assets	8,133	6,119	7,287	5,482
Payment of severance benefit	(39,413)	(26,381)	(35,313)	(23,637)
Succession of defined benefit obligation	187	479	168	429
Decrease in provisions	(27,054)	(10,207)	(24,239)	(9,146)
Increase in deferred revenue	44,460	34,971	39,836	31,334
Others	23,277	63,853	20,853	57,211
	194,875	2,078	174,603	1,861
Interest received	4,033	7,624	3,614	6,831
Dividend received	848	9	760	8
Income taxes paid	(2,545)	(3,704)	(2,280)	(3,319)
Net cash provided by operating activities	846,710	771,930	758,633	691,629

(Continued)

KOREAN AIR LINES CO., LTD. AND ITS SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

FOR THE THREE MONTHS ENDED MARCH 31, 2017 AND 2016

	Korean won		Translation into U.S. dollars (Note 2)	
	2017	2016	2017	2016
	(In millions)		(In thousands)	
CASH FLOWS FROM INVESTING ACTIVITIES:				
Net increase (decrease) in short-term financial instrument	₩ 30,267	₩ 42,477	$ 27,118	$ 38,059
Recovery of finance lease receivables	6,212	3,453	5,566	3,093
Decrease in current portion of held-to-maturity investments	19	—	17	—
Net increase (decrease) in long-term financial instruments	112	6	100	5
Purchase of AFS financial assets	(2,100)	—	(1,882)	—
Disposal of AFS financial assets	3,737	—	3,348	—
Purchase of held-to-maturity investments	(7)	(9)	(6)	(8)
Disposal of investment in subsidiaries	—	—	—	—
Net increase (decrease) in short-term loans	(2)	—	(2)	—
Net increase (decrease) in long-term loans	3	2	3	2
Disposal of property, aircraft and equipment and investment property	13,491	994	12,087	891
Acquisition of property, aircraft and equipment and investment property	(484,196)	(346,072)	(433,829)	(310,072)
Disposal of assets held for sale	—	80	—	72
Disposal of intangible assets	—	78	—	70
Acquisition of intangible assets	(302)	(644)	(271)	(577)
Decrease in guarantee deposits	33,383	3,134	29,910	2,808
Increase in guarantee deposits	(85,224)	(6,989)	(76,359)	(6,262)
Others	(1)	(4)	(1)	(4)
Net cash used in investing activities	(484,608)	(303,494)	(434,201)	(271,923)

(Continued)

KOREAN AIR LINES CO., LTD. AND ITS SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

FOR THE THREE MONTHS ENDED MARCH 31, 2017 AND 2016

	Korean won		Translation into U.S. dollars (Note 2)	
	2017	2016	2017	2016
	(In millions)		(In thousands)	
CASH FLOWS FROM FINANCING ACTIVITIES:				
Net increase (decrease) in short-term borrowings	₩ (23,495)	₩ (8,792)	$ (21,051)	$ (7,877)
Proceeds from short-term debentures	—	108,970	—	97,635
Repayment of short-term debentures	(101,877)	—	(91,280)	—
Repayment of current portion of long-term borrowings	(306,497)	(1,032,953)	(274,614)	(925,503)
Repayment of current portion of finance lease obligations	(504,962)	(321,757)	(452,434)	(288,287)
Repayment of guaranteed loans	—	(867)	—	(777)
Repayment of long-term borrowings	(1,480)	—	(1,326)	—
Proceeds from long-term borrowings	91,147	285,095	81,666	255,439
Proceeds from debentures	50,681	228,977	45,409	205,158
Defeasance of finance lease obligations	171,611	—	153,760	—
Increase in paid-up capital	453,374	—	406,213	—
Dividends paid	(38)	—	(34)	—
Dividends from hybrid securities paid	(3,360)	(3,360)	(3,010)	(3,010)
Interest paid	(106,625)	(97,425)	(95,533)	(87,291)
Others	178	—	160	—
Net cash used in financing activities	(281,343)	(842,112)	(252,074)	(754,513)
NET INCREASE(DECREASE) IN CASH AND CASH EQUIVALENTS	80,759	(373,676)	72,358	(334,807)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	1,089,927	967,481	976,550	866,841
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(38,500)	2,661	(34,495)	2,385
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	₩1,132,186	₩ 596,466	$1,014,413	$ 534,419

(Concluded)

See accompanying notes to condensed consolidated financial statements.

1. GENERAL:

Korean Air Lines Co., Ltd. (the "Company"), which is the controlling entity in accordance with Korean International Financial Reporting Standards ("K-IFRS") 1110, *Consolidated Financial Statements*, was established on June 19, 1962, and is engaged in the business of domestic and international airline services, manufacture of aircraft parts, maintenance of aircraft and catering of in-flight meals. The Company has been a publicly traded company upon listing its common stock on the Korea Exchange since 1966.

Total capital stock of the Company as of March 31, 2017, amounted to ₩479,777 million in par value (including ₩5,554 million of preferred stock). The principal shareholders of the Company's common shares are Hanjin Kal Co., Ltd. (29.92%) and its affiliates (3.43%).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Basis of Condensed Consolidated Financial Statement Presentation

The Group's interim condensed consolidated financial statements as of and for the three months ended March 31, 2017, are prepared in accordance with K-IFRS 1034, *Interim Financial Reporting.* In order to understand these interim condensed consolidated financial statements, users should use annual consolidated financial statements that are prepared in accordance with K-IFRS as of December 31, 2016.

The Group's accounting policies applied for the accompanying interim condensed consolidated financial statements are the same as the policies applied for the preparation of condensed consolidated financial statements as of and for the year ended December 31, 2016, except for the effects from the introduction of new and revised accounting standards or interpretations as described below:

The accompanying condensed consolidated financial statements are stated in Korean won, the currency of the country in which the Group is incorporated and operates. The translation of Korean won amounts into U.S. dollar amounts is included solely for the convenience of readers outside of the Republic of Korea and has been made at the rate of ₩1,116.10 to USD 1.00 on March 31, 2017, the base rate announced by Seoul Money Brokerage Services, Ltd. Such translations should not be construed as representations that the Korean won amounts could be converted into U.S. dollars at that or any other rate.

1) Accounting standards and interpretations that were newly applied for the three months ended March 31, 2017 and changes in the Group's accounting policies are as follows:

Amendments to K-IFRS 1012 – *Income Taxes*

The amendments clarify that when the Group assesses the probability of realizing the deferred tax asset to the deductible temporary differences related to debt instruments, the amount of the asset exceeds its carrying amount shall be estimated probable future taxable profit. The application of these amendments has no significant impact on the disclosure in the Group's consolidated financial statements.

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

Amendments to K-IFRS 1109 – *Financial Instruments*

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

With the introduction of K-IFRS 1109, necessary implementation procedures include preparation of the financial impact analysis, establishment of accounting policies and system and its stabilization. The financial statements of the year of adoption are affected not only by the accounting policies judgmentally set forth by the management, but also by the economic conditions of the Group during the period.

The Group is assessing a preliminary financial analysis in preparation of the adoption of K-IFRS 1109 and the general impact of the new standard on the financial statements is as follows:

A. Classification and measurement of financial assets

When the Group adopts new standard of K-IFRS 1109, the Group classifies financial assets as seen in the table below based on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset: as measured at amortized cost, fair value through other comprehensive income ("FVOCI") or fair value through profit or loss ("FVTPL"). If the host contract is determined in a hybrid contract, an entity may classify the entire hybrid contract as a financial asset rather than separating the embedded derivative from the host contract.

	Contractual cash flow characteristic	
Business model	Solely payments of principal and interest	Otherwise
Objective is to hold financial assets in order to collect contractual cash flows	Measured at amortized cost (*1)	
The financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets	FVOCI (*1)	FVTPL (*2)
Objective is to sell financial assets and others	FVTPL	

(*1) An entity may designate as measured at FVTPL to eliminate or significantly reduce an accounting mismatch (irrevocable).
(*2) An entity may designate as FVOCI for investments in equity instruments that are not held for trading (irrevocable).

The Group has loans and receivables of ₩2,547,227 million ($2,282,257 thousand), financial assets at FVTPL of ₩154 million ($138 thousand), held-to-maturity investments of ₩1,114 million ($998 thousand) and AFS financial assets of ₩241,075 million ($215,998 thousand) in the consolidated statement of financial position as of March 31, 2017.

B. Classification and measurement of financial liabilities

For financial liabilities designated as at FVTPL using the fair value option, K-IFRS 1109 requires the effects of changes in fair value attributable to an entity's credit risk to be recognized in other comprehensive income. The amounts presented in other comprehensive income are not subsequently transferred to profit or loss, unless this treatment of the credit risk component creates or enlarges a measurement mismatch.

As of March 31, 2017, the Group has financial assets at FVTPL of ₩27,847 million ($24,950 thousand) and financial liabilities measured at amortized cost of ₩15,873,734 million ($14,222,502 thousand).

C. Impairment: Financial assets and contract assets

Under K-IFRS 1039, the impairment is recognized only when there is an objective evidence of impairment based on incurred loss model, but under K-IFRS 1109, impairment is recognized based on expected credit loss model for debt instrument, lease receivables, contract assets, loan contracts and financial guarantee contracts that are measured at amortized cost or FVOCI.

In K-IFRS 1109, financial assets are classified into three stages depending on the extent of increase in the credit risk on financial instruments since initial recognition. The loss allowance is measured at an amount equal to 12-month expected credit losses or the lifetime expected credit losses and therefore credit losses will be recognized earlier than under the incurred loss model of K-IFRS 1039.

	Case	The loss allowance
Stage 1	Non-significant increase in credit risk since initial recognition	12-month expected credit losses: The portion of lifetime expected credit losses that represent the expected credit losses that result from default events on a financial instrument that are possible within the 12 months after the reporting date.
Stage 2	Significant increase in credit risk since initial recognition	Lifetime expected credit losses: The expected credit losses that result from all possible default events over the expected life of a financial instrument.
Stage 3	Credit-impaired financial assets	

Under K-IFRS 1109, an entity shall only recognize the cumulative changes in lifetime expected credit losses since initial recognition as a loss allowance for purchased or originated credit-impaired financial assets.

As of March 31, 2017, the Group has loans and receivables, debt instrument that are measured at FVOCI classified as AFS financial assets, held-to-maturity investments and finance lease receivables.

D. Hedge Accounting

The new standard, K-IFRS 1109, retains the mechanics of hedge accounting in K-IFRS 1039. Under the new model, it is possible for an entity to reflect its risk management activities on the financial statements by focusing on principle-based hedge effectiveness assessment instead of simply complying with a rule-based approach under the K-IFRS 1039. The new model introduced greater flexibility to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify as hedging instruments and overhauling the quantitative hedge effectiveness (80% – 125%) test.

In accordance with the transition requirements, entities with initial application may continue to retain the existing requirements under K-IFRS 1039 as their accounting policy.

As of March 31, 2017, the Group does not apply hedge accounting.

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.

The Group is planning to organize the internal management process and evaluate the potential impact on the financial statements in preparation of the adoption of K-IFRS 1109 for the year ending December 31, 2017, and is planning to disclose the financial impact of the adoption of the standard on the financial statements for the year ending December 31, 2017.

Amendments to K-IFRS 1102 – *Share-based Payment*

The amendments include: 1) when measuring the fair value of share-based payment, the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payment should be consistent with the measurement of equity-settled share-based payment, 2) share-based payment transaction in which the Group settles the share-based payment arrangement net by withholding a specified portion of the equity instruments per statutory tax withholding requirements would be classified as equity-settled in its entirety, if otherwise would be classified as equity-settled without the net settlement feature, and 3) when a cash-settled share-based payment changes to an equity-settled share-based payment because of modifications of the terms and conditions, the original liability recognized is derecognized and the equity-settled share-based payment is recognized at the modification date fair value. Any difference between the carrying amount of the liability at the modification date and the amount recognized in equity at the same date would be recognized in profit and loss immediately. The amendments are effective for annual periods beginning on or after January 1, 2018.

Enactment of K-IFRS Interpretation 2122 – *Foreign Currency Transactions and Advance Consideration*

The enactment of K-IFRS Interpretation 2122 clarify that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income is the date on which an entity pays or receives advance consideration. The enactment is effective for annual periods beginning on or after January 1, 2018.

Annual Improvements to K-IFRS 2014-2016 cycle

The annual improvements include the amendments to K-IFRS 1028 'Investments in Associates and Joint Ventures' which clarify that joint ventures can be applied to each of the associates measuring at fair value, and also include some amendments to K-IFRS 1101 'First-time Adoption of International Financial Reporting Standards.' The amendments are effective for annual periods beginning on or after January 1, 2018.

3. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY:

In the application of the Group's accounting policies, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. Actual results may differ from those estimates.

The application of the Group's accounting policies and the judgments by management on sources of estimation uncertainty are the same as those of the consolidated financial statements as of December 31, 2016.

4. SEGMENT INFORMATION:

(1) The Group's segment information is prepared for the purpose of resource allocation and assessment of segment performance. The Group's reportable segments are as follows:

Segment	Type of goods and services	Customers' information
Air transport	Passenger and cargo transportation	Individual, enterprises, government, etc.
Aerospace	Maintenance of aircraft and manufacture of aircraft parts	Department of defense, etc.
Flight meals	Catering of in-flight meals	Foreign airlines, etc.
Hotel/limousine, etc.	Hotel services and limousine transportation, etc.	Individual, etc.

(2) Operating results by reportable segment for the three months ended March 31, 2017, are as follows:

	Korean won						
	Air transport	Aerospace	In-flight meals	Hotel/ limousine	Others	Adjustment for consolidation	Total
				(In millions)			
Total sales	₩ 2,729,583	₩ 168,908	₩24,789	₩ 11,383	₩ 50,461	₩ (119,119)	₩ 2,866,005
Internal sales	(84,904)	—	—	(659)	(33,556)	119,119	—
Net sales	2,644,679	168,908	24,789	10,724	16,905	—	2,866,005
Operating income	185,749	(4,995)	7,690	(154)	3,262	(40)	191,512
Depreciation and amortization	(403,561)	(9,090)	(945)	(556)	(1,673)	(57)	(415,882)
Total assets	21,890,683	1,171,883	58,102	1,637,055	345,026	(1,192,405)	23,910,344
Total liabilities							21,078,942

	Translation into U.S. dollars (Note 2)						
	Air transport	Aerospace	In-flight meals	Hotel/ limousine	Others	Adjustment for consolidation	Total
				(In thousands)			
Total sales	$ 2,445,643	$ 151,338	$22,210	$ 10,199	$ 45,211	$ (106,727)	$ 2,567,874
Internal sales	(76,071)	—	—	(590)	(30,066)	106,727	—
Net sales	2,369,572	151,338	22,210	9,609	15,145	—	2,567,874
Operating income	166,427	(4,475)	6,890	(138)	2,922	(36)	171,590
Depreciation and amortization	(361,582)	(8,145)	(847)	(498)	(1,497)	(51)	(372,620)
Total assets	19,613,550	1,049,981	52,058	1,466,764	309,135	(1,068,368)	21,423,120
Total liabilities							18,886,249

(3) Operating results by geographical area for the three months ended March 31, 2017, are as follows:

	Korean won					
	Local companies		Overseas companies		Adjustment for consolidation	Total
	Domestic	International	Americas	Asia		
	(In millions)					
Total sales	₩515,358	₩ 2,458,452	₩ 3,664	₩ 7,650	₩ (119,119)	₩ 2,866,005
Internal sales		(109,745)	(3,611)	(5,763)	119,119	—
Net sales		2,864,065	53	1,887	—	2,866,005
Operating income		189,876	233	1,443	(40)	191,512
Total assets		23,471,061	1,611,097	20,591	(1,192,405)	23,910,344
Total liabilities						21,078,942

	Translation into U.S. dollars (Note 2)					
	Local companies		Overseas companies		Adjustment for consolidation	Total
	Domestic	International	Americas	Asia		
	(In thousands)					
Total sales	$461,749	$ 2,202,715	$ 3,283	$ 6,854	$ (106,727)	$ 2,567,874
Internal sales		(98,328)	(3,236)	(5,163)	106,727	—
Net sales		2,566,136	47	1,691	—	2,567,874
Operating income		170,125	209	1,293	(37)	171,590
Total assets		21,029,532	1,443,506	18,449	(1,068,367)	21,423,120
Total liabilities						18,886,249

(4) There is no single customer who accounted for more than 10% of the Group's revenue for the three months ended March 31, 2017 and 2016.

5. CASH AND CASH EQUIVALENTS:

Cash and cash equivalents as of March 31, 2017, and December 31, 2016, consist of the following:

	Korean won		Translation into U.S. dollars (Note 2)	
	2017	2016	2017	2016
	(In millions)		(In thousands)	
Cash on hand	₩ 110	₩ 256	$ 98	$ 230
Bank deposits	1,132,076	1,089,671	1,014,315	976,320
	₩1,132,186	₩1,089,927	$1,014,413	$976,550

6. RESTRICTED DEPOSITS:

Restricted deposits as of March 31, 2017, consist of the following:

	2017	Remark
	(In millions of won and in thousands of U.S. dollars)	
Short-term financial instruments	₩ 17,676	Performance guarantee deposit on the freight and pledged for the Floating Rate Note contract extension and others
	$ 50,716	Guarantee deposit on newly opened North America L/C and pledged for Hanjin Int'l Corp's borrowings
Held-to-maturity investments	₩ 690	Performance guarantee deposit on the mail delivery contract with Korea Post
AFS financial assets	₩ 96,125	Pledged for hybrid securities
	₩ 423	Performance guarantee for Korea Software Financial Cooperative and others
Long-term financial instruments	₩ 498	Pledged for industrial facility fund loans
	307	Performance guarantee for the U.S. Air Force delivery service and bank account deposit
	1,700	Rental guarantee for Incheon International Airport terminal
	1,001	Accident compensation for employees
	37	Garnishment for employees
	$ 35,388	Pledged for hybrid securities
	₩118,457	
	$ 86,104	

7. TRADE AND OTHER RECEIVABLES:

Trade and other receivables as of March 31, 2017, and December 31, 2016, consist of the following:

2017

	Korean won		Translation into U.S. dollars (Note 2)	
	Current	Non-current	Current	Non-current
	(In millions)		(In thousands)	
Trade receivables	₩637,943	₩ 2	$571,582	$ 2
Allowance for doubtful accounts	(6,623)	—	(5,934)	—
Discount on present value	—	—	—	—
	631,320	2	565,648	2
Short-term loans	42	46	38	41
Non-trade receivables	96,232	—	86,222	—
Allowance for doubtful accounts	(46,812)	—	(41,942)	—
	49,420	—	44,280	—
Accrued revenues	79,814	—	71,511	—
Allowance for doubtful accounts	(788)	—	(707)	—
	79,026	—	70,804	—
	₩759,808	₩ 48	$680,770	$ 43

2016

	Korean won		Translation into U.S. dollars (Note 2)	
	Current	Non-current	Current	Non-current
	(In millions)		(In thousands)	
Trade receivables	₩613,365	₩190	$549,561	$170
Allowance for doubtful accounts	(6,260)	—	(5,609)	—
Discount on present value	—	—	—	—
	607,105	190	543,952	170
Short-term loans	42	49	37	44
Non-trade receivables	118,671	—	106,326	—
Allowance for doubtful accounts	(47,052)	—	(42,157)	—
	71,619	—	64,169	—
Accrued revenues	59,843	—	53,618	—
Allowance for doubtful accounts	(11,696)	—	(10,479)	—
	48,147	—	43,139	—
	₩726,913	₩239	$651,297	$214

8. AFS FINANCIAL ASSETS:

AFS financial assets as of March 31, 2017, and December 31, 2016, consist of the following:

	Korean won		Translation into U.S. dollars (Note 2)	
	2017	2016	2017	2016
	(In millions)		(In thousands)	
Equity securities:				
Listed securities (*1)	₩117,442	₩ 97,983	$105,225	$ 87,790
Unlisted securities	50,370	50,370	45,130	45,130
Beneficiary certificates	4,200	2,100	3,763	1,881
Debt securities:				
Government and public bonds	6	6	6	6
Special bonds	53,912	53,912	48,304	48,304
Investments in other equity securities (*2)	15,145	15,086	13,569	13,517
	₩241,075	₩219,457	$215,997	$196,628

(*1) Listed securities amounting to ₩96,125 million ($86,126 thousand) are pledged for hybrid securities as of March 31, 2017 (see Note 6).

(*2) As of March 31, 2017, ₩423 million ($379 thousand) of investments in other equity securities are provided to Korea Software Financial Cooperative and others as collateral related to the performance payment guarantee (see Note 6).

The Group recognized no impairment loss for the three months ended March 31, 2017, as compared to an impairment loss of ₩110,000 million ($98,557 thousand), which occurred in corporate bonds of AFS financial assets for the three months ended March 31, 2016. There is no reversal of impairment loss occurred in AFS financial assets for the three months ended March 31, 2017 and 2016.

9. HELD-TO-MATURITY INVESTMENTS:

Held-to-maturity investments as of March 31, 2017, and December 31, 2016, consist of the following:

	Korean won			
	2017		2016	
	Current	Non-current	Current	Non-current
	(In millions)			
Government and public bonds (*)	₩120	₩994	₩129	₩1,001

	Translation into U.S. dollars (Note 2)			
	2017		2016	
	Current	Non-current	Current	Non-current
	(In thousands)			
Government and public bonds (*)	$108	$891	$115	$897

(*) Government and public bonds amounting to ₩690 million ($618 thousand) are pledged for performance guarantee as of March 31, 2017, and December 31, 2016 (see Note 6).

There are no held-to-maturity investments overdue or impaired for the three months ended March 31, 2017 and 2016.

10. INVENTORIES:

Inventories as of March 31, 2017, and December 31, 2016, consist of the following:

	Korean won					
	2017			2016		
	Acquisition cost	Valuation allowance	Book value	Acquisition cost	Valuation allowance	Book value
	(In millions)					
Merchandise	₩ 19,102	₩—	₩ 19,102	₩ 19,983	₩—	₩ 19,983
Finished goods	11,107	—	11,107	11,509	—	11,509
Raw materials	110,344	—	110,344	95,951	—	95,951
Supplies	407,333	—	407,333	363,310	—	363,310
Materials in transit	64,405	—	64,405	73,952	—	73,952
	₩612,291	₩—	₩612,291	₩564,705	₩—	₩564,705

	Translation into U.S. dollars (Note 2)					
	2017			2016		
	Acquisition cost	Valuation allowance	Book value	Acquisition cost	Valuation allowance	Book value
	(In thousands)					
Merchandise	$ 17,115	$ —	$ 17,115	$ 17,904	$ —	$ 17,904
Finished goods	9,952	—	9,952	10,311	—	10,311
Raw materials	98,866	—	98,866	85,970	—	85,970
Supplies	364,961	—	364,961	325,518	—	325,518
Materials in transit	57,705	—	57,705	66,260	—	66,260
	$ 548,599	$ —	$ 548,599	$ 505,963	$ —	$ 505,963

11. FINANCE LEASE RECEIVABLES:

(1) The Group has offered the finance leases of the aircraft, and the minimum lease payments and present value of the finance leases as of March 31, 2017, and December 31, 2016, are as follows:

	Korean won		Translation into U.S. dollars (Note 2)	
Description	2017	2016	2017	2016
	(In millions)		(In thousands)	
Less than one year	₩ 34,655	₩ 22,964	$ 31,050	$ 20,575
One year to five years	119,492	53,148	107,062	47,619
	154,147	76,112	138,112	68,194
Present value discounts	(41,891)	(7,693)	(37,534)	(6,892)
	112,256	68,419	100,578	61,302
Less: current portion of finance lease receivables	(23,433)	(18,698)	(20,995)	(16,753)
	₩ 88,823	₩ 49,721	$ 79,583	$ 44,549

(2) Finance lease receivables were not impaired for the three months ended March 31, 2017 and 2016.

12. INVESTMENTS IN SUBSIDIARIES:

(1) Investments in subsidiaries as of March 31, 2017, and December 31, 2016, consist of the following:

			Ownership of Group	
Description	Principal business	Location	2017	2016
			(%)	
Korea Airport Service Co., Ltd.	Airport support service	Korea	59.54	59.54
Hanjin Information Systems & Telecommunication Co., Ltd	Software development and supply	Korea	99.35	99.35
Air Total Service Co., Ltd.	Labor supply	Korea	100.00	100.00
Hanjin International Corp.	Hotel and rental service	USA	100.00	100.00
Hanjin Central Asia MChJ.	Hotel business	Uzbekistan	100.00	100.00
IAT Co., Ltd.	Aircraft engine repair service	Korea	86.13	86.13
WLD Co., Ltd.	Sports and leisure service	Korea	100.00	100.00
Korea Global Logistics System Co., Ltd.	Telecommunication service	Korea	95.00	95.00
Air Korea Co., Ltd.	Airport support service	Korea	100.00	100.00
Hanjin Int'l Japan Co., Ltd.	Airport support service	Japan	50.00	50.00
TAS	Seconding personnel service	USA	100.00	100.00
Cyber Sky Co., Ltd	Online sales	Korea	100.00	100.00
KAL 7 Asset Securitization Specialty Company (*)	Issuance and repayment of ABS loans	Korea	—	0.50
KAL 9 Asset Securitization Specialty Company (*)	Issuance and repayment of ABS loans	Korea	0.50	0.50
KAL 11 Asset Securitization Specialty Company (*)	Issuance and repayment of ABS loans	Korea	0.50	0.50
KAL 11B Asset Securitization Specialty Company (*)	Issuance and repayment of ABS loans	Korea	0.50	0.50
KAL 11C Asset Securitization Specialty Company (*)	Issuance and repayment of ABS loans	Korea	0.50	0.50
KAL 12 Asset Securitization Specialty Company (*)	Issuance and repayment of ABS loans	Korea	0.50	0.50

Description	Principal business	Location	Ownership of Group 2017	2016
			(%)	
KAL 13 Asset Securitization Specialty Company (*)	Issuance and repayment of ABS loans	Korea	0.50	0.50
KAL 14 Asset Securitization Specialty Company (*)	Issuance and repayment of ABS loans	Korea	0.50	0.50
KAL 15 Asset Securitization Specialty Company (*)	Issuance and repayment of ABS loans	Korea	0.50	0.50
KAL 16 Asset Securitization Specialty Company (*)	Issuance and repayment of ABS loans	Korea	0.50	0.50
KAL 17 Asset Securitization Specialty Company (*)	Issuance and repayment of ABS loans	Korea	0.50	0.50
KAL 18 Asset Securitization Specialty Company (*)	Issuance and repayment of ABS loans	Korea	0.50	0.50
KAL 19 Asset Securitization Specialty Company (*)	Issuance and repayment of ABS loans	Korea	0.50	0.50
KAL 20 Asset Securitization Specialty Company (*)	Issuance and repayment of ABS loans	Korea	0.50	0.50

(*) The Group classified KAL Asset Securitization Specialty Companies as investments in subsidiaries because the Group controls an investee when it is exposed or has the rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

(2) Financial information of the Group's major subsidiaries as of March 31, 2017, is as follows:

	Korean won			
	Korea Airport Service Co., Ltd.	Hanjin Information Systems & Telecommunication Co., Ltd.	Korea Global Logistics System Co., Ltd	Hanjin International Corp.
	(In millions)			
Current assets	₩156,948	₩51,278	₩3,407	₩ 217,705
Non-current assets	208,016	31,367	74	1,393,392
	₩364,964	₩82,645	₩3,481	₩1,611,097
Current liabilities	₩ 41,388	₩15,092	₩1,180	₩ 891,832
Non-current liabilities	45,920	10,814	58	3,630
	₩ 87,308	₩25,906	₩1,238	₩ 895,462
Shareholders' equity	₩277,656	₩56,739	₩2,243	₩ 715,635

	Translation into U.S. dollars (Note 2)			
	Korea Airport Service Co., Ltd.	Hanjin Information Systems & Telecommunication Co., Ltd.	Korea Global Logistics System Co., Ltd	Hanjin International Corp.
	(In thousands)			
Current assets	$ 140,621	$ 45,944	$ 3,052	$ 195,059
Non-current assets	186,378	28,104	67	1,248,447
	$ 326,999	$ 74,048	$ 3,119	$ 1,443,506
Current liabilities	$ 37,083	$ 13,522	$ 1,057	$ 799,061
Non-current liabilities	41,143	9,689	52	3,253
	$ 78,226	$ 23,211	$ 1,109	$ 802,314
Shareholders' equity	$ 248,773	$ 50,837	$ 2,010	$ 641,192

(3) Financial performances of the Group's major subsidiaries for the three months ended March 31, 2017, are as follows:

	Korean won			
	Korea Airport Service Co., Ltd.	Hanjin Information Systems & Telecommunication Co., Ltd.	Korea Global Logistics System Co., Ltd	Hanjin International Corp.
	(In millions)			
Sales	₩101,007	₩36,098	₩758	₩3,664
Operating income	3,527	1,875	260	233
Net income	₩ 1,965	₩ 1,105	₩215	₩1,794

	Translation into U.S. dollars (Note 2)			
	Korea Airport Service Co., Ltd.	Hanjin Information Systems & Telecommunication Co., Ltd.	Korea Global Logistics System Co., Ltd	Hanjin International Corp.
	(In thousands)			
Sales	$90,500	$32,343	$679	$3,283
Operating income	3,160	1,680	233	209
Net income	$ 1,761	$ 990	$193	$1,607

(4) Cash flows of the Group's major subsidiaries for the three months ended March 31, 2017, are as follows:

	Korean won			
	Korea Airport Service Co., Ltd.	Hanjin Information Systems & Telecommunication Co., Ltd.	Korea Global Logistics System Co., Ltd	Hanjin International Corp.
	(In millions)			
Cash flows from operating activities	₩ 322	₩2,809	₩ 224	₩ 389
Cash flows from investing activities	(6,692)	1,928	16	(100,980)
Cash flows from financing activities	(37)	—	—	57,757
Net changes in cash and cash equivalents	(6,407)	4,737	240	(42,834)
Changes in cash and cash equivalents due to foreign currency translation	(1)	—	—	(20,002)
Beginning balance	18,219	2,580	864	280,538
Ending balance	₩11,811	₩7,317	₩1,104	₩ 217,702

	Translation into U.S. dollars (Note 2)			
	Korea Airport Service Co., Ltd.	Hanjin Information Systems & Telecommunication Co., Ltd.	Korea Global Logistics System Co., Ltd	Hanjin International Corp.
	(In thousands)			
Cash flows from operating activities	$ 288	$2,517	$201	$ 349
Cash flows from investing activities	(5,996)	1,727	15	(90,476)
Cash flows from financing activities	(33)	—	—	51,749
Net changes in cash and cash equivalents	(5,741)	4,244	216	(38,378)
Changes in cash and cash equivalents due to foreign currency translation	(1)	—	—	(17,921)
Beginning balance	16,324	2,311	774	251,355
Ending balance	$10,582	$6,555	$990	$195,056

(5) The ownership ratio of non-controlling interests' financial position as of March 31, 2017, financial performances for the three months ended March 31, 2017, and dividend paid to non-controlling interests of major subsidiaries are as follows:

	Korean won		
	Korea Airport Service Co., Ltd.	Hanjin Information Systems & Telecommunication Co., Ltd.	Korea Global Logistics System Co., Ltd.
		(In millions)	
Ownership ratio (*)	38.36%	0.65%	5.00%
Non-controlling interests	₩107,035	₩ 385	₩ 112
Net income attributable to non-controlling interests	698	7	11
Dividend paid to non-controlling interests	587	2	40

	Translation into U.S. dollars (Note 2)		
	Korea Airport Service Co., Ltd.	Hanjin Information Systems & Telecommunication Co., Ltd.	Korea Global Logistics System Co., Ltd.
		(In thousands)	
Ownership ratio (*)	38.36%	0.65%	5.00%
Non-controlling interests	$95,901	$ 345	$ 101
Net income attributable to non-controlling interests	626	6	10
Dividend paid to non-controlling interests	526	2	36

(*) Ownership of non-controlling interest is calculated based on number of shares outstanding except treasury shares. It may differ from percentage of shares that is deducted by simply adding up each subsidiary's share.

13. INVESTMENTS IN ASSOCIATES:

(1) Investments in associates as of March 31, 2017, and December 31, 2016, consist of the following:

2017

				Korean won		
Description	Principal business	Location	Ownership	Acquisition cost	Book value	Closing month
			(%)	(In millions)		
EIGHTCITY Co., Ltd. (*1)	Real estate	Korea	23.81%	₩1,500	₩ —	December
Czech Airlines j.s.c. (*2)	Airline services	Czech	44.00%	3,905	18,141	December
				₩5,405	₩18,141	

				Translation into U.S. dollars (Note 2)		
Description	Principal business	Location	Ownership	Acquisition cost	Book value	Closing month
			(%)	(In thousands)		
EIGHTCITY Co., Ltd. (*1)	Real estate	Korea	23.81%	1,344	—	December
Czech Airlines j.s.c. (*2)	Airline services	Czech	44.00%	3,498	16,254	December
				$4,842	$16,254	

2016

Description	Principal business	Location	Ownership	Korean won Acquisition cost	Korean won Book value	Closing month
			(%)	(In millions)		
EIGHTCITY Co., Ltd. (*1)	Real estate	Korea	23.81%	1,500	—	December
Czech Airlines j.s.c. (*2)	Airline services	Czech	44.00%	3,905	24,387	December
				₩5,405	₩24,387	

Description	Principal business	Location	Ownership	Translation into U.S. dollars (Note 2) Acquisition cost	Translation into U.S. dollars (Note 2) Book value	Closing month
			(%)	(In thousands)		
EIGHTCITY Co., Ltd. (*1)	Real estate	Korea	23.81%	1,344	—	December
Czech Airlines j.s.c. (*2)	Airline services	Czech	44.00%	3,498	21,850	December
				$4,842	$21,850	

(*1) Investment in EIGHTCITY Co., Ltd. was fully impaired prior to 2016

(*2) The Group resumed applying the equity method for Czech Airlines j.s.c. for the year ended December 31, 2016.

(2) Changes in investments in associates for the three months ended March 31, 2017 and 2016, are as follows:

2017

	Korean won					
	Beginning balance	Acquisition	Gain (loss) on valuation of equity method	Net change in interests of equity method	Others	Ending balance
	(In millions)					
Czech Airlines j.s.c.	₩24,387	₩—	₩(3,854)	₩(1,933)	₩(459)	₩18,141
EIGHT CITY Co., Ltd.	—	—	—	—	—	—

	Translation into U.S. dollars (Note 2)					
	Beginning balance	Acquisition	(Gain) loss on valuation of equity method	Net change in interests of equity method	Others	Ending balance
	(In thousands)					
Czech Airlines j.s.c.	$21,850	$—	$(3,453)	$(1,732)	$(411)	$16,254
EIGHT CITY Co., Ltd.	—	—	—	—	—	—

2016

	Korean won					
	Beginning balance	Acquisition	Gain on valuation of equity method	Net change in interests of equity method	Others (*)	Ending balance
	(In millions)					
Hanjin Shipping Co., Ltd. (*)	₩519,974	₩—	₩(37,044)	₩(3,871)	₩(217,050)	₩262,009
Czech Airlines j.s.c.	—	—	—	—	—	—
EIGHT CITY Co., Ltd.	—	—	—	—	—	—
	₩519,974	₩—	₩(37,044)	₩(3,871)	₩(217,050)	₩262,009

	Translation into U.S. dollars (Note 2)					
	Beginning balance	Acquisition	Gain on valuation of equity method	Net change in interests of equity method	Others (*)	Ending balance
	(In thousands)					
Hanjin Shipping Co., Ltd. (*)	$465,885	$—	$(33,190)	$(3,468)	$(194,471)	$234,756
Czech Airlines j.s.c.	—	—	—	—	—	—
EIGHT CITY Co., Ltd.	—	—	—	—	—	—
	$465,885	$—	$(33,190)	$(3,468)	$(194,471)	$234,756

(*) Other increase (decrease) was due to the recognition of an impairment loss, the changes of in retained earnings–equity method–accounted investments and others related to the shares of Hanjin Shipping Co., Ltd.

(3) Financial information of the Group's investments in associates as of March 31, 2017, is as follows:

2017

	Korean won	Translation into U.S. dollars (Note 2)
	Czech Airlines j.s.c.	Czech Airlines j.s.c.
	(In millions)	(In thousands)
Current assets	₩106,651	$ 95,557
Non-current assets	72,327	64,804
	₩178,978	$ 160,361
Current liabilities	₩128,431	$ 115,072
Non-current liabilities	9,318	8,349
	₩137,749	$ 123,421
	₩ 41,229	₩ 36,940
Sales	₩ 65,187	$ 58,406
Operating income	₩ (8,760)	$ (7,849)

(4) Adjustments from equity of associates to book value of shares owned as of March 31, 2017, are as follows:

	Korean won	Translation into U.S. dollars (Note 2)
	Czech Airlines j.s.c.	Czech Airlines j.s.c.
	(In millions)	(In thousands)
Net assets (A)	₩41,229	$36,940
Ownership ratio (B)	44.00%	44.00%
(A)×(B)	18,141	16,254
Investment difference and others	—	—
Book value	₩18,141	$16,254

14. INTERESTS IN JOINT OPERATIONS:

The Group owns a joint investment building, which has the significant joint arrangement. Under the joint arrangement, the Group has 70% ownership of the building, INHA International Medical Center, which is located at Jung-gu, Incheon. The Group recognized income and expenses in relation to its share.

15. PROPERTY, AIRCRAFT AND EQUIPMENT:

(1) Changes in property, aircraft and equipment for the three months ended March 31, 2017 and 2016, are as follows:

2017

	Korean won					
	Beginning balance	Acquisition	Disposal	Depreciation	Others (*)	Ending balance
	(In millions)					
Land	₩ 1,975,292	₩ —	₩ —	₩ —	₩ (4,842)	₩ 1,970,450
Leased land	21,460	—	—	—	—	21,460
Buildings	535,986	—	—	(5,650)	(1,121)	529,215
Structures	74,184	—	—	(1,149)	(1)	73,034
Machinery	82,083	17	—	(3,103)	—	78,997
Aircraft	1,763,460	2,810	(35,024)	(58,863)	25,841	1,698,224
Engines	715,637	32,506	(5,207)	(52,608)	39,568	729,896
Leased aircraft	8,130,925	33,378	(27,503)	(171,725)	69,339	8,034,414
Leased engines	2,202,542	9,219	(14,634)	(98,002)	75,510	2,174,635
Aircraft parts	125,749	38,200	(320)	(3,655)	(1,795)	158,179
Others	153,463	7,969	(54)	(9,758)	980	152,600
Construction in progress	2,092,501	549,598	(3)	—	(410,411)	2,231,685
	₩17,873,282	₩673,697	₩(82,745)	₩(404,513)	₩(206,932)	₩17,852,789

	Translation into U.S. dollars (Note 2)					
	Beginning balance	Acquisition	Disposal	Depreciation	Others (*)	Ending balance
	(In thousands)					
Land	$ 1,769,816	$ —	$ —	$ —	$ (4,338)	$ 1,765,478
Leased land	19,228	—	—	—	—	19,228
Buildings	480,231	—	—	(5,062)	(1,005)	474,164
Structures	66,467	—	—	(1,029)	(1)	65,437
Machinery	73,545	15	—	(2,780)	—	70,780
Aircraft	1,580,020	2,517	(31,381)	(52,740)	23,153	1,521,569
Engines	641,195	29,125	(4,665)	(47,136)	35,452	653,971
Leased aircraft	7,285,122	29,906	(24,642)	(153,862)	62,127	7,198,651
Leased engines	1,973,427	8,260	(13,111)	(87,807)	67,655	1,948,424
Aircraft parts	112,668	34,226	(287)	(3,274)	(1,609)	141,724
Others	137,500	7,140	(49)	(8,743)	877	136,725
Construction in progress	1,874,832	492,427	(3)	—	(367,718)	1,999,538
	$16,014,051	$603,616	$(74,138)	$(362,433)	$(185,407)	$15,995,689

(*) Other increase or decrease was mainly due to the transfer of construction in progress and consisted of the transfer of property, aircraft and equipment to investment properties, the transfer of assets held for sale, impairment loss and others.

2016

	Korean won					
	Beginning balance	Acquisition	Disposal	Depreciation	Others (*)	Ending balance
	(In millions)					
Land	₩ 1,957,074	₩ —	₩ —	₩ —	₩ (11,209)	₩ 1,945,865
Leased land	21,460	—	—	—	—	21,460
Buildings	519,278	—	—	(5,364)	(3,934)	509,980
Structures	77,994	549	—	(1,154)	—	77,389
Machinery	88,956	358	(4)	(4,010)	56	85,356
Aircraft	2,186,987	49,739	—	(85,621)	160	2,151,265
Engines	821,888	—	—	(69,772)	78,198	830,314
Leased aircraft	7,807,500	8,649	—	(163,461)	91,903	7,744,591
Leased engines	1,961,370	49,575	—	(85,542)	72,319	1,997,722
Aircraft parts	119,253	3,417	(496)	(3,084)	(688)	118,402
Others	126,624	12,936	(313)	(8,916)	8,449	138,780
Construction in progress	2,162,319	435,042	(450)	—	(368,921)	2,227,990
	₩17,850,703	₩560,265	₩(1,263)	₩(426,924)	₩(133,667)	₩17,849,114

	Translation into U.S. dollars (Note 2)					
	Beginning Balance	Acquisition	Disposal	Depreciation	Others (*)	Ending balance
	(In thousands)					
Land	$ 1,753,493	$ —	$ —	$ —	$ (10,043)	$ 1,743,450
Leased land	19,228	—	—	—	—	19,228
Buildings	465,261	—	—	(4,806)	(3,525)	456,930
Structures	69,881	492	—	(1,034)	—	69,339
Machinery	79,703	321	(4)	(3,593)	50	76,477
Aircraft	1,959,490	44,565	—	(76,714)	143	1,927,484
Engines	736,392	—	—	(62,514)	70,064	743,942
Leased aircraft	6,995,340	7,750	—	(146,457)	82,343	6,938,976
Leased engines	1,757,342	44,418	—	(76,644)	64,796	1,789,912
Aircraft parts	106,848	3,062	(445)	(2,764)	(616)	106,085
Others	113,453	11,589	(280)	(7,988)	7,571	124,345
Construction in progress	$ 1,937,389	$389,788	$ (403)	$ —	$(330,545)	$ 1,996,229
	$15,993,820	$501,985	$(1,132)	$(382,514)	$(119,762)	$15,992,397

(*) Other increase or decrease was mainly due to the transfer of construction in progress and consisted of the transfer of property, aircraft and equipment to investment properties, the transfer of assets held for sale, impairment loss on property and others.

(2) The Group capitalized borrowing costs of ₩4,632 million ($4,150 thousand) into construction in progress for the three months ended March 31, 2017. For the determination of borrowing costs, the Group used the interest rate of 2.84%, the weighted-average cost of the general borrowings, and the subsidiaries used the interest rate of 3ML + 1.80%–3.30%, 4.12%, the cost of the borrowings specifically for the purpose of obtaining a qualifying asset for the three months ended March 31, 2017.

(3) The Group has been applying asset revaluation model to land and as of June 30, 2013, the Group revaluated land by using value that was appraised by an independent and professional appraiser, Hana Appraisal & Consulting Co., Ltd. The revaluation method is appraised using value of land basis method that uses standard land price that is near by the land similar to utility value considering the ratio of changing land price, the ratio of increasing producer price index, location, shape, environment, state of usage of land and

other factors of valuation from the date of public announcement of land value to June 30, 2013. There is no change in the valuation method for the three months ended March 31, 2017. The book values of land by revaluation model and cost model are as follows:

	Korean won		Translation into U.S. dollars (Note 2)	
	Revaluation model	Cost model	Revaluation model	Cost model
	(In millions)		(In thousands)	
Land	₩1,970,450	₩1,602,817	$1,765,478	$1,436,087
Leased land	21,460	13,385	19,228	11,993
	₩1,991,910	₩1,616,202	$1,784,706	$1,448,080

The Group has recognized revaluation surplus of ₩422,946 million ($378,950 thousand, before income tax) and recognized accumulated revaluation loss of ₩47,237 million ($42,323 thousand) for the period from June 30, 2013, to March 31, 2017.

(4) Fair value measurements of land and leased land by fair value hierarchy levels as of March 31, 2017, are as follows:

	Korean won			
	Level 1	Level 2	Level 3	Total
			(In millions)	
Land	₩—	₩—	₩1,970,450	₩1,970,450
Leased land	—	—	21,460	21,460
	₩—	₩—	₩1,991,910	₩1,991,910

	Translation into U.S. dollars (Note 2)			
	Level 1	Level 2	Level 3	Total
			(In thousands)	
Land	$—	$—	$1,765,478	$1,765,478
Leased land	—	—	19,228	19,228
	$—	$—	$1,784,706	$1,784,706

(5) There was no movement between Level 1 and Level 2 for the three months ended March 31, 2017.

16. PLEDGED ASSETS AND GUARANTEES (NON-FINANCIAL ASSETS):

(1) Significant pledged assets provided as collateral and guarantees for the Group as of March 31, 2017, are as follows (in millions of Korean won, except for share data):

Pledged assets	Book value	Collateralized amount/shares (*4)	Provided to	In relation to
Land/buildings (*1)	3,385,176	3,746,593	Korea Development Bank ("KDB") and others	Short-term and long-term borrowings and borrowings of Hanjin International Corp., etc.
Aircraft and engines (*2)	1,951,555	3,322,471		
Machinery	11,529	9,751		
Facility usage rights	47,968	140,000		
Investment in subsidiaries — Hanjin Int'l Corp. (*3)	—	91,440,000 Shares	Industrial Bank of Korea and others	Borrowings of Hanjin International Corp.
	5,396,228			

(*1) The book value of land and buildings provided as collateral consists of tangible assets and investment properties.
(*2) The aircrafts and engines provided as collateral are composed of tangible assets.
(*3) Investments in subsidiaries (Hanjin Int'l Corp.) provided as collateral are part of the Group, and therefore carry no book value on the financial statements.
(*4) The collateralized amounts of the pledged assets provided as collateral and guarantees in foreign currency are translated into Korean won at the exchange rate on March 31, 2017.

(2) The Group has provided leased aircraft, leased engines and leased land as collateral to the lessor for the obligations under finance leases.

17. INVESTMENT PROPERTIES:

(1) Changes in the carrying amount of investment properties for the three months ended March 31, 2017 and 2016, are as follows:

2017

	Korean won				
	Beginning balance	Acquisition	Depreciation	Others (*)	Ending balance
			(In millions)		
Land	₩ 64,981	₩—	₩ —	₩(4,649)	₩ 60,332
Buildings	16,520	—	(167)	4,171	20,524
Construction in progress	243,380	—	—	(2,944)	240,436
	₩324,881	₩—	₩(167)	₩(3,422)	₩321,292

	Translation into U.S. dollars (Note 2)				
	Beginning balance	Acquisition	Depreciation	Others (*)	Ending balance
			(In thousands)		
Land	$ 58,222	$—	$ —	$(4,166)	$ 54,056
Buildings	14,802	—	(150)	3,737	18,389
Construction in progress	218,062	—	—	(2,637)	215,425
	$291,086	$—	$(150)	$(3,066)	$287,870

(*) Other increase or decrease was due to the transfer of property, aircraft and equipment to investment property and exchange rate fluctuations.

2016

	Korean won				
	Beginning balance	Acquisition	Depreciation	Others (*)	Ending balance
			(In millions)		
Land	₩ 63,173	₩ —	₩ —	₩10,143	₩ 73,316
Buildings	19,583	—	(241)	3,308	22,650
Construction in progress	226,764	36,178	—	(3,580)	259,362
	₩309,520	₩36,178	₩(241)	₩ 9,871	₩355,328

	Translation into U.S. dollars (Note 2)				
	Beginning Balance	Acquisition	Depreciation	Others (*)	Ending balance
			(In thousands)		
Land	$ 56,601	$ —	$ —	$ 9,088	$ 65,689
Buildings	17,546	—	(216)	2,963	20,293
Construction in progress	203,176	32,414	—	(3,207)	232,383
	$277,323	$32,414	$(216)	$ 8,844	$318,365

(*) Other increase or decrease was due to the transfer of property, aircraft and equipment to investment property and exchange rate fluctuations.

(2) Revenue and cost related to investment properties for the three months ended March 31, 2017 and 2016, are as follows:

	Korean won		Translation into U.S. dollars (Note 2)	
	2017	2016	2017	2016
	(In millions)		(In thousands)	
Rental income	₩775	₩720	$695	$645
Rental cost (depreciation)	167	241	150	216

18. INTANGIBLE ASSETS:

Changes in the carrying amount of intangible assets for the three months ended March 31, 2017 and 2016, are as follows:

2017

	Korean won					
	Beginning balance	Acquisition	Disposal	Amortization	Others (*)	Ending balance
			(In millions)			
Goodwill	₩ 17,515	₩—	₩—	₩ —	₩—	₩ 17,515
Facility usage rights	84,416	—	—	(2,510)	—	81,906
Research and development costs	48,313	—	—	(3,980)	—	44,333
Other intangibles	254,786	302	—	(4,713)	(4)	250,371
	₩405,030	₩302	₩—	₩(11,203)	₩ (4)	₩394,125

	Translation into U.S. dollars (Note 2)					
	Beginning balance	Acquisition	Disposal	Amortization	Others (*)	Ending balance
			(In thousands)			
Goodwill	$ 15,693	$—	$—	$ —	$—	$ 15,693
Facility usage rights	75,635	—	—	(2,249)	—	73,386
Research and development costs	43,287	—	—	(3,566)	—	39,721
Other intangibles	228,283	270	—	(4,222)	(4)	224,327
	$362,898	$270	$—	$(10,037)	$ (4)	$353,127

(*) Other increase or decrease was mainly due to the transfer of construction in progress

2016

	Korean won					
	Beginning balance	Acquisition	Disposal	Amortization	Others (*)	Ending balance
	(In millions)					
Goodwill	₩ 4,320	₩—	₩—	₩ —	₩—	₩ 4,320
Facility usage rights	94,458	—	—	(2,510)	—	91,948
Research and development costs	67,341	—	—	(4,319)	—	63,022
Other intangibles	128,625	644	(78)	(2,151)	(62)	126,978
	₩294,744	₩644	₩ (78)	₩(8,980)	₩ (62)	₩286,268

	Translation into U.S. dollars (Note 2)					
	Beginning balance	Acquisition	Disposal	Amortization	Others (*)	Ending balance
	(In thousands)					
Goodwill	$ 3,871	$—	$—	$ —	$—	$ 3,871
Facility usage rights	84,632	—	—	(2,249)	—	82,383
Research and development costs	60,336	—	—	(3,869)	—	56,467
Other intangibles	115,245	577	(70)	(1,928)	(57)	113,767
	$264,084	$577	$ (70)	$(8,046)	$ (57)	$256,488

(*) Other increase or decrease was mainly due to the transfer of construction in progress.

19. OTHER FINANCIAL ASSETS:

Other financial assets as of March 31, 2017, and December 31, 2016, consist of the following:

	Korean won		Translation into U.S. dollars (Note 2)	
	2017	2016	2017	2016
	(In millions)		(In thousands)	
Guarantee deposits	₩358,268	₩329,751	$321,000	$295,450

The Group provides guarantee deposits of JPY 3,102,949 thousand, $32,358 thousand and HKD 407,625 thousand for ABS loans (see Note 22). There were no overdues or impaired other financial assets for the three months ended March 31, 2017 and 2016.

20. OTHER ASSETS:

Other assets as of March 31, 2017, and December 31, 2016, consist of the following:

	Korean won			
	2017		2016	
	Current	Non-current	Current	Non-current
	(In millions)			
Advance payments (*)	₩398,378	₩ 58	₩415,402	₩ 58
Prepaid expenses	126,520	181,433	119,496	244,276
Others	14,175	3,157	14,840	3,157
	₩539,073	₩184,648	₩549,738	₩247,491

	Translation into U.S. dollars (Note 2)			
	2017		2016	
	Current	Non-current	Current	Non-current
	(In thousands)			
Advance payments (*)	$356,937	$ 52	$372,190	$ 52
Prepaid expenses	113,359	162,560	107,066	218,865
Others	12,701	2,829	13,298	2,828
	$482,997	$165,441	$492,554	$221,745

(*) The Group provides advance payments of ₩140,657 million ($126,025 thousand), JPY 4,210,767 thousand, $ 21,079 thousand and HKD 155,010 thousand for ABS loans (see Note 22).

21. TRADE AND OTHER PAYABLES:

Trade and other payables as of March 31, 2017, and December 31, 2016, consist of the following:

	Korean won			
	2017		2016	
	Current	Non-current	Current	Non-current
	(In millions)			
Trade payables	₩138,426	₩ —	₩113,876	₩ —
Non-trade payables	173,797	12,077	181,357	16,403
Accrued expenses	573,429	12,748	550,916	13,870
Dividends payable	2,885	—	3	—
	₩888,537	₩24,825	₩846,152	₩30,273

	Translation into U.S. dollars (Note 2)			
	2017		2016	
	Current	Non-current	Current	Non-current
	(In thousands)			
Trade payables	$124,027	$ —	$102,030	$ —
Non-trade payables	155,718	10,822	162,492	14,697
Accrued expenses	513,779	11,421	493,608	12,427
Dividends payable	2,585	—	3	—
	$796,109	$22,243	$758,133	$27,124

22. BORROWINGS AND DEBENTURES:

(1) Short-term borrowings as of March 31, 2017, and December 31, 2016, consist of the following:

	Lender	Annual interest rate	Korean won 2017	Korean won 2016	Translation into U.S. dollars (Note 2) 2017	Translation into U.S. dollars (Note 2) 2016
			(In millions)		(In thousands)	
Local currency short-term borrowings	KDB	3.57%	₩ 70,000	₩ 70,000	$ 62,718	$ 62,718
	NongHyup Bank	3M CD + 1.86% 6M Market Opportunity Rate (MOR) + 1.71%	199,500	211,500	178,747	189,499
			269,500	281,500	241,465	252,217
Foreign currency short-term borrowings	KDB	3M London InterBank Offered Rate (LIBOR) + 1.95%–2.80%	368,313	398,805	330,000	357,320
	KDB (Singapore branch)	3M LIBOR + 2.80%	27,902	54,383	25,000	48,725
	Hana Bank and others	3M LIBOR + 1.65%–3.60%	414,703	433,284	371,565	388,214
			810,918	886,472	726,565	794,259
			₩1,080,418	₩1,167,972	$968,030	$1,046,476

(2) Long-term borrowings as of March 31, 2017, and December 31, 2016, consist of the following:

	Lender	Annual interest rate	Maturity	Korean won 2017	Korean won 2016	Translation into U.S. dollars (Note 2) 2017	Translation into U.S. dollars (Note 2) 2016
				(In millions)		(In thousands)	
Local currency long-term borrowings	KDB	4.01%–4.28%	2022-12-15	₩ 81,785	₩ 83,540	$ 73,278	$ 74,850
	Korea Resource Corporation	2.60%	2019-12-15	348	380	312	340
	Kookmin bank and others	2.50%–4.35%	2023-12-15	10,521	65,669	9,426	58,838
				92,654	149,589	83,016	134,028
Foreign currency long-term borrowings	KDB	3M LIBOR + 0.57%–2.70%	2025-09-30	406,456	449,834	364,175	403,041
		1.79%–1.84	2019-09-26	226,596	240,844	203,025	215,791
		3M JPY LIBOR + 2.00%	2018-04-09	37,444	46,656	33,549	41,803
	The Export-Import Bank of Korea	3M LIBOR + 2.51%	2024-06-27	134,615	150,786	120,612	135,101
	Industrial Bank of Korea	LIBOR + 3.30%	2017-10-24	279,025	241,700	250,000	216,558
	Bank of Communications	3M LIBOR + 2.70%	2023-08-28	196,084	220,484	175,687	197,548
	Hana Bank and others	3M LIBOR + 2.20%–4.00%	2020-06-27	137,295	142,702	123,013	127,858
				1,417,515	1,493,006	1,270,061	1,337,700
				1,510,169	1,642,595	1,353,077	1,471,728
	Less: current portion of long-term borrowings			(711,524)	(626,506)	(637,509)	(561,335)
				₩ 798,645	₩1,016,089	$ 715,568	$ 910,393

(3) Debentures as of March 31, 2017, and December 31, 2016, consist of the following:

Series	Issue date	Maturity	Annual interest rate	Korean won 2017	Korean won 2016	Translation into U.S. dollars (Note 2) 2017	Translation into U.S. dollars (Note 2) 2016
				(In millions)		(In thousands)	
46-2nd	2012-07-19	2017-07-19	3.98%	₩ 247,994	₩ 247,992	$ 222,197	$ 222,195
47-2nd	2012-10-08	2019-10-08	4.16%	250,000	250,000	223,994	223,994
49-3rd	2012-12-13	2019-12-13	4.36%	170,000	170,000	152,316	152,316
58th (*1)	2015-02-27	2018-02-27	3M JPY LIBOR + 2.00%	99,852	103,681	89,465	92,896
59th	2015-08-31	2018-08-31	4.75%	200,000	200,000	179,195	179,195
60th	2016-02-17	2018-02-17	4.80%	150,000	150,000	134,397	134,397
61st	2016-02-25	2017-02-25	—	—	70,503	—	63,169
63-1st	2016-03-21	2017-03-21	—	—	36,255	—	32,484
63-2nd (*2)	2016-03-21	2018-03-21	3M LIBOR + 1.10%	33,483	36,255	30,000	32,484
63-3rd (*2)	2016-03-21	2019-03-21	3M LIBOR + 1.20%	44,644	48,340	40,000	43,312
62nd	2016-04-12	2018-04-12	4.90%	250,000	250,000	223,994	223,994
64th	2016-04-20	2017-04-20	4.09%	50,000	50,000	44,799	44,799
65th	2016-06-10	2017-06-10	4.05%	30,000	30,000	26,879	26,879
66th	2016-06-15	2017-12-15	4.45%	10,000	10,000	8,960	8,960
67th	2016-10-07	2018-04-07	4.40%	50,000	50,000	44,799	44,799
68th	2016-10-24	2017-10-24	4.00%	150,000	150,000	134,397	134,397
69th (*3)	2017-02-25	2020-02-25	3M JPY LIBOR + 4.10%	50,925	—	45,627	—
Arirang bond	2012-11-02	2017-11-02	3M LIBOR+2.76%	230,000	230,000	206,075	206,075
Kexim (*4)	2014-10-30	2017-10-30	3M LIBOR+0.88%	334,830	362,550	300,000	324,836
				2,351,728	2,445,576	2,107,094	2,191,181
Present value of discounts				(4,778)	(5,497)	(4,281)	(4,926)
				2,346,950	2,440,079	2,102,813	2,186,255
Less: short-term debentures				(230,000)	(336,758)	(206,075)	(301,728)
Present value of discounts				258	528	231	474
Less: current portion of debentures				(2,077,084)	(2,024,223)	(1,861,019)	(1,813,657)
Present value of discounts, less current portion				4,056	3,543	3,634	3,173
				₩ 44,180	₩ 83,169	$ 39,584	$ 74,517

(*1) Kookmin Bank has provided guarantee at a maximum of JPY 10,639,117 thousand for the 58th guaranteed debenture.

(*2) Shinhan Bank has provided guarantee at a maximum of $100,000 thousand for the 63rd guaranteed debenture.

(*3) Kookmin Bank has provided guarantee at a maximum of JPY 5,546,142 thousand for the 69th guaranteed debenture.

(*4) The Export-Import Bank of Korea provides up to $300,000 thousand as payment guarantee associated with the debenture.

(4) ABS loans as of March 31, 2017, and December 31, 2016, consist of the following:

Description	Maturity	Annual interest rate	Korean won 2017	Korean won 2016	Translation into U.S. dollars (Note 2) 2017	Translation into U.S. dollars (Note 2) 2016
			(In millions)		(In thousands)	
KAL-9th ABS	2018-04-25	3.15%	₩ 150,000	₩ 180,000	$ 134,397	$ 161,276
KAL-11th ABS	2019-02-14	5.11%	200,000	230,000	179,195	206,075
KAL-12th ABS	2019-05-09	4.74%	68,000	75,000	60,926	67,198
KAL-13th ABS	2017-07-27	0.69%	13,580	24,676	12,167	22,109
KAL-14th ABS	2018-08-27	1M Hong Kong InterBank Offered Rate (HIBOR) + 3.50%	51,324	65,968	45,985	59,106
KAL-15th ABS	2017-11-20	1M LIBOR + 0.65%	89,288	132,935	80,000	119,107
KAL-16th ABS	2020-01-28	3.98%	440,000	480,000	394,230	430,069
KAL-17th ABS	2019-04-29	1M LIBOR + 3.00%	155,014	187,989	138,889	168,434
KAL-18th ABS	2020-06-01	3M HIBOR + 3.74%	86,972	101,571	77,925	91,005
KAL-19th ABS	2021-07-11	4.24%	900,000	900,000	806,379	806,379
KAL-20th ABS	2019-12-27	2.01%	141,631	155,522	126,898	139,344
			2,295,809	2,533,661	2,056,991	2,270,102
Less: current portion of ABS loans			(857,139)	(801,709)	(767,976)	(718,313)
			₩1,438,670	₩1,731,952	$1,289,015	$1,551,789

The Group provides the guarantee deposit of JPY 3,102,949 thousand, $ 32,358 thousand and HKD 407,625 thousand and the advance payments of ₩140,657 million ($126,025 thousand), JPY 4,210,767 thousand, $21,079 thousand and HKD 155,010 thousand in connection with the above ABS loans (Notes 19 and 20).

Meanwhile, above ABS loans are the borrowings to repay in a way to trust, right to future sales receivables that will be held at the time of selling the airline ticket and in the financial institution, the subject receivables and the period are as follows:

Description	Receivable	Period
KAL-9th ABS	Domestic passenger card sales receivables (Hyundai card, Hana (formerly, Korea Exchange) card, Kookmin card)	2013.04.17–2018.04.25
KAL-11th ABS	Domestic cargo indirect sales receivables	2014.02.06–2019.02.14
KAL-12th ABS	Domestic passenger card sales receivables (NongHyup card, Lotte card)	2014.04.24–2019.05.07
KAL-13th ABS	Japan cargo receivables	2014.08.07–Of the following conditions, until the earlier date: (i) 2019.12.31 (ii) When the ABS loan's principal and interest have been redeemed in total
KAL-14th ABS	Hong Kong cargo receivables	2014.11.05–When the ABS loan's principal and interest have been redeemed in all

Description	Receivable	Period
KAL-15th ABS	Passenger credit card (Visa/Master) dollar receivables	2014.11.25–Of the following conditions, until the earlier date: (i) 2019.11.30 (ii) When the ABS loan's principal and interest have been redeemed in total
KAL-16th ABS	Domestic passenger card sales receivables (BC card)	2015.01.20–2020.01.28
KAL-17th ABS	North America region cargo receivables (settlement of Cargo Accounts Settlement Systems (CASS))	2016.04.11–When the ABS loan's principal and interest have been redeemed in total
KAL-18th ABS	Hong Kong and Singapore passenger sales receivables	2016.06.01–When the ABS loan's principal and interest have been redeemed in total
KAL-19th ABS	Korea region passenger cash sales receivables	2016.07.11–When the ABS loan's principal and interest have been redeemed in total
KAL-20th ABS	Japan region passenger sales receivables	2016.12.29– Of the following conditions, until the earlier date (i) 2021.12.31 (ii) When the ABS loan's principal and interest have been redeemed in total

(5) The Group took over the borrowings of Hanjin Shipping Co., Ltd. with Hana Bank (formerly, Korea Exchange Bank) and other financial institutions (guaranteed loans) equally for 20 years from 1988, pursuant to the Government Guidelines for the Rationalization of the Marine Industry in 1985. Meanwhile, the Group took over the borrowings payable equally in 15 years with a 15-year grace period without interest and recognized the difference between the nominal amount and present value of the borrowings as present value of discounts. Guaranteed loans as of March 31, 2017, and December 31, 2016, consist of the following:

	Korean won		Translation into U.S. dollars (Note 2)	
Description	2017	2016	2017	2016
	(In millions)		(In thousands)	
KDB	₩ 3,920	₩ 3,920	$ 3,512	$ 3,512
B G.N. Loan Co., Ltd.	196	196	176	176
Kookmin Bank	140	140	126	126
Shinhan Bank	512	512	459	459
Daegu Bank	486	486	436	436
Hana Bank (formerly, Korea Exchange Bank)	6,386	6,386	5,722	5,722
Tongyang Life Insurance Co., Ltd.	878	878	787	787
Lotte Insurance Co., Ltd.	126	126	112	112
	12,644	12,644	11,330	11,330
Present value of discounts	(661)	(861)	(592)	(772)
	11,983	11,783	10,738	10,558
Less: current portion of liabilities	(12,644)	(12,644)	(11,330)	(11,330)
Present value of discounts, current portion	661	861	592	772
	₩ —	₩ —	$ —	$ —

₩5,522 million ($4,948 thousand) of short-term financial instruments was provided as collateral for the guaranteed loans to Hana Bank (formerly, Korea Exchange Bank) as of March 31, 2017 (Note 6).

23. FINANCE LEASE OBLIGATIONS:

(1) Finance lease obligations as of March 31, 2017, and December 31, 2016, consist of the following:

Lender	Annual interest rate	Korean won 2017	Korean won 2016	Translation into U.S. dollars (Note 2) 2017	Translation into U.S. dollars (Note 2) 2016
		(In millions)		(In thousands)	
ECA-2014B Limited	3M Euro Interbank Offered Rate (EURIBOR) + 0.32% 3M LIBOR + 2.85%	₩ 186,832	₩ 205,071	$ 167,397	$ 183,739
ECA-2014C Limited	3M LIBOR + 0.86%	116,920	130,223	104,758	116,677
ECA-2015A Limited	3M EURIBOR + 0.31% 3M LIBOR + 2.85%–3.00%	231,338	253,294	207,273	226,945
ECA-2015B Limited	3M JPY LIBOR + 0.30% 3M LIBOR + 3.00%	132,687	142,064	118,884	127,286
Export Leasing (2015) LLC	3M LIBOR + 0.49%	151,835	168,648	136,040	151,105
Export Leasing (2015)-B	3M LIBOR + 0.74%	187,506	208,353	168,001	186,680
Export Leasing (2015-A) LLC	3M LIBOR + 0.72%–0.73%	365,309	405,838	327,308	363,621
Export Leasing (2015-B) LLC	3M LIBOR + 0.73%	182,500	202,942	163,516	181,831
Export Leasing (2015-C)	3M LIBOR + 0.75%	188,671	209,678	169,045	187,866
Ji Yoo Aviation Ltd.	3M LIBOR + 3.50%	167,229	190,127	149,833	170,350
KALECA11 Aviation Ltd.	3M LIBOR + 0.87%–0.94%	510,103	579,903	457,041	519,580
KALECA11-2 Aviation Ltd.	3M LIBOR + 0.89%	131,634	149,174	117,941	133,656
KALECA12 Aviation Ltd.	3M JPY LIBOR + 0.71% 3M LIBOR + 2.80%	133,316	145,994	119,448	130,807
KALECA13 Aviation Ltd.	3M EURIBOR + 0.63% 3M LIBOR + 2.55%	163,102	180,164	146,136	161,423
KE Export Leasing (2009) Ltd.	3M LIBOR + 1.25%	127,727	145,852	114,441	130,680
KE Export Leasing (2010) Ltd.	3M LIBOR + 0.30%	232,496	262,728	208,311	235,399
KE Export Leasing (2011) Ltd.	3M LIBOR + 0.28%–0.34%	273,368	309,554	244,931	277,353
KE Export Leasing (2011-II) Ltd.	3M LIBOR + 0.38%–0.44%	197,641	223,101	177,081	199,893
KE Export Leasing (2012) Ltd.	3M LIBOR + 1.19%–1.22%	307,796	347,591	275,778	311,434
KE Export Leasing (2013-A)	3M LIBOR + 0.35%	117,589	131,454	105,357	117,780
KE Export Leasing (2013-B)	3M LIBOR + 0.34%	122,574	137,032	109,824	122,778
KE Export Leasing (2013-C)	3M LIBOR + 0.64%	132,295	147,772	118,533	132,400
KE Export Leasing (2013-D) LLC	3M LIBOR + 0.35%–0.65%	287,396	319,692	257,500	286,437
KE Export Leasing 2014 LLC	3M LIBOR + 0.64%–1.04%	406,823	452,388	364,504	405,329
KE2013 B777	3M LIBOR + 2.61%	108,447	123,561	97,166	110,708
KEXPORT Leasing 2015	3M LIBOR + 1.22%	312,594	349,243	280,077	312,913
Kosmo Suites / Yun Aviation Limited	3M LIBOR + 1.95%	104,169	128,907	93,333	115,497
SKY HIGH LIV	3M LIBOR + 2.20%	164,535	183,106	147,420	164,059
Sky Leasing 2017-A	3M LIBOR + 2.25%	156,895	—	140,574	—

Lender	Annual interest rate	Korean won 2017	Korean won 2016	Translation into U.S. dollars (Note 2) 2017	Translation into U.S. dollars (Note 2) 2016
		(In millions)		(In thousands)	
Yian Limited	3M LIBOR + 2.11%	172,429	192,478	154,492	172,455
Export Leasing 2016-A	6M LIBOR + 2.78%	170,338	148,227	152,619	132,808
Export Leasing 2016-B	3M JPY LIBOR + 0.85%	126,870	137,005	113,673	122,753
Export Leasing 2016-C	3M LIBOR + 0.90%	145,933	162,285	130,753	145,404
Ray Aviation Limited	3M LIBOR + 1.70%				
	5.20%	172,739	189,987	154,770	170,224
RBS and others	2.74%–9.57%	1,038,068	1,225,360	930,088	1,097,896
		7,727,704	8,488,796	6,923,846	7,605,766
Less: current portion of obligation under finance leases, net of present value of discounts		(1,426,747)	(1,714,470)	(1,278,333)	(1,536,126)
		₩ 6,300,957	₩ 6,774,326	$ 5,645,513	$ 6,069,640

The Export-Import Bank of the United States and others have provided payment guarantees of $4,427 million for above finance lease obligations as of March 31, 2017. Meanwhile, the Group has provided payment guarantees of $131 million to Bank of China, the beneficiary of the financial lease obligations due to Yian Limited, as of March 31, 2017.

(2) Minimum lease payments and present value of long-term obligation under finance leases as of March 31, 2017, consist of the following:

	Korean won	Translation into U.S. dollars (Note 2)
	(In millions)	(In thousands)
Less than one year	₩1,573,400	$1,409,730
One year to five years	4,214,938	3,776,488
More than five years	2,490,989	2,231,869
	8,279,327	7,418,087
Present value of discounts	(551,623)	(494,241)
	₩7,727,704	$6,923,846

24. EMPLOYEE BENEFITS:

(1) Net defined benefit liabilities as of March 31, 2017, and December 31, 2016, consist of the following:

	Korean won 2017	Korean won 2016	Translation into U.S. dollars (Note 2) 2017	Translation into U.S. dollars (Note 2) 2016
	(In millions)		(In thousands)	
Present value of defined benefit obligations	₩1,478,574	₩1,477,734	$1,324,769	$1,324,016
Fair value of plan assets	(344,106)	(351,402)	(308,312)	(314,848)
	₩1,134,468	₩1,126,332	$1,016,457	$1,009,168

(2) Changes in carrying amount of the net defined benefit liabilities for the three months ended March 31, 2017 and 2016, are as follows:

2017

	Korean won			Translation into U.S. dollars (Note 2)		
	Present value of defined benefit obligations	Fair value of plan assets	Total	Present value of defined benefit obligations	Fair value of plan assets	Total
		(In millions)			(In thousands)	
Beginning balance	₩1,477,734	₩(351,402)	₩1,126,332	$1,324,016	$(314,848)	$1,009,168
Current service cost	31,701	—	31,701	28,403	—	28,403
Interest expense (income)	8,363	(1,652)	6,711	7,493	(1,481)	6,012
Remeasurement of the net defined benefit liabilities	2	815	817	2	730	732
Retirement benefits paid	(39,413)	8,133	(31,280)	(35,313)	7,287	(28,026)
Succession of defined benefit obligations and others	187	—	187	168	—	168
Ending balance	₩1,478,574	₩(344,106)	₩1,134,468	$1,324,769	$(308,312)	$1,016,457

2016

	Korean won			Translation into U.S. dollars (Note 2)		
	Present value of defined benefit obligations	Fair value of plan assets	Total	Present value of defined benefit obligations	Fair value of plan assets	Total
		(In millions)			(In thousands)	
Beginning balance	₩1,367,582	₩(339,901)	₩1,027,681	$1,225,322	$(304,543)	$920,779
Current service cost	31,639	—	31,639	28,348	—	28,348
Interest expense (income)	8,022	(1,674)	6,348	7,188	(1,500)	5,688
Remeasurement of the net defined benefit liabilities	1	221	222	1	198	199
Retirement benefits paid	(26,381)	6,119	(20,262)	(23,637)	5,482	(18,155)
Succession of defined benefit obligations	479	—	479	429	—	429
Ending balance	₩1,381,342	₩(335,235)	₩1,046,107	$1,237,651	$(300,363)	$937,288

25. PROVISIONS:

Changes in the provision liabilities for the three months ended March 31, 2017 and 2016, are as follows:

2017

	Korean won				
	Beginning balance	Charged to income or loss	Utilization	Others	Ending balance
	(In millions)				
Current :					
Provision for construction loss (*1)	₩ —	₩ 895	₩ (95)	₩ (800)	₩ —
Liabilities of greenhouse gas emissions (*2)	5,431	—	—	(1,368)	4,063
	5,431	895	(95)	(2,168)	4,063
Non-current :					
Provision for leased aircraft maintenance (*3)	141,631	10,626	(22,015)	—	130,242
Provision for coupon for passenger flight tickets (*4)	29,624	—	(4,212)	(2,172)	23,240
Provision for construction warranties (*5)	731	—	(731)	—	—
Others (*6)	6,688	109	—	—	6,797
	178,674	10,735	(26,958)	(2,172)	160,279
	₩184,105	₩11,630	₩(27,053)	₩(4,340)	₩164,342

	Translation into U.S. dollars (Note 2)				
	Beginning balance	Charged to income or loss	Utilization	Others	Ending balance
	(In thousands)				
Current :					
Provision for construction loss (*1)	$ —	$ 802	$ (85)	$ (717)	$ —
Liabilities of greenhouse gas emissions (*2)	4,866	—	—	(1,225)	3,641
	4,866	802	(85)	(1,942)	3,641
Non-current :					
Provision for leased aircraft maintenance (*3)	126,898	9,521	(19,725)	—	116,694
Provision for coupon for passenger flight tickets (*4)	26,542	—	(3,774)	(1,945)	20,823
Provision for construction warranties (*5)	655	—	(655)	—	—
Others (*6)	5,993	96	—	—	6,089
	160,088	9,617	(24,154)	(1,945)	143,606
	$ 164,954	$ 10,419	$ (24,239)	$ (3,887)	$ 147,247

2016

	Korean won			
	Beginning balance	Charged to income or loss	Utilization	Ending balance
	(In millions)			
Current :				
Provision for construction loss (*1)	₩ 15,479	₩ —	₩ (2,807)	₩ 12,672
Liabilities of greenhouse gas emissions (*2)	1,316	908	—	2,224
	16,795	908	(2,807)	14,896
Non-current :				
Provision for leased aircraft maintenance (*3)	135,124	7,775	(7,401)	135,498
Provision for coupon for passenger flight tickets (*4)	27,520	—	—	27,520
Provision for construction warranties (*5)	2,039	2,039	—	4,078
Others (*6)	6,504	(1,979)	(1)	4,524
	171,187	7,835	(7,402)	171,620
	₩187,982	₩ 8,743	₩(10,209)	₩186,516

	Translation into U.S. dollars (Note 2)			
	Beginning balance	Charged to income or loss	Utilization	Ending balance
	(In thousands)			
Current :				
Provision for construction loss (*1)	$ 13,869	$ —	$(2,515)	$ 11,354
Liabilities of greenhouse gas emissions (*2)	1,179	814	—	1,993
	15,048	814	(2,515)	13,347
Non-current :				
Provision for leased aircraft maintenance (*3)	121,068	6,966	(6,630)	121,404
Provision for coupon for passenger flight tickets (*4)	24,658	—	—	24,658
Provision for construction warranties (*5)	1,827	1,827	—	3,654
Others (*6)	5,827	(1,773)	(1)	4,053
	153,380	7,020	(6,631)	153,769
	$168,428	$ 7,834	$(9,146)	$167,116

(*1) The Group includes expected future construction loss of Aerospace division as provision for construction loss and reflects provision for construction loss in the amount due from customers for contract work or amount due to customers for contract work (see Note 46).

(*2) The Group has recognized provisions for Greenhouse gases emission cost by measuring the expected quantity of emission of the performing period in excess of emission allowance in possession at the end of the reporting period. Meanwhile, the Company has deducted the emission shortfall for the three months ended from the next year's emission allowance and submitted it to the government.

(*3) The Group has maintenance obligations related to the operating leases. In order to fulfill the obligations, the Group has recognized a provision for leased aircraft maintenance by estimating future maintenance costs as it is probable that an outflow of resources embodying economic benefits will be required to settle the obligations (see Note 43).

(*4) The Group agreed to provide $26,000 thousand in flight ticket coupons to the plaintiff in relation to the U.S. court class action on airline ticket price collusion of flights to the America, and has recognized ₩23,240 million ($20,823 thousand) as a provision for passenger flight ticket coupons as of March 31, 2017 (see Note 45).

(*5) The Group has recognized provisions for the maintenance expenses expected to incur from Aerospace division's sales.
(*6) The Group has recognized ₩6,727 million ($6,027 thousand) as a provision for the restoration of forest due to the production of limestone, and is provided with performance guarantees by Seoul Guarantee Insurance Company (see Note 45).

26. DEFERRED REVENUE (Customer Loyalty Program):

The Group manages its frequent flyer program, "SKYPASS," a customer loyalty program that provides incentives through accrued mileage, such as bonus flight tickets and seat class upgrades, in addition to other benefits to its customers and its alliance companies. The Group allocates the fair value of the consideration received in respect of the sales into the award credits and service revenue. The award credits' portion of sales price is not recognized as revenue until the obligation has been performed. The Group's deferred income in connection with the SKYPASS system recognized in the condensed consolidated statements of financial position as of March 31, 2017, amounted to ₩1,958,918 million ($1,755,146 thousand), including ₩46,170 million ($41,367 thousand) of advance receipts from customers and ₩1,912,748 million ($1,713,778 thousand) of deferred revenue.

27. DERIVATIVE INSTRUMENTS:

(1) As of March 31, 2017, the Group entered into derivative agreements with KDB and two other financial institutions and derivatives as of March 31, 2017, are summarized as follows:

Type of transactions	Accounting policy	Maturity	Contract amount	
Interest rate swaps	Trading	2019.09.26	EUR	190,000 thousand
Cross-currency interest rate swaps	Trading	2023.06.12	JPY	29,031,237 thousand
	Trading	2017.11.02	KRW	230,000 million

(2) Impact on the condensed consolidated financial statements in relation to derivatives for the three months ended March 31, 2017, is as follows:

	Korean won					
	Condensed consolidated statement of financial position		Condensed consolidated statement of comprehensive income and loss			
Derivative instruments	Financial derivative assets	Financial derivative liabilities	Valuation gain	Valuation loss	Transaction gain	Transaction loss
	(In millions)					
Interest rate swaps	₩154	₩ 53	₩ 195	₩ —	₩ 35	₩ 2
Cross-currency interest rate swaps	—	27,795	18,617	9,138	668	—
	₩154	₩27,848	₩18,812	₩9,138	₩703	₩ 2

	Translation into U.S. dollars (Note 2)					
	Condensed consolidated statement of financial position		Condensed consolidated statement of comprehensive income and loss			
Derivative instruments	Financial derivative assets	Financial derivative liabilities	Valuation gain	Valuation loss	Transaction gain	Transaction loss
	(In thousands)					
Interest rate swaps	$138	$ 48	$ 175	$ —	$ 32	$ 2
Cross-currency interest rate swaps	—	24,903	16,680	8,188	598	—
	$138	$24,951	$16,855	$8,188	$630	$ 2

28. OTHER LIABILITIES:

Other liabilities as of March 31, 2017, and December 31, 2016, consist of the following:

	Korean won			
	2017		2016	
	Current	Non-current	Current	Non-current
	(In millions)			
Advances	₩1,268,171	₩ —	₩1,068,867	₩ —
Withholdings	119,721	60,476	100,313	63,786
Unearned revenues	406,356	—	402,563	—
Others	—	12,472	—	12,705
	₩1,794,248	₩72,948	₩1,571,743	₩76,491

	Translation into U.S. dollars (Note 2)			
	2017		2016	
	Current	Non-current	Current	Non-current
	(In thousands)			
Advances	$1,136,252	$ —	$ 957,680	$ —
Withholdings	107,267	54,185	89,878	57,151
Unearned revenues	364,084	—	360,687	—
Others	—	11,175	—	11,383
	$1,607,603	$65,360	$1,408,245	$68,534

29. CAPITAL STOCK:

(1) Capital stock as of March 31, 2017, and December 31, 2016, consists of the following:

	Number of shares authorized	Number of shares issued	Par value	Korean won		Translation into U.S. dollars (Note 2)	
				2017	2016	2017	2016
				(In millions)		(In thousands)	
Common stock	250,000,000	94,844,634	₩5,000	₩474,223	₩364,199	$424,893	$326,314
Preferred stock (*)		1,110,794	5,000	5,554	5,554	4,976	4,976
	250,000,000	95,955,428		₩479,777	₩369,753	$429,869	$331,290

(*) As the non-voting preferred stock, in case of cash dividends, it gets 1% more dividends than common stock. If the Company cannot pay dividends, the preferred stock gets voting right from the resolution of the next general meeting of shareholders that the Company does not pay dividends until the resolution of the general meeting of shareholders that the Company pays dividends.

(2) Changes in number of stocks issued for the three months ended March 31, 2017 and 2016, are as follows:

	2017		2016	
	Common stock	Preferred stock	Common stock	Preferred stock
Beginning balance	72,839,744	1,110,794	72,839,744	1,110,794
Paid-in capital increase	22,004,890	—	—	—
Ending balance	94,844,634	1,110,794	72,839,744	1,110,794

30. OTHER CAPITAL SURPLUS:

(1) Other capital surplus as of March 31, 2017, and December 31, 2016, consists of the following:

	Korean won		Translation into U.S. dollars (Note 2)	
	2017	2016	2017	2016
	(In millions)		(In thousands)	
Additional paid-up capital	₩ 946,205	₩ 602,855	$ 847,778	$ 540,144
Other capital	595,519	595,519	533,571	533,571
	₩1,541,724	₩1,198,374	$1,381,349	$1,073,715

(2) Changes in additional paid-up capital for the three months ended March 31, 2017 and 2016, are as follows:

	Korean won		Translation into U.S. dollars (Note 2)	
	2017	2016	2017	2016
	(In millions)		(In thousands)	
Beginning balance	₩602,855	₩602,855	$540,144	$540,144
Paid-in capital increase (*)	343,350	—	307,634	—
Ending balance	₩946,205	₩602,855	$847,778	$540,144

(*) 22,004,890 common shares were issued for the three months ended March 31, 2017.

(3) Hybrid securities as of March 31, 2017, and December 31, 2016, consist of the following:

	Date of issue	Maturity	Interest rate	Korean won		Translation into U.S. dollars (Note 2)	
				2017	2016	2017	2016
				(In millions)		(In thousands)	
Unsecured bearer debenture (*1)	2013-06-28	2043-06-28	6.40%	₩208,860	₩208,860	$187,134	$187,134
Registered guaranteed debenture (*2)	2015-11-25	2045-11-25	2.50%	341,551	341,551	306,022	306,022
				₩550,411	₩550,411	$493,156	$493,156

(*1) The interest rate is 6.40% for five years after issuance, and the increased interest rate (6.40% + 3.50% + (benchmark yield after five years from the date of issue - 3.32%)) is applied after the five years. The Company can exercise the right of early repayment every year after five years of the hybrid securities' issuance. If notice of willingness to extend maturity is given one month prior to the maturity date, maturity can be extended for 30 years under the same condition. In addition, the Company can choose not to pay the interest on hybrid securities based on the decision to extend maturity. However, the Company cannot suspend payment of the interest if the decision on stock dividend, purchase and redemption of stocks, and profit retirement occurred in the last 12 months.

(*2) The interest rate is 2.5% for three years after issuance, and 4.0% from four to five years after issuance. After the five years, the increased interest rate (6.5% + 3.0%) is applied. The Company can exercise the right of early repayment every six months after three years of the securities' issuance. If notice of willingness to extend maturity is given one month prior to the maturity date, maturity can be extended for 30 years under the same condition. In addition, the Company can choose not to pay the interest on securities based on the decision to extend maturity. However, the Company cannot suspend payment of the interest if the decision on stock dividend, purchase and redemption of stocks, and profit retirement occurred in the last 12 months.

31. RETAINED EARNINGS AND DIVIDENDS:

(1) Retained earnings as of March 31, 2017, and December 31, 2016, consist of the following:

	Korean won		Translation into U.S. dollars (Note 2)	
	2017	2016	2017	2016
	(In millions)		(In thousands)	
Legal reserve:				
Legal appropriated retained earnings (*)	₩ 3,452	₩ 3,452	$ 3,093	$ 3,093
Voluntary reserve:				
Facility reserve	—	200,000	—	179,195
Unappropriated retained earnings	356,049	(396,329)	319,012	(355,101)
	₩359,501	₩(192,877)	$322,105	$(172,813)

(*) The Korean Commercial Code requires the Company to appropriate as legal reserve an amount equal to at least 10% of cash dividends paid for each accounting period, until the reserve equals 50% of the stated capital. The legal reserve may be used to reduce a deficit or transferred to capital stock.

(2) There is no dividend payment (except for the dividend from hybrid securities) for three months ended March 31, 2017 and 2016.

32. OTHER CAPITAL COMPONENTS:

(1) Other capital components as of March 31, 2017, and December 31, 2016, consist of the following:

	Korean won		Translation into U.S. dollars (Note 2)	
	2017	2016	2017	2016
	(In millions)		(In thousands)	
Gain on valuation of AFS financial assets, net	₩ 55,643	₩ 40,120	$ 49,855	$ 35,947
Change in retained earnings – equity method – accounted investments	(1,732)	164	(1,552)	147
Cumulative effect of foreign currency translation	(30,274)	32,278	(27,125)	28,920
Revaluation surplus	312,973	312,874	280,417	280,328
	₩336,610	₩385,436	$301,595	$345,342

(2) Changes in other capital components for the three months ended March 31, 2017 and 2016, are as follows:

	Korean won		Translation into U.S. dollars (Note 2)	
	2017	2016	2017	2016
	(In millions)		(In thousands)	
Beginning balance	₩385,436	₩405,311	$345,342	$363,150
Gain on valuation of AFS financial assets net	15,523	38	13,908	34
Change in retained earnings – equity method – accounted investments	(1,897)	(2,772)	(1,699)	(2,484)
Cumulative effect of foreign currency translation	(62,552)	(8,599)	(56,045)	(7,704)
Revaluation surplus	100	(713)	89	(639)
Ending balance	₩336,610	₩393,265	$301,595	$352,357

33. SALES:

Sales classified as operating income or loss resulting from the Group's continuing operations for the three months ended March 31, 2017 and 2016, consist of the following:

	Korean won	
	2017	2016
	(In millions)	
Air transport revenue	₩2,644,679	₩2,558,926
Other revenue	221,326	308,035
	₩2,866,005	₩2,866,961

	Translation into U.S. dollars (Note 2)	
	2017	2016
	(In thousands)	
Air transport revenue	$2,369,572	$2,292,738
Other revenue	198,302	275,993
	$2,567,874	$2,568,731

34. SELLING AND ADMINISTRATIVE EXPENSES:

Selling and administrative expenses for the three months ended March 31, 2017 and 2016, consist of following:

	Korean won		Translation into U.S. dollars (Note 2)	
	2017	2016	2017	2016
	(In millions)		(In thousands)	
Salaries	₩ 74,101	₩ 73,858	$ 66,393	$ 66,175
Retirement and severance benefits	7,975	8,618	7,145	7,721
Depreciation	3,160	2,902	2,832	2,600
Amortization	7,189	5,364	6,442	4,806
Rental	4,591	4,790	4,113	4,292
Sales commission	76,099	71,512	68,183	64,073
Advertising	26,892	27,183	24,094	24,355
Welfare	15,372	15,133	13,773	13,559
Training	2,028	2,245	1,817	2,011
Communications	5,027	5,542	4,504	4,965
Taxes and dues	3,115	3,259	2,791	2,920
Facility maintenance	1,196	2,909	1,072	2,606
Commission	38,508	42,047	34,502	37,673
Others	15,205	12,891	13,623	11,552
	₩280,458	₩278,253	$251,284	$249,308

35. FINANCIAL INCOME AND EXPENSES:

(1) Financial income for the three months ended March 31, 2017 and 2016, consist of following:

	Korean won		Translation into U.S. dollars (Note 2)	
	2017	2016	2017	2016
	(In millions)		(In thousands)	
Interest income	₩ 4,595	₩ 7,607	$ 4,117	$ 6,816
Dividend income	4,597	3,778	4,119	3,385
Gain on valuation of derivatives	18,812	7,215	16,855	6,464
Gain on derivatives transaction	703	66	630	60
	₩28,707	₩18,666	$25,721	$16,725

(2) Financial expenses for the three months ended March 31, 2017 and 2016, consist of following:

	Korean won		Translation into U.S. dollars (Note 2)	
	2017	2016	2017	2016
	(In millions)		(In thousands)	
Interest expense	₩102,432	₩ 94,951	$91,777	$ 85,074
Loss on valuation of derivatives	9,138	48,637	8,188	43,578
Loss on derivatives transaction	2	10,741	2	9,624
	₩111,572	₩154,329	$99,967	$138,276

36. OTHER NON-OPERATING INCOME AND EXPENSES:

(1) Other non-operating income for the three months ended March 31, 2017 and 2016, consist of following:

	Korean won		Translation into U.S. dollars (Note 2)	
	2017	2016	2017	2016
	(In millions)		(In thousands)	
Gain on foreign currency transaction	₩108,082	₩ 59,895	$ 96,839	$ 53,664
Gain on foreign currency translation	816,422	225,460	731,495	202,007
Reversal of allowance for doubtful accounts	337	212	302	190
Gain on disposal of AFS financial asset	4,503	—	4,034	—
Gain on disposal of property, aircraft and equipment	23,356	3,807	20,926	3,411
Miscellaneous income	15,690	2,199	14,059	1,970
	₩968,390	₩291,573	$867,655	$261,242

(2) Other non-operating expense for the three months ended March 31, 2017 and 2016, is as follows:

	Korean won		Translation into U.S. dollars (Note 2)	
	2016	2015	2016	2015
	(In millions)		(In thousands)	
Other bad debt expenses	₩ 378	₩ 196	$ 339	$ 176
Loss on foreign currency transaction	51,821	126,759	46,430	113,573
Loss on foreign currency translation	125,265	70,067	112,235	62,778
Impairment loss on AFS financial assets	—	110,006	—	98,563
Impairment loss on investments in associates	—	215,714	—	193,275
Loss on disposal of property, aircraft and equipment	113,379	5,947	101,585	5,328
Loss on disposal of held for sale	—	306	—	275
Impairment loss on property, aircraft and equipment	41,625	65,301	37,295	58,508
Donation	9,960	10,149	8,924	9,093
Miscellaneous loss	11,537	11,132	10,337	9,974
	₩353,965	₩615,577	$317,145	$551,543

37. INCOME TAX EXPENSE:

(1) Income tax expense was recognized as current tax expense adjusted to current adjustments for prior periods, deferred tax income/expenses by origination and reversal of deferred assets/liabilities and temporary differences, and income tax recognized in other comprehensive income. The Group's separate effective tax rate for the three months ended March 31, 2017, was 22.25%. The effective tax rate for the three months ended March 31, 2016, was not computed due to net loss before income tax expense.

(2) The Group recognized deferred income tax assets as it is expected that sufficient future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets can be changed according to the amount of taxable profit expected to be available in the future.

38. CLASSIFICATION OF EXPENSES BY NATURE:

Expenses classified by nature for the three months ended March 31, 2017 and 2016, consist of the following:

	Korean won		Translation into U.S. dollars (Note 2)	
	2017	2016	2017	2016
	(In millions)		(In thousands)	
Salaries, retirement and severance benefit	₩ 440,543	₩ 440,402	$ 394,716	$ 394,590
Welfare	74,928	74,750	67,134	66,974
Depreciation and amortization	415,882	436,145	372,621	390,776
Rental	92,840	68,316	83,182	61,209
Fuel and oil charges	631,253	471,935	565,589	422,843
Airport-related costs	259,728	271,182	232,710	242,973
Sales commission	76,099	71,512	68,183	64,073
Others	683,220	709,462	612,149	635,662
Total (*)	₩2,674,493	₩2,543,704	$2,396,284	$2,279,100

(*) The amount is the sum of cost of sales and selling and administrative expenses from consolidated statements of comprehensive income (loss).

39. EARNINGS (LOSS) PER SHARE:

Basic earnings(loss) per share for the three months ended March 31, 2017 and 2016, are as follows (in millions of Korean won and in thousands of U.S. dollars, except for share data and earnings (loss) per share):

(1) Common shares

	Korean won		Translation into U.S. dollars (Note 2)	
	2017	2016	2017	2016
Net income (loss) attributable to owners of the parent company	₩ 557,725	₩ (177,552)	$ 499,709	$ (159,083)
Net income (loss) attributable to common shares	549,763	(174,940)	492,575	(156,742)
Weighted-average number of common shares outstanding	77,240,722	72,839,744	77,240,722	72,839,744
Earnings (loss) per share (*):	7,118	(2,402)	6	(2)

(*) Diluted earnings (loss) per share for the three months ended March 31, 2017 and 2016, are the same as the basic earnings (loss) per share, as there are no dilutive potential common shares and dilutive effect.

(2) Preferred shares

	Korean won		Translation into U.S. dollars (Note 2)	
	2017	2016	2017	2016
Net income(loss) attributable to owners of the parent company	₩ 7,962	₩ (2,612)	$ 7,133	$ (2,341)
Weighted-average number of preferred shares outstanding	1,110,794	1,110,794	1,110,794	1,110,794
Earnings (loss) per share:	7,168	(2,352)	6	(2)

(3) The contents of weighted-average common shares for the three months ended March 31, 2017 and 2016, are as follows:

	Number of shares	
	2017	2016
Cumulative number of weighted-average common shares	6,951,664,980	6,628,416,704
Cumulative number of weighted-average preferred shares	99,971,460	101,082,254
Number of days	90	91
Weighted-average number of common shares outstanding	77,240,722	72,839,744
Weighted-average number of preferred shares outstanding	1,110,794	1,110,794

40. FINANCIAL RISK MANAGEMENT:

(1) Capital risk management:

The purpose of capital risk management is to protect the ability to continuously provide profits with shareholders and maintain optimum capital structure to reduce capital expenses. The Group's capital risk management objectives and policies are consistent with those disclosed in the consolidated financial statements as of and for the year ended December 31, 2016.

(2) Financial risk management

1) Financial risk

The financial sector manages the Group's business and organizes the approach to the domestic and international financial markets. Furthermore, it monitors and manages the financial risk related to the Group's business through internal risk reports, which analyze the scope and scale of each risk. These risks include the market risk (including currency risk, interest rate risk, oil price fluctuation risk and price risk), credit risk and liquidity risk.

The Group's financial risk management objectives and policies are consistent with those disclosed in the consolidated financial statements as of and for the year ended December 31, 2016.

2) Risk aversion

The Group has made contracts for derivative instruments to avoid the change of exchange rate risk and interest rate risk.

3) Credit risk management

There is no significant change in the degree of exposure of the maximum credit risk in comparison with the previous period, except for the maximum amount of ₩285,161 million ($255,498 thousand), which is to be paid by the warrantee claims under the financial guarantee contracts.

4) Liquidity risk management

There is no significant change in undiscounted net cash inflows and outflows in comparison with the previous period.

41. FAIR VALUE OF FINANCIAL INSTRUMENTS:

(1) Financial instruments that are measured subsequent to initial recognition at fair value are categorized into Level 1 to Level 3, and fair value measurements of financial instruments by fair value hierarchy level as of March 31, 2017, and December 31, 2016, are as follows:

2017

Classification	Korean won			
	Level 1	Level 2	Level 3	Total
	(In millions)			
AFS:				
Listed securities	₩117,442	₩ —	₩ —	₩117,442
Unlisted securities	—	—	21,325	21,325
Beneficiary certificates	—	—	4,200	4,200
Special bonds	—	53,912	—	53,912
Derivative financial assets	—	154	—	154
	₩117,442	₩54,066	₩25,525	₩197,033
Derivative financial liabilities	₩ —	₩27,848	₩ —	₩ 27,848

Classification	Translation into U.S. dollars (Note 2)			
	Level 1	Level 2	Level 3	Total
	(In thousands)			
AFS:				
Listed securities	$105,225	$ —	$ —	$105,225
Unlisted securities	—	—	19,107	19,107
Beneficiary certificates	—	—	3,763	3,763
Special bonds	—	48,304	—	48,304
Derivative financial assets	—	138	—	138
	$105,225	$48,442	$22,870	$176,537
Derivative financial liabilities	$ —	$24,951	$ —	$ 24,951

2016

Classification	Korean won			
	Level 1	Level 2	Level 3	Total
	(In millions)			
AFS:				
Listed securities	₩97,982	₩ —	₩ —	₩ 97,982
Unlisted securities	—	—	21,325	21,325
Beneficiary certificates	—	—	2,100	2,100
Special bonds	—	53,912	—	53,912
Derivative financial assets	—	27	—	27
	₩97,982	₩53,939	₩23,425	₩175,346
Derivative financial liabilities	₩ —	₩39,725	₩ —	₩ 39,725

Classification	Translation into U.S. dollars (Note 2)			
	Level 1	Level 2	Level 3	Total
	(In thousands)			
AFS:				
Listed securities	$87,790	$ —	$ —	$ 87,790
Unlisted securities	—	—	19,107	19,107
Beneficiary certificates	—	—	1,882	1,882
Special bonds	—	48,304	—	48,304
Derivative financial assets	—	24	—	24
	$87,790	$48,328	$20,989	$157,107
Derivative financial liabilities	$ —	$35,593	$ —	$ 35,593

There is no significant movement between Level 1 and Level 2 for the three months ended March 31, 2017 and 2016.

(2) The management of the Group considers that the carrying amounts of financial assets and financial liabilities recognized at amortized cost in the condensed consolidated financial statements approximate their fair values.

(3) The following table gives information about how the fair values of financial instruments categorized into Levels 2 and 3 are determined, in particular, the valuation techniques and relationship of significant unobservable inputs to fair value.

Description	Fair value: Korean won	Fair value: Translation into U.S. dollars (Note 2)	Valuation techniques	Significant unobservable inputs	Description of relationships
	(In millions)	(In thousands)			
Derivative financial assets (Note 27)	₩154	$ 138	DISCOUNTED CASH FLOW AND OTHERS	N/A	N/A
Derivative financial liabilities (Note 27)	27,848	24,950		N/A	N/A
AFS financial assets – special bonds (Note 8)	53,912	48,304		N/A	N/A
AFS financial assets – unlisted securities, beneficiary certificates (Note 8)	25,525	22,870		Sales growth rate Pretax operating income ratio, Weighted-average cost of capital	Fair value of non-listed shares will increase if the weighted-average cost of capital is reduced along with the increase in pretax operating margin and sales growth rate.

(4) Changes in financial instruments that are measured at fair value on a recurring basis and classified as Level 3 for the three months ended March 31, 2017, are as follows:

Description	Korean won: Beginning balance	Purchase	Disposal	Other comprehensive income	Ending balance
			(In millions)		
AFS financial assets	₩23,425	₩2,100	₩—	₩—	₩25,525

Description	Translation into U.S. dollars (Note 2): Beginning balance	Purchase	Disposal	Other comprehensive income	Ending balance
			(In thousands)		
AFS financial assets	$20,988	$1,882	$—	$—	$22,870

(5) The Group recognizes transfers between levels of the fair value hierarchy at the time of the event or change in circumstances that caused the transfer. In addition, there is no change in the valuation techniques that have been used to measure the fair value of financial instruments classified as Level 2 and Level 3 for the three months ended March 31, 2017.

(6) Though principle of subsequent measurement to financial assets and liabilities is fair value, the Group could not measure reliable fair value. The list and amount of financial assets and liabilities, which do not have disclosed fair value information, are as follows:

Category	Description (*)	Korean won: 2017	Korean won: 2016	Translation into U.S. dollars (Note 2): 2017	Translation into U.S. dollars (Note 2): 2016
		(In millions)		(In thousands)	
AFS financial assets	Unlisted securities and equity investment	₩44,189	₩44,131	$39,593	$39,540
	Corporate bond and Government bond	6	6	6	6

(*) AFS financial assets are measured at cost because it is hard to obtain reliable financial information required for the measurement of fair value, or even if the financial information were obtained, the range of fair value measurements is significant, and it is impossible to reliably evaluate the occurrence probability of various estimates.

42. TRANSACTIONS AND BALANCES WITH RELATED PARTIES:

(1) The list of related parties of the Group as of March 31, 2017, is as follows:

Relationship	Related parties
Significant influence over the Company	Hanjin Kal Co., Ltd.
Associates	EIGHT CITY Co., Ltd., Czech Airlines j.s.c.
Other related parties	Jin Air Co., Ltd., KAL Hotel Network Co., Ltd., Topas Co., Ltd., Jungseok Enterprise Co., Ltd., Hanjin Travel Service Co., Ltd., Jedong Leisure Co., Ltd., Waikiki Resort Hotel Inc.
Affiliated companies of a conglomerate and others (*2)	Hanjin Transportation Co., Ltd., Hanjin Shipping Co., Ltd. (*1), Uniconverse Co., Ltd., Jungseok-Inha School's Foundation, etc.

(*1) It was declared bankrupt and was separated from Hanjin Group as of March 31, 2017.
(*2) These companies are not related parties as defined in paragraph 9 of K-IFRS 1024. However, affiliated companies of a conglomerate and others designated by the Fair Trade Commission are classified as related parties, in accordance with the resolution of the Securities and Futures Commission that these companies are related parties according to the substance of the relationship defined in paragraph 10 of K-IFRS 1024.

(2) Significant transactions with related parties in the ordinary course of business for the three months ended March 31, 2017 and 2016, are as follows:

2017

Description		Korean won	
		Sales and others	Purchases and others
		(In millions)	
Significant influence over the Company	Hanjin Kal Co., Ltd.	₩ 67	₩ 7,596
Associates	Czech Airlines j.s.c.	5,311	4,541
Other related parties	Jin Air Co., Ltd.	67,202	1,215
	KAL Hotel Network Co., Ltd.	6,126	8,770
	Topas Co., Ltd.	1,725	17
	Jungseok Enterprise Co., Ltd.	55	566
	Hanjin Travel Service Co., Ltd.	264	785
	Others	6	552
Affiliated companies of a conglomerate and others	Hanjin Transportation Co., Ltd.	3,519	10,220
	Uniconverse Co., Ltd.	117	425
	Jungseok-Inha School's Foundation	3	5,022
	Others (*)	264	411

Description		Translation into U.S. dollars (Note 2)	
		Sales and others	Purchases and others
		(In thousands)	
Significant influence over the Company	Hanjin Kal Co., Ltd.	$ 60	$6,806
Associates	Czech Airlines j.s.c.	4,759	4,069
Other related parties	Jin Air Co., Ltd.	60,212	1,088
	KAL Hotel Network Co., Ltd.	5,489	7,858
	Topas Co., Ltd.	1,545	15
	Jungseok Enterprise Co., Ltd.	49	508
	Hanjin Travel Service Co., Ltd.	237	704
	Others	5	495
Affiliated companies of a conglomerate and others	Hanjin Transportation Co., Ltd.	3,153	9,157
	Uniconverse Co., Ltd.	105	381
	Jungseok-Inha School's Foundation	3	4,500
	Others (*)	237	369

(*) It is including transactions with Hanjin Shipping Co., Ltd., which was declared bankrupt on February 17, 2017.

2016

Description		Korean won	
		Sales and others	Purchases and others
		(In millions)	
Significant influence over the Company	Hanjin Kal Co., Ltd.	₩ 69	₩7,516
Associates and jointly controlled entities	Czech Airlines j.s.c.	4,914	4,444
	Others	301	11
Other related parties	Jin Air Co., Ltd.	62,297	1,035
	KAL Hotel Network Co., Ltd.	6,187	8,787
	Topas Co., Ltd.	1,336	24
	Jungseok Enterprise Co., Ltd.	55	535
	Hanjin Travel Service Co., Ltd.	201	1,671
	Others	6	578
Affiliated companies of a conglomerate and others	Hanjin Transportation Co., Ltd.	3,938	9,362
	Uniconverse Co., Ltd.	306	5,210
	Jungseok-Inha School's Foundation	2	5,022
	Others	203	535

Description		Translation into U.S. dollars (Note 2)	
		Sales and others	Purchases and others
		(In thousands)	
Significant influence over the Company	Hanjin Kal Co., Ltd.	$ 61	$6,734
Associates and jointly controlled entities	Czech Airlines j.s.c.	4,403	3,982
	Others	270	10
Other related parties	Jin Air Co., Ltd.	55,817	928
	KAL Hotel Network Co., Ltd.	5,544	7,873
	Topas Co., Ltd.	1,197	22
	Jungseok Enterprise Co., Ltd.	50	480
	Hanjin Travel Service Co., Ltd.	180	1,497
	Others	5	518
Affiliated companies of a conglomerate and others	Hanjin Transportation Co., Ltd.	3,529	8,388
	Uniconverse Co., Ltd.	274	4,668
	Jungseok-Inha School's Foundation	2	4,499
	Others	182	480

(3) Significant receivables from and payables to the related parties (except for loan and borrowing transaction) as of March 31, 2017, and December 31, 2016, are as follows:

2017

Description		Korean won	
		Trade and other receivables	Trade and other payables
		(In millions)	
Significant influence over the Company	Hanjin Kal Co., Ltd.	₩ 2,226	₩ 6,541
Associates	Czech Airlines j.s.c.	270	15,878
Other related parties	Jin Air Co., Ltd.	77,405	37,121
	KAL Hotel Network Co., Ltd.	3,901	3,145
	Topas Co., Ltd.	316	1,219
	Jungseok Enterprise Co., Ltd.	425	2,500
	Hanjin Travel Service Co., Ltd.	183	1,304
	Others	5	903
Affiliated companies of a conglomerate and others	Hanjin Transportation Co., Ltd.	1,956	6,764
	Uniconverse Co., Ltd.	80	195
	Others	932	3,142

Description		Translation into U.S. dollars (Note 2)	
		Trade and other receivables	Trade and other payables
		(In thousands)	
Significant influence over the Company	Hanjin Kal Co., Ltd.	$ 1,995	$ 5,861
Associates	Czech Airlines j.s.c.	242	14,226
Other related parties	Jin Air Co., Ltd.	69,353	33,260
	KAL Hotel Network Co., Ltd.	3,495	2,818
	Topas Co., Ltd.	283	1,093
	Jungseok Enterprise Co., Ltd.	381	2,240
	Hanjin Travel Service Co., Ltd.	164	1,169
	Others	5	809
Affiliated companies of a conglomerate and others	Hanjin Transportation Co., Ltd.	1,753	6,060
	Uniconverse Co., Ltd.	72	175
	Others	835	2,815

2016

Description		Korean won	
		Trade and other receivables	Trade and other payables
		(In millions)	
Significant influence over the Company	Hanjin Kal Co., Ltd.	₩ 2,233	₩ 6,477
Associates	Czech Airlines j.s.c.	266	14,604
Other related parties	Jin Air Co., Ltd.	62,975	40,493
	KAL Hotel Network Co., Ltd.	4,310	3,333
	Topas Co., Ltd.	584	1,175
	Jungseok Enterprise Co., Ltd.	523	2,426
	Hanjin Travel Service Co., Ltd.	118	1,323
	Others	8	928
Affiliated companies of a conglomerate and others	Hanjin Transportation Co., Ltd.	2,364	6,398
	Uniconverse Co., Ltd.	83	292
	Others	1,534	3,106

Description		Translation into U.S. dollars (Note 2)	
		Trade and other receivables	Trade and other payables
		(In thousands)	
Significant influence over the Company	Hanjin Kal Co., Ltd.	$ 2,000	$ 5,803
Associates	Czech Airlines j.s.c.	239	13,085
Other related parties	Jin Air Co., Ltd.	56,424	36,281
	KAL Hotel Network Co., Ltd.	3,861	2,986
	Topas Co., Ltd.	523	1,053
	Jungseok Enterprise Co., Ltd.	468	2,174
	Hanjin Travel Service Co., Ltd.	105	1,185
	Others	7	832
Affiliated companies of a conglomerate and others	Hanjin Transportation Co., Ltd.	2,118	5,732
	Uniconverse Co., Ltd.	75	262
	Others	1,374	2,783

(4) There were no loan and borrowing transactions with related parties for the three months ended March 31, 2017. Loan and borrowing transactions with related parties for the year ended December 31, 2016, were as follows:

2016

Description	Account	Beginning balance	Increase	Decrease	Ending balance
		(In millions of Korean won)			
Affiliated companies of a conglomerate and others:					
Hanjin Shipping Co., Ltd. (*)	Short-term loans	₩220,000	₩60,000	₩(280,000)	₩—

Description	Account	Beginning balance	Increase	Decrease	Ending balance
		(in thousands of U.S. dollars)			
Affiliated companies of a conglomerate and others:					
Hanjin Shipping Co., Ltd. (*)	Short-term loans	$197,115	$53,759	$(250,874)	$—

(*) ₩220,000 million ($197,115 thousand) of short-term loans have been converted to unsecured bearer bonds (hybrid securities) issued by Hanjin Shipping Co., Ltd. and the Group provided additional support of ₩60,000 million ($53,759 thousand) for the purpose of operating loans for the year ended December 31, 2016. The Group recognized interest income in relation to the hybrid securities and the short-term loans amounting to ₩11,219 million ($10,052 thousand) and ₩342 million ($306 thousand), respectively. Meanwhile, the Group recognized impairment loss on the total amount of AFS financial assets in relation to the hybrid securities amounting to ₩220,000 million ($197,115 thousand). In addition, the Group established the collateral for the trade receivable accounts subordinated priority beneficiary right of the employee's apartment collateral trust, and the Atlanta office in the United States of Hanjin Shipping Co., Ltd. in relation to short-term loans and the short-term loans have been fully repaid for the year ended December 31, 2016.

(5) Stock trading with related parties for the three months ended March 31, 2017 and the year ended December 31, 2016 are as follows:

2017

Description	Company	Transaction	Korean won	Translation into U.S. dollars (Note 2)
			(In millions)	(In thousands)
Capital increase	Jungseok-Inha School's Foundation *(Affiliated companies of a conglomerate and others)*	Participation in paid-in capital increase	₩ 5,234	$ 4,690
	Hanjin KAL Co., Ltd. (*Significant influence* over the Company)	Participation in paid-in capital increase	₩113,523	$101,714

2016

Description	Company	Transaction	Korean won	Translation into U.S. dollars (Note 2)
			(In millions)	(In thousands)
Business takeover (*)	Uniconverse Co., Ltd.	Business takeover	₩20,700	$18,547

(*) Hanjin Information Communication Co., Ltd. took over the call center business of Uniconverse Co., Ltd. for the year ended December 31, 2016.

(6) The remuneration of registered directors and unregistered directors for the three months ended March 31, 2017 and 2016, is as follows:

Transaction	Korean won 2017	Korean won 2016	Translation into U.S. dollars (Note 2) 2017	Translation into U.S. dollars (Note 2) 2016
	(In millions)		(In thousands)	
Wages and salaries	₩1,550	₩1,022	$1,389	$ 916
Retirement benefit costs	532	559	476	501
	₩2,082	₩1,581	$1,865	$1,417

(7) Details of guarantees that the Group has provided for related parties as of March 31, 2017, are as follows (in millions of Korean won):

Transaction	Currency	Guaranteed amounts	Financial institutions	Description
Jungseok Enterprise Co., Ltd.	KRW	2,785	Hana Bank and others	Guaranteed loans (*)
Hanjin Transportation Co., Ltd.	KRW	2,016	KDB and others	
Hanjin Heavy Industries & Construction Holdings Co., Ltd.	KRW	2,159		
	KRW	6,960		

(*) Related to guaranteed loans as of March 31, 2017, Jungseok Enterprise Co., Ltd., Hanjin Transportation Co., Ltd. and Hanjin Heavy Industries & Construction Holdings Co., Ltd. also have guaranteed payment for the same amount.

(8) Guarantees that have been provided to the Group by related parties as of March 31, 2017, are as follows:

	Korean won			
Financial institutions	Guaranteed amounts	Jungseok Enterprise Co., Ltd.	Hanjin Transportation Co., Ltd.	Hanjin Heavy Industries & Construction Holdings
	(In millions)			
Hana Bank (formerly, Korea Exchange Bank)	₩ 6,386	₩ 8,302	₩ 8,302	₩ 8,302
KDB	3,920	5,096	5,096	5,096
Woori Bank and others	2,338	2,582	2,582	2,582
	₩12,644	₩15,980	₩15,980	₩15,980

	Translation into U.S. dollars (Note 2)			
Financial institutions	Guaranteed amounts	Jungseok Enterprise Co., Ltd.	Hanjin Transportation Co., Ltd.	Hanjin Heavy Industries & Construction Holdings
	(In millions)			
Hana Bank (formerly, Korea Exchange Bank)	$ 5,722	$ 7,438	$ 7,438	$ 7,438
KDB	3,512	4,566	4,566	4,566
Woori Bank and others	2,095	2,314	2,314	2,314
	$11,329	$14,318	$14,318	$14,318

43. OPERATING LEASE:

(1) Breakdown of the usage of an operating lease

As of March 31, 2017, the Company has entered into operating lease agreements to lease 28 aircraft and certain aircraft parts from Air Lease Corporation and other lessors. The Company has also entered into an operating lease agreement to use the cargo terminal at JFK International Airport located in the United States with the New York City Industrial Development Agency("IDA"). The schedule of lease payments as of March 31, 2017, is summarized as follows:

Period	Korean won	Translation into U.S. dollars (Note 2)
	(In millions)	(In thousands)
Less than one year	₩ 259,011	$ 232,068
One year to five years	893,235	800,318
More than five years	805,836	722,011
	₩1,958,082	$1,754,397

Also, the Group has entered into operating lease agreements to lease business computing equipment from Macquarie Finance Korea Ltd. and others. The schedule of lease payments as of March 31, 2017, is as follows:

Period	Korean won	Translation into U.S. dollars (Note 2)
	(In millions)	(In thousands)
Less than one year	₩369	$330
One year to five years	75	67
	₩444	$397

(2) Breakdown of the provision of an operating lease

The Company has entered into operating lease agreements to lease 12 aircraft and certain aircraft parts to Jin Air Co., Ltd. and others. The schedule of lease collection on this agreement is summarized as follows:

Period	Korean won	Translation into U.S. dollars (Note 2)
	(In millions)	(In thousands)
Less than one year	₩ 64,261	$ 57,576
One year to five years	199,632	178,866
More than five years	54,124	48,493
	₩318,017	$284,935

Furthermore, the Group has entered into operating lease agreements to lease data processing equipment to LG Sports Ltd., KAL Hotel Network Co., Ltd. and others. The schedule of lease collection on this agreement is summarized as follows:

Period	Korean won	Translation into U.S. dollars (Note 2)
	(In millions)	(In thousands)
Less than one year	₩10,358	$ 9,280
One year to five years	9,647	8,644
More than five years	696	624
	₩20,701	$18,548

44. NON-CASH TRANSACTIONS:

The significant non-cash transactions from investing and financing activities that are not included in the condensed consolidated statements of cash flows for the three months ended March 31, 2017 and 2016, are as follows:

Description	Korean won 2017	Korean won 2016
	(In millions)	
Transfer of long-term borrowings to current portion of long-term borrowings	₩ 20,638	₩330,371
Transfer of debentures to current portion of debentures	175,522	102,591
Transfer of finance lease obligations to current portion of finance lease obligations	287,723	292,141
Transfer of construction in progress to property, aircraft, equipment, etc.	307,860	358,411
Acquisition of financial lease assets	188,418	248,491
Transfer of property, aircraft and equipment to non-trade payables	1,036	2,060
Transfer of finance lease obligations to finance lease receivables	57,535	11,460
Transfer of short-term loans to AFS financial assets	—	220,000
Transfer of voluntary reserves to unappropriated retained earnings	200,000	—

Description	Translation into U.S. dollars (Note 2) 2017	Translation into U.S. dollars (Note 2) 2016
	(In thousands)	
Transfer of long-term borrowings to current portion of long-term borrowings	$ 18,491	$296,005
Transfer of debentures to current portion of debentures	157,264	91,919
Transfer of finance lease obligations to current portion of finance lease obligations	257,793	261,752
Transfer of construction in progress to property, aircraft, equipment, etc.	275,836	321,128
Acquisition of financial lease assets	168,818	222,642
Transfer of property, aircraft equipment to non-trade payables	928	1,846
Transfer of finance lease obligations to finance lease receivables	51,550	10,268
Transfer of short-term loans to AFS financial assets	—	197,115
Transfer of voluntary reserves to unappropriated retained earnings	179,195	—

45. COMMITMENTS AND CONTINGENCIES:

(1) The guarantees provided as of March 31, 2017, are as follows (in millions of Korean won and in thousands of U.S. dollars):

Financial institution	Currency	Guaranteed amount	Details
Seoul Guarantee Insurance Co., Ltd.	KRW	10,845	Bids, performance, maintenance and others
Korea Defense Industry Association	KRW	1,038,648	
HSBC Australia and others	KRW	16,737	
Engineering Financial Cooperative	KRW	32,744	
Korea Software Financial Cooperative	KRW	18,249	
Information & Communication Financial Cooperative	KRW	91	
BBCN BANK	USD	5,364	

As of March 31, 2017, the Group is provided with guarantees amounting to ₩16,552 million ($14,830 thousand) by Seoul Guarantee Insurance Company in relation to the restoration of forest due to the production of limestone and $3,000 thousand by Hana Bank in connection with the purchase of equipment.

(2) The Group provides a guarantee of ₩14,188 million ($12,712 thousand) in relation to the personal loan of flight training center trainees. The Group has also provided a payment guarantee of $5,490 thousand to Bank of China for Grandstar Cargo International Airlines Co., Ltd.

(3) Credit line and details of credit agreements as of March 31, 2017, are as follows (in millions of Korean won and in thousands of U.S. dollars):

Description	Financial institutions	Currency	Limit
Credit line agreement	Hana Bank (formerly, Korea Exchange	USD	65,000
	Bank) and others	KRW	91,500
Letters of credit	Kookmin Bank and others	USD	1,000
Ordinary loan	Shinhan Bank	KRW	10,000
Line of credit	NongHyup Bank	KRW	10,000
Operation loan	Korea Resource Corporation	KRW	760
		USD	66,000
		KRW	112,260

(4) Promissory note pledged as collateral

As of March 31, 2017, the Group has an outstanding promissory note pledged as collateral to the Korea Defense Industry Association.

(5) Pending litigations and others

With regard to the passenger antitrust litigation, the Company has agreed with the plaintiff to settle the lawsuit with compensation of $39,000 thousand in cash and $26,000 thousand in passenger flight ticket coupons; the Company paid $39,000 thousand in cash payment after 2013, and also recognizes the coupon of passenger flight tickets amounting to ₩23,240 million ($20,823 thousand) as a provision.

As of March 31, 2017, various claims, lawsuits and complaints arising from airline service operations are pending against the Company and the ultimate outcome of these cases are unpredictable. Management believes that the ultimate outcome of these cases will not have any material adverse effect on the financial performance and position of the Company.

(6) New aircraft introduction plan

The Company has entered into various contracts with manufacturers, such as the Boeing Company to purchase aircraft. The amount of such contracts is approximately $5,136 million as of March 31, 2017.

(7) Joint-use agreement of passenger terminal

The Company and three other airlines, including Air France, entered into a joint-use agreement with the JFK Airport in New York and established Terminal One Group Association (“TOGA”) to cooperate one of the new terminals of JFK Airport. TOGA may have to repay bond issued by New York Transportation Development Corporation based on terminal lease revenue and they have provided TOGA with a joint guarantee up to $147 million for each terminal usage fee.

(8) Financial structure improvement agreement

As the part of a group of conglomerates, the Company is under close supervision and has signed an agreement with its main bank, KDB, to improve its financial structure by going under a financial structural reform in May 2009. Per the agreement, the Company pronounced plans to liquidate the shares of S-OIL Corp. held by its subsidiary (Hanjin Energy Co., Ltd.), used airplanes and other properties to secure

₩3.49 trillion ($3,127 million). By December 31, 2016, the Company prepared approximately ₩3.69 trillion ($3,308 million) for financial structure improvement. The Company plans to further develop and implement plans to improve its business results in the future.

(9) The main agreements that the Group has entered into are as follows:

1) Korea Airport Service Co., Ltd. contributed certain ground-handling facilities constructed at the Incheon International Airport, in accordance with the agreement with the Ministry of Construction and Transportation dated March 9, 2001, in exchange for usage rights to the contributed facilities for 20 years.

   Korea Airport Service Co., Ltd. owns a building for joint investment purpose pursuant to a joint arrangement. Under the joint arrangement, Korea Airport Service Co., Ltd. has 20% ownership of the INHA International Medical Center building, which is located at Jung-gu, Incheon, and recognized income and expenses in relation to its interest.

2) On March 30, 2011, WLD Co., Ltd. entered into an agreement on "Wang San Marina Business" with Incheon Metropolitan City and Yongyu-muui Project Management Co., Ltd. Details of the agreement are summarized as follows:

   - Location: 980 Eulwang-dong, Jung-gu, Incheon, Korea
   - Business content: Construction of yacht tournament course held in 2014 Incheon Asian Games
   - Total amount of investment: Approximately, ₩189 billion ($169 million) (capital stock: ₩92.3 billion ($82.7 million), borrowings: ₩79.9 billion ($71.6 million), government subsidy: ₩16.7 billion ($15 million))
   - Government subsidy: Incheon Metropolitan City government agreed to provide a total of ₩16.7 billion ($15 million) as financial subsidy depending on the construction progress.

   WLD Co., Ltd. accomplished timely development of Wang San Marina Business, including construction of 2014 Incheon Asian Games yacht tournament course; cooperated for successful host and operation of yacht tournament at 2014 Incheon Asian Games; and invested rest of the amount after excluding Wang San Marina Business operating expenses granted by the government, construction costs of access road and other infrastructure costs. The marina was completed in August 2016 and was temporarily open from November 2016 and the grand opening will be in the second quarter of 2017.

   As of March 31, 2017, the ownership transfer is in progress and will be completed for the second quarter of 2017. WLD Co., Ltd. is entitled to acquire business reclamation sites, excluding public sites at composition cost or below, and is granted at least 30 years of operating rights after completion of construction of Wang San Marina facilities.

   Meanwhile, the Company made a commitment with KDB to participate in paid-in capital increase of Wangsan Leisure Development Co., Ltd. if Wangsan Leisure Development Co., Ltd. is short of financial resources to repay the borrowings provided by KDB. The outstanding balance of borrowings is ₩75,460 million ($67,610 thousand) as of March 31, 2017. The deposits, land and buildings acquired under the purpose of Wang San Marina Business are pledged to Korea Development Co., Ltd. as collateral.

3) On June 30, 2011, IAT Co., Ltd. entered into an agreement with Korea Land & Housing Corporation and Inchon Development & Tourism Corporation about a project related to the "Attraction of Incheon Free Economic Zone, Yeongjong Sky City Airways Airplane Engine Maintenance Centre." Major terms of the agreement include investment of ₩120 billion ($108 million) by IAT Co., Ltd. for construction of an airplane engine maintenance center and acquisition of related land located at 779-11 Unbuk-dong, Jung-gu, Incheon, Korea. Meanwhile, IAT Co., Ltd. shall not provide land, etc., for collateral or guarantee, for a period of five years from the date it first entered into an agreement for land, which is recognized in construction in process as of March 31, 2017. In addition, IAT Co., Ltd. shall not dispose or rent out to third parties for the period of five years after transfer of ownership. IAT

Co., Ltd. shall maintain the portion of its foreign investors' ownership to be higher than 10% for at least five years after the engagement date under the Foreign Direct Investment Policy.

As of March 31, 2017, preferred shares of IAT Co., Ltd., as cumulative and non-participative, will be converted proportionately for one common stock per one preferred stock on February 1, 2022 (conversion date). However, 7% of dividend is guaranteed for preferred shareholders until the conversion date, and in case of dividend in arrears, preferred shareholders have a right to refuse conversion until the dividend in arrears is paid. In accordance with the ones described above, the subsidiary classifies the amount asked by preferred shareholders at conversion date as a finance liability, which is discounted for present value.

Meanwhile, from August 1, 2021, to January 31, 2022, the Company has a call option for six months to buy the preferred shares held by United Technologies International Corporation-Asia Private Ltd., a preferred shareholder of Incheon Aviation Tech Co., Ltd., and the preferred shareholder of Incheon Aviation Tech Co., Ltd. also has a put option to sell the preferred shares to the Company during that period.

46. AMOUNT DUE FROM AND DUE TO CUSTOMERS FOR CONTRACT WORK:

(1) Changes in contract work for the three months ended March 31, 2017, are as follows:

	Korean won			
Description	Revenues incurred to date	Costs incurred to date	Recognized profits to date	Ending balance of construction contracts (*)
	(In millions)			
Civil aircraft	₩148,062	₩128,618	₩19,444	₩ 531,927
Military aircraft	802,756	766,649	36,107	544,765
	₩950,818	₩895,267	₩55,551	₩1,076,692

	Translation into U.S. dollars (Note 2)			
Description	Revenues incurred to date	Costs incurred to date	Recognized profits to date	Ending balance of construction contracts (*)
	(In thousands)			
Civil aircraft	$132,661	$115,239	$17,422	$476,595
Military aircraft	719,251	686,900	32,351	488,097
	$851,912	$802,139	$49,773	$964,692

(*) The balance as of March 31, 2017, does not include amounts for contracts that do not have the specific details (quantity, amount and others) confirmed despite being signed. The Group estimates above amount to be ₩1,961,841 million ($1,757,765 thousand).

(2) Amount due from and due to customers for contract work as of March 31, 2017, and December 31, 2016, are as follows:

	Korean won		Translation into U.S. dollars (Note 2)	
	2017	2016	2017	2016
	(In millions)		(In thousands)	
Account due from customers for contract work	₩191,499	₩195,389	$171,579	$175,064
Account due to customers for contract work	(53,881)	(24,696)	(48,276)	(22,127)

(3) The estimated gross contract costs for contracts as of December 31, 2016, changed during the current period. Details of its effects on profit and loss for the current and future years, and gross amount due from customers for contract work are as follows:

	Korean won					
Description	Construction loss provisions	Estimated increase (decrease) in contract revenue	Estimated increase (decrease) in contract cost	Influence on current profit	Influence on future profit	Increase (decrease) in due from customers for contract work (due to customers for contract work)
	(in millions)					
Civil aircraft	₩2,457	₩(17,851)	₩ 3,483	₩(18,309)	₩(3,025)	₩(18,309)
Military aircraft	—	11,352	14,807	(3,205)	(250)	(3,205)
	₩2,457	₩ (6,499)	₩18,290	₩(21,514)	₩(3,275)	₩(21,514)

	Translation into U.S. dollars (Note 2)					
Description	Construction loss provisions	Estimated increase (decrease) in contract revenue	Estimated increase (decrease) in contract cost	Influence on current profit	Influence on future profit	Increase (decrease) in due from customers for contract work (due to customers for contract work)
	(In thousands)					
Civil aircraft	$2,201	$(15,994)	$ 3,120	$(16,405)	$(2,710)	$(16,405)
Military aircraft	—	10,171	13,267	(2,872)	(224)	(2,872)
	$2,201	$ (5,823)	$16,387	$(19,277)	$(2,934)	$(19,277)

(4) There is no contract more than 5% of the Group's revenue in the prior period that is recognized in the current period by the stage of completion method for basis of the percentage of total costs incurred to date bear to the estimated total contract costs instruments for the three months ended March 31, 2017.

47. ASSETS HELD FOR SALE:

(1) Assets held for sale as of March 31, 2017, and December 31, 2016, are summarized as follows:

	Korean won	
	2017	2016
	(In millions)	
Assets held for sale		
Current assets:	₩54,733	₩—
Aircraft	21,209	—
Engines	33,524	—
Non-current assets	—	—
	₩54,733	₩—

	Translation into U.S. dollars (Note 2)	
	2017	2016
	(In thousands)	
Assets held for sale		
Current assets:	$49,040	$—
Aircraft	19,003	—
Engines	30,037	—
Non-current assets	—	—
	$49,040	$—

(2) The Group reclassified a portion of aircraft and engines to assets held for sale and disposed it of according to the aircraft sales plan. The Company accordingly recognized an impairment loss of ₩41,625 million ($37,295 thousand).

Independent Auditors' Report

To the Shareholders and the Board of Directors of
Korean Air Lines Co., Ltd.:

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Korean Air Lines Co., Ltd. (the "Company") and its subsidiaries, which comprise the consolidated statement of financial position as of December 31, 2016, and the consolidated statement of comprehensive income (loss), consolidated statement of changes in shareholders' equity and consolidated statement of cash flows, all expressed in Korean won, for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Korean International Financial Reporting Standards ("K-IFRS") 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 financial statements based on our audits. We conducted our audits in accordance with Korean Standards on Auditing ("KSAs"). Those standards require that we comply with ethical requirements and plan and perform the audit 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2016, and its financial performance and its cash flows for the year then ended in accordance with K-IFRS.

Emphasis of Matter

We draw attention to the consolidated financial statements that is described as follows. Our opinion is not qualified with respect to this matter.

(1) The independent auditors' emphasis of matter about additional stated matters based on Korean Practice Guide on Auditing about engineering to order and others

Additional stated matters based on Korean Practice Guide on Auditing mean selecting significant matters on the accompanying consolidated financial statements based on our audit through the independent accountants' professional judgments and communication with those charged with governance in accordance with Korean Practice Guide on Auditing 2016-1. Additional stated matters based on Korean Practice Guide on Auditing are dealt with a view of our audit about the consolidated financial statements, and we do not provide a separate opinion on these matters.

And as stated in 'Auditors' Responsibility', our responsibility as auditors is to conduct the audit of the above consolidated financial statements according to the Korean Standards on Auditing and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. Therefore, we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement on additional stated matters based on Korean Practice Guide on Auditing about engineering to order and others.

a) General matter

In relation to additional stated matters based on Korean Practice Guide on Auditing about engineering to order, which is described in the independent auditors' report, the common contents are as follows:

As of December 31, 2016, the Company recognizes revenue of the aerospace division, which is exceeding 5% of the Company's total revenue, in accordance with the stage of completion determined by reference to the contract costs incurred to date and when the outcome of a construction contract can be estimated reliably, contract revenue and contract costs associated with the construction contract shall be recognized as revenue and expenses respectively by reference to the stage of completion of the contract activity. The stage of completion is determined by the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs, except for contract costs that do not reflect work performed. The gross amount due from customers for contract work is the net amount of contracts in progress for which costs incurred, plus recognized profits (less recognized losses) exceed progress billings, and the gross amount due to customers for contract work is the net amount of contracts in progress for which progress billings exceed costs incurred, plus recognized profits (less recognized losses).

b) Revenue recognition in accordance with the stage of completion determined by reference to the contract costs incurred to date

The gross amount of contract revenue is measured by the initial amount of revenue agreed in the contract, but the measurement of contract revenue is affected by a variety of uncertainties related to the outcome of future events as the gross amount of contract revenue may increase in accordance with variations in contract work, claims and incentive payments or may decrease as a result of penalties arising from delays caused by the Company in the completion of the contract. Also, amount of contract revenue is influenced by the stage of completion determined by reference to the contract costs incurred to date, and the gross amount of contract costs is estimated by the expectations of the materials costs, labor costs and contract period. As discussed in Note 46, estimated increase (decrease) in contract revenue and cost is ₩18,966 million ($15,694 thousand) and ₩10,475 million ($8,668 thousand), respectively, for the year ended December 31, 2016; and current profit increase ₩9,968 million ($8,248 thousand) and future profit decrease ₩1,477 million ($1,222 thousand), in accordance with the variations of estimated increase (decrease) in contract revenue and cost. We selected revenue recognition in accordance with the stage of completion determined by reference to the contract costs incurred to date as a significant risk because there is a possibility that the variations of estimated increase (decrease) in contract revenue and cost can influence future profit negatively.

As of December 31, 2016, we performed the following audit procedures about revenue recognition in accordance with the stage of completion determined by reference to the contract costs incurred to date:

- Review the appropriateness of the Company's revenue recognition and whether it conforms to K-GAAP based on an understanding of the Company's accounting policy
- Interview whether the Company's input-method reliably measures the construction in progress and review the reasoning of explanation
- Confirm sufficiency of the conditions for capably being able to reliably measure the outcome of the construction contract
- Review the adequacy of revenue recognition of contracts sampled from the year-end list of contracts in progress
- Understand the Group's internal control procedure regarding the input-method revenue recognition process as a whole including estimation, bid management, working budget management, project cost accounting, recognition of construction revenue and cost management

c) Uncertainty of estimated total contract costs

Total contract costs are estimated based on future expectations, including material cost, labor cost, construction period and others, and we selected the uncertainty of estimated total contract costs as a significant risk because there is a possibility that the increase of the uncertainty of estimated total contract costs and the estimation change in accordance with process delays or process inefficiency can influence future profit negatively.

As of December 31, 2016, we performed the following audit procedures about the impact on the consolidated financial statements caused by the uncertainty of estimated total contract costs:

- Review adequacy of understanding of the internal control process regarding the estimation of total contract costs including estimation of project direct costs, allocation of common costs, planning of required materials, application of recent actual costs, establishing operation plans, estimating remaining quantities and unit prices
- Comparative review of internal documents and management systems regarding estimated total contract costs
- Substantive review of the audit trail and document inspection of projects with significant differences determined through analytical procedures of the percentage of completion
- Substantive review of documents and reasons for projects with significant differences in estimated total contract cost as compared to the prior fiscal year or for projects with no changes in estimated total contract cost for long periods of time

d) Determination of the stage of completion

As discussed in Note 46, the estimated increase in contract cost is ₩10,475 million ($8,668 thousand) for the year ended December 31, 2016, and as of December 31, 2016, cost incurred to date is ₩834,793 million ($690,768 thousand). We selected the determination of the stage of completion as a significant risk because there is a possibility that the increase of the contract cost in comparison with the estimated total contract cost due to the unexpected process delay before the prior period and others and the increase of the uncertainty of estimated total contract costs can influence future profit negatively.

We performed the following audit procedures with regard to the estimated total contract costs and cost incurred to date that can affect the determination of the stage of completion:

- Review whether only the contract costs reflecting fulfilled construction were included in the accumulated construction costs.
- Substantive review of costs sampled from costs accrued in the current period including existence, cut-off, etc.
- Recalculation of the percentage of completion presented by the Company and related comparison of documents sampled from contracts, budgets.
- Substantive review of documents regarding projects with significant variation as determined through analytical procedures of the percentage of completion
- Review adequacy of understanding of the internal control process regarding the calculation of percentage of completion including accounting for direct and indirect input costs and project cost allocation

e) Recoverability of the amount due from customers for contract work

As discussed in Note 46, the amount due from customers for contract work is ₩195,389 million ($161,679 thousand), and we selected the recoverability of the amount due from customers for contract work as a significant risk because there is a possibility that the increase of the amount due from customers for contract work and the increase rate of the amount due from customers for contract work exceeding the increase rate of revenues incurred to date can influence future profit negatively.

We performed the following audit procedures about the project such that the amount due from customers for contract work increases significantly for the year ended December 31, 2016:

- Recalculation of the balance of unbilled accounts receivable through comparison of accumulated construction revenue and accumulated billed revenue
- Identify reasons for variation of sites with significant variation in unbilled accounts receivable and test the reasoning of documents on recoverability
- Review of payment conditions and agreements of construction sites with significant unbilled accounts receivable
- Review basis of estimation of expected billing date and expected recovery date of long-term unbilled accounts receivable

f) Accounting for variations in contract work

The total contract revenue can be measured on the initial amount of revenue agreed in the contract, but the measurement of contract revenue is affected by the various uncertainties related to the result of future events because the total contract revenue may increase as a result of variations in contract work and others or may decrease as a result of penalties arising from delays caused by the Company in the completion of the contract. We selected the accounting for variations in contract work as a significant risk because there is a possibility that such uncertainties can influence future profit negatively.

We performed the following audit procedures about the accounting for variations in contract work and disclosures:

- Understand the Group’s accounting policies regarding construction changes and penalties for late deliveries
- Review documentation of projects with significant variation in estimated total contract payment including changed agreements and the recovery of estimated total contract revenue.

- Review adequacy of understanding of the internal control process regarding changes in the construction contract and estimated total construction costs including the application of quantities and unit prices
- Substantive review of documents regarding extension of construction period of projects with significant differences determined through the following: interview the possibility of penalties for late deliveries, analytical procedure of projects with significant changes in construction period as compared to the prior period or projects with delayed percentage of completion for their respective construction period
- Interview employees to understand the Company's budget change procedure and review and inspect documentation regarding reasons, timing and amount of change of projects with significant changes in estimated total contract revenue and estimated total contract cost as compared to the prior fiscal year
- Review the subsequent events related to the variations in contract work

(2) As discussed in Note 45.(8), the Company recognized impairment loss on the total amount of investments in associates and available-for-sale ("AFS") financial assets, respectively, relating to Hanjin Shipping Co., Ltd. for the year ended December 31, 2016. Details are ₩333,798 million ($276,209 thousand) of impairment losses on investments in associates, ₩252,630 million ($209,044 thousand) of impairment losses on AFS financial assets and ₩116,551 million ($96,443 thousand) of loss on trading of derivatives relating to the TRS contracts (see Notes 27 and 42), respectively.

Others

The comparative consolidated financial statements as of and for the year ended December 31, 2015, which were audited by KPMG Samjong Accounting Corp. and whose report is dated March 10, 2016, expressed an unqualified opinion on those statements.

Our audits also comprehended the translation of Korean won amounts into U.S. dollar amounts and, in our opinion, such translation has been made using the base rates announced by Seoul Money Brokerage Services, Ltd. on the date of reporting period end. Such U.S. dollar amounts are presented solely for the convenience of readers.

/s/ Deloitte Anjin LLC

March 16, 2017

Notice to Readers

This report is effective as of March 16, 2017, the auditor s' report date. Certain subsequent events or circumstances may have occurred between the auditors' report date and the time the auditor s' report is read. Such events or circumstances could significantly affect the accompanying financial statements and may result in modifications to the auditor s' report.

Independent Auditors' Report

The Board of Directors and Stockholders
Korean Air Lines Co., Ltd.:

Report on the Consolidated Financial Statements

We have audited the consolidated statement of financial position as at December 31, 2015 expressed in Korean won, the consolidated statements of comprehensive loss, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information of Korean Air Lines Co., Ltd. and its subsidiaries (the "Group").

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2015 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Korean International Financial Reporting Standards.

Emphasis of matter

The following matters may be helpful to the readers in their understanding of the consolidated financial statements.

As of December 31, 2015, the Group's current liabilities exceed its current assets by ₩5,161,254 million which, combined with matters explained in Note 45(9), indicates the existence of a material uncertainty with respect to the Group's business results.

Other Matters

This report is intended solely for use in offering circular in connection with offering of proposed US$ senior capital securities of Korean Air Lines Co., Ltd. in 2017 and should not be used for any other purpose.

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

/s/ KPMG Samjong Accounting Corp.

Seoul, Korea
March 10, 2016

This report is effective as of March 10, 2016, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the consolidated financial statements and notes thereto. Accordingly, the readers of the audit report should understand that the above audit report has not been updated to reflect the impact of such subsequent events or circumstances, if any.

KOREAN AIR LINES CO., LTD. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

AS OF DECEMBER 31, 2016 AND 2015

ASSETS	NOTES	Korean won 2016	Korean won 2015	Translation into U.S. dollars (Note 2) 2016	Translation into U.S. dollars (Note 2) 2015
		(In millions)		(In thousands)	
CURRENT ASSETS:					
Cash and cash equivalents	5	₩ 1,089,927	₩ 967,481	$ 901,884	$ 800,564
Short-term financial instruments	6	176,914	111,988	146,391	92,667
Current portion of finance lease receivables	11	18,698	7,474	15,472	6,185
Trade and other receivables	7	726,913	951,421	601,500	787,274
Amount due from customers for contract work	46	195,389	158,239	161,679	130,938
Current portion of held-to-maturity investments	6,9	129	71	106	59
Inventories	10	564,705	490,648	467,278	405,997
Current tax assets		5,576	5,987	4,614	4,954
Other current assets	20	549,738	550,276	454,893	455,338
Assets held for sale	48	—	45,542	—	37,685
Total current assets		3,327,989	3,289,127	2,753,817	2,721,661
NON-CURRENT ASSETS:					
Long-term financial instruments	6	45,951	115,255	38,023	95,371
Long-term trade and other receivables	7	239	43	198	36
AFS financial assets	6,8,41	219,456	172,174	181,594	142,469
Held-to-maturity investments	6,9	1,001	900	828	745
Finance lease receivables	11	49,721	26,365	41,143	21,816
Investments in associates	13	24,387	519,975	20,179	430,264
Property, aircraft and equipment	15,16	17,873,282	17,850,703	14,789,642	14,770,958
Investment properties	16,17	324,881	309,520	268,830	256,119
Intangible assets	18	405,030	294,744	335,151	243,892
Financial derivative assets	27,40,41	27	—	22	—
Other financial assets	19,40	329,751	330,675	272,860	273,625
Deferred tax assets	37	1,107,329	940,315	916,284	778,085
Other non-current assets	20	247,491	330,555	204,792	273,525
Total non-current assets		20,628,546	20,891,224	17,069,546	17,286,905
Total assets		₩23,956,535	₩24,180,351	$19,823,363	$20,008,566

(Continued)

KOREAN AIR LINES CO., LTD. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (CONTINUED)

AS OF DECEMBER 31, 2016 AND 2015

LIABILITIES AND SHAREHOLDERS' EQUITY	NOTES	Korean won 2016	Korean won 2015	Translation into U.S. dollars (Note 2) 2016	Translation into U.S. dollars (Note 2) 2015
		(In millions)		(In thousands)	
CURRENT LIABILITIES:					
Trade and other payables	21	₩ 846,152	₩ 870,087	$ 700,167	$ 719,973
Short-term borrowings	16,22	1,167,972	869,438	966,464	719,436
Short-term debentures	22	336,230	—	278,221	—
Current portion of long-term borrowings	16,22	3,460,677	3,926,166	2,863,614	3,248,793
Current portion of finance lease obligations	16,23	1,714,470	1,234,471	1,418,676	1,021,491
Current portion of financial derivative liabilities	27,41	—	35,729	—	29,564
Current portion of provisions	25	5,431	16,795	4,494	13,897
Amount due to customers for contract work	46	24,696	94,297	20,435	78,028
Current tax liabilities		3,747	4,052	3,101	3,353
Other current liabilities	26,28	1,571,743	1,399,346	1,300,573	1,157,920
Total current liabilities		9,131,118	8,450,381	7,555,745	6,992,455
NON-CURRENT LIABILITIES:					
Long-term trade and other payables	21	30,273	41,103	25,050	34,012
Long-term borrowings	16,22	1,016,089	1,095,490	840,786	906,487
Debentures	22	83,169	693,001	68,820	573,439
Asset-backed securitization ("ABS") loans	19,20,22	1,731,952	1,181,066	1,433,142	977,299
Guaranteed loans	6,16,22	—	13,030	—	10,782
Finance lease obligations	16,23	6,774,326	7,155,363	5,605,565	5,920,863
Net defined benefit liabilities	24	1,126,332	1,027,681	932,008	850,377
Provisions	25	178,674	171,187	147,848	141,652
Deferred revenue	26	1,868,288	1,701,781	1,545,956	1,408,177
Financial derivative liabilities	27,41	39,725	34,053	32,871	28,178
Deferred tax liabilities		25,748	56,989	21,306	47,157
Other non-current liabilities	28	76,491	60,191	63,294	49,806
Total non-current liabilities		12,951,067	13,230,935	10,716,646	10,948,229
Total liabilities		22,082,185	21,681,316	18,272,391	17,940,684
SHAREHOLDERS' EQUITY:					
Capital stock	1,29	369,753	369,753	305,960	305,960
Other capital surplus	30	1,198,374	817,783	991,621	676,693
Other capital components	14,32	385,436	405,311	318,938	335,384
Retained earnings (deficit)	31	(192,877)	794,265	(159,600)	657,232
NON-CONTROLLING INTERESTS		113,664	111,923	94,053	92,613
Total shareholders' equity		1,874,350	2,499,035	1,550,972	2,067,882
Total liabilities and shareholders' equity		₩23,956,535	₩24,180,351	$19,823,363	$20,008,566

(Concluded)

See accompanying notes to consolidated financial statements.

KOREAN AIR LINES CO., LTD. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	NOTES	Korean won 2016	Korean won 2015	Translation into U.S. dollars (Note 2) 2016	Translation into U.S. dollars (Note 2) 2015
		(In millions except for loss per share)		(In thousands except for loss per share)	
SALES	33,42,47	₩11,731,852	₩11,544,831	$9,707,780	$9,553,025
COST OF SALES	38,42	9,435,221	9,517,397	7,807,382	7,875,380
GROSS PROFIT		2,296,631	2,027,434	1,900,398	1,677,645
Selling and administrative expenses	34,38	1,175,822	1,144,346	972,960	946,914
OPERATING INCOME		1,120,809	883,088	927,438	730,731
Financial income	35,40	51,443	56,271	42,568	46,563
Financial expenses	35,40	558,649	515,967	462,267	426,948
Gain (loss) on equity method valuation	13	(112,267)	17,485	(92,898)	14,468
Other non-operating income	36	510,958	385,914	422,804	319,333
Other non-operating expenses	36	1,729,694	1,313,154	1,431,273	1,086,599
LOSS BEFORE INCOME TAX BENEFIT	37	(717,400)	(486,363)	(593,628)	(402,452)
INCOME TAX BENEFIT	37	(160,556)	(85,494)	(132,855)	(70,744)
NET LOSS FROM CONTINUING OPERATIONS		(556,844)	(400,869)	(460,773)	(331,708)
NET LOSS FROM DISCONTINUED OPERATIONS		—	(162,098)	—	(134,132)
NET LOSS		₩ (556,844)	₩ (562,967)	$ (460,773)	$ (465,840)
OTHER COMPREHENSIVE (LOSS) INCOME AFTER INCOME TAX:					
Items not to be reclassified subsequent to income or loss:					
Remeasurement of the net defined benefit liabilities	24	₩ (37,939)	₩ (73,828)	$ (31,393)	$ (61,091)
Change in retained earnings – equity method – accounted investments		(6)	(209)	(5)	(173)
Revaluation surplus	15	(1,334)	(362)	(1,104)	(299)
		(39,279)	(74,399)	(32,502)	(61,563)

(Continued)

KOREAN AIR LINES CO., LTD. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	NOTES	Korean won 2016	Korean won 2015	Translation into U.S. dollars (Note 2) 2016	Translation into U.S. dollars (Note 2) 2015
		(In millions except for loss per share)		(In thousands except for loss per share)	
Items to be reclassified subsequent to income or loss:					
Gain (loss) on AFS financial assets, net	32	₩ (6,792)	₩ (28,621)	$ (5,620)	$ (23,683)
Change in capital adjustments – equity method – accounted investments		(42,064)	75,482	(34,807)	62,459
Gain (loss) on financial derivatives, net		—	(1,681)	—	(1,391)
Gain (loss) on foreign operation translation		29,657	11,491	24,541	9,509
		(19,199)	56,671	(15,886)	46,894
COMPREHENSIVE LOSS		₩(615,322)	₩(580,695)	$(509,161)	$(480,509)
NET LOSS ATTRIBUTABLE TO:					
Owners of the Company		₩(564,882)	₩(564,977)	$(467,424)	$(467,503)
Non-controlling interests		8,038	2,010	6,651	1,663
COMPREHENSIVE LOSS ATTRIBUTABLE TO:					
Owners of the Company		(622,009)	(582,413)	(514,695)	(481,931)
Non-controlling interests		6,687	1,718	5,534	1,422
LOSS PER SHARE:	39				
Continuing and discontinued operation					
Attributable to common stock		(7,639)	(7,968)	(6)	(7)
Attributable to preferred stock		(7,589)	(7,868)	(6)	(7)
Continuing operation					
Attributable to common stock		(7,639)	(5,713)	(6)	(5)
Attributable to preferred stock		(7,589)	(5,663)	(6)	(5)

(Concluded)

See accompanying notes to consolidated financial statements.

KOREAN AIR LINES CO., LTD. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	Korean won								
	Owners of the Company								
		Other capital surplus							
	Capital stock	Additional paid-in capital	Others	Other capital components	Retained earnings	Amounts recognized in accumulated other comprehensive income relating to assets held for sale	Subtotal	Non-controlling interests	Total
	(In millions)								
January 1, 2015	₩298,931	₩174,907	₩(122,345)	₩411,347	₩1,389,468	₩(61,364)	₩2,090,944	₩110,215	₩2,201,159
Dividends	—	—	—	—	—	—	—	(618)	(618)
Net loss	—	—	—	—	(564,977)	—	(564,977)	2,010	(562,967)
Other comprehensive income (loss)	—	—	—	(6,036)	(72,765)	61,364	(17,437)	(291)	(17,728)
Paid-in capital increase	70,822	423,381	—	—	—	—	494,203	—	494,203
Issuance of hybrid securities	—	—	341,551	—	—	—	341,551	—	341,551
Dividend from hybrid securities	—	—	—	—	(14,347)	—	(14,347)	—	(14,347)
Liquidation of investments in subsidiary	—	—	—	—	51,636	—	51,636	—	51,636
Others	—	4,567	(4,278)	—	5,250	—	5,539	607	6,146
December 31, 2015	₩369,753	₩602,855	₩ 214,928	₩405,311	₩ 794,265	₩ —	₩2,387,112	₩111,923	₩2,499,035
January 1, 2016	₩369,753	₩602,855	₩ 214,928	₩405,311	₩ 794,265	₩ —	₩2,387,112	₩111,923	₩2,499,035
Dividends	—	—	—	—	—	—	—	(991)	(991)
Net loss	—	—	—	—	(564,882)	—	(564,882)	8,038	(556,844)
Other comprehensive income (loss)	—	—	—	(19,875)	(37,252)	—	(57,127)	(1,350)	(58,477)
Dividend from hybrid securities	—	—	—	—	(21,364)	—	(21,364)	—	(21,364)
Change in retained earnings of associates and subsidiaries	—	—	—	—	14,997	—	14,997	(302)	14,695
Transfer of loss on capital reduction			377,086	—	(377,086)	—	—	—	—
Others	—	—	3,505	—	(1,555)	—	1,950	(3,654)	(1,704)
December 31, 2016	₩369,753	₩602,855	₩ 595,519	₩385,436	₩ (192,877)	₩ —	₩1,760,686	₩113,664	₩1,874,350

(Continued)

KOREAN AIR LINES CO., LTD. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	Translation into U.S. dollars (Note 2)								
	Owners of the Company								
		Other capital surplus							
	Capital stock	Additional paid-in capital	Others	Other capital components	Retained earnings	Amounts recognized in other comprehensive income and accumulated in equity relating to assets held for sale	Subtotal	Non-controlling interests	Total
	(In thousands)								
January 1, 2015	$247,357	$144,731	$(101,237)	$340,378	$1,149,746	$(50,777)	$1,730,198	$91,200	$1,821,398
Dividends	—	—	—	—	—	—	—	(511)	(511)
Net loss	—	—	—	—	(467,503)	—	(467,503)	1,663	(465,840)
Other comprehensive income (loss)	—	—	—	(4,994)	(60,211)	50,777	(14,428)	(241)	(14,669)
Paid-in capital increase	58,603	350,336	—	—	—	—	408,939	—	408,939
Issuance of hybrid securities	—	—	282,624	—	—	—	282,624	—	282,624
Dividend from hybrid securities	—	—	—	—	(11,872)	—	(11,872)	—	(11,872)
Liquidation of investments in subsidiary	—	—	—	—	42,727	—	42,727	—	42,727
Others	—	3,779	(3,540)	—	4,345	—	4,584	502	5,086
December 31, 2015	$305,960	$498,846	$ 177,847	$335,384	$ 657,232	$ —	$1,975,269	$92,613	$2,067,882
January 1, 2016	$305,960	$498,846	$ 177,847	$335,384	$ 657,232	$ —	$1,975,269	$92,613	$2,067,882
Dividends	—	—	—	—	—	—	—	(820)	(820)
Net loss	—	—	—	—	(467,424)	—	(467,424)	6,651	(460,773)
Other comprehensive income (loss)	—	—	—	(16,446)	(30,825)	—	(47,271)	(1,117)	(48,388)
Dividend from hybrid securities	—	—	—	—	(17,678)	—	(17,678)	—	(17,678)
Change in retained earnings of associates and subsidiaries	—	—	—	—	12,410	—	12,410	(250)	12,160
Transfer of loss on capital reduction	—	—	312,028	—	(312,028)	—	—	—	—
Others	—	—	2,900	—	(1,287)	—	1,613	(3,024)	(1,411)
December 31, 2016	$305,960	$498,846	$ 492,775	$318,938	$ (159,600)	$ —	$1,456,919	$94,053	$1,550,972

(Concluded)

See accompanying notes to consolidated financial statements.

KOREAN AIR LINES CO., LTD. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	Korean won		Translation into U.S. dollars (Note 2)	
	2016	2015	2016	2015
	(In millions)		(In thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:				
Cash flows from operations:				
Net loss	₩ (556,844)	₩ (562,967)	$ (460,773)	$ (465,840)
Adjustments to reconcile net loss to net cash provided by operating activities:				
Provision for leased aircraft maintenance	33,212	27,980	27,482	23,152
Retirement benefit costs	153,302	164,696	126,853	136,281
Depreciation	1,698,252	1,610,946	1,405,256	1,333,013
Amortization	53,257	39,979	44,068	33,081
Bad debt expenses	1,887	—	1,562	—
Interest expense	406,823	372,400	336,635	308,151
Loss on valuation of derivatives	59,761	72,103	49,450	59,664
Loss on valuation of equity method	112,267	—	92,898	—
Loss on foreign currency translation	375,854	607,521	311,009	502,706
Loss on foreign currency transaction	53,537	99,082	44,300	81,987
Other bad debt expenses	15,915	42,703	13,169	35,335
Loss on disposal of property, aircraft and equipment	214,504	173,009	177,496	143,160
Loss on disposal of intangible assets	1,081	124	895	103
Impairment loss on intangible assets	7,992	—	6,613	—
Loss on disposal of assets held for sale	26,836	5,234	22,206	4,331
Impairment loss on property, aircraft and equipment	72,886	72,364	60,311	59,879
Revaluation loss on property, aircraft and equipment	2	—	1	—
Loss on disposal of AFS financial assets	109	—	90	—
Impairment loss on AFS financial assets	255,246	290	211,209	240
Loss on disposal of investments in associates	8,505	—	7,037	—
Impairment loss on investments in associates	333,798	—	276,208	—
Others	16,194	120,673	13,401	99,854
Interest income	(28,787)	(42,791)	(23,821)	(35,408)
Dividend income	(3,865)	(4,263)	(3,198)	(3,527)
Gain on valuation of derivatives	(27)	—	(22)	—
Gain on valuation of equity method	—	(17,485)	—	(14,468)
Gain on foreign currency translation	(158,278)	(112,940)	(130,971)	(93,455)
Reversal of allowance for doubtful accounts	—	(362)	—	(300)
Reversal of allowance for other doubtful accounts	(618)	(3)	(511)	(2)
Gain on disposal of AFS financial assets	(1,230)	(1,704)	(1,017)	(1,410)
Gain on disposal of property, aircraft and equipment	(26,878)	(5,075)	(22,240)	(4,200)
Gain on disposal of intangible assets	(101)	(13)	(84)	(10)
Gain on disposal of assets held for sale	(955)	—	(790)	—
Reversal of negative goodwill	—	(5,244)	—	(4,339)
Income tax benefit	(160,555)	(15,865)	(132,855)	(13,128)
Others	(70,763)	(5,363)	(58,554)	(4,438)
	3,449,163	3,197,996	2,854,086	2,646,252

(Continued)

KOREAN AIR LINES CO., LTD. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	Korean won		Translation into U.S. dollars (Note 2)	
	2016	2015	2016	2015
	(In millions)		(In thousands)	
Changes in assets and liabilities resulting from operations:				
Increase in trade receivables	₩ (25,082)	₩ (34,075)	$ (20,755)	$ (28,196)
Decrease (increase) in other receivables	15,340	(14,053)	12,694	(11,628)
Increase in amount due from customers for contract work	(38,803)	(28,029)	(32,108)	(23,194)
Increase in inventories	(73,391)	(58,651)	(60,729)	(48,532)
Decrease in financial derivative assets	—	5,736	—	4,747
Increase in advance payments	(26,990)	(35,507)	(22,333)	(29,381)
Decrease (increase) in prepaid expenses	32,740	(4,488)	27,091	(3,713)
Increase (decrease) in trade payables	(441)	12,260	(365)	10,144
Decrease in non-trade payables	(58,485)	(88,584)	(48,395)	(73,301)
Increase in accrued expenses	3,895	187,095	3,223	154,815
Increase in advances	149,740	73,184	123,905	60,558
Increase in unearned revenues	48,806	242,055	40,385	200,294
Decrease in amount due to customers for contract work	(69,606)	(53,837)	(57,597)	(44,548)
Decrease in financial derivative liabilities	(90,592)	(208,846)	(74,962)	(172,814)
Decrease (increase) in plan assets	(6,518)	3,586	(5,393)	2,967
Payment of severance benefit	(99,092)	(90,961)	(81,996)	(75,268)
Succession of defined benefit obligation	695	517	575	428
Decrease in provisions	(44,470)	(1,770)	(36,797)	(1,464)
Increase in deferred revenue	169,961	67,998	140,638	56,267
Increase in other non-current liabilities	1,210	14,732	1,002	12,190
Others	13,858	64,029	11,466	52,982
	(97,225)	52,391	(80,451)	43,353
Interest received	17,932	46,472	14,838	38,455
Dividend received	3,598	6,639	2,978	5,494
Income taxes paid	(10,369)	(12,508)	(8,580)	(10,350)
Net cash provided by operating activities	2,806,255	2,728,023	2,322,098	2,257,364

(Continued)

KOREAN AIR LINES CO., LTD. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	Korean won		Translation into U.S. dollars (Note 2)	
	2016	2015	2016	2015
	(In millions)		(In thousands)	
CASH FLOWS FROM INVESTING ACTIVITIES:				
Net increase (decrease) in short-term financial instruments	₩ 9,048	₩ (52,830)	$ 7,487	$ (43,715)
Recovery of finance lease receivables	17,624	13,750	14,583	11,378
Decrease in current portion of held-to-maturity investments	(2,008)	—	(1,662)	—
Net decrease in long-term financial instruments	(804)	(51,084)	(665)	(42,270)
Purchase of AFS financial assets	(91,742)	(3,000)	(75,914)	(2,482)
Disposal of AFS financial assets	1,839	6,966	1,522	5,764
Purchase of held-to-maturity investments	(25)	(27)	(21)	(22)
Disposal of investment in subsidiaries	—	1,184	—	980
Net decrease in short-term loans	(26)	2	(22)	2
Net decrease in long-term loans	(10)	—	(8)	—
Disposal of property, aircraft, equipment and investment properties	271,929	318,316	225,013	263,398
Acquisition of property, aircraft, equipment and investment property	(1,145,145)	(1,742,725)	(947,575)	(1,442,056)
Disposal of assets held for sale	49,474	10,003	40,938	8,277
Disposal of intangible assets	2,256	313	1,867	259
Acquisition of intangible assets	(1,095)	(32)	(906)	(27)
Decrease in guarantee deposits	203,918	37,790	168,737	31,270
Increase in guarantee deposits	(168,800)	(96,664)	(139,677)	(79,987)
Increase (decrease) due to business takeover and transfer	(20,227)	1,982,983	(16,738)	1,640,863
Others	294	(6,216)	243	(5,144)
Net cash provided by (used in) investing activities	(873,500)	418,729	(722,798)	346,488

(Continued)

KOREAN AIR LINES CO., LTD. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	Korean won		Translation into U.S. dollars (Note 2)	
	2016	2015	2016	2015
	(In millions)		(In thousands)	
CASH FLOWS FROM FINANCING ACTIVITIES:				
Net increase (decrease) in short-term borrowings	₩ 266,429	₩ (794,566)	$ 220,462	$ (657,481)
Proceeds from short-term debentures	338,365	—	279,988	—
Repayment of current portion of long-term borrowings	(3,238,848)	(2,997,644)	(2,680,057)	(2,480,467)
Repayment of current portion of finance lease obligations	(1,299,627)	(1,093,376)	(1,075,405)	(904,738)
Repayment from long-term borrowings	(3,960)	—	(3,277)	—
Proceeds from long-term borrowings	606,129	570,094	501,555	471,737
Proceeds from debentures	538,298	286,470	445,427	237,046
Issuance of hybrid securities	—	341,551	—	282,624
Proceeds from ABS loans	1,385,009	600,000	1,146,056	496,483
Paid-in capital increase	3,514	494,202	2,908	408,939
Repayment of guaranteed loans	(913)	—	(756)	—
Dividends paid	(991)	(617)	(820)	(511)
Dividends from hybrid securities paid	(22,344)	(13,440)	(18,489)	(11,121)
Interest paid	(400,350)	(385,736)	(331,278)	(319,186)
Others	(22)	(3,537)	(17)	(2,927)
Net cash used in financing activities	(1,829,311)	(2,996,599)	(1,513,703)	(2,479,602)
NET INCREASE IN CASH AND CASH EQUIVALENTS	103,444	150,153	85,597	124,250
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	967,481	796,604	800,564	659,167
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	19,002	19,006	15,723	15,727
INCREASE IN CASH AND CASH EQUIVALENT DUE TO CHANGES IN SCOPE OF CONSOLIDATION	—	1,718	—	1,420
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	₩ 1,089,927	₩ 967,481	$ 901,884	$ 800,564

(Concluded)

See accompanying notes to consolidated financial statements.

1. GENERAL:

Korean Air Lines Co., Ltd. (the "Company") was established on June 19, 1962, and is engaged in the business of domestic and international airline services, manufacture of aircraft parts, maintenance of aircraft and catering of in-flight meals. The Company has been a publicly traded company upon listing its common stock on the Korea Exchange since 1966 and the head office is located in Haneul-gil, Gangseo-gu, Seoul, Korea.

Total capital stock of the Company as of December 31, 2016, amounted to ₩369,753 million in par value (including ₩5,554 million of preferred stock). The principal shareholders of the Company's common shares are Hanjin Kal Co., Ltd. (31.46%) and its affiliates (4.10%).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Basis of Financial Statement Presentation

The Company and its subsidiaries (the "Group") maintain its official accounting records in Korean won and prepare consolidated financial statements in conformity with Korean statutory requirements and K-IFRS, in Korean language (Hangul). Accordingly, these consolidated financial statements are intended for use by those who are informed about K-IFRS and Korean practices. Certain information included in the Korean language financial statements, but not required for a fair presentation of the Group's financial position, operating results, changes in shareholders' equity or cash flows is not presented in the accompanying consolidated financial statements.

The accompanying consolidated financial statements are stated in Korean won, the currency of the country in which the Group is incorporated and operates. The translation of Korean won amounts into U.S. dollar amounts is included solely for the convenience of readers outside of the Republic of Korea and has been made at the rate of ₩1,208.50 to USD 1.00 on December 31, 2016, the base rate announced by Seoul Money Brokerage Services, Ltd. Such translations should not be interpreted as representations that the Korean won amounts could be converted into U.S. dollars at that or any other rate.

(1) Basis of Preparation

The Group has prepared the consolidated financial statements in accordance with the K-IFRS.

The Group's accounting policies applied for the accompanying consolidated financial statements are the same as the policies applied for the preparation of consolidated financial statements as of and for the year ended December 31, 2015, except for the effects from the introduction of new and revised accounting standards of interpretation as described below.

The accompanying consolidated financial statements have been prepared on the historical cost basis, except for certain non-current assets and financial instruments that are measured at revalued amounts or fair values, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given.

1) Accounting standards and interpretations that were newly applied for the year ended December 31, 2016 and changes in the Group's accounting policies are as follows:

Amendments to K-IFRS 1110 – *Consolidated Financial Statements & K-IFRS 1112 Disclosure of interests in other entities & K-IFRS 1028 Investment in associates*

The amendments clarify that in applying the equity method of accounting to an associate or a joint venture that is an investment entity, an investor may retain the fair value measurements that the associate or joint venture used for its subsidiaries. The application of these amendments has no material impact on the disclosures or the amounts recognized in the Group's consolidated financial statements.

Amendments to K-IFRS 1111 – *Accounting for Acquisitions of Interests in Joint Operations*

The amendments to K-IFRS 1111 provide guidance on how to account for the acquisition of a joint operation that constitutes a business as defined in K-IFRS 1103 *Business Combinations.* A joint operator is also required to disclose the relevant information required by K-IFRS 1103 and other standards for business combinations. The application of these amendments has no material impact on the disclosures or the amounts recognized in the Group's consolidated financial statements.

Amendments to K-IFRS 1001 – *Disclosure Initiative*

The amendments to K-IFRS 1001 clarify the concept of applying materiality in practice and restrict an entity reducing the understandability of its financial statements by obscuring material information with immaterial information or by aggregating material items that have different natures or functions. The application of these amendments has no material impact on the disclosures or the amounts recognized in the Group's consolidated financial statements.

Amendments to K-IFRS 1016 – *Property, Plant and Equipment*

The amendments to K-IFRS 1016 prohibit the Group from using a revenue-based depreciation method for items of property, plant and equipment. The application of these amendments has no material impact on the disclosures or the amounts recognized in the Group's consolidated financial statements.

Amendments to K-IFRS 1038 – *Intangible Assets*

The amendments to K-IFRS 1038 do not allow presumption that revenue is an appropriate basis for the amortization of intangible assets, which the presumption can only be limited when the intangible asset is expressed as a measure of revenue or when it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated. The application of these amendments has no material impact on the disclosures or the amounts recognized in the Group's consolidated financial statements.

Amendments to K-IFRS 1016 – *Property, plant and equipment & K-IFRS 1041 Agriculture: Bearer Plants*

The amendments to K-IFRS 1016 '*Property, Plant and Equipment*' and K-IFRS 1041 '*Agriculture*' define a bearer plant and require biological assets that meet the definition of a bearer plant to be accounted for as property, plant and equipment in accordance with K-IFRS 1016, instead of K-IFRS 1041. The application of these amendments has no material impact on the disclosures or the amounts recognized in the Group's consolidated financial statements.

Annual Improvements to K-IFRS 2012-2014 Cycle

The annual improvements include amendments to a number of K-IFRSs. The amendments introduce specific guidance in K-IFRS 1105 Non-current Assets Held for Sale and Discontinued Operations when an entity reclassifies an asset (or disposal group) from held for sale to held for distribution to owners (or vice versa); such a change is considered as a continuation of the original plan of disposal, and not as a change to a plan of sale. Other amendments in the annual improvements include K-IFRS 1107 Financial Instruments: Disclosures, K-IFRS 1019 Employee Benefits, and K-IFRS 1034 Interim Financial Reporting. The application of these amendments has no material impact on the disclosures or the amounts recognized in the Group's consolidated financial statements.

2) The Group has not applied or adopted earlier the following new and revised K-IFRS that have been issued, but are not yet effective:

Amendments to K-IFRS 1109 – *Financial Instruments*

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

With the introduction of K-IFRS 1109, necessary implementation procedures include preparation of the financial impact analysis, establishment of accounting policies and system and its stabilization. The financial statements of the year of adoption is affected not only by the accounting policies judgmentally set forth by the management, but also by the economic conditions of the Group during the period.

The Group is assessing a preliminary financial analysis in preparation of the adoption of K-IFRS 1109 and the general impact of the new standard on the financial statement is as follows:

A. Classification and measurement of financial assets

When the Group adopts new standard of K-IFRS 1109, the Group classifies financial assets as seen in the table below based on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset: as measured at amortized cost, fair value through other comprehensive income ("FVOCI") or fair value through profit or loss ("FVTPL"). If the host contract is determined in a hybrid contract, an entity may classify the entire hybrid contract as a financial asset rather than separating the embedded derivative from the host contract.

	Contractual cash flow characteristic	
Business model	Solely payments of principal and interest	Otherwise
Objective is to hold financial assets in order to collect contractual cash flows	Measured at amortized cost (*1)	
The financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets	FVOCI (*1)	FVTPL (*2)
Objective is to sell financial assets and others	FVTPL	

(*1) An entity may designate as measured at FVTPL to eliminate or significantly reduce an accounting mismatch (irrevocable).

(*2) An entity may designate as FVOCI for investments in equity instruments that are not held for trading (irrevocable).

The Group has loans and receivables of ₩2,438,114 million ($2,017,471 thousand), financial assets at FVTPL of ₩27 million ($22 thousand), held-to-maturity investments of ₩1,130 million ($935 thousand) and AFS financial assets of ₩219,456 million ($181,594 thousand) in the consolidated statement of financial position as of December 31, 2016.

B. Classification and measurement of financial liabilities

For financial liabilities designated as at FVTPL using the fair value option, K-IFRS 1109 requires the effects of changes in fair value attributable to an entity's credit risk to be recognized in other comprehensive income. The amounts presented in other comprehensive income are not subsequently transferred to profit or loss unless this treatment of the credit risk component creates or enlarges a measurement mismatch.

As of December 31, 2016, the Group has financial assets at FVTPL of ₩39,725 million ($32,871 thousand) and financial liabilities measured at amortized cost of ₩17,147,440 thousand ($14,189,028 thousand).

C. Impairment: Financial assets and contract assets

Under K-IFRS 1039, the impairment is recognized only when there is an objective evidence of impairment based on incurred loss model, but under K-IFRS 1109, impairment is recognized based on expected credit loss model for debt instrument, lease receivables, contract assets, loan contracts and financial guarantee contracts that are measured at amortized cost or FVOCI.

In K-IFRS 1109, financial assets are classified into three stages depending on the extent of increase in the credit risk on financial instruments since initial recognition. The loss allowance is measured at an amount equal to 12-month expected credit losses or the lifetime expected credit losses and therefore credit losses will be recognized earlier than under the incurred loss model of K-IFRS 1039.

	Case	The loss allowance
Stage 1	Non-significant increase in credit risk since initial recognition	12-month expected credit losses: The portion of lifetime expected credit losses that represent the expected credit losses that result from default events on a financial instrument that are possible within the 12 months after the reporting date.
Stage 2	Significant increase in credit risk since initial recognition	Lifetime expected credit losses: The expected credit losses that result from all possible default events over the expected life of a financial instrument.
Stage 3	Credit-impaired financial assets	

Under K-IFRS 1109, an entity shall only recognize the cumulative changes in lifetime expected credit losses since initial recognition as a loss allowance for purchased or originated credit-impaired financial assets.

As of December 31, 2016, the Group has loans and receivables, debt instrument that are measured at FVOCI classified as AFS financial assets, held-to-maturity investments and finance lease receivables.

D. Hedge Accounting

The new standard, K-IFRS 1109, retains the mechanics of hedge accounting in K-IFRS 1039. Under the new model, it is possible for an entity to reflect its risk management activities on the financial statements by focusing on principle-based hedge effectiveness assessment instead of simply complying with a rule-based approach under the K-IFRS 1039. The new model introduced greater flexibility to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify as hedging instruments and overhauling the quantitative hedge effectiveness (80% – 125%) test.

In accordance with the transition requirements, entities with initial application may continue to retain the existing requirements under K-IFRS 1039 as their accounting policy.

As of December 31, 2016, the Group does not apply hedge accounting.

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.

The Group is planning to organize the internal management process and evaluate the potential impact on the financial statements in preparation of the adoption of K-IFRS 1109 for the year ending December 31, 2017 and is planning to disclose the financial impact of the adoption of the standard on the financial statements for the year ending December 31, 2017.

Amendments to K-IFRS 1102 – *Share-based Payment*

The amendments include: 1) when measuring the fair value of share-based payment, the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payment should be consistent with the measurement of equity-settled share-based payment, 2) share-based payment transaction in which the Group settles the share-based payment arrangement net by withholding a specified portion of the equity instruments per statutory tax withholding requirements would be classified as equity-settled in its entirety, if otherwise would be classified as equity-settled without the net settlement feature, and 3) when a cash-settled share-based payment changes to an equity-settled share-based payment because of modifications of the terms and conditions, the original liability recognized is derecognized and the equity-settled share-based payment is recognized at the modification date fair value. Any difference between the carrying amount of the liability at the modification date and the amount recognized in equity at the same date would be recognized in profit and loss immediately. The amendments are effective for annual periods beginning on or after January 1, 2018.

Amendments to K-IFRS 1007 – *Statement of Cash Flows*

The amendments require that changes in liabilities arising from financial activities are disclosed. The amendments are effective for annual periods beginning on or after January 1, 2017.

Amendments to K-IFRS 1012 – *Income Taxes*

The amendments clarify that unrealized losses on fixed-rate debt instruments measured at fair value and measured at cost for tax purposes give rise to a deductible temporary difference regardless of whether the holder expects to recover the carrying amount of the debt instrument by sale or by use and that the estimate of probable future taxable profit may include the recovery of some of assets for more than their carrying amount. When the Group assesses whether there will be sufficient taxable profit, the Group should compare the deductible temporary differences with future taxable profit that excludes tax deductions resulting from the reversal of those deductible temporary differences. The amendments are effective for annual periods beginning on or after January 1, 2017.

The application of these amendments has no significant impact on the disclosure in the Group’s consolidated financial statements.

(2) Investments in jointly controlled entities and associates

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of associates or joint ventures are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with K-IFRS 1105. Under the equity method, an investment in an associate or a joint venture is initially recognized in the consolidated statement of financial position at cost and adjusted thereafter to recognize the Group's share of the profit or loss and other comprehensive income of the associate or joint venture. When the Group's share of losses of an associate or a joint venture exceeds the Group's interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), the Group discontinues recognizing its share of further losses. Additional losses are recognized only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an associate or a joint venture recognized at the date of acquisition is recognized as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognized immediately in profit or loss.

Upon disposal of an associate or a joint venture that results in the Group losing significant influence over that associate or joint venture, any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset in accordance with K-IFRS 1039. The difference between the previous carrying amount of the associate or joint venture attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate or joint venture. In addition, the Group accounts for all amounts previously recognized in other comprehensive income in relation to that associate or joint venture on the same basis it would be required if that associate or joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognized in other comprehensive income by that associate or joint venture would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as reclassification adjustment) when it loses significant influence over that associate or joint venture.

When the Group reduces its ownership interest in an associate or a joint venture, but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognized in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities. In addition, the Group applies K-IFRS 1105 to a portion of investment in an associate or a joint venture that meets the criteria to be classified as held for sale.

The requirements of K-IFRS 1039 are applied to determine whether it is necessary to recognize any impairment loss with respect to the Group's investment in an associate or a joint venture. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with K-IFRS 1036 by comparing its recoverable amount (higher of value in use or fair value, less costs to sell) with its carrying amount, any impairment loss recognized forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized in accordance with K-IFRS 1036 to the extent that the recoverable amount of the investment subsequently increases.

The Group continues to use the equity method when an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate. There is no remeasurement to fair value upon such changes in ownership interests.

When the Group entity transacts with an associate or a joint venture of the Group, profits and losses resulting from the transactions with the associate or joint venture are recognized in the Group's consolidated financial statements only to the extent of interests in the associate or joint venture that are not related to the Group.

(3) Interests in joint operations

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

When the Group undertakes its activities under joint operations, the Group as a joint operator recognizes in relation to its interest in a joint operation:

- its assets, including its share of any assets held jointly;
- its liabilities, including its share of any liabilities incurred jointly;
- its revenue from the sale of its share of the output arising from the joint operation;
- its share of the revenue from the sale of the output by the joint operation; and
- its expenses, including its share of any expenses incurred jointly.

The Group accounts for the assets, liabilities, revenues and expenses relating to its interest in a joint operation in accordance with the K-IFRS applicable to the particular assets, liabilities, revenues and expenses.

When the Group transacts in a joint operation in which the Group is a joint operator (such as a sale or contribution of assets), the Group is considered to be conducting the transaction with the other parties to the joint operation, and gains and losses resulting from the transactions are recognized in the Group's consolidated financial statements only to the extent of other parties' interests in the joint operation.

When the Group transacts in a joint operation in which the Group is a joint operator (such as a purchase of assets), the Group does not recognize its share of the gains and losses until it resells those assets to a third party.

(4) Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continued use. This condition is regarded as met only when the sale is highly probable and the non-current asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Group is committed to a sale plan involving loss of control over a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after the sale.

When the Group is committed to a sale plan involving disposal of an investment, or a portion of an investment, in an associate or joint venture, the investment, or the portion of the investment, that will be disposed of is classified as held for sale when the criteria described above are met, and the Group discontinues the use of the equity method in relation to the portion that is classified a held for sale. Any retained portion of an investment in an associate or a joint venture that has not been classified as held for sale continues to be accounted for using the equity method. The Group discontinues the use of the equity method at the time of disposal when the disposal results in the Group losing significant influence over the associate or joint venture.

After the disposal takes place, the Group accounts for any retained interest in the associate or joint venture in accordance with K-IFRS 1039, unless the retained interest continues to be an associate or a joint venture, in which case the Group uses the equity method.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value, less costs to sell.

(5) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances. The Group recognizes revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities, as described below.

1) Sales of goods

Revenue from the sale of goods is recognized when the Group has transferred the significant risks and rewards of ownership of the goods to the buyer.

2) Rendering of services

Revenue from airline services is recognized upon completion of the services, and revenue from a contract to provide other services is recognized by reference to stage of completion of the contract. Depending on the nature of the transaction, the Group determines the stage of completion by reference to surveys of work performed; services performed to date as a percentage of total services to be performed; or the proportion that costs incurred to date bear to the estimated total costs of the transaction, as applicable.

Rendering of services that result in award credits for customers, under the Group's Maxi-Points Scheme, is accounted for as multiple-element revenue transactions, and the fair value of the consideration received or receivable is allocated between the goods supplied and the award credits granted. The consideration allocated to the award credits is measured by reference to their fair value–the amount for which the award credits could be sold separately.

Such consideration is not recognized as revenue at the time of the initial sale transaction, but is deferred and recognized as revenue when the award credits are redeemed and the Group's obligations have been fulfilled.

3) Dividend and interest income

Dividend income from investments is recognized when the Group's right to receive payment has been established.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

4) Rental income

The Group's policy for recognition of revenue from operating leases is described in Note 2. (10).

5) Customer Royalty Program

The Group operates customer royalty program to provide customers with incentives to buy their goods or services. If a customer buys goods or services, the Group grants the customer award credits. The customer can redeem the award credits for awards, such as free or discounted goods or services.

The award credits are accounted separately as identifiable component of the sales transaction(s) in which they are granted (the 'initial sales'). The fair value of the consideration received or receivable in respect of the initial sale shall be allocated between the award credits and the other components of the sale.

If the Group supplies the awards itself, it shall recognize the consideration allocated to award credits as revenue when award credits are redeemed and it fulfills its obligation to supply awards. The amount of revenue recognized shall be based on the number of award credits that have been redeemed in exchange for awards related to the total number expected to be redeemed.

If the third party supplies the awards, the Group shall assess whether it is collecting the consideration allocated to the award credits on its own account (as the principal in the transaction) or on behalf of the third party (as agent for the third party). The amount of revenue recognized shall be net amount retained on its own account.

(6) Construction contracts

Where the outcome of a construction contract can be estimated reliably, revenue and costs are recognized by reference to the stage of completion of the contract activity at the end of the reporting period, measured based on the proportion of contract costs incurred for work performed to date relative to the estimated total contract costs, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that the amount can be measured reliably and its receipt is considered probable.

Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognized to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognized as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognized as an expense immediately.

When contract costs incurred to date, plus recognized profits, less recognized losses, exceed progress billing, the surplus is shown as amounts due from customers for contract work. For contracts where progress billings exceed contract costs incurred to date, plus recognized profits, less recognized losses, the surplus is shown as the amounts due to customers for contract work. Amounts received before the related work is performed are included in the consolidated statement of financial position, as a liability, as advances received. Amounts billed for work performed, but not yet paid by the customer are included in the consolidated statement of financial position under trade and other receivables.

(7) Lease

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

1) The Group as lessor

Amounts due from lessees under finance leases are recognized as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term.

2) The Group as lessee

Assets held under finance leases are initially recognized as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognized immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalized in accordance with the Group's general policy on borrowing costs (Note 2. (12)). Contingent rentals are recognized as expenses in the periods in which they are incurred.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

(8) Foreign currencies

The Group's consolidated financial statements are presented in the currency of the primary economic environment in which the Group operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of the Group are expressed in Korean won, which is the functional currency of the Group and the presentation currency for the consolidated financial statements.

In preparing the consolidated financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognized in profit or loss in the period in which they arise, except for:

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;
- exchange differences on transactions entered into in order to hedge certain foreign currency risks (Note 2. (24)) below for hedging accounting policies); and
- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognized initially in other comprehensive income and reclassified from equity to profit or loss on disposal or partial disposal of the net investment.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are expressed in Korean won using exchange rates prevailing at the end of the reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognized in other comprehensive income and accumulated in equity (attributed to non-controlling interests as appropriate).

On the disposal of a foreign operation (i.e., a disposal of the Group's entire interest in a foreign operation, a disposal involving loss of control over a subsidiary that includes a foreign operation or partial disposal of an interest in a joint arrangement or an associate that includes a foreign operation where the retained interest becomes a financial asset), all of the accumulated exchange differences in respect of that operation attributable to the owners of the Group are reclassified to profit or loss. Any exchange differences that have previously been attributed to non-controlling interests are derecognized, but they are not reclassified to profit or loss.

In the case of a partial disposal (i.e., no loss of control) of a subsidiary that includes a foreign operation, the proportionate share of accumulated exchange differences are reattributed to non-controlling interests in equity and are not recognized in profit or loss. For all other partial disposals (i.e., partial disposals of associates or joint arrangements that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate. Exchange differences arising are recognized in other comprehensive income.

(9) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings, pending their expenditure on qualifying assets, is deducted from the borrowing costs eligible for capitalization.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

(10) Government grants

Government grants are not recognized until there is reasonable assurance that the Group will comply with the conditions attached to them and that the grants will be received.

The benefit of a government loan at a below-market rate of interest is treated as a government grant, measured as the difference between proceeds received and the fair value of the loan based on prevailing market interest rates.

Government grants related to assets are presented in the consolidated statement of financial position by deducting the grant from the carrying amount of the asset. The related grant is recognized in profit or loss over the life of a depreciable asset as a reduced depreciation expense.

Government grants related to income are deducted from the related expenses. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognized in profit or loss in the period in which they become receivable.

(11) Retirement benefit costs and termination benefits

For defined benefit retirement benefit plans, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at the end of each reporting period. Remeasurement, comprising actuarial gains and losses, the effect of the changes to the asset ceiling (if applicable) and the return on plan assets (excluding interest), is reflected immediately in the consolidated statement of financial position, with a charge or credit recognized in other comprehensive income in the period in which it occurs.

Remeasurement recognized in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss.

Past service cost is recognized in profit or loss in the period of a plan amendment. Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset. Defined benefit costs are composed of service cost (including current service cost and past service cost, as well as gains and losses on curtailments and settlements), net interest expense (income) and remeasurement.

The Group presents the service cost and net interest expense (income) components in profit or loss and the remeasurement component in other comprehensive income. Curtailment gains and losses are accounted for as past service costs.

The retirement benefit obligation recognized in the consolidated statement of financial position represents the actual deficit or surplus in the Group's defined benefit plans. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of refunds from the plans or reductions in future contributions to the plans.

A liability for a termination benefit is recognized at the earlier of when the entity can no longer withdraw the offer of the termination benefit and when the entity recognizes any related restructuring costs.

(12) Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

1) Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statements of comprehensive income (loss) because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

2) Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent it is probable that there will be sufficient taxable profits against which the benefits of the temporary differences can be utilized and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

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

Deferred tax assets and liabilities are offset if, and only if, the Group has a legally enforceable right to set off current tax assets against current tax liabilities, and the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities that intend either to settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

For the purpose of measuring deferred tax liabilities and deferred tax assets for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time, rather than through sale.

3) Current tax and deferred tax for the year

Current tax and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case the current tax and deferred tax are also recognized in other comprehensive income or directly in equity, respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

(13) Property, aircraft and equipment

Property, aircraft and equipment except land are stated at cost less subsequent accumulated depreciation and accumulated impairment losses. Land shall be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated impairment losses. Revaluation shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

The cost of an item of property, aircraft and equipment is directly attributable to their purchase or construction, which includes any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. It also includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Subsequent costs are recognized in carrying amount of an asset or as a separate asset if it is probable that future economic benefits associated with the assets will flow into the Group and the cost of an asset can be measured reliably. Routine maintenance and repairs are expensed as incurred.

The Group does not depreciate land and leased land. Depreciation expense is computed using the straight-line method based on the estimated useful lives of the assets as follows:

Description		Useful lives (years)
Buildings, structures		20–40
Machinery		4–15
Aircraft, leased aircraft	Fuselage, etc.	6–15
	Periodical large repair	2.8–12
Engines, leased engines	Engines	15
	Periodical large repair	3.3–10.7
Aircraft parts		15
Vehicles		4–9
Others, other leased assets		2–15
Leasehold improvements		1–11

If each part of an item of property, aircraft and equipment has a cost that is significant in relation to the total cost of the item, it is depreciated separately.

The Group reviews the depreciation method, the estimated useful lives and residual values of property, aircraft and equipment at the end of each annual reporting period. If expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate.

An item of property, aircraft and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognized. The revaluation surplus included in equity in respect of an item of property, aircraft and equipment may be transferred directly to retained earnings when the asset is derecognized.

(14) Investment properties

Investment properties are properties held to earn rentals or for capital appreciation (including property under construction for such purposes). Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are reported at cost, less accumulated depreciation and accumulated impairment losses.

Subsequent costs are recognized in the carrying amount of an asset or as a separate asset if it is probable that future economic benefits associated with the assets will flow into the Group and the cost of an asset can be measured reliably. Routine maintenance and repairs are expensed as incurred.

While land is not depreciated, all other investment property is depreciated based on the respective asset's estimated useful lives of 40 years using the straight-line method.

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An investment property is derecognized upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognized.

(15) Intangible assets

1) Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at cost, less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Intangible assets with indefinite useful lives that are acquired separately are carried at cost, less accumulated impairment losses.

2) Internally generated intangible assets – research and development expenditure

Expenditure on research activities is recognized as an expense in the period in which it is incurred.

Expenditure arising from development (or from the development phase of an internal project) is recognized as an intangible asset if, and only if, the development project is designed to produce new or substantially improved products, and the Group can demonstrate the technical and economic feasibility and measure reliably the resources attributable to the intangible asset during its development.

The amount initially recognized for internally generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria. Where no internally generated intangible asset can be recognized, development expenditure is recognized in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally generated intangible assets are reported at cost, less accumulated amortization and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

3) Intangible assets acquired in a business combination

Intangible assets that are acquired in a business combination are recognized separately from goodwill and are initially recognized at their fair value at the acquisition date (which is regarded as their cost). Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost, less accumulated amortization and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

4) Derecognition of intangible assets

An intangible asset is derecognized on disposal or when no future economic benefits are expected from its use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognized in profit or loss when the asset is derecognized.

Intangible assets with finite useful lives are amortized based on the estimated useful lives of the assets as follows:

Description	Useful lives (years)
Facility usage rights	19–30
Research and development costs	2.2–15.3
Other intangible assets	5–20

Among the Group’s intangible assets, useful life of a membership is estimated to be infinite as the usable period is not limited in accordance with the terms of the contract and the economic benefits are expected to be continuously generated from the asset during the holding period.

(16) Impairment of tangible and intangible assets other than goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise, they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value, less costs to sell, or value in use. If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or the cash-generating unit) is reduced to its recoverable amount and the reduced amount is recognized in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or the cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

(17) Inventories

Inventories are stated at the lower of cost and net realizable value. The cost of inventories is measured by the following evaluation method:

Description		evaluation method
Merchandise		First-in, first-out method and others
Products		Total average method and others
Raw materials	Aerospace	Moving average method
	In-flight meals	First-in, first-out method
Supplies	Air transport/aerospace	Moving average method
	In-flight meals	First-in, first-out method
	Others	First-in, first-out method and others
Materials in transit		Specific Identification method

Cost of inventories consists of the purchase price, cost of conversion and other costs incurred in bringing the inventories to their present location and condition. Net realizable value represents the estimated selling price for inventories, less all estimated costs of completion and costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognized as an expense (cost of sales) in the period in which the related revenue is recognized. The amount of any write-down of inventories to net realizable value and all losses of inventories are recognized as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realizable value, is recognized as a reduction in the amount of inventories recognized as an expense in the period in which the reversal occurs.

(18) Provisions

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

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material). The discount rate used is a pretax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage is recognized in profit or loss as borrowing cost.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

At the end of each reporting period, the remaining provision balance is reviewed and assessed to determine if the current best estimate is being recognized. If the existence of an obligation to transfer economic benefit is no longer probable, the related provision is reversed during the period.

(19) Financial Instruments

Financial assets are recognized when the Group becomes a party to the contractual provisions of the instruments. Financial assets are initially measured at fair value. Transaction costs that are directly attributable to the acquisition of financial assets are added to or deducted from the fair value of the financial assets, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets at fair value through profit or loss ("FVTPL") are recognized immediately in profit or loss.

All regular-way purchases or sales of financial assets are recognized and derecognized on a trade-date basis. Regular-way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Financial assets are classified into the following specified categories: 'financial assets at FVTPL', 'held-to-maturity investments', 'available-for-sale (AFS) financial assets' and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

1) Effective interest method

The effective interest method is a method of calculating the amortized cost of a debt instrument, and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Income is recognized on an effective interest basis for debt instruments other than financial assets classified as at FVTPL.

2) Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term;
- on initial recognition, it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit taking; or

- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise;
- the financial asset forms part of a group of financial assets or financial liabilities, or both, which is managed, and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and K-IFRS 1039 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the 'Other non-operating income and expense' line item in the consolidated statement of comprehensive loss.

3) Held-to-maturity investments

Non-derivatives financial assets with fixed or determinable payments and fixed maturity dates that the Group has the positive intent and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are measured at amortized cost using the effective interest method, less any impairment, with revenue recognized on an effective yield basis.

4) AFS financial assets

AFS financial assets are non-derivatives that are either designated as AFS or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at FVTPL.

They are subsequently measured at fair value at the end of each reporting period. Changes in the carrying amount of AFS monetary financial assets relating to changes in foreign currency rates (see below), interest income calculated using the effective interest method and dividends on AFS equity investments are recognized in profit or loss. Other changes in the carrying amount of AFS financial assets are recognized in other comprehensive income (as gain (loss) on AFS financial assets, net). When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in other comprehensive income is reclassified to profit or loss.

Dividends on AFS equity instruments are recognized in profit or loss when the Group's right to receive the dividends is established.

The fair value of AFS monetary financial assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate prevailing at the end of the reporting period. The foreign exchange gains and losses that are recognized in profit or loss are determined based on the amortized cost of the monetary asset. Other foreign exchange gains and losses are recognized in other comprehensive income.

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to, and must be settled by, delivery of such unquoted equity investments are measured at cost, less any identified impairment losses, at the end of each reporting period.

5) Loans and receivables

Trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortized cost using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the effect of discounting is immaterial.

6) Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that more events have occurred after the initial recognition of the financial asset and the estimated future cash flows of the investment have been affected.

For AFS equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment includes:

- significant financial difficulty of the issuer or counterparty,
- default or delinquency in interest or principal payments,
- it becoming probable that the borrower will enter bankruptcy or financial reorganization or
- the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments and an increase in the number of delayed payments, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets that are carried at cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets, with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss in the period.

For financial assets measured at amortized cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

In respect of AFS equity securities, impairment losses previously recognized in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized in other comprehensive income. In respect of AFS debt securities, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

7) Derecognition of financial assets

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

On derecognition of financial assets in its entirety, the difference between the assets' carrying amount and the sum of the consideration received and receivable and the cumulated gain or loss that had been recognized in other comprehensive income and accumulated in equity is recognized in profit or loss.

On derecognition of financial assets other than in its entirety (e.g., when the Group retains an option to repurchase part of a transferred asset or it retains a residual interest and such an retained interest indicates that the transferor has neither transferred nor retained substantially all the risks and rewards of ownership and has retained control of the transferred asset), the Group allocates the previous carrying amount of the financial asset between the part it continues to recognize under continuing involvement and the part it no longer recognizes on the basis of the relative fair value of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognized and the sum of the consideration received for the part that is no longer recognized and any cumulative gain or loss allocated to it that had been recognized in other comprehensive income is recognized in profit or loss. A cumulative gain or loss that had been recognized in other comprehensive income is allocated between the part that continues to be recognized and the part that is no longer recognized on the basis of the relative fair value of those parts.

(20) Financial liabilities and equity instruments

1) Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement and the definitions of financial liability and an equity instrument.

2) Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognized as the proceeds are received, net of direct issue costs.

Repurchase of the Group's own equity instruments is recognized and deducted directly in equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments.

3) Financial liabilities

Financial liabilities are recognized when the Group becomes a party to the contractual provisions of the instruments. Financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the issue of financial liabilities are deducted from the fair value of the financial liabilities on initial recognition. Transaction costs directly attributable to acquisition of financial liabilities at FVTPL are recognized immediately in profit or loss.

Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities.

4) Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as FVTPL.

A financial liability is classified as held for trading if:

- it has been acquired principally for the purpose of repurchasing in the near term;
- on initial recognition, it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise;
- the financial liability forms part of a group of financial assets or financial liabilities, or both, which is managed, and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and K-IFRS 1039 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any interest paid on the financial liability and is included in the 'Other non-operating income and expense' line item in the consolidated statement of comprehensive loss.

5) Other financial liabilities

Other financial liabilities are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

The effective interest method is a method of calculating the amortized cost of a financial liability, and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments, including all fees and points paid or received (that form an integral part of the effective interest rate) and transaction costs and other premiums or discounts through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

6) Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss he/she incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instruments.

Financial guarantee contract liabilities are initially measured at their fair values and, if not designated as at FVTPL, are subsequently measured at the higher of:

- the amount of the obligation under the contract, as determined in accordance with K-IFRS 1037, and
- the amount initially recognized, less cumulative amortization recognized in accordance with the K-IFRS 1018, *Revenue*

7) Derecognition of financial liabilities

The Group derecognize financial liabilities when the Group's obligation are discharged or canceled or they expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

(21) Derivative financial instruments

The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate, foreign exchange rate and oil price risk, including currency option, oil price option and interest rate swaps.

Derivatives are initially recognized at fair value at the date the derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognized in profit or loss immediately, unless the derivative is designated and effective as a hedging instrument, in which case the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

A derivative with a positive fair value is recognized as a financial asset, and a derivative with a negative fair value is recognized as a financial liability. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realized or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

1) Hedge accounting

The Group designates certain hedging instruments, which include derivatives, embedded derivatives and non-derivatives in respect of foreign currency risk, as either fair value hedges, cash flow hedges or hedges of net investments in foreign operations. Hedges of foreign exchange risk on firm commitments are accounted for as cash flow hedges.

At the inception of the hedge relationship, the entity documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item.

2) Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognized in profit or loss immediately, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The change in the fair value of the hedging instrument and the change in the hedged item attributable to the hedged risk are recognized in the line of the consolidated statement of comprehensive loss relating to the hedged item.

Hedge accounting is discontinued when the Group revokes the hedging relationship; when the hedging instrument expires or is sold, terminated or exercised; or when it no longer qualifies for hedge accounting. The fair value adjustment to the carrying amount of the hedged item arising from the hedged risk is amortized to profit or loss from that date.

3) Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in other comprehensive income. The gain or loss relating to the ineffective portion is recognized immediately in profit or loss, and is included in the 'Other non-operating income and expense' line item.

Amounts previously recognized in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item is recognized in profit or loss in the same line of the consolidated statement of comprehensive loss as the recognized hedged item. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously accumulated in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability.

Hedge accounting is discontinued when the Group revokes the hedging relationship; when the hedging instrument expires or is sold, terminated or exercised; or it no longer qualifies for hedge accounting. Any gain or loss accumulated in equity at that time remains in equity and is recognized when the forecast transaction is ultimately recognized in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognized immediately in profit or loss.

(22) Fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of K-IFRS 1102; leasing transactions that are within the scope of K-IFRS 1017, *Leases;* and measurements that have some similarities to fair value, but are not fair value, such as net realizable value in K-IFRS 1002, *Inventories,* or value in use in K-IFRS 1036.

In addition, for financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

(Level 1) inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
(Level 2) inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
(Level 3) inputs are unobservable inputs for the asset or liability.

(23) Greenhouse gases emission right

The Group accounts for greenhouse gases emission right and the relevant liability pursuant to the Act on Allocation and Trading of Greenhouse Gas Emission which became effective in 2015. Emission liability is recognized when it is probable that outflows of resources will be required to settle the obligation and the costs required to perform the obligation are reliably estimable. Emission liability is an amount of estimated obligations for emission rights to be submitted to the government for the performing period. The emission liability is measured based on the expected quantity of emission for the performing period in excess of emission allowance in possession and the unit price for such emission rights in the market at the end of the reporting period. The Group derecognized an emission right liability when the emission allowance is submitted to government.

(24) Approval of consolidated financial statements

The accompanying consolidated financial statements were approved by the board of directors on February 9, 2017, and it will be finally approved by the general meeting of shareholders on March 24, 2017.

3. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY:

In the application of the Group accounting policies, which are described in Note 2, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

(1) Critical judgments in applying accounting policies

The followings are the critical judgments, apart from those involving estimations (Note 3. (2)), that the directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements.

Management has reviewed the Group's held-to-maturity financial assets in the light of its capital maintenance and liquidity requirements and has confirmed the Group's positive intention and ability to hold those assets to maturity. The carrying amount of the held-to-maturity financial assets is ₩1,130 million ($935 thousand). Details of these assets are set out in Note 9.

(2) Key sources of estimation uncertainty

The followings are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

1) Defined Benefit Plan

The Group's defined benefit obligation is determined based on the actuarial valuation carried out at the end of each annual reporting period. Actuarial assumptions are the Group's best estimates of the variables in determining the cost of providing postretirement benefits, such as discount rates, rates of expected future salary increases and mortality rates. Significant estimation uncertainty is likely to persist in making such assumptions due to the long-term nature of postretirement benefit plan. At the end of this year, net defined benefit obligation of the plan is ₩1,126,332 million ($932,008 thousand) (prior year of ₩1,027,681 million ($850,377 thousand)), as detailed in Note 24.

2) Valuation of Financial Instruments

As described in Notes 40 and 41, the Group uses valuation techniques that include inputs that are not based on observable market data to estimate the fair value of certain type of financial instruments. Notes 40 and 41 provide detailed information about key assumptions used in the determination of the fair value of financial instruments, as well as the detailed sensitivity analysis for these assumptions. The directors believe that the chosen valuation techniques and assumptions used are appropriate in determining the fair value of financial instruments.

3) Probability on the Realization of Unused Deferred Tax Assets

In consideration of operating performance of the Group and estimate of the future operating performance, the Group recognizes deferred tax asset in relation to unused tax loss carryforward.

4. SEGMENT INFORMATION:

(1) The Group's segment information is prepared for the purpose of resource allocation and assessment of segment performance. The Group's reportable segments are as follows:

Segment	Type of goods and services	Customers' information
Air transport	Passenger and cargo transportation	Individual, enterprises, government, etc.
Aerospace	Maintenance of aircraft and manufacture of aircraft parts	Department of defense, etc.
Flight meals	Catering of in-flight meals	Foreign airlines, etc.
Hotel/limousine, etc.	Hotel services, limousine transportation, etc.	Individual, etc.

(2) Operating results by reportable segment for the year ended December 31, 2016, are as follows:

	Korean won						
	Air transport	Aerospace	In-flight meals	Hotel/ limousine	Others	Adjustment for consolidation	Total
	(In millions)						
Total sales	₩10,995,413	₩ 898,850	₩98,403	₩ 47,006	₩ 188,906	₩ (496,726)	₩11,731,852
Internal sales	(366,842)	—	(14)	(2,783)	(127,087)	496,726	—
Net sales	10,628,571	898,850	98,389	44,223	61,819	—	11,731,852
Operating income	963,813	111,075	31,137	6,828	8,188	(232)	1,120,809
Depreciation and amortization	(1,697,235)	(41,433)	(5,491)	(1,345)	(5,774)	(229)	(1,751,507)
Total assets	21,831,791	1,188,883	61,885	1,711,414	351,426	(1,188,864)	23,956,535
Total liabilities							22,082,185

	Translation into U.S. dollars (Note 2)						
	Air transport	Aerospace	In-flight meals	Hotel/ limousine	Others	Adjustment for consolidation	Total
	(In thousands)						
Total sales	$ 9,098,397	$743,773	$81,426	$ 38,896	$ 156,315	$(411,027)	$ 9,707,780
Internal sales	(303,551)	—	(11)	(2,303)	(105,162)	411,027	—
Net sales	8,794,846	743,773	81,415	36,593	51,153	—	9,707,780
Operating income	797,528	91,911	25,765	5,650	6,776	(192)	927,438
Depreciation and amortization	(1,404,415)	(34,285)	(4,544)	(1,113)	(4,778)	(190)	(1,449,325)
Total assets	18,065,198	983,767	51,208	1,416,147	290,794	(983,751)	19,823,363
Total liabilities							18,272,391

Segment results, assets and liabilities as of and for the year ended December 31, 2015 are summarized as follows:

(In millions of won)

	Air transport	**Aerospace**	**In-flight Meals**	**Hotel/ limousine**	**Others**	**Adjustment for consolidation**	**Total**
Total revenue	₩10,628,613	913,533	93,795	42,656	301,066	(434,832)	11,544,831
Internal revenue	(270,354)	—	(25)	(3,500)	(160,953)	434,832	—
Net revenue	10,358,259	913,533	93,770	39,156	140,113	—	11,544,831
Operating income (loss)	708,662	119,476	31,080	(600)	24,563	(93)	883,088
Depreciation and amortization	(1,583,556)	(42,783)	(5,702)	(1,288)	(17,367)	(229)	(1,650,925)
Total assets	21,795,847	1,191,650	61,443	1,096,629	729,565	(694,783)	24,180,351
Total liabilities							21,681,316

(3) Operating results by geographical area for the years ended December 31, 2016, are as follows:

	Korean won					
	Local companies		Overseas companies		Adjustment for consolidation	Total
	Domestic	International	Americas	Asia		
	(In millions)					
Total sales	₩2,030,487	₩10,154,933	₩ 11,595	₩ 31,563	₩ (496,726)	₩11,731,852
Internal sales		(460,334)	(11,564)	(24,828)	496,726	—
Net sales		11,725,086	31	6,735	—	11,731,852
Operating income		1,114,726	3,654	2,661	(232)	1,120,809
Total assets		23,437,566	1,683,751	24,082	(1,188,864)	23,956,535
Total liabilities						22,082,185

	Translation into U.S. dollars (Note 2)					
	Local companies		Overseas companies		Adjustment for consolidation	Total
	Domestic	International	Americas	Asia		
	(In thousands)					
Total sales	$1,680,171	$ 8,402,924	$ 9,595	$ 26,117	$(411,027)	$ 9,707,780
Internal sales		(380,914)	(9,569)	(20,544)	411,027	—
Net sales		9,702,181	26	5,573	—	9,707,780
Operating income		922,405	3,023	2,202	(192)	927,438
Total assets		19,393,931	1,393,257	19,926	(983,751)	19,823,363
Total liabilities						18,272,391

Geographical entity wide information as of and for the year ended December 31, 2015 are summarized as follows:

(In millions of won)

	Local		**Overseas**			
	Domestic	**International**	**Americas**	**Asia**	**Adjustment for consolidation**	**Total**
Total revenue	₩1,988,158	9,959,487	6,884	25,134	(434,832)	11,544,831
Internal revenue		(407,547)	(6,858)	(20,427)	434,832	—
Net revenue		11,540,098	26	4,707	—	11,544,831
Operating income (loss)		884,079	(1,984)	1,086	(93)	883,088
Total assets		23,781,716	1,070,746	22,672	(694,783)	24,180,351
Total liabilities						21,681,316

(4) There is no single customer who accounted for more than 10% of the Group's revenue for the years ended December 31, 2016 and 2015.

5. CASH AND CASH EQUIVALENTS:

Cash and cash equivalents as of December 31, 2016 and 2015, consist of the following:

	Korean won		Translation into U.S. dollars (Note 2)	
	2016	2015	2016	2015
	(In millions)		(In thousands)	
Cash on hand	₩ 256	₩ 159	$ 212	$ 132
Bank deposits	1,089,671	967,322	901,672	800,432
	₩1,089,927	₩967,481	$901,884	$800,564

6. RESTRICTED DEPOSITS:

Restricted deposits as of December 31, 2016, consist of the following:

	2016 (In millions of won and in thousands of U.S. dollars)	Remark
Cash and cash equivalents	₩ 497	Pledged for industrial facility fund loans
Short-term financial instruments	₩ 52,151	Performance guarantee deposit on the freight and pledged for the Floating Rate Note contract extension and others
	$ 50,716	Guarantee deposit on newly opened North America L/C and pledged for Hanjin Int'l Corp's borrowings
Held-to-maturity investments	₩ 690	Performance guarantee deposit on the mail delivery contract with Korea Post
AFS financial assets	₩ 72,016	Pledged for hybrid securities and Hanjin Int'l Corp's borrowings
	₩ 423	Performance guarantee for Korea Software Financial Cooperative and others
Long-term financial instruments	₩ 307	Performance guarantee for the U.S. Air Force delivery service and bank account deposit
	1,700	Rental guarantee for Incheon International Airport terminal
	1,119	Accident compensation for employees and guarantee for X-RAY of Incheon International Airport
	31	Garnishment for employees
	$ 35,388	Pledged for hybrid securities
	₩128,934	
	$ 86,104	

7. TRADE AND OTHER RECEIVABLES:

(1) Trade and other receivables as of December 31, 2016 and 2015, consist of the following:

2016

	Korean won		Translation into U.S. dollars (Note 2)	
	Current	Non-current	Current	Non-current
	(In millions)		(In thousands)	
Trade receivables	₩613,365	₩190	$507,542	$157
Allowance for doubtful accounts	(6,260)	—	(5,180)	—
	607,105	190	502,362	157
Short-term loans	42	49	35	41
Non-trade receivables	118,671	—	98,197	—
Allowance for doubtful accounts	(47,052)	—	(38,934)	—
	71,619	—	59,263	—
Accrued revenues	59,843	—	49,518	—
Allowance for doubtful accounts (*)	(11,696)	—	(9,678)	—
	48,147	—	39,840	—
	₩726,913	₩239	$601,500	$198

(*) The Group recognized ₩11,219 million ($ 9,283 thousand) of the allowance for doubtful accounts in relation to the hybrid securities of Hanjin Shipping Co., Ltd.

2015

	Korean won		Translation into U.S. dollars (Note 2)	
	Current	Non-current	Current	Non-current
	(In millions)		(In thousands)	
Trade receivables	₩576,442	₩ 9	$476,989	$ 7
Allowance for doubtful accounts	(5,383)	—	(4,454)	—
Discount on present value	(1)	—	(1)	—
	571,058	9	472,534	7
Short-term loans	220,020	34	182,061	29
Non-trade receivables	140,431	—	116,202	—
Allowance for doubtful accounts	(43,153)	—	(35,708)	—
	97,278	—	80,494	—
Accrued revenues	63,691	—	52,703	—
Allowance for doubtful accounts	(626)	—	(518)	—
	63,065	—	52,185	—
	₩951,421	₩ 43	$787,274	$ 36

(2) Credit risk and details of allowance for doubtful accounts as of December 31, 2016 and 2015 are as follows:

The above trade and other receivables are classified as 'loans and receivables' and measured at amortized cost. The Group estimates the allowance for doubtful accounts based on the each receivable analysis because the credit offering period for the sales of the Group varies with the sales' categories and customers.

1) Aging analysis of the trade receivables that are overdue, but are not impaired as of December 31, 2016 and 2015 are as follows:

2016

	Korean won				
	Within 6 months	6 – 12 months	1 – 3 years	More than 3 years	Total
	(In millions)				
Trade receivables	₩37,654	₩168	₩157	₩ 24	₩38,003
Allowance for doubtful accounts	(330)	(2)	(2)	—	(334)
	₩37,324	₩166	₩155	₩ 24	₩37,669

	Translation into U.S. dollars (Note 2)				
	Within 6 months	6 – 12 months	1 – 3 years	More than 3 years	Total
	(In thousands)				
Trade receivables	$31,158	$139	$130	$ 20	$31,447
Allowance for doubtful accounts	(273)	(1)	(1)	—	(275)
	$30,885	$138	$129	$ 20	$31,172

2015

	Korean won				
	Within 6 months	6 – 12 months	1 year – 3 years	More than 3 years	Total
	(In millions)				
Trade receivables	₩26,551	₩182	₩534	₩697	₩27,964
Allowance for doubtful accounts	(249)	(2)	(5)	(6)	(262)
	₩26,302	₩180	₩529	₩691	₩27,702

	Translation into U.S. dollars (Note 2)				
	Within 6 months	6 – 12 months	1 year – 3 years	More than 3 years	Total
	(In thousands)				
Trade receivables	$21,970	$150	$442	$577	$23,139
Allowance for doubtful accounts	(206)	(1)	(4)	(5)	(216)
	$21,764	$149	$438	$572	$22,923

2) Trade receivables are not impaired as of December 31, 2016 and 2015.

3) Changes in allowance for trade and other receivables for the years ended December 31, 2016 and 2015 are as follows:

	2016	
	Korean won	Translation into U.S. dollars (Note 2)
	Trade receivables	Trade receivables
	(In millions)	(In thousands)
Beginning balance	₩ 5,383	$4,454
Reversal of allowance for doubtful accounts	1,887	1,562
Write-off	(1,010)	(836)
Ending balance	₩ 6,260	$5,180

	2015	
	Korean won	Translation into U.S. dollars (Note 2)
	Trade receivables	Trade receivables
	(In millions)	(In thousands)
Beginning balance	₩5,999	$4,964
Reversal of allowance for doubtful accounts	(398)	(329)
Write-off	(219)	(181)
Decrease due to contribution in kind	(1)	(1)
Increase due to changes in scope of consolidation	2	1
Ending balance	₩5,383	$4,454

The Group has judged the recoverability of the trade receivables by considering the changes in credit rating from the beginning date of credit offering to the end of the reporting period. The concentration of credit risk is limited because there are lots of customers and no interconnection between them.

8. AFS FINANCIAL ASSETS:

AFS financial assets as of December 31, 2016 and 2015 consist of the following:

	Korean won		Translation into U.S. dollars (Note 2)	
	2016	2015	2016	2015
	(In millions)		(In thousands)	
Equity securities:				
Listed securities (*1)	₩ 97,982	₩108,505	$ 81,078	$ 89,785
Unlisted securities	50,370	51,917	41,679	42,960
Beneficiary certificates	2,100	—	1,738	—
Debt securities:				
Government and public bonds	6	6	5	5
Special bonds	53,912	—	44,611	—
Investments in other equity securities (*2)	15,086	11,746	12,483	9,719
	₩219,456	₩172,174	$181,594	$142,469

(*1) Listed securities amounting to ₩72,016 million ($59,591 thousand) are pledged for hybrid securities and Hanjin Int'l Corp's borrowings and others as of December 31, 2016 (see Note 6).

(*2) As of December 31, 2016, ₩423 million ($350 thousand) of investments in other equity securities are provided to Korea Software Financial Cooperative and others as collateral related to the performance payment guarantee (see Note 6).

The Group recognized an impairment loss of ₩255,246 million ($211,209 thousand) and ₩290 million ($240 thousand), which occurred in unlisted securities and corporate bonds of AFS financial assets for the years ended December 31, 2016 and 2015, respectively. There is no reversal of impairment loss occurred in AFS financial assets for the years ended December 31, 2016 and 2015.

9. HELD-TO-MATURITY INVESTMENTS:

Held-to-maturity investments as of December 31, 2016 and 2015 consist of the following:

	Korean won			
	2016		2015	
	Current	Non-current	Current	Non-current
	(In millions)			
Government and public bonds (*)	₩129	₩1,001	₩71	₩900

	Translation into U.S. dollars (Note 2)			
	2016		2015	
	Current	Non-current	Current	Non-current
	(In thousands)			
Government and public bonds (*)	$106	$828	$59	$745

(*) Government and public bonds amounting to ₩690 million ($571 thousand) are pledged for performance guarantee as of December 31, 2016 (see Note 6).

There are no held-to-maturity investments overdue or impaired for the year ended December 31, 2016 and 2015.

10. INVENTORIES:

Inventories as of December 31, 2016 and 2015 consist of the following:

	Korean won					
	2016			2015		
	Acquisition cost	Valuation allowance	Book value	Acquisition cost	Valuation allowance	Book value
	(In millions)					
Merchandise	₩ 19,983	₩—	₩ 19,983	₩ 20,096	₩—	₩ 20,096
Finished goods	11,509	—	11,509	10,372	—	10,372
Raw materials	95,951	—	95,951	88,934	—	88,934
Supplies	363,310	—	363,310	327,641	—	327,641
Materials in transit	73,952	—	73,952	43,605	—	43,605
	₩564,705	₩—	₩564,705	₩490,648	₩—	₩490,648

	Translation into U.S. dollars (Note 2)					
	2016			2015		
	Acquisition cost	Valuation allowance	Book value	Acquisition cost	Valuation allowance	Book value
	(In thousands)					
Merchandise	$ 16,535	$—	$ 16,535	$ 16,629	$—	$ 16,629
Finished goods	9,523	—	9,523	8,583	—	8,583
Raw materials	79,397	—	79,397	73,590	—	73,590
Supplies	300,629	—	300,629	271,114	—	271,114
Materials in transit	61,194	—	61,194	36,081	—	36,081
	$467,278	$—	$467,278	$405,997	$—	$405,997

11. FINANCE LEASE RECEIVABLES:

(1) The Group has offered the finance leases of the aircraft, and the minimum lease payments and present value of the finance leases as of December 31, 2016, and 2015, are as follows:

	Korean won		Translation into U.S. dollars (Note 2)	
Description	2016	2015	2016	2015
	(In millions)		(In thousands)	
Less than one year	₩ 22,964	₩10,479	$ 19,002	$ 8,671
One year to five years	53,148	28,996	43,978	23,993
	76,112	39,475	62,980	32,664
Present value of discounts	(7,693)	(5,636)	(6,365)	(4,663)
	68,419	33,839	56,615	28,001
Less: current portion of finance lease receivables	(18,698)	(7,474)	(15,472)	(6,185)
	₩ 49,721	₩26,365	$ 41,143	$21,816

(2) Finance lease receivables were not impaired for years ended December 31, 2016 and 2015.

12. INVESTMENTS IN SUBSIDIARIES:

(1) Investments in subsidiaries as of December 31, 2016 and 2015 consist of the following:

Description	Principal business	Location	Ownership of Group 2016	Ownership of Group 2015
			(%)	
Korea Airport Service Co., Ltd.	Airport support service	Korea	59.54	59.54
Hanjin Information Systems & Telecommunication Co., Ltd.	Software development and supply	Korea	99.35	99.35
Air Total Service Co., Ltd.	Labor supply	Korea	100.00	100.00
Hanjin International Corp.	Hotel and rental service	USA	100.00	100.00
Hanjin Central Asia MChJ.	Hotel business	Uzbekistan	100.00	100.00
IAT Co., Ltd.	Aircraft engine repair service	Korea	86.13	90.00
WLD Co., Ltd.	Sports and leisure service	Korea	100.00	100.00
Korea Global Logistics System Co., Ltd.	Telecommunication service	Korea	95.00	95.00
Air Korea Co., Ltd.	Airport support service	Korea	100.00	100.00
Hanjin Int'l Japan Co., Ltd. (*)	Airport support service	Japan	50.00	50.00
TAS	Seconding personnel service	USA	100.00	100.00
Cyber Sky Co., Ltd	Online sales	Korea	100.00	100.00
KAL 7 Asset Securitization Specialty Company (*)	Issuance and repayment of ABS loans	Korea	0.50	0.50
KAL 9 Asset Securitization Specialty Company (*)	Issuance and repayment of ABS loans	Korea	0.50	0.50
KAL 10 Asset Securitization Specialty Company	Issuance and repayment of ABS loans	Korea	—	0.50
KAL 11 Asset Securitization Specialty Company (*)	Issuance and repayment of ABS loans	Korea	0.50	0.50
KAL 11B Asset Securitization Specialty Company (*)	Issuance and repayment of ABS loans	Korea	0.50	0.50
KAL 11C Asset Securitization Specialty Company (*)	Issuance and repayment of ABS loans	Korea	0.50	0.50
KAL 12 Asset Securitization Specialty Company (*)	Issuance and repayment of ABS loans	Korea	0.50	0.50
KAL 13 Asset Securitization Specialty Company (*)	Issuance and repayment of ABS loans	Korea	0.50	0.50
KAL 14 Asset Securitization Specialty Company (*)	Issuance and repayment of ABS loans	Korea	0.50	0.50
KAL 15 Asset Securitization Specialty Company (*)	Issuance and repayment of ABS loans	Korea	0.50	0.50
KAL 16 Asset Securitization Specialty Company (*)	Issuance and repayment of ABS loans	Korea	0.50	0.50
KAL 17 Asset Securitization Specialty Company (*)	Issuance and repayment of ABS loans	Korea	0.50	—
KAL 18 Asset Securitization Specialty Company (*)	Issuance and repayment of ABS loans	Korea	0.50	—
KAL 19 Asset Securitization Specialty Company (*)	Issuance and repayment of ABS loans	Korea	0.50	—
KAL 20 Asset Securitization Specialty Company (*)	Issuance and repayment of ABS loans	Korea	0.50	—

(*) The Group classified KAL Asset Securitization Specialty companies as investments in subsidiaries because the Group controls an investee when it is exposed or has the rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

(2) Financial positions of the Group's major subsidiaries as of December 31, 2016, are as follows:

	Korean won			
	Korea Airport Service Co., Ltd.	Hanjin Information Systems & Telecommunication Co., Ltd.	Korea Global Logistics System Co., Ltd.	Hanjin International Corp.
	(In millions)			
Current assets	₩155,176	₩51,528	₩3,217	₩ 280,633
Non-current assets	207,953	32,220	77	1,403,118
	₩363,129	₩83,748	₩3,294	₩1,683,751
Current liabilities	₩ 42,557	₩17,915	₩ 419	₩ 887,232
Non-current liabilities	43,427	9,753	46	23,408
	₩ 85,984	₩27,668	₩ 465	₩ 910,640
Total shareholders' equity	₩277,145	₩56,080	₩2,829	₩ 773,111

	Translation into U.S. dollars (Note 2)			
	Korea Airport Service Co., Ltd.	Hanjin Information Systems & Telecommunication Co., Ltd.	Korea Global Logistics System Co., Ltd.	Hanjin International Corp.
	(In thousands)			
Current assets	$ 128,404	$ 42,638	$ 2,662	$ 232,216
Non-current assets	172,075	26,661	64	1,161,041
	$ 300,479	$ 69,299	$ 2,726	$ 1,393,257
Current liabilities	$ 35,215	$ 14,824	$ 346	$ 734,160
Non-current liabilities	35,934	8,071	38	19,369
	$ 71,149	$ 22,895	$ 384	$ 753,529
Total shareholders' equity	$ 229,330	$ 46,404	$ 2,342	$ 639,728

(3) Financial performances of the Group's major subsidiaries for the year ended December 31, 2016, are as follows:

	Korean won			
	Korea Airport Service Co., Ltd.	Hanjin Information Systems & Telecommunication Co., Ltd.	Korea Global Logistics System Co., Ltd.	Hanjin International Corp.
	(In millions)			
Sales	₩442,187	₩133,208	₩3,146	₩11,595
Operating income	24,911	6,162	1,311	3,654
Net income	16,077	4,852	1,099	3,332

	Translation into U.S. dollars (Note 2)			
	Korea Airport Service Co., Ltd.	Hanjin Information Systems & Telecommunication Co., Ltd.	Korea Global Logistics System Co., Ltd.	Hanjin International Corp.
	(In thousands)			
Sales	$365,898	$110,226	$2,603	$9,595
Operating income	20,613	5,099	1,085	3,023
Net income	13,303	4,015	909	2,757

(4) Cash flows of the Group's major subsidiaries for the year ended December 31, 2016, are as follows:

	Korean won			
	Korea Airport Service Co., Ltd.	Hanjin Information Systems & Telecommunication Co., Ltd.	Korea Global Logistics System Co., Ltd	Hanjin International Corp.
	(In millions)			
Cash flows from operating activities	₩ 39,253	₩ 4,807	₩ 1,126	₩ (6,740)
Cash flows from investing activities	(21,478)	(2,184)	5,800	(488,173)
Cash flows from financing activities	(18,511)	(1,750)	(7,085)	548,917
Net changes in cash and cash equivalents	(736)	873	(159)	54,004
Changes in cash and cash equivalents due to foreign currency translation	6	—	—	9,008
Beginning balance	18,949	1,707	1,023	217,526
Ending balance	₩ 18,219	₩ 2,580	₩ 864	₩ 280,538

	Translation into U.S. dollars (Note 2)			
	Korea Airport Service Co., Ltd.	Hanjin Information Systems & Telecommunication Co., Ltd.	Korea Global Logistics System Co., Ltd	Hanjin International Corp.
	(In thousands)			
Cash flows from operating activities	$ 32,480	$ 3,977	$ 932	$ (5,577)
Cash flows from investing activities	(17,772)	(1,807)	4,799	(403,950)
Cash flows from financing activities	(15,317)	(1,448)	(5,863)	454,213
Net changes in cash and cash equivalents	(609)	722	(132)	44,686
Changes in cash and cash equivalents due to foreign currency translation	5	—	—	7,454
Beginning balance	15,680	1,413	847	179,997
Ending balance	$ 15,076	$ 2,135	$ 715	$ 232,137

(5) The ownership ratio of non-controlling interests' financial position as of December 31, 2016, financial performances for the year ended December 31, 2016, and dividend paid to non-controlling interests of major subsidiaries are as follows:

	Korean won		
	Korea Airport Service Co., Ltd.	Hanjin Information Systems & Telecommunication Co., Ltd.	Korea Global Logistics System Co., Ltd.
	(In millions)		
Ownership ratio (*)	40.46%	0.65%	5.00%
Non-controlling interests	₩106,856	₩ 381	₩ 142
Net income attributable to non-controlling interests	6,350	32	55
Dividend paid to non-controlling interests	587	11	354

	Translation into U.S. dollars (Note 2)		
	Korea Airport Service Co., Ltd.	Hanjin Information Systems & Telecommunication Co., Ltd.	Korea Global Logistics System Co., Ltd.
	(In thousands)		
Ownership ratio (*)	40.46%	0.65%	5.00%
Non-controlling interests	$88,420	$ 315	$ 117
Net income attributable to non-controlling interests	5,255	26	45
Dividend paid to non-controlling interests	485	9	293

(*) Ownership of non-controlling interest is not included, whether directly or indirectly, in the ownership of the Group. It may differ from percentage of shares that is deducted by simply adding up each subsidiary's share.

13. INVESTMENTS IN ASSOCIATES:

(1) Investments in associates as of December 31, 2016 and 2015 consist of the following:

2016

Description	Principal business	Location	Ownership	Korean won Acquisition Cost	Korean won Book value
			(%)	(In millions)	
Hanjin Shipping Co., Ltd. (*1)	Shipping company	Korea	—	₩ —	₩ —
EIGHTCITY Co., Ltd. (*2)	Real estate	Korea	23.81%	1,500	—
Czech Airlines j.s.c. (*3)	Airline services	Czech	44.00%	3,905	24,387
				₩5,405	₩24,387

Description	Principal business	Location	Ownership	Translation into U.S. dollars (Note 2) Acquisition Cost	Translation into U.S. dollars (Note 2) Book value
			(%)	(In thousands)	
Hanjin Shipping Co., Ltd. (*1)	Shipping company	Korea	—	$ —	$ —
EIGHTCITY Co., Ltd. (*2)	Real estate	Korea	23.81%	1,241	—
Czech Airlines j.s.c. (*3)	Airline services	Czech	44.00%	3,231	20,179
				$4,472	$20,179

2015

Description	Principal business	Location	Ownership	Korean won Acquisition Cost	Korean won Book value
			(%)	(In millions)	
Hanjin Shipping Co., Ltd. (*1)	Shipping company	Korea	33.23%	₩444,829	₩519,975
EIGHTCITY Co., Ltd. (*2)	Real estate	Korea	23.81%	1,500	—
Czech Airlines j.s.c. (*3)	Airline services	Czech	44.00%	3,905	—
				₩450,234	₩519,975

Description	Principal business	Location	Ownership	Translation into U.S. dollars (Note 2) Acquisition cost	Translation into U.S. dollars (Note 2) Book value
			(%)	(In thousands)	
Hanjin Shipping Co., Ltd. (*1)	Shipping company	Korea	33.23%	$368,084	$430,264
EIGHTCITY Co., Ltd. (*2)	Real estate	Korea	23.81%	1,241	—
Czech Airlines j.s.c. (*3)	Airline services	Czech	44.00%	3,231	—
				$372,556	$430,264

(*1) Investment in associates of Hanjin Shipping Co., Ltd. was reclassified as AFS financial assets due to the decision of the rehabilitation procedure for the year ended December 31, 2016.

(*2) Investment in EIGHTCITY Co., Ltd. was fully impaired prior to 2015.

(*3) The Group resumed applying the equity method for Czech Airlines j.s.c. for the year ended December 31, 2016

(2) Changes in investments in associates for the years ended December 31, 2016 and 2015 are as follows.

2016

	Korean won					
	Beginning balance	Acquisition	Gain (loss) on valuation of equity method	Net change in interests of equity method	Others (*)	Ending balance
	(In millions)					
Hanjin Shipping Co., Ltd. (*)	₩519,975	₩—	₩(121,766)	₩(55,722)	₩(342,487)	₩ —
EIGHT CITY Co., Ltd.	—	—	—	—	—	—
Czech Airlines j.s.c.	—	—	9,499	217	14,671	24,387
	₩519,975	₩—	₩(112,267)	₩(55,505)	₩(327,816)	₩24,387

	Translation into U.S. dollars (Note 2)					
	Beginning balance	Acquisition	(Gain) loss on valuation of equity method	Net change in interests of equity method	Others (*)	Ending balance
	(In thousands)					
Hanjin Shipping Co., Ltd. (*)	$430,264	$—	$(100,758)	$(46,108)	$(283,398)	$ —
EIGHT CITY Co., Ltd.	—	—	—	—	—	—
Czech Airlines j.s.c.	—	—	7,860	179	12,140	20,179
	$430,264	$—	$ (92,898)	$(45,929)	$(271,258)	$20,179

(*) Other increase (decrease) was mainly due to recognition of an impairment loss of ₩333,798 million ($ 276,209 thousand) and others related to the shares of Hanjin Shipping Co., Ltd.

2015

	Korean won					
	Beginning balance	Acquisition	Gain on valuation of equity method	Net change in interests of equity method	Others (*)	Ending balance
	(In millions)					
Hanjin Shipping Co., Ltd. (*)	₩467,574	₩—	₩17,485	₩35,570	₩(654)	₩519,975
EIGHT CITY Co., Ltd.	—	—	—	—	—	—
Czech Airlines j.s.c.	—	—	—	—	—	—
	₩467,574	₩—	₩17,485	₩35,570	₩(654)	₩519,975

	Translation into U.S. dollars (Note 2)					
	Beginning balance	Acquisition	Gain on valuation of equity method	Net change in interests of equity method	Others (*)	Ending balance
	(In thousands)					
Hanjin Shipping Co., Ltd. (*)	$386,904	$—	$14,468	$29,433	$(541)	$430,264
EIGHT CITY Co., Ltd.	—	—	—	—	—	—
Czech Airlines j.s.c.	—	—	—	—	—	—
	$386,904	$—	$14,468	$29,433	$(541)	$430,264

(*) Other increase (decrease) was mainly due to the share exchange of Hanjin Shipping Co., Ltd. and the reversal of negative goodwill arising from exercise of bonds with warrants.

(3) Financial information of the Group's investments in associates as of December 31, 2016, is as follows:

	Korean won	Translation into U.S. dollars (Note 2)
	Czech Airlines j.s.c.	Czech Airlines j.s.c.
	(In millions)	(In thousands)
Current assets	₩ 90,145	$ 74,592
Non-current assets	80,232	66,390
	₩170,377	$140,982
Current liabilities	₩103,958	$ 86,022
Non-current liabilities	10,995	9,098
	₩114,953	$ 95,120
Owners of the Company	₩ 55,424	$ 45,862
Non-controlling interests	—	—
	₩ 55,424	$ 45,862
Sales	₩344,669	$285,204
Operating income	₩ 25,125	$ 20,790
Net income attributable to owners of the Company	₩ 21,588	$ 17,863
Net income attributable to non-controlling interests	₩ —	$ —

(4) Adjustments from equity of associates to book value of shares owned as of December 31, 2016, are as follows:

	Korean won	Translation into U.S. dollars (Note 2)
	Czech Airlines j.s.c.	Czech Airlines j.s.c.
	(In millions)	(In thousands)
Net assets (A)	₩55,424	$45,862
Ownership ratio (B)	44.00%	44.00%
(A)×(B)	24,387	20,179
Investment difference and others	—	—
Book value	₩24,387	$20,179

14. INTERESTS IN JOINT OPERATIONS:

The Group owns a joint investment building, which has the significant joint arrangement. Under the joint arrangement, the Group has 70% ownership of the building, INHA International Medical Center, which is located at Jung-gu, Incheon. The Group recognized income and expenses in relation to its share.

15. PROPERTY, AIRCRAFT AND EQUIPMENT:

(1) Changes in property, aircraft and equipment for years ended December 31, 2016 and 2015, are as follows:

	Korean won					
	Beginning balance	Acquisition	Disposal	Depreciation	Others (*)	Ending balance
	(In millions)					
Land	₩ 1,957,074	₩ 15,317	₩ (1,659)	₩ —	₩ 4,560	₩ 1,975,292
Leased land	21,460	—	—	—	—	21,460
Buildings	519,278	3,436	—	(21,858)	35,130	535,986
Structures	77,995	687	—	(4,590)	92	74,184
Machinery	88,957	996	(6)	(15,763)	7,899	82,083
Aircraft	2,186,987	50,442	(170,517)	(319,684)	16,232	1,763,460
Engines	821,887	37,221	(130,390)	(227,672)	214,591	715,637
Leased aircraft	7,807,500	72,044	(33,606)	(674,056)	959,043	8,130,925
Leased engines	1,961,370	156,954	(45,807)	(382,100)	512,125	2,202,542
Aircraft parts	119,253	27,390	(496)	(12,518)	(7,880)	125,749
Others	126,623	59,433	(1,097)	(38,927)	7,431	153,463
Construction in progress	2,162,319	1,925,985	—	—	(1,995,803)	2,092,501
	₩17,850,703	₩2,349,905	₩(383,578)	₩(1,697,168)	₩ (246,580)	₩17,873,282

	Translation into U.S. dollars (Note 2)					
	Beginning balance	Acquisition	Disposal	Depreciation	Others (*)	Ending balance
	(In thousands)					
Land	$ 1,619,424	$ 12,674	$ (1,373)	$ —	$ 3,774	$ 1,634,499
Leased land	17,758	—	—	—	—	17,758
Buildings	429,688	2,843	—	(18,087)	29,069	443,513
Structures	64,538	569	—	(3,798)	76	61,385
Machinery	73,609	824	(5)	(13,043)	6,536	67,921
Aircraft	1,809,671	41,740	(141,098)	(264,530)	13,432	1,459,215
Engines	680,089	30,800	(107,894)	(188,392)	177,568	592,171
Leased aircraft	6,460,488	59,614	(27,808)	(557,763)	793,582	6,728,113
Leased engines	1,622,979	129,875	(37,904)	(316,177)	423,769	1,822,542
Aircraft parts	98,678	22,664	(411)	(10,358)	(6,520)	104,053
Others	104,778	49,179	(907)	(32,211)	6,148	126,987
Construction in progress	1,789,258	1,593,699	—	—	(1,651,472)	1,731,485
	$14,770,958	$1,944,481	$(317,400)	$(1,404,359)	$ (204,038)	$14,789,642

2015

	Korean won						
	Beginning balance	Acquisition	Disposal	Depreciation	Others (*)	Changes in scope of consolidation	Ending balance
				(In millions)			
Land	₩ 1,955,232	₩ 30	₩ (48)	₩ —	₩ 1,860	₩—	₩ 1,957,074
Leased land	21,460	—	—	—	—	—	21,460
Buildings	493,014	4,177	(4)	(21,104)	43,195	—	519,278
Structures	82,221	78	—	(4,645)	341	—	77,995
Machinery	90,867	4,013	(17)	(15,845)	9,939	—	88,957
Aircraft	2,301,381	67,157	(283,783)	(326,153)	428,385	—	2,186,987
Engines	848,492	5,357	(188,132)	(251,009)	407,179	—	821,887
Leased aircraft	6,636,575	219,124	—	(610,458)	1,562,259	—	7,807,500
Leased engines	1,579,568	134,209	—	(335,216)	582,809	—	1,961,370
Aircraft parts	108,542	29,819	(771)	(12,376)	(5,961)	—	119,253
Others	125,992	31,836	(204)	(33,291)	2,284	6	126,623
Construction in progress	1,534,730	3,711,456	—	—	(3,083,867)	—	2,162,319
	₩15,778,074	₩4,207,256	₩(472,959)	₩(1,610,097)	₩ (51,577)	₩ 6	₩17,850,703

	Translation into U.S. dollars (Note 2)						
	Beginning balance	Acquisition	Disposal	Depreciation	Others (*)	Changes in scope of consolidation	Ending balance
				(In thousands)			
Land	$ 1,617,899	$ 25	$ (40)	$ —	$ 1,540	$—	$ 1,619,424
Leased land	17,758	—	—	—	—	—	17,758
Buildings	407,955	3,457	(3)	(17,463)	35,742	—	429,688
Structures	68,036	65	—	(3,844)	281	—	64,538
Machinery	75,189	3,321	(14)	(13,111)	8,224	—	73,609
Aircraft	1,904,329	55,570	(234,822)	(269,883)	354,477	—	1,809,671
Engines	702,103	4,432	(155,674)	(207,703)	336,931	—	680,089
Leased aircraft	5,491,580	181,319	—	(505,137)	1,292,726	—	6,460,488
Leased engines	1,307,049	111,054	—	(277,382)	482,258	—	1,622,979
Aircraft parts	89,816	24,674	(638)	(10,241)	(4,933)	—	98,678
Others	104,255	26,343	(169)	(27,547)	1,891	5	104,778
Construction in progress	1,269,946	3,071,126	—	—	(2,551,814)	—	1,789,258
	$13,055,915	$3,481,386	$(391,360)	$(1,332,311)	$ (42,677)	$ 5	$14,770,958

(*) Other increase or decrease was mainly due to the transfer of construction in progress and consisted of the transfer of property, aircraft and equipment and intangible assets to investment property, contribution in kind and others.

(2) The Group capitalized borrowing costs of ₩43,139 million ($35,696 thousand) into construction in progress for the year ended December 31, 2016. For the determination of borrowing costs, the Group used the interest rate on funds specifically for the purpose of obtaining a qualifying asset and other general funds whose interest rates are 1.85% and 3.78%, respectively. In addition, the subsidiaries used the interest rate of 3M LIBOR + 1.80%–3.30% and 4.12% on funds specifically for the purpose of obtaining a qualifying asset for the year ended December 31, 2016.

(3) The Group has been applying asset revaluation model to land, and as of June 30, 2013, the Group revaluated land by using value that was appraised by an independent and professional appraiser, Hana Appraisal & Consulting Co., Ltd. The revaluation method is appraised using value of land basis method that uses standard land price that is near by the land similar to utility value considering the ratio of changing land price, the ratio of increasing producer price index, location, shape, environment, state of usage of land and other factors of valuation from the date of public announcement of land value to June 30, 2013. The book values of land by revaluation model and cost model are as follows:

	Korean won		Translation into U.S. dollars (Note 2)	
	Revaluation model	Cost model	Revaluation model	Cost model
	(In millions)		(In thousands)	
Land	₩1,975,292	₩1,607,524	$1,634,499	$1,330,181
Leased land	21,460	13,385	17,758	11,076
	₩1,996,752	₩1,620,909	$1,652,257	$1,341,257

The Group recognized revaluation surplus of ₩422,814 million ($349,867 thousand before income tax) and recognized accumulated revaluation loss of ₩46,971 million ($38,867 thousand) for the period from June 30, 2013, to December 31, 2016.

(4) Fair value measurements of land and leased land by fair value hierarchy levels as of December 31, 2016, are as follows:

	Korean won			
	Level 1	Level 2	Level 3	Total
			(In millions)	
Land	₩—	₩—	₩1,975,292	₩1,975,292
Leased land	—	—	21,460	21,460
	₩—	₩—	₩1,996,752	₩1,996,752

	Translation into U.S. dollars (Note 2)			
	Level 1	Level 2	Level 3	Total
			(In thousands)	
Land	$—	$—	$1,634,499	$1,634,499
Leased land	—	—	17,758	17,758
	$—	$—	$1,652,257	$1,652,257

(5) There was no movement between Level 1 and Level 2 for the year ended December 31, 2016.

16. PLEDGED ASSETS AND GUARANTEES (NON-FINANCIAL ASSETS):

(1) Significant pledged assets provided as collateral and guarantees for the Group as of December 31, 2016, are as follows (in millions of Korean won, except for share data):

Pledged assets	Book value	Collateralized amount/shares	Provided to	In relation to
Land/buildings (*1)	₩3,425,270	3,831,912,051		Short-term and long-term
Aircraft and engines (*2)	2,064,388	3,561,737,814	Korea Development	borrowings and
Machinery	12,299	10,350,961	Bank (“KDB”)	borrowings of Hanjin
Facility usage rights	49,183	140,000,000	and others	Int’l Corp., etc.
Investment in subsidiaries —			Industrial Bank of	Borrowings of Hanjin
Hanjin Int’l Corp. (*3)	—	91,440,000 Shares	Korea and others	Int’l Corp.
	₩5,551,140			

(*1) The land and buildings provided as collateral consists of tangible assets and investment properties.

(*2) The aircraft and engines provided as collateral are composed of tangible assets.
(*3) Investments in subsidiaries (Hanjin Int'l Corp.) provided as collateral are part of the Group and therefore, carry no book value in the consolidated financial statements.
(*4) The collateralized amounts of the pledged assets provided as collateral and guarantees in foreign currency are translated into Korean won at the exchange rate on December 31, 2016.

(2) The Group has provided leased aircraft, leased engines and leased land as collateral to the lessor for the finance lease obligations. Also, the Company has provided mileage receivables as collateral for the long-term borrowings (see Note 22).

17. INVESTMENT PROPERTIES:

(1) Changes in the carrying amount of investment properties for years ended December 31, 2016 and 2015, are as follows:

2016

	Korean won				
	Beginning balance	Acquisition	Depreciation	Others (*)	Ending balance
			(In millions)		
Land	₩ 63,173	₩ —	₩ —	₩ 1,808	₩ 64,981
Buildings	19,583	—	(1,084)	(1,979)	16,520
Construction in progress	226,764	123,095	—	(106,479)	243,380
	₩309,520	₩123,095	₩(1,084)	₩(106,650)	₩324,881

	Translation into U.S. dollars (Note 2)				
	Beginning balance	Acquisition	Depreciation	Others (*)	Ending balance
			(In thousands)		
Land	$ 52,273	$ —	$ —	$ 1,497	$ 53,770
Buildings	16,205	—	(897)	(1,638)	13,670
Construction in progress	187,641	101,857	—	(88,108)	201,390
	$256,119	$101,857	$(897)	$(88,249)	$268,830

2015

	Korean won				
	Beginning balance	Acquisition	Depreciation	Others (*)	Ending balance
			(In millions)		
Land	₩ 60,973	₩ —	₩ —	₩2,200	₩ 63,173
Buildings	19,931	—	(850)	502	19,583
Construction in progress	94,666	125,828	—	6,270	226,764
	₩175,570	₩125,828	₩(850)	₩8,972	₩309,520

	Translation into U.S. dollars (Note 2)				
	Beginning balance	Acquisition	Depreciation	Others (*)	Ending balance
			(In thousands)		
Land	$ 50,453	$ —	$ —	$1,820	$ 52,273
Buildings	16,492	—	(703)	416	16,205
Construction in progress	78,334	104,119	—	5,188	187,641
	$145,279	$104,119	$(703)	$7,424	$256,119

(*) Other increase or decrease was due to the transfer of property, aircraft and equipment to investment properties and exchange rate fluctuations.

(2) Revenue and cost related to investment properties for years ended December 31, 2016 and 2015, are as follows:

	Korean won		Translation into U.S. dollars (Note 2)	
	2016	2015	2016	2015
	(In millions)		(In thousands)	
Rental income	₩3,066	₩2,119	$2,537	$1,753
Rental cost	1,084	850	897	703

(3) Fair values of investment properties as of December 31, 2016 are as follows:

	Korean won		Translation into U.S. dollars (Note 2)	
	Book	Fair value	Book	Fair value
	(In millions)		(In thousands)	
Land	₩64,981	₩ 77,841	$53,770	$64,411
Buildings	16,520	34,089	13,670	28,208
	₩81,501	₩111,930	$67,440	$92,619

As of June 30, 2013, the Group appraised land by an independent and professional appraiser, Hana Appraisal & Consulting Co., Ltd. The revaluation method is appraised using value of land basis method, which uses standard land price that is near by the land similar to utility value considering the ratio of changing land price, the ratio of increasing Producer Price Index, location, shape, environment, state of usage of land and other factors of valuation from the date of public announcement of land value.

(4) Fair value measurements of investment properties by fair value hierarchy levels as of December 31, 2016 are as follows:

	Korean won			
	Level 1	Level 2	Level 3	Total
	(In millions)			
Land	₩—	₩—	₩ 77,841	₩ 77,841
Buildings	—	—	34,089	34,089
	₩—	₩—	₩111,930	₩111,930

	Translation into U.S. dollars (Note 2)			
	Level 1	Level 2	Level 3	Total
	(In thousands)			
Land	$—	$—	$64,411	$64,411
Buildings	—	—	28,208	28,208
	$—	$—	$92,619	$92,619

18. INTANGIBLE ASSETS:

Changes in the carrying amount of intangible assets for the years ended December 31, 2016 and 2015, are as follows:

2016

	Korean won						
	Beginning balance	Acquisition	Disposal	Amortization	Impairment loss	Others (*)	Ending balance
				(In millions)			
Goodwill	₩ 4,320	₩ —	₩ —	₩ —	₩ —	₩ 13,196	₩ 17,516
Facility usage rights	94,458	—	—	(10,042)	—	—	84,416
Research and development costs	67,341	362	—	(19,391)	—	—	48,312
Other intangibles	128,625	731	(3,236)	(23,824)	(7,992)	160,482	254,786
	₩294,744	₩1,093	₩(3,236)	₩(53,257)	₩(7,992)	₩173,678	₩405,030

	Translation into U.S. dollars (Note 2)						
	Beginning balance	Acquisition	Disposal	Amortization	Impairment loss	Others (*)	Ending balance
				(In thousands)			
Goodwill	$ 3,575	$—	$ —	$ —	$ —	$ 10,918	$ 14,493
Facility usage rights	78,162	—	—	(8,309)	—	—	69,853
Research and development costs	55,722	301	—	(16,046)	—	—	39,977
Other intangibles	106,433	605	(2,678)	(19,713)	(6,613)	132,794	210,828
	$243,892	$906	$(2,678)	$(44,068)	$(6,613)	$143,712	$335,151

2015

	Korean won					
	Beginning balance	Acquisition	Disposal	Amortization	Others (*)	Ending balance
			(In millions)			
Goodwill	₩ 4,890	₩—	₩ —	₩ —	₩ (570)	₩ 4,320
Facility usage rights	104,500	—	—	(10,042)	—	94,458
Research and development costs	84,389	—	—	(21,380)	4,332	67,341
Other intangibles	137,449	32	(425)	(8,557)	126	128,625
	₩331,228	₩ 32	₩(425)	₩(39,979)	₩3,888	₩294,744

	Translation into U.S. dollars (Note 2)					
	Beginning balance	Acquisition	Disposal	Amortization	Others (*)	Ending balance
			(In thousands)			
Goodwill	$ 4,047	$—	$ —	$ —	$ (472)	$ 3,575
Facility usage rights	86,471	—	—	(8,309)	—	78,162
Research and development costs	69,829	—	—	(17,692)	3,585	55,722
Other intangibles	113,735	27	(352)	(7,081)	104	106,433
	$274,082	$ 27	$(352)	$(33,082)	$3,217	$243,892

(*) Other increase or decrease was mainly due to the business takeover and the transfer of construction in progress.

19. OTHER FINANCIAL ASSETS:

Other financial assets as of December 31, 2016 and 2015, consist of the following:

	Korean won		Translation into U.S. dollars (Note 2)	
	2016	2015	2016	2015
	(In millions)		(In thousands)	
Guarantee deposits	₩329,751	₩330,675	$272,860	$273,625

The Group provides guarantee deposits of JPY 3,107,529 thousand, $25,387 thousand or HKD 93,132 thousand for ABS loans (see Note 22). There were no overdues or impaired other financial assets for the years ended December 31, 2016 and 2015.

20. OTHER ASSETS:

Other assets as of December 31, 2016 and 2015, consist of the following:

	Korean won			
	2016		2015	
	Current	Non-current	Current	Non-current
	(In millions)			
Advance payments	₩415,402	₩ 58	₩384,609	₩ 58
Prepaid expenses	119,496	244,276	157,581	327,336
Others	14,840	3,157	8,086	3,161
	₩549,738	₩247,491	₩550,276	₩330,555

	Translation into U.S. dollars (Note 2)			
	2016		2015	
	Current	Non-current	Current	Non-current
	(In thousands)			
Advance payments	$343,733	$ 48	$318,254	$ 48
Prepaid expenses	98,880	202,131	130,393	270,861
Others	12,280	2,613	6,691	2,616
	$454,893	$204,792	$455,338	$273,525

The Group provides advance payments of ₩133,808 million ($110,722 thousand), JPY 3,059,183 thousand, $19,329 thousand or HKD 150,290 thousand for ABS loans (see Note 22).

21. TRADE AND OTHER PAYABLES:

Trade and other payables as of December 31, 2016, and 2015, consist of the following:

	Korean won			
	2016		2015	
	Current	Non-current	Current	Non-current
	(In millions)			
Trade payables	₩113,876	₩ —	₩123,749	₩ —
Non-trade payables	181,357	16,403	233,180	28,803
Accrued expenses	550,916	13,870	512,174	12,300
Dividends payable	3	—	984	—
	₩846,152	₩30,273	₩870,087	₩41,103

	Translation into U.S. dollars (Note 2)			
	2016		2015	
	Current	Non-current	Current	Non-current
	(In thousands)			
Trade payables	$ 94,229	$ —	$102,399	$ —
Non-trade payables	150,068	13,573	192,950	23,834
Accrued expenses	455,867	11,477	423,810	10,178
Dividends payable	3	—	814	—
	$700,167	$25,050	$719,973	$34,012

22. BORROWINGS AND DEBENTURES:

(1) Short-term borrowings as of December 30, 2016 and 2015, consist of the following:

	Lender	Annual interest rate	Korean won 2016	Korean won 2015	Translation into U.S. dollars (Note 2) 2016	Translation into U.S. dollars (Note 2) 2015
			(In millions)		(In thousands)	
Local currency short-term borrowings	NongHyup Bank	3M CD + 1.86% 3.04%	₩ 211,500	₩220,000	$175,010	$182,044
	KDB	3.57%	70,000	—	57,923	—
	Shinhan Bank	2.49%	—	7,000	—	5,792
	Hana Bank and others	—	—	50,000	—	41,374
			281,500	277,000	232,933	229,210
Foreign currency short-term borrowings	KDB	3M London InterBank Offered Rate (LIBOR) + 1.95–2.80%	398,805	57,641	330,000	47,696
	KDB (Singapore branch)	3M LIBOR + 2.40%	54,383	58,600	45,000	48,490
	Hana Bank and others	3M LIBOR + 1.65%–4.30%	433,284	476,197	358,531	394,040
			886,472	592,438	733,531	490,226
			₩1,167,972	₩869,438	$966,464	$719,436

(2) Long-term borrowings as of December 31, 2016 and 2015, consist of the following:

	Lender	Annual interest rate	Maturity	Korean won 2016	Korean won 2015	Translation into U.S. dollars (Note 2) 2016	Translation into U.S. dollars (Note 2) 2015
				(In millions)		(In thousands)	
Local currency long-term borrowings	KDB	—	—	₩ —	₩ 600	$ —	$ 496
		4.01%–4.28%	2022-12-15	83,540	87,600	69,127	72,487
	Korea Resource Corporation	—	—	—	12	—	10
		2.60%	2019-12-15	380	4,507	314	3,729
	Standard Chartered Bank Korea Limited and others (*)	2.50%–5.41%	2023-12-15	65,669	11,642	54,339	9,634
				149,589	104,361	123,780	86,356
Foreign currency long-term borrowings	KDB	3M LIBOR + 0.57%–2.70%	2025-09-30	449,834	813,617	372,225	673,245
		3M JPY LIBOR + 2.00%	2018-04-09	46,656	72,901	38,607	60,323
		1.79%–1.84	2019-09-26	240,844	—	199,292	—
	The Export- Import Bank of Korea	3M LIBOR + 2.51%	2024-06-27	150,786	200,263	124,771	165,712
	NongHyup Bank	—	—	—	9,962	—	8,243
	Woori Bank	—	—	—	148,223	—	122,650
	Industrial Bank of Korea	LIBOR + 3.30%	2017-10-24	241,700	117,200	200,000	96,980
	Bank of Communications	3M LIBOR + 2.70%	2023-08-28	220,484	245,502	182,444	203,146
	Hana Bank and others	3M LIBOR + 2.20%–4.00%	2020-06-27	142,702	376,015	118,083	311,143
				1,493,006	1,983,683	1,235,422	1,641,442
				1,642,595	2,088,044	1,359,202	1,727,798
	Less: current portion of long-term borrowings			(626,506)	(992,554)	(518,416)	(821,311)
				₩1,016,089	1,095,490	$ 840,786	$ 906,487

(*) The Group has provided mileage receivables for the long-term borrowings (see Note 16).

(3) Debentures as of December 31, 2016 and 2015, consist of the following:

Series	Issue date	Maturity	Annual interest rate	Korean won 2016	Korean won 2015	Translation into U.S. dollars (Note 2) 2016	Translation into U.S. dollars (Note 2) 2015
				(In millions)		(In thousands)	
43-2nd	2011-08-08	2016-08-08	—	₩ —	₩ 297,471	$ —	$ 246,149
44-2nd	2012-02-08	2016-02-08	—	—	150,000	—	124,121
46-2nd	2012-07-19	2017-07-19	3.98%	247,992	250,000	205,206	206,868
47-2nd	2012-10-08	2019-10-08	4.16%	250,000	250,000	206,868	206,868
49-3rd	2012-12-13	2019-12-13	4.36%	170,000	170,000	140,670	140,670
50th	2013-02-25	2016-02-25	—	—	82,621	—	68,366
51st	2013-02-26	2016-02-26	—	—	97,201	—	80,431
54th	2013-03-19	2016-03-19	—	—	117,200	—	96,980
55th	2014-06-30	2016-06-30	—	—	117,200	—	96,980
56-1st	2014-09-16	2016-03-16	—	—	100,000	—	82,747
56-2nd	2014-09-16	2016-09-16	—	—	100,000	—	82,747
57-1st	2014-11-20	2016-05-20	—	—	80,000	—	66,198
57-2nd	2014-11-20	2016-11-20	—	—	70,000	—	57,923
58th (*1)	2015-02-27	2018-02-27	3M JPY LIBOR + 2.00%	103,681	97,201	85,793	80,431
59th	2015-08-31	2018-08-31	4.75%	200,000	200,000	165,494	165,494
60th	2016-02-17	2018-02-17	4.80%	150,000	—	124,121	—
61st (*2)	2016-02-25	2017-02-25	3M JPY LIBOR + 2.00%	70,503	—	58,339	—
63-1st (*3)	2016-03-21	2017-03-21	3M LIBOR + 0.80%	36,255	—	30,000	—
63-2nd (*3)	2016-03-21	2018-03-21	3M LIBOR + 1.10%	36,255	—	30,000	—
63-3rd (*3)	2016-03-21	2019-03-21	3M LIBOR + 1.20%	48,340	—	40,000	—
62nd	2016-04-12	2018-04-12	4.90%	250,000	—	206,868	—
64th	2016-04-20	2017-04-20	4.09%	50,000	—	41,374	—
65th	2016-06-10	2017-06-10	4.05%	30,000	—	24,824	—
66th	2016-06-15	2017-12-15	4.45%	10,000	—	8,275	—
67th	2016-10-07	2018-04-07	4.40%	50,000		41,374	—
68th	2016-10-24	2017-10-24	4.00%	150,000		124,121	—
Arirang bond	2012-11-02	2017-11-02	3M LIBOR+2.76%	230,000	246,173	190,319	203,702
Kexim (*4)	2014-10-30	2017-10-30	3M LIBOR+0.88%	362,550	351,600	300,000	290,939
				2,445,576	2,776,667	2,023,646	2,297,614
Present value of discounts				(5,497)	(4,797)	(4,549)	(3,969)
				2,440,079	2,771,870	2,019,097	2,293,645
Less: short-term debentures				(336,758)	—	(278,658)	—
Present value of discounts				528	—	437	—
Less: current portion of debentures				(2,024,223)	(2,081,693)	(1,674,988)	(1,722,543)
Present value of discounts, less current portion				3,543	2,824	2,932	2,337
				₩ 83,169	₩ 693,001	$ 68,820	$ 573,439

(*1) Kookmin Bank has provided guarantee at a maximum of JYP 10,639,117 thousand for the 58th guaranteed debenture.

(*2) Kookmin Bank has provided guarantee at a maximum of JYP 6,937,714 thousand for the 61st guaranteed debenture.

(*3) Shinhan Bank has provided guarantee at a maximum of $100,000 thousand for the 63rd guaranteed debenture.

(*4) The Export-Import Bank of Korea provides up to $300,000 thousand as payment guarantee associated with the debenture.

(4) ABS loans as of December 31, 2016 and 2015, consist of the following:

Description	Maturity	Annual interest rate	Korean won 2016	Korean won 2015	Translation into U.S. dollars (Note 2) 2016	Translation into U.S. dollars (Note 2) 2015
			(In millions)		(In thousands)	
KAL-7th ABS	2016-11-08	—	₩ —	₩ 110,000	$ —	$ 91,022
KAL-9th ABS	2018-04-25	3.15%	180,000	300,000	148,945	248,242
KAL-10th ABS	2016-11-28	—	—	123,717	—	102,373
KAL-11th ABS	2019-02-14	5.11%	230,000	350,000	190,319	289,615
KAL-12th ABS	2019-05-09	4.74%	75,000	105,000	62,060	86,885
KAL-13th ABS	2017-07-27	0.69%	24,676	63,375	20,419	52,441
KAL-14th ABS	2018-08-27	1M Hong Kong InterBank Offered Rate (HIBOR) + 3.50%	65,968	99,799	54,587	82,581
KAL-15th ABS	2017-11-20	1M LIBOR + 0.65%	132,935	269,560	110,000	223,053
KAL-16th ABS	2020-01-28	3.98%	480,000	600,000	397,186	496,482
KAL-17th ABS	2019-04-29	1M LIBOR + 3.00%	187,989	—	155,556	—
KAL-18th ABS	2020-06-01	3M HIBOR + 3.74%	101,571	—	84,047	—
KAL-19th ABS	2021-07-11	4.24%	900,000	—	744,724	—
KAL-20th ABS	2019-12-27	2.01%	155,522	—	128,690	—
			2,533,661	2,021,451	2,096,533	1,672,694
Less: current portion of ABS loans			(801,709)	(840,385)	(663,391)	(695,395)
			₩1,731,952	₩1,181,066	$1,433,142	$ 977,299

The Group provides the guarantee deposit of JPY 3,107,529 thousand, $ 25,387 thousand and HKD 93,132 thousand and the advance payments of ₩133,808 million ($110,722 thousand), JPY 3,059,183 thousand, $19,329 thousand and HKD 150,290 thousand in connection with the above ABS loans (Notes 19 and 20).

Meanwhile, above ABS loans are the borrowings to repay in a way to trust, right to future sales receivables that will be held at the time of selling the airline ticket and in the financial institution, the subject receivables and the period are as follows:

Description	Receivable	Period
KAL-9th ABS	Domestic passenger card sales receivables (Hyundai card, Hana (formerly Korea Exchange) card, Kookmin card)	2013.04.17–2018.04.25
KAL-11th ABS	Domestic cargo indirect sales receivables	2014.02.06–2019.02.14
KAL-12th ABS	Domestic passenger card sales receivables (NongHyup card, Lotte card)	2014.04.24–2019.05.07
KAL-13th ABS	Japan cargo receivables	2014.08.07–Of the following conditions, until the earlier date (i) 2019.12.31 (ii) When the ABS loan's principal and interest have been redeemed in total
KAL-14th ABS	Hong Kong cargo receivables	2014.11.05–When the ABS loan's principal and interest have been redeemed in all

Description	Receivable	Period
KAL-15th ABS	Passenger credit card (Visa/Master) dollar receivables	2014.11.25–Of the following conditions, until the earlier date (i) 2019.11.30 (ii) When the ABS loan's principal and interest have been redeemed in total
KAL-16th ABS	Domestic passenger card sales receivables (BC card)	2015.01.20–2020.01.28
KAL-17th ABS	North America region cargo receivables (settlement of Cargo Accounts Settlement Systems (CASS))	2016.04.11–When the ABS loan's principal and interest have been redeemed in total
KAL-18th ABS	Hong Kong and Singapore passenger sales receivables	2016.06.01–When the ABS loan's principal and interest have been redeemed in total
KAL-19th ABS	Korean passenger cash sales receivables	2016.07.11–When the ABS loan's principal and interest have been redeemed in total
KAL-20th ABS	Japanese passenger sales receivables	2016.12.29– Of the following conditions, until the earlier date (i) 2021.12.31 (ii) When the ABS loan's principal and interest have been redeemed in total

(5) The Group took over the borrowings of Hanjin Shipping Co., Ltd. with Hana Bank (formerly, Korea Exchange Bank) and other financial institutions (guaranteed loans) equally for 20 years from 1988, pursuant to the Government Guidelines for the Rationalization of the Marine Industry in 1985. Meanwhile, the Group took over the borrowings payable equally in 15 years with a 15-year grace period without interest and recognized the difference between the nominal amount and present value of the borrowings as present value of discounts. Guaranteed loans as of December 31, 2016, and December 31, 2015, consist of the following:

Description	Korean won		Translation into U.S. dollars (Note 2)	
	2016	2015	2016	2015
	(In millions)		(In thousands)	
KDB	₩ 3,920	₩ 7,845	$ 3,244	$ 6,492
Woori Bank	—	5,156	—	4,267
Triumph II Investments (Ireland) Limited	—	323	—	267
B G.N Loan Co., Ltd. (*)	196	—	162	—
Hanshin Mutual Savings & Finance Co., Ltd. (*)	—	395	—	326
Kookmin Bank	140	288	116	239
Shinhan Bank	512	1,030	424	852
Daegu Bank	486	971	402	804
Hana Bank (formerly, Korea Exchange Bank)	6,386	12,777	5,284	10,572
Tongyang Life Insurance Co., Ltd.	878	1,755	727	1,452
Lotte Insurance Co., Ltd.	126	262	104	217
	12,644	30,802	10,463	25,488
Present value of discounts	(861)	(3,414)	(713)	(2,825)
	11,783	27,388	9,750	22,663
Less: current portion of liabilities	(12,644)	(15,414)	(10,463)	(12,755)
Present value of discounts, current portion	861	1,056	713	874
	₩ —	₩ 13,030	$ —	$ 10,782

(*) The guaranteed loans of Hanshin Mutual Savings & Finance Co., Ltd. were succeeded by B G.N Loan Co., Ltd. for the years ended December 31, 2016.

Hanjin Shipping Co., Ltd.'s 476,436 shares and ₩5,522 million ($4,569 thousand) of short-term financial instruments were provided as collateral for the guaranteed loans to Hana Bank (formerly, Korea Exchange Bank) as of December 31, 2016 (see Note 6).

23. FINANCE LEASE OBLIGATIONS:

(1) Finance lease obligations as of December 31, 2016 and 2015, consist of the following:

		Korean won		Translation into U.S. dollars (Note 2)	
Lender	Annual interest rate	2016	2015	2016	2015
		(In millions)		(In thousands)	
DOOLEY Aviation Limited	3M LIBOR + 2.13%	₩ 104,267	₩ 127,258	$ 86,278	$ 105,302
ECA-2014B Limited	3M Euro Interbank Offered Rate (EURIBOR) + 0.32% 3M LIBOR + 2.85%	205,071	230,052	169,691	190,361
ECA-2014C Limited	3M LIBOR + 0.87%	130,223	140,232	107,756	116,038
ECA-2015A Limited	3M EURIBOR + 0.31% 3M LIBOR + 2.85%–3.00%	253,294	282,001	209,594	233,348
ECA-2015B Limited	3M JPY LIBOR + 0.30% 3M LIBOR + 3.00%	142,064	147,400	117,554	121,969
Export Leasing (2015) LLC	3M LIBOR + 0.49%	168,648	179,768	139,552	148,753
Export Leasing (2015)-B	3M LIBOR + 0.75%	208,353	222,608	172,406	184,202
Export Leasing (2015-A) LLC	3M LIBOR + 0.73%–0.74%	405,838	432,966	335,819	358,267
Export Leasing (2015-B) LLC	3M LIBOR + 0.74%	202,942	217,394	167,928	179,888
Export Leasing (2015-C)	3M LIBOR + 0.76%	209,678	224,132	173,502	185,463
Ji Yoo Aviation Ltd.	3M LIBOR + 3.50%	190,127	180,130	157,325	149,053
KALECA11 Aviation Ltd.	3M LIBOR + 0.89%–0.96%	579,903	667,751	479,853	552,545
KALECA11-2 Aviation Ltd.	3M LIBOR + 0.91%	149,174	170,118	123,437	140,768
KALECA12 Aviation Ltd.	3M JPY LIBOR + 0.71% 3M LIBOR + 2.80%	145,994	162,580	120,806	134,530
KALECA13 Aviation Ltd.	3M EURIBOR + 0.63% 3M LIBOR + 2.55%	180,164	207,031	149,081	171,312
KE Export Leasing (2009) Ltd.	3M LIBOR + 1.25%	145,852	170,387	120,689	140,990
KE Export Leasing (2010) Ltd.	3M LIBOR + 0.30%	262,728	296,700	217,400	245,511
KE Export Leasing (2011) Ltd.	3M LIBOR + 0.31%–0.36%	309,554	351,695	256,147	291,018
KE Export Leasing (2011-II) Ltd.	3M LIBOR + 0.41%–0.46%	223,101	251,054	184,610	207,740

Lender	Annual interest rate	Korean won 2016	Korean won 2015	Translation into U.S. dollars (Note 2) 2016	Translation into U.S. dollars (Note 2) 2015
		(In millions)		(In thousands)	
KE Export Leasing (2012) Ltd.	3M LIBOR + 1.22%–1.24%	347,591	391,359	287,622	323,838
KE Export Leasing (2013-A)	3M LIBOR + 0.36%	131,454	143,332	108,774	118,603
KE Export Leasing (2013-B)	3M LIBOR + 0.35%	137,032	149,431	113,390	123,650
KE Export Leasing (2013-C)	3M LIBOR + 0.65%	147,772	160,598	122,277	132,890
KE Export Leasing (2013-D) LLC	3M LIBOR + 0.36%–0.66%	319,692	342,464	264,536	283,381
KE Export Leasing 2014 LLC	3M LIBOR + 0.65%–1.05%	452,388	483,903	374,338	400,417
KE2013 B777	3M LIBOR + 2.62%	123,561	143,130	102,244	118,436
KEXPORT Leasing 2015	3M LIBOR + 1.22%–1.23%	349,243	380,322	288,989	314,707
Kosmo Suites / Yun Aviation Limited	3M LIBOR + 1.95%	128,907	187,520	106,667	155,168
SKY HIGH LIV Leasing Company Limited	3M LIBOR + 2.20%	183,106	—	151,515	—
Yian Limited	3M LIBOR + 2.12%	192,478	208,650	159,270	172,652
Export Leasing 2016-A	3M LIBOR + 2.78%	148,227	—	122,654	—
Export Leasing 2016-B	3M JPY LIBOR + 0.85%	137,005	—	113,368	—
Export Leasing 2016-C	3M LIBOR + 0.90%	162,285	—	134,287	—
Export Leasing 2016-D	3M LIBOR + 1.60%	102,723		85,000	—
Ray Aviation Limited	3M LIBOR + 1.70% 5.20%	189,987	—	157,209	—
RBS and others	1.59%–9.57%	1,018,370	1,137,868	842,673	941,554
		8,488,796	8,389,834	7,024,241	6,942,354
Less: current portion of obligation under finance leases, net of present value of discounts		(1,714,470)	(1,234,471)	(1,418,676)	(1,021,491)
		₩ 6,774,326	₩ 7,155,363	$ 5,605,565	$ 5,920,863

The Export-Import Bank of the United States and others have provided payment guarantees of $4,555 million for above finance lease obligations as of December 31, 2016. Meanwhile, the Group has provided payment guarantees of $135 million to Bank of China, the beneficiary of the financial lease obligations due to Yian Limited, as of December 31, 2016.

(2) Minimum lease payments and present value of long-term finance lease obligations as of December 31, 2016, consist of the following:

	Korean won	Translation into U.S. dollars (Note 2)
	(In millions)	(In thousands)
Less than one year	₩1,871,419	$1,548,547
One year to five years	4,460,981	3,691,337
More than five years	2,735,972	2,263,940
	9,068,372	7,503,824
Present value of discounts	(579,576)	(479,583)
	₩8,488,796	$7,024,241

24. EMPLOYEE BENEFITS:

(1) The net defined benefit liabilities as of December 31, 2016 and 2015, consist of the following:

	Korean won		Translation into U.S. dollars (Note 2)	
	2016	2015	2016	2015
	(In millions)		(In thousands)	
Present value of defined benefit obligations	₩1,477,734	₩1,367,582	$1,222,784	$1,131,636
Fair value of plan assets	(351,402)	(339,901)	(290,776)	(281,259)
	₩1,126,332	₩1,027,681	$ 932,008	$ 850,377

(2) Changes in carrying amount of the net defined benefit liabilities for the years ended December 31, 2016 and 2015, are as follows:

2016

	Korean won			Translation into U.S. dollars (Note 2)		
	Present value of defined benefit obligations	Fair value of plan assets	Total	Present value of defined benefit obligations	Fair value of plan assets	Total
		(In millions)			(In thousands)	
Beginning balance	₩1,367,582	₩(339,901)	₩1,027,681	$1,131,636	$(281,259)	$850,377
Current service cost	128,550	—	128,550	106,372	—	106,372
Interest expense	32,094	(6,707)	25,387	26,557	(5,550)	21,007
Remeasurement of the net defined benefit liabilities	47,694	1,904	49,598	39,466	1,575	41,041
Retirement benefits paid	(99,092)	25,481	(73,611)	(81,996)	21,085	(60,911)
Contributions	—	(31,999)	(31,999)	—	(26,478)	(26,478)
Succession of defined benefit obligations	695	—	695	575	—	575
Others	211	(180)	31	174	(149)	25
Ending balance	₩1,477,734	₩(351,402)	₩1,126,332	$1,222,784	$(290,776)	$932,008

2015

	Korean won			Translation into U.S. dollars (Note 2)		
	Present value of defined benefit obligations	Fair value of plan assets	Total	Present value of defined benefit obligations	Fair value of plan assets	Total
		(In millions)			(In thousands)	
Beginning balance	₩1,188,148	₩(337,077)	₩ 851,071	$ 983,159	$(278,921)	$704,238
Current service cost	138,829	—	138,829	114,877	—	114,877
Interest expense	34,827	(7,963)	26,864	28,818	(6,590)	22,228
Remeasurement of the net defined benefit liabilities	95,772	1,853	97,625	79,248	1,533	80,781
Retirement benefits paid	(90,961)	26,259	(64,702)	(75,268)	21,729	(53,539)
Contributions	—	(22,673)	(22,673)	—	(18,761)	(18,761)
Succession of defined benefit obligations	517	—	517	429	—	429
Others	450	(300)	150	373	(249)	124
Ending balance	₩1,367,582	₩(339,901)	₩1,027,681	$1,131,636	$(281,259)	$850,377

(3) The principal assumption used for actuarial valuation as of December 31, 2016 and 2015, is as follows:

	2016	2015
Discount rate (%)	2.07–2.42	2.18–2.50
Expected wage growth rate (%)	1.80–9.01	1.80–9.91

(4) The fair values of plan assets as of December 31, 2016 and 2015, are as follows:

	Korean won		Translation into U.S. dollars (Note 2)	
	2016	2015	2016	2015
	(In millions)		(In thousands)	
Bank deposits and others	₩165,516	₩175,679	$136,960	$145,369
Equity instruments	55,000	51,589	45,511	42,689
Debt instruments	91,593	₩ 73,910	75,791	61,158
Others	39,293	38,723	32,514	32,042
	₩351,402	₩339,901	$290,776	$281,258

Policy and investment strategy about plan assets pursue the balance between reducing risk and creating profit. Fundamentally, it is accomplished by diversified investment, partially matching strategy of assets and liabilities and hedging strategy to minimize flexibility of assets related to liabilities. The Group extensively diversifies investment to broadly based assets to reduce overall flexibility of assets related to liabilities (risk adjustment), and achieve a target profit. It is similar to bonds and partially responds to a long maturity pension liability to allocation of assets for earning static profit.

The actual return of plan assets for the years ended December 31, 2016 and 2015 are ₩4,803 million ($3,974 thousand) and ₩6,110 million ($5,056 thousand), respectively.

(5) The sensitivity analyses below have been determined based on reasonably possible changes of the respective assumptions occurring as of December 31, 2016 and 2015, while holding all other assumptions constant.

2016

	Korean won		Translation into U.S. dollars (Note 2)	
	Increase by 1%	Decrease by 1%	Increase by 1%	Decrease by 1%
	(In millions)		(In thousands)	
Discount rate	₩(110,845)	₩ 127,868	$ (91,721)	$105,807
Expected wage growth rate	127,275	(112,420)	105,317	(93,024)

2015

	Korean won		Translation into U.S. dollars (Note 2)	
	Increase by 1%	Decrease by 1%	Increase by 1%	Decrease by 1%
	(In millions)		(In thousands)	
Discount rate	₩(112,683)	₩ 131,256	$ (93,242)	$108,610
Expected wage growth rate	130,777	(114,368)	108,214	(94,637)

Since there is correlation among actuarial assumptions, changes of assumptions will not occur in isolation and above sensitivity analyses will not show the actual change of defined benefit obligations. Also, in the above sensitivity analyses, present value of defined benefit obligations are measured by using the projected unit credit method that is applied to measure the amount of defined benefit obligations in the consolidated statements of financial position.

25. PROVISIONS:

Changes in the provision liabilities for the years ended December 31, 2016 and 2015, are as follows:

2016

	Korean won				
	Beginning balance	Charged to income or loss	Utilization	Others	Ending balance
			(In millions)		
Current :					
Provision for construction loss (*1)	₩ 15,479	₩ 886	₩(14,708)	₩(1,657)	₩ —
Liabilities of greenhouse gas emissions (*2)	1,316	6,154	—	(2,039)	5,431
	16,795	7,040	(14,708)	(3,696)	5,431
Non-current :					
Provision for leased aircraft maintenance (*3)	135,124	33,212	(26,705)	—	141,631
Provision for coupon for passenger flight tickets (*4)	27,521	—	(1,750)	3,853	29,624
Provision for construction warranties (*5)	2,039	—	(1,307)	—	732
Others (*6)	6,503	184	—	—	6,687
	171,187	33,396	(29,762)	3,853	178,674
	₩187,982	₩40,436	₩(44,470)	₩ 157	₩184,105

	Translation into U.S. dollars (Note 2)				
	Beginning balance	Charged to income or loss	Utilization	Others	Ending balance
	(In thousands)				
Current :					
Provision for construction loss (*1)	$ 12,808	$ 733	$(12,170)	$(1,371)	$ —
Liabilities of greenhouse gas emissions (*2)	1,089	5,092	—	(1,687)	4,494
	13,897	5,825	(12,170)	(3,058)	4,494
Non-current :					
Provision for leased aircraft maintenance (*3)	111,811	27,482	(22,097)	—	117,196
Provision for coupon for passenger flight tickets (*4)	22,772	—	(1,448)	3,189	24,513
Provision for construction warranties (*5)	1,687	—	(1,082)	—	605
Others (*6)	5,382	152	—	—	5,534
	141,652	27,634	(24,627)	3,189	147,848
	$155,549	$33,459	$(36,797)	$ 131	$152,342

2015

	Korean won				
	Beginning balance	Charged to income or loss	Utilization	Others	Ending balance
	(In millions)				
Current :					
Provision for construction loss (*1)	₩ —	₩15,479	₩ —	₩—	₩ 15,479
Liabilities of greenhouse gas emissions (*2)	—	1,316	—	—	1,316
	—	16,795	—	—	16,795
Non-current :					
Provision for leased aircraft maintenance (*3)	108,913	27,980	(1,770)	—	135,123
Provision for coupon for passenger flight tickets (*4)	27,521	—	—	—	27,521
Provision for construction warranties (*5)	—	2,039	—	—	2,039
Others (*6)	6,015	535	—	(46)	6,504
	142,449	30,554	(1,770)	(46)	171,187
	₩142,449	₩47,349	₩(1,770)	₩ (46)	₩187,982

	Translation into U.S. dollars (Note 2)				
	Beginning balance	Charged to income or loss	Utilization	Others	Ending balance
	(In thousands)				
Current :					
Provision for construction loss (*1)	$ —	$12,808	$ —	$—	$ 12,808
Liabilities of greenhouse gas emissions (*2)	—	1,089	—	—	1,089
	—	13,897	—	—	13,897
Non-current :					
Provision for leased aircraft maintenance (*3)	90,123	23,152	(1,464)	—	111,811
Provision for coupon for passenger flight tickets (*4)	22,772	—	—	—	22,772
Provision for construction warranties (*5)	—	1,687	—	—	1,687
Others (*6)	4,978	442	—	(38)	5,382
	117,873	25,281	(1,464)	(38)	141,652
	$117,873	$39,178	$(1,464)	$ (38)	$155,549

(*1) The Group includes expected future construction loss of aerospace segment as provision for construction loss and reflects provision for construction loss in the amount due from customers for contract work or amount due to customers for contract work (see Note 46).
(*2) The Group has recognized provisions for Greenhouse gases emission cost by measuring the expected quantity of emission of the performing period in excess of emission allowance in possession at the end of the reporting period. Meanwhile, the Group borrowed the shortage of emission allowance of last year from that of this year and submitted it to the government.
(*3) The Group has maintenance obligations related to the operating leases. In order to fulfill the obligations, the Group has recognized a provision for leased aircraft maintenance by estimating future maintenance costs as it is probable that an outflow of resources embodying economic benefits will be required to settle the obligations (see Note 43).
(*4) The Group agreed to distribute $26,000 thousand in flight ticket coupons to the plaintiff in relation to the U.S. court class action on airline ticket price collusion of flights to America, and has recognized ₩29,624 million ($24,513 thousand) as a provision for passenger flight ticket coupons as of December 31, 2016 (see Note 45).
(*5) The Group has recognized provisions for the maintenance expenses expected to incur from aerospace segment's sales.
(*6) The Group has recognized ₩6,632 million ($5,488 thousand) as a provision for the restoration of forest due to the production of limestone, and is provided with performance guarantees by Seoul Guarantee Insurance Company (see Note 45).

26. DEFERRED REVENUE (Customer Loyalty Program):

The Group manages its frequent flyer program, "SKYPASS," a customer loyalty program that provides incentives through accrued mileage, such as bonus flight tickets and seat class upgrades, in addition to other benefits to customers and its alliance companies. The Group allocates the fair value of the consideration received in respect of the sales into the award credits and service revenue. The award credits' portion of sales price is not recognized as revenue, until the obligation has been performed. The Group's deferred income in connection with the SKYPASS system recognized in the consolidated statement of financial position as of December 31, 2016, amounted to ₩1,900,010 million ($1,572,205 thousand), including ₩31,722 million ($26,249 thousand) of advance receipts from customers and ₩1,868,288 million ($1,545,956 thousand) of deferred revenue.

27. DERIVATIVE INSTRUMENTS AND HEDGE ACCOUNTING:

(1) As of December 31, 2016, the Group entered into derivative agreements with KDB and six other financial institutions for hedging purpose, and derivatives as of December 31, 2016, consist of the following:

Type of transactions	Accounting Policy	Maturity	Contract amount	
Interest rate swaps	Trading	2019.09.26	EUR	190,000 thousand
Cross-currency interest rate swaps	Trading	2023.06.12	JPY	30,821,138 thousand
	Trading	2017.11.02	KRW	230,000,000 thousand

(2) Impact on the consolidated financial statements in relation to derivatives as of and for the year ended December 31, 2016, is as follows:

	Korean won					
	Consolidated statement of financial position		Consolidated statement of comprehensive loss			
Derivative instruments	Financial derivative assets	Financial derivative liabilities	Valuation gain	Valuation loss	Transaction gain	Transaction loss
	(In millions)					
Oil price option	₩—	₩ —	₩—	₩ —	₩17,469	₩10,497
Interest rate swaps	27	153	27	153	20	25
Cross-currency interest rate swaps	—	39,572	—	18,015	1,275	6,584
TRS (*)	—	—	—	41,593	—	74,959
	₩ 27	₩39,725	₩ 27	₩59,761	₩18,764	₩92,065

	Translation into U.S. dollars (Note 2)					
	Consolidated statement of financial position		Consolidated statement of comprehensive loss			
Derivative instruments	Financial derivative assets	Financial derivative liabilities	Valuation gain	Valuation loss	Transaction gain	Transaction loss
	(In thousands)					
Oil price option	$—	$ —	$—	$ —	$14,455	$ 8,686
Interest rate swaps	22	127	22	127	17	21
Cross-currency interest rate swaps	—	32,744	—	14,907	1,055	5,448
TRS (*)	—	—	—	34,416	—	62,027
	$ 22	$32,871	$ 22	$49,450	$15,527	$76,182

(*) The Group has entered into a total return swap ("TRS") contract based on the future value of Hanjin Shipping Co., Ltd.'s perpetual exchangeable bond in 30-year maturities and the contract was fully settled for the year ended December 31, 2016.

28. OTHER LIABILITIES:

Other liabilities as of December 31, 2016 and 2015, consist of the following:

	Korean won			
	2016		2015	
	Current	Non-current	Current	Non-current
	(In millions)			
Advances	₩1,068,867	₩ —	₩ 919,132	₩ —
Withholdings	100,313	63,786	111,564	53,357
Unearned revenues	402,563	—	367,624	—
Others	—	12,705	1,026	6,834
	₩1,571,743	₩76,491	₩1,399,346	₩60,191

	Translation into U.S. dollars (Note 2)			
	2016		2015	
	Current	Non-current	Current	Non-current
	(In thousands)			
Advances	$ 884,458	$ —	$ 760,556	$ —
Withholdings	83,006	52,781	92,316	44,151
Unearned revenues	333,109	—	304,199	—
Others	—	10,513	849	5,655
	$1,300,573	$63,294	$1,157,920	$49,806

29. CAPITAL STOCK:

(1) Capital stock as of December 31, 2016 and 2015 consists of the following:

	Number of shares authorized	Number of shares issued	Par value	Korean won		Translation into U.S. dollars (Note 2)	
				2016	2015	2016	2015
				(In millions)		(In thousands)	
Common stock	250,000,000	72,839,744	₩5,000	₩364,199	₩364,199	$301,364	$301,364
Preferred stock (*1)		1,110,794	₩5,000	5,554	5,554	4,596	4,596
	250,000,000	73,950,538		₩369,753	₩369,753	$305,960	$305,960

(*1) As the non-voting preferred stock, in case of cash dividends, it gets additional 1% more dividends than common stock. If the Company cannot pay dividends, the preferred stock gets voting right from the resolution of the next general meeting of shareholders that the Company does not pay dividends until the resolution of the general meeting of shareholders that the Company pays dividends.

(2) Changes in number of stocks issued for the years ended December 31, 2016 and 2015 are as follows:

	2016		2015	
	Common stock	Preferred stock	Common stock	Preferred stock
Beginning balance	72,839,744	1,110,794	58,675,438	1,110,794
Paid-in capital increase	—	—	14,164,306	—
Ending balance	72,839,744	1,110,794	72,839,744	1,110,794

30. OTHER CAPITAL SURPLUS:

(1) Other capital surplus as of December 31, 2016 and 2015 consists of the following:

	Korean won		Translation into U.S. dollars (Note 2)	
	2016	2015	2016	2015
	(In millions)		(In thousands)	
Additional paid-in capital	₩ 602,855	₩602,855	$498,846	$498,846
Other capital	595,519	214,928	492,775	177,847
	₩1,198,374	₩817,783	$991,621	$676,693

(2) Changes in additional paid-in capital for the years ended December 31, 2016 and 2015 are as follows:

	Korean won		Translation into U.S. dollars (Note 2)	
	2016	2015	2016	2015
	(In millions)		(In thousands)	
Beginning balance	₩602,855	₩174,907	$498,846	$144,731
Paid-in capital increase (*)	—	423,381	—	350,336
Others	—	4,567	—	3,779
Ending balance	₩602,855	₩602,855	$498,846	$498,846

(*) 14,164,306 common shares were issued for the year ended December 31, 2015.

(3) Changes in other capital for the years ended December 31, 2016 and 2015 are as follows:

	Korean won		Translation into U.S. dollars (Note 2)	
	2016	2015	2016	2015
	(In millions)		(In thousands)	
Beginning balance	₩214,928	₩(122,345)	$177,847	$(101,237)
Transfer of loss on capital reduction	377,086	—	312,028	—
Issuance of hybrid securities	—	341,551	—	282,624
Others	3,505	(4,278)	2,900	(3,540)
Ending balance	₩595,519	₩ 214,928	$492,775	$ 177,847

(4) Hybrid securities as of December 31, 2016 and 2015 consist of the following:

	Date of issue	Maturity	Interest rate	Korean won		Translation into U.S. dollars (Note 2)	
				2016	2015	2016	2015
				(In millions)		(In thousands)	
Unsecured bearer debenture (*1)	2013-06-28	2043-06-28	6.40%	₩208,860	₩208,860	$172,826	$172,826
Registered guaranteed debenture (*2)	2015-11-25	2045-11-25	2.50%	341,551	341,551	282,624	282,624
				₩550,411	₩550,411	$455,450	$455,450

(*1) The interest rate is 6.40% for five years after issuance, and the increased interest rate (6.40% + 3.50% + (benchmark yield after five years from the date of issue -3.32%)) is applied after the five years.
The Company can exercise the right of early repayment every year after five years of the hybrid securities' issuance. If notice of willingness to extend maturity is given one month prior to the maturity date, maturity can be extended for 30 years under the same condition. In addition, the Company can choose not to pay the interest on hybrid securities based on the decision to extend maturity. However, the Company cannot suspend payment of the interest if the decision on stock dividend, purchase and redemption of stocks and profit retirement occurred in the last 12 months.

(*2) The interest rate is 2.5% for three years after issuance, and 4.0% from four to five years after issuance. After the five years, the increased interest rate (6.5% + 3.0%) is applied. The Company can exercise the right of early repayment every six months after three years of the securities' issuance. If notice of willingness to extend maturity is given one month prior to the maturity date, maturity can be extended for 30 years under the same condition. In addition, the Company can choose not to pay the interest on securities based on the decision to extend maturity. However, the Company cannot suspend payment of the interest if the decision on stock dividend, purchase and redemption of stocks and profit retirement occurred in the last 12 months.

31. RETAINED EARNINGS (DEFICIT) AND DIVIDENDS:

(1) Retained earnings (deficit) as of December 31, 2016 and 2015 consist of the following:

	Korean won		Translation into U.S. dollars (Note 2)	
	2016	2015	2016	2015
	(In millions)		(In thousands)	
Legal reserve:				
Legal appropriated retained earnings (*)	₩ 3,452	₩ 3,452	$ 2,857	$ 2,857
Voluntary reserve:				
Facility reserve	200,000	200,000	165,494	165,494
Unappropriated retained earnings (Undisposed accumulated deficit)	(396,329)	590,813	(327,951)	488,881
	₩(192,877)	₩794,265	$(159,600)	$657,232

(*) The Korean Commercial Code requires the Company to appropriate as legal reserve an amount equal to at least 10% of cash dividends paid for each accounting period, until the reserve equals 50% of the stated capital. The legal reserve may be used to reduce a deficit or transferred to capital stock.

(2) Changes in retained earnings for the years ended December 31, 2016 and 2015 are as follows:

	Korean won		Translation into U.S. dollars (Note 2)	
	2016	2015	2016	2015
	(In millions)		(In thousands)	
Beginning balance	₩ 794,265	₩1,389,468	$ 657,232	$1,149,746
Net loss	(564,882)	(564,977)	(467,424)	(467,503)
Other comprehensive income (loss)	(37,252)	(72,765)	(30,825)	(60,211)
Dividend from hybrid securities	(21,364)	(14,347)	(17,678)	(11,872)
Liquidation of Hanjin Energy Co., Ltd.	—	51,636	—	42,727
Change in retained earnings of associates and subsidiaries	14,997	—	12,410	—
Transfer of loss on capital reduction	(377,086)	—	(312,028)	—
Others	(1,555)	5,250	(1,288)	4,345
Ending balance	₩(192,877)	₩ 794,265	$(159,601)	$ 657,232

(3) There is no dividend payment (except for the dividend from hybrid securities) for the years ended December 31, 2016 and 2015.

32. OTHER CAPITAL COMPONENTS:

(1) Other capital components as of December 31, 2016 and 2015 consist of the following:

	Korean won		Translation into U.S. dollars (Note 2)	
	2016	2015	2016	2015
	(In millions)		(In thousands)	
Gain on valuation of AFS financial assets, net	₩ 40,120	₩ 46,383	$ 33,198	$ 38,381
Change in retained earnings – equity method – accounted investments	164	42,229	136	34,943
Cumulative effect of foreign currency translation	32,278	2,888	26,709	2,390
Revaluation surplus	312,874	313,811	258,895	259,670
	₩385,436	₩405,311	$318,938	$335,384

(2) Changes in other capital components for the years ended December 31, 2016 and 2015 are as follows:

	Korean won		Translation into U.S. dollars (Note 2)	
	2016	2015	2016	2015
	(In millions)		(In thousands)	
Beginning balance	₩405,311	₩411,347	$335,384	$340,378
Loss on valuation of AFS financial assets net	(6,263)	(28,847)	(5,183)	(23,870)
Change in retained earnings – equity method – accounted investments	(42,064)	13,381	(34,807)	11,073
Loss on valuation of derivatives, net	—	(1,658)	—	(1,372)
Cumulative effect of foreign currency translation	29,390	11,442	24,320	9,468
Revaluation surplus	(938)	(354)	(776)	(293)
Ending balance	₩385,436	₩405,311	$318,938	$335,384

33. SALES:

Sales classified as operating income or loss resulting from the Group's continuing operations for years ended December 31, 2016 and 2015, consist of the following:

	Korean won		Translation into U.S. dollars (Note 2)	
	2016	2015	2016	2015
	(In millions)		(In thousands)	
Air transport revenue	₩10,628,571	₩10,358,260	$8,794,846	$8,571,171
Other revenue	1,103,281	1,186,571	912,934	981,854
	₩11,731,852	₩11,544,831	$9,707,780	$9,553,025

34. SELLING AND ADMINISTRATIVE EXPENSES:

Selling and administrative expenses for the years ended December 31, 2016 and 2015 are as follows:

	Korean won		Translation into U.S. dollars (Note 2)	
	2016	2015	2016	2015
	(In millions)		(In thousands)	
Salaries	₩ 303,227	₩ 289,195	$250,912	$239,301
Retirement and severance benefits	33,275	31,735	27,534	26,260
Depreciation	12,040	11,195	9,963	9,264
Amortization	37,726	25,584	31,218	21,170
Rental	19,161	18,967	15,855	15,695
Sales commission	303,540	298,034	251,171	246,615
Advertising	106,766	105,245	88,346	87,087
Welfare	68,176	63,313	56,414	52,389
Training	8,052	8,499	6,663	7,033
Communications	21,247	24,124	17,581	19,962
Taxes and dues	20,816	21,414	17,225	17,720
Facility maintenance	13,223	8,915	10,941	7,377
Commission	161,791	160,717	133,878	132,988
Others	66,782	77,409	55,259	64,053
	₩1,175,822	₩1,144,346	$972,960	$946,914

35. FINANCIAL INCOME AND EXPENSES:

(1) Financial income for the years ended December 31, 2016 and 2015 is as follows:

	Korean won		Translation into U.S. dollars (Note 2)	
	2016	2015	2016	2015
	(In millions)		(In thousands)	
Interest income	₩28,787	₩39,999	$23,821	$33,098
Dividend income	3,865	4,263	3,198	3,527
Gain on valuation of derivatives	27	—	22	—
Gain on derivatives transaction	18,764	12,009	15,527	9,938
	₩51,443	₩56,271	$42,568	$46,563

(2) Financial expenses for the years ended December 31, 2016 and 2015 are as follows:

	Korean won		Translation into U.S. dollars (Note 2)	
	2016	2015	2016	2015
	(In millions)		(In thousands)	
Interest expense	₩406,823	₩370,661	$336,635	$306,711
Loss on valuation of derivatives	59,761	72,103	49,450	59,664
Loss on derivatives transaction	92,065	73,203	76,182	60,573
	₩558,649	₩515,967	$462,267	$426,948

36. OTHER NON-OPERATING INCOME AND EXPENSES:

(1) Other non-operating income for the years ended December 31, 2016 and 2015 consists of the following:

	Korean won		Translation into U.S. dollars (Note 2)	
	2016	2015	2016	2015
	(In millions)		(In thousands)	
Gain on foreign currency transaction	₩313,446	₩ 247,385	$259,368	$204,704
Gain on foreign currency translation	158,278	112,940	130,971	93,455
Reversal of allowance for other doubtful accounts	618	3	511	2
Gain on disposal of AFS financial asset	1,230	1,704	1,017	1,410
Gain on disposal of investments in associates	—	22	—	18
Gain on disposal of property, aircraft and equipment	26,878	5,070	22,240	4,195
Gain on disposal of assets held for sale	955	—	790	—
Gain on disposal of intangible assets	101	13	84	10
Reversal of negative goodwill	—	5,244	—	4,339
Miscellaneous income	9,452	13,533	7,823	11,200
	₩510,958	₩ 385,914	$422,804	$319,333

(2) Other non-operating expenses for the years ended December 31, 2016 and 2015 consist of the following:

	Korean won		Translation into U.S. dollars (Note 2)	
	2016	2015	2016	2015
	(In millions)		(In thousands)	
Other bad debt expenses	₩ 15,915	₩ 42,703	$ 13,169	$ 35,335
Loss on foreign currency transaction	368,953	365,642	305,298	302,559
Loss on foreign currency translation	375,854	607,521	311,009	502,706
Impairment loss on AFS financial assets	255,246	290	211,209	240
Impairment loss on investments in associates	333,798	—	276,208	—
Loss on disposal of AFS financial asset	109	—	90	—
Loss on disposal of investments in associates	8,505	—	7,037	—
Loss on disposal of property, aircraft and equipment	214,504	173,009	177,496	143,160
Loss on disposal of asset held for sale	26,836	5,234	22,206	4,331
Loss on disposal of intangible assets	1,081	124	895	103
Impairment loss on property, aircraft and equipment	72,886	72,364	60,311	59,879
Impairment loss on intangible assets	7,992	—	6,613	—
Donation	13,503	22,138	11,173	18,318
Miscellaneous loss	34,512	24,129	28,559	19,968
	₩1,729,694	₩1,313,154	$1,431,273	$1,086,599

37. INCOME TAX BENEFIT:

(1) Income tax benefit for the years ended December 31, 2016 and 2015 is as follows:

	Korean won		Translation into U.S. dollars (Note 2)	
	2016	2015	2016	2015
	(In millions)		(In thousands)	
Current income tax expense	₩ 24,177	₩ 9,697	$ 20,006	$ 8,024
± Changes in deferred taxes due to temporary differences (*)	(182,049)	(39,692)	(150,640)	(32,844)
± Tax loss carryforward (**)	(16,206)	(80,973)	(13,410)	(67,003)
Total amount of income tax effect	(174,078)	(110,968)	(144,044)	(91,823)
± Items recorded directly in equity	13,522	25,474	11,189	21,079
Income tax benefit	₩(160,556)	₩ (85,494)	$(132,855)	$ (70,744)
(*) Temporary differences – deferred tax assets at the end of the year	656,576	474,527	543,298	392,658
Temporary differences – deferred tax assets at the beginning of the year	474,527	434,835	392,658	359,814
Changes in deferred taxes due to temporary differences	(182,049)	(39,692)	(150,640)	(32,844)
(**) Tax loss carryforward – deferred tax assets at the end of the year	425,005	408,799	351,680	338,270
Tax loss carryforward – deferred tax assets at the beginning of the year	408,799	327,826	338,270	271,267
Changes in deferred taxes due to tax loss carryforward	₩ (16,206)	₩ (80,973)	$ (13,410)	$ (67,003)

(2) Reconciliation between loss before income tax benefit and income tax benefit for the years ended December 31, 2016 and 2015 is as follows:

	Korean won		Translation into U.S. dollars (Note 2)	
	2016	2015	2016	2015
	(In millions)		(In thousands)	
Loss before income tax benefit	₩(717,400)	₩(486,363)	$(593,628)	$(402,452)
Assessed tax on the applicable rates	(157,850)	(117,700)	(130,616)	(97,393)
Adjustments:				
Non-temporary differences	4,550	(19,576)	3,765	(16,199)
Tax credits	(6,830)	17,299	(5,652)	14,315
Others	(426)	34,483	(352)	28,533
Income tax benefit	₩(160,556)	₩ (85,494)	$(132,855)	$ (70,744)
Effective tax rate (%) (*)	—	—	—	—

(*) The effective tax rate was not computed due to net loss before income tax benefit for the year ended December 31, 2016 and 2015.

(3) Changes in temporary differences and deferred income tax assets (liabilities) as of and for the years ended December 31, 2016 and 2015 are as follows:

Description	Korean won		
	Beginning balance (*)	Increase (decrease) (*)	Ending balance
		(In millions)	
Temporary differences:			
Defined benefit obligations	₩ 937,309	₩161,100	₩1,098,409
Provision for leased aircraft maintenance	135,124	6,507	141,631
Depreciation and amortization	118,312	(76,439)	41,873
Deferred revenue	1,745,915	153,998	1,899,913
Gain from assets contributed	3,156	—	3,156
Gain (loss) on foreign currency translation	7,785	(7,785)	—
Accrued expenses	90,337	11,074	101,411
Guaranteed loans	(2,372)	1,771	(601)
Gain on valuation of AFS financial assets	(62,751)	9,883	(52,868)
Gain on revaluation of land	(751,841)	6	(751,835)
Gain on valuation of derivatives	54,021	(37,731)	16,290
Gain on revaluation of assets	(97,311)	—	(97,311)
Others	204,425	539,261	743,686
	₩2,382,109	₩761,645	₩3,143,754
Tax loss carryforward	1,603,345	39,146	1,642,491
Tax credits	47,709	(3,895)	43,814
Deferred tax assets	883,326	198,255	1,081,581

Description	Translation into U.S. dollars (Note 2)		
	Beginning balance (*)	Increase (decrease) (*)	Ending balance
		(In thousands)	
Temporary differences:			
Defined benefit obligation	$ 775,597	$133,306	$ 908,903
Provision for leased aircraft maintenance	111,811	5,385	117,196
Depreciation and amortization	97,900	(63,251)	34,649
Deferred revenue	1,444,696	127,429	1,572,125
Gain from assets contributed	2,611	—	2,611
Gain (loss) on foreign currency translation	6,442	(6,442)	—
Accrued expenses	74,751	9,163	83,914
Guaranteed loans	(1,963)	1,466	(497)
Gain on valuation of AFS financial assets	(51,925)	8,178	(43,747)
Gain on revaluation of land	(622,128)	5	(622,123)
Gain on valuation of derivatives	44,701	(31,221)	13,480
Gain on revaluation of assets	(80,522)	—	(80,522)
Others	169,156	446,223	615,379
	$1,971,127	$630,241	$2,601,368
Tax loss carryforward	1,326,724	32,392	1,359,116
Tax credits	39,478	(3,223)	36,255
Deferred tax assets	730,928	164,050	894,978

(*) Beginning temporary differences include temporary differences recognized as deferred income tax assets (liabilities) as of December 31, 2015 and 2014, which has been partially adjusted during actual tax adjustments for the years ended December 31, 2016 and 2015. Therefore, the Group reflected the aforementioned adjustment in the change in temporary differences for the years ended December 31, 2016 and 2015.

(4) Deferred income tax expense directly adjusted to shareholders' equity as of December 31, 2016 consists of the following:

	Korean won	Translation into U.S. dollars (Note 2)
	(In millions)	(In thousands)
Gain on valuation of AFS financial assets	₩ 1,505	$ 1,246
Remeasurement of the net defined benefit liabilities	8,231	6,811
Revaluation surplus	72	59
	9,808	8,116
Deferred income tax expense directly adjusted to non-controlling interests	3,714	3,073
	₩13,522	$11,189

(5) Deductible temporary differences, tax loss and unused tax credits, not recognized as deferred tax assets as of December 31, 2016 are as follows:

	Korean won	Translation into U.S. dollars (Note 2)
	(In millions)	(In thousands)
Investment in subsidiaries and associates and gains from assets contributed	₩285,031	$235,856
Unused tax credits	16,029	13,264
	₩301,060	$249,120

(6) The expiration date of unused tax credits not recognized as deferred tax assets as of December 31, 2016 consists of the following:

	Korean won	Translation into U.S. dollars (Note 2)
	(In millions)	(In thousands)
Within 1 year	₩ 9,085	$ 7,518
1 – 2 years	6,944	5,746
	₩16,029	$13,264

38. CLASSIFICATION OF EXPENSES BY NATURE:

Expenses classified by nature for years ended December 31, 2016 and 2015, consist of the following:

	Korean won		Translation into U.S. dollars (Note 2)	
	2016	2015	2016	2015
	(In millions)		(In thousands)	
Salaries and retirement benefit costs	₩ 1,777,849	₩ 1,768,158	$1,471,120	$1,463,101
Welfare	336,675	322,881	278,589	267,175
Depreciation and amortization	1,751,508	1,650,925	1,449,324	1,366,094
Rental	296,949	229,363	245,717	189,792
Fuel and oil charges	2,175,787	2,667,106	1,800,403	2,206,955
Airport-related costs	1,096,024	1,024,198	906,930	847,495
Sales commission	303,540	298,034	251,171	246,615
Others	2,872,711	2,701,078	2,377,088	2,235,067
	₩10,611,043	₩10,661,743	$8,780,342	$8,822,294

(*) The amount is the sum of cost of sales and selling and administrative expenses from continuing operation of consolidated statements of comprehensive income (loss).

39. LOSS PER SHARE:

Basic loss per share for years ended December 31, 2016 and 2015, is as follows (in millions of Korean won and in thousands of U.S. dollars, except for share data and loss per share):

(1) Common shares

	Korean won		Translation into U.S. dollars (Note 2)	
	2016	2015	2016	2015
	(In millions)		(In thousands)	
Loss attributable to owners of the parent company:	₩ (564,882)	₩ (564,977)	$ (467,424)	$ (467,503)
Continuing operation	(564,882)	(405,115)	(467,424)	(335,222)
Discontinued operation	—	(159,862)	—	(132,281)
Loss attributable to common shares:	(556,452)	(556,238)	(460,448)	(460,272)
Continuing operation	(556,452)	(398,825)	(460,448)	(330,017)
Discontinued operation	—	(157,413)	—	(130,255)
Weighted-average number of common shares outstanding	72,839,744	69,812,851	72,839,744	69,812,851
Loss per common share (*):	(7,639)	(7,968)	(6)	(7)
Continuing operation	(7,639)	(5,713)	(6)	(5)
Discontinued operation	—	(2,255)	—	(2)

(*) Diluted loss per share for years ended December 31, 2016 and 2015, is the same as the basic loss per share, as there are no dilutive potential common shares and dilutive effect.

(2) Preferred shares

	Korean won		Translation into U.S. dollars (Note 2)	
	2016	2015	2016	2015
Loss attributable to owners of the parent company:	₩ (8,430)	₩ (8,739)	$ (6,976)	$ (7,232)
Continuing operation	(8,430)	(6,290)	(6,976)	(5,205)
Discontinued operation	—	(2,449)	—	(2,027)
Weighted-average number of preferred shares outstanding	1,110,794	1,110,794	1,110,794	1,110,794
Loss per preferred share:	(7,589)	(7,868)	(6)	(7)
Continuing operation	(7,589)	(5,663)	(6)	(5)
Discontinued operation	—	(2,205)	—	(2)

(3) The contents of weighted-average common shares for the years ended December 31, 2016 and 2015, are as follows:

	Number of shares	
	2016	2015
Cumulative number of weighted-average common shares	26,659,346,304	25,481,690,692
Cumulative number of weighted-average preferred shares	406,550,604	405,439,810
Number of days	366	365
Weighted-average number of common shares outstanding	72,839,744	69,812,851
Weighted-average number of preferred shares outstanding	1,110,794	1,110,794

40. FINANCIAL RISK MANAGEMENT:

(1) Capital risk management

The Group manages its capital in order to maintain the ability to continuously provide profits to its shareholders and interest parties and optimum capital structure to reduce capital expenses. In order to maintain such optimum, the Group adjusts dividend payments, redeems paid-in capital to shareholders and issues stocks to reduce liabilities or sell assets.

Like other entities in the field in which the Group operates, the Group manages its capital based on the ratio of net debt to total equity. Net debt refers to total borrowings (including obligation under finance leases as presented in the consolidated statement of financial position) less cash and cash equivalents and short-term financial assets and total equity refers to capital presented in the statement of financial position, plus net debt.

The Group's net debt to total equity ratio as of December 31, 2016 and 2015 is as follows:

	Korean won		Translation into U.S. dollars (Note 2)	
	2016	2015	2016	2015
	(In millions)		(In thousands)	
Total borrowings	₩16,284,885	₩16,168,026	$13,475,287	$13,378,590
Less: cash and cash equivalents and short-term financial instruments	1,266,841	1,079,469	1,048,275	893,231
Net debt	15,018,044	15,088,557	12,427,012	12,485,359
Capital	1,874,350	2,499,035	1,550,972	2,067,882
Total equity	₩16,892,394	₩17,587,592	$13,977,984	$14,553,241
Net debt to total equity ratio	88.90%	85.79%	88.90%	85.79%

(2) Significant accounting policies and methods (recognition criteria, measurement standards, including recognition criteria for revenue and expenses) adopted by the Group regarding financial assets, financial liabilities and shareholders' equity are disclosed in detail in Note 2 and 3.

(3) The carrying amounts on category of the financial assets and liabilities as of December 31, 2016 and 2015 are as follows:

1) Financial assets

2016

Description	Korean won				
	Loans and receivables	Financial assets at FVTPL	Held-to-maturity financial assets	AFS financial assets	Total
			(In millions)		
Cash and cash equivalents	₩1,089,927	₩—	₩ —	₩ —	₩1,089,927
Short and long-term financial instruments	222,865	—	—	—	222,865
Held-to-maturity financial assets	—	—	1,130	—	1,130
AFS financial assets	—	—	—	219,456	219,456
Trade and other receivables	727,152	—	—	—	727,152
Financial derivative assets	—	27	—	—	27
Finance lease receivables	68,419	—	—	—	68,419
Other financial assets	329,751	—	—	—	329,751
	₩2,438,114	₩ 27	₩1,130	₩219,456	₩2,658,727

	Translation into U.S. dollars (Note 2)				
Description	Loans and receivables	Financial assets at FVTPL	Held-to-maturity financial assets	AFS financial assets	Total
			(In thousands)		
Cash and cash equivalents	$ 901,884	$—	$—	$ —	$ 901,884
Short and long-term financial instruments	184,414	—	—	—	184,414
Held-to-maturity financial assets	—	—	935	—	935
AFS financial assets	—	—	—	181,594	181,594
Trade and other receivables	601,698	—	—	—	601,698
Financial derivative assets	—	22	—	—	22
Finance lease receivables	56,615	—	—	—	56,615
Other financial assets	272,860	—	—	—	272,860
	$2,017,471	$ 22	$935	$181,594	$2,200,022

2015

	Korean won			
Description	Loans and receivables	Held-to-maturity financial assets	AFS financial assets	Total
		(In millions)		
Cash and cash equivalents	₩ 967,481	₩—	₩ —	₩ 967,481
Short and long-term financial instruments	227,243	—	—	227,243
Held-to-maturity financial assets	—	971	—	971
AFS financial assets	—	—	172,173	172,173
Trade and other receivables	951,464	—	—	951,464
Finance lease receivables	33,839	—	—	33,839
Other financial assets	330,675	—	—	330,675
	₩2,510,702	₩971	₩172,173	₩2,683,846

	Translation into U.S. dollars (Note 2)			
Description	Loans and receivables	Held-to-maturity financial assets	AFS financial assets	Total
		(In thousands)		
Cash and cash equivalents	$ 800,564	$—	$ —	$ 800,564
Short and long-term financial instruments	188,037	—	—	188,037
Held-to-maturity financial assets	—	804	—	804
AFS financial assets	—	—	142,469	142,469
Trade and other receivables	787,310	—	—	787,310
Finance lease receivables	28,001	—	—	28,001
Other financial assets	273,625	—	—	273,625
	$2,077,537	$804	$142,469	$2,220,810

2) Financial liabilities

2016

Description	Korean won		
	Financial liabilities at FVTPL	Financial liabilities recognized at amortized cost	Total
		(In millions)	
Trade and other payables	₩ —	₩ 862,555	₩ 862,555
Borrowings	—	5,356,011	5,356,011
Debentures	—	2,440,078	2,440,078
Financial derivative liabilities	39,725	—	39,725
Finance lease obligations	—	8,488,795	8,488,795
	₩39,725	₩17,147,439	₩17,187,164

Description	Translation into U.S. dollars (Note 2)		
	Financial liabilities at FVTPL	Financial liabilities recognized at amortized cost	Total
		(In thousands)	
Trade and other payables	$ —	$ 713,740	$ 713,740
Borrowings	—	4,431,949	4,431,949
Debentures	—	2,019,097	2,019,097
Financial derivative liabilities	32,871	—	32,871
Finance lease obligations	—	7,024,241	7,024,241
	$32,871	$14,189,027	$14,221,898

2015

Description	Korean won		
	Financial liabilities at FVTPL	Financial liabilities recognized at amortized cost	Total
		(In millions)	
Trade and other payables	₩ —	₩ 898,891	₩ 898,891
Borrowings	—	5,006,321	5,006,321
Debentures	—	2,771,870	2,771,870
Financial derivative liabilities	69,781	—	69,781
Finance lease obligations	—	8,389,834	8,389,834
	₩69,781	₩17,066,916	₩17,136,697

Description	Translation into U.S. dollars (Note 2)		
	Financial liabilities at FVTPL	Financial liabilities recognized at amortized cost	Total
		(In thousands)	
Trade and other payables	$ —	$ 743,807	$ 743,807
Borrowings	—	4,142,591	4,142,591
Debentures	—	2,293,645	2,293,645
Financial derivative liabilities	57,742	—	57,742
Finance lease obligations	—	6,942,354	6,942,354
	$57,742	$14,122,397	$14,180,139

(4) Income or loss (net income or loss from continuing operations before tax effect) by category of financial instruments for the years ended December 31, 2016 and 2015 is as follows:

1) Financial assets

2016

	Korean won				
Description	Loans and receivables	Financial assets at FVTPL	Held-to-maturity financial assets	AFS financial assets	Total
			(In millions)		
Interest income	₩ 17,544	₩—	₩ 24	₩ 11,219	₩ 28,787
Dividend income	—	—	—	3,865	3,865
Reversal of allowance for other doubtful accounts	(17,200)	—	—	—	(17,200)
Gain on foreign currency translation, net	43,057	—	—	—	43,057
Gain on valuation of derivatives, net	—	27	—	—	27
Loss on valuation of AFS financial assets, net (before income tax)	—	—	—	(8,960)	(8,960)
Impairment loss on AFS financial assets	—	—	—	(255,246)	(255,246)
Gain on disposal of AFS financial assets	—	—	—	1,121	1,121
	₩ 43,401	₩ 27	₩ 24	₩(248,001)	₩(204,549)

	Translation into U.S. dollars (Note 2)				
Description	Loans and receivables	Financial assets at FVTPL	Held-to-maturity financial assets	AFS financial assets	Total
			(In thousands)		
Interest income	$ 14,518	$—	$ 20	$ 9,283	$ 23,821
Dividend income	—	—	—	3,198	3,198
Reversal of allowance for other doubtful accounts	(14,233)	—	—	—	(14,233)
Gain on foreign currency translation, net	35,628	—	—	—	35,628
Gain on valuation of derivatives, net	—	22	—	—	22
Loss on valuation of AFS financial assets, net (before income tax)	—	—	—	(7,414)	(7,414)
Impairment loss on AFS financial assets	—	—	—	(211,209)	(211,209)
Gain on disposal of AFS financial assets	—	—	—	927	927
	$ 35,913	$ 22	$ 20	$(205,215)	$(169,260)

2015

Description	Korean won			
	Loans and receivables	Held-to-maturity financial assets	AFS financial assets	Total
	(In millions)			
Interest income	₩ 42,577	₩ 53	₩ 161	₩ 42,791
Dividend income	—	—	4,263	4,263
Bad debt expenses	(42,338)		—	(42,338)
Gain on foreign currency translation, net	34,437	—	—	34,437
Loss on valuation of AFS financial assets, net	—	—	(37,759)	(37,759)
Impairment loss on AFS financial assets	—	—	(290)	(290)
Gain on disposal of AFS financial assets (before income tax)	—	—	1,704	1,704
	₩ 34,676	₩ 53	₩(31,921)	₩ 2,808

Description	Translation into U.S. dollars (Note 2)			
	Loans and receivables	Held-to-maturity financial assets	AFS financial assets	Total
	(In thousands)			
Interest income	$ 35,231	$ 44	$ 133	$ 35,408
Dividend income	—	—	3,527	3,527
Bad debt expenses	(35,033)	—	—	(35,033)
Gain on foreign currency translation, net	28,496	—	—	28,496
Loss on valuation of AFS financial assets, net	—	—	(31,244)	(31,244)
Impairment loss on AFS financial assets	—	—	(240)	(240)
Gain on disposal of AFS financial assets (before income tax)	—	—	1,410	1,410
	$ 28,694	$ 44	$(26,414)	$ 2,324

2) Financial liabilities

2016

Description	Korean won		
	Financial liabilities at FVTPL	Financial liabilities recognized at amortized cost	Total
	(In millions)		
Interest expense	₩ —	₩(406,823)	₩(406,823)
Gain (loss) on foreign currency translation, net	22,925	(260,633)	(237,708)
Loss on valuation of derivatives	(59,761)	—	(59,761)
Gain on derivative transactions	18,764	—	18,764
Loss on derivative transactions	(92,065)	—	(92,065)
	₩(110,137)	₩(667,456)	₩(777,593)

Description	Translation into U.S. dollars (Note 2)		
	Financial liabilities at FVTPL	Financial liabilities recognized at amortized cost	Total
		(In thousands)	
Interest expense	$ —	$(336,635)	$(336,635)
Gain (loss) on foreign currency translation, net	18,970	(215,667)	(196,697)
Loss on valuation of derivatives	(49,450)	—	(49,450)
Gain on derivative transactions	15,527	—	15,527
Loss on derivative transactions	(76,182)	—	(76,182)
	$(91,135)	$(552,302)	$(643,437)

2015

Description	Korean won		
	Financial liabilities at FVTPL	Financial liabilities recognized at amortized cost	Total
		(In millions)	
Interest expense	₩ —	₩(372,441)	₩ (372,441)
Loss on foreign currency translation, net	(743)	(533,870)	(534,613)
Loss on valuation of derivatives	(72,104)	—	(72,104)
Loss on derivative transactions	(61,194)	—	(61,194)
	₩(134,041)	₩(906,311)	₩(1,040,352)

Description	Translation into U.S. dollars (Note 2)		
	Financial liabilities at FVTPL	Financial liabilities recognized at amortized cost	Total
		(In thousands)	
Interest expense	$ —	$(308,184)	$(308,184)
Loss on foreign currency translation, net	(615)	(441,762)	(442,377)
Loss on valuation of derivatives	(59,664)	—	(59,664)
Loss on derivative transactions	(50,636)	—	(50,636)
	$(110,915)	$(749,946)	$(860,861)

(5) Financial risk management

1) Purpose of managing financial risk

The financial sector manages the Group's business and organizes the approach to the domestic and international financial markets. Furthermore, it monitors and manages the financial risk related to the Group's business through internal risk reports, which analyze the scope and scale of each risk. These risks include the market risk (including currency risk, interest rate risk, oil price fluctuation risk and price risk), credit risk and liquidity risk.

The Group tries to minimize the impact of these risks by using derivative instruments for risk aversion. Use of derivatives is determined on the basis of the policy of the Group approved by the Board of Directors, but, by this, documented principles about foreign exchange risk, interest rate risk, credit risk, use of non-derivative financial instruments and derivative financial instruments, and the investment of excess liquidity are provided. Internal auditor reviews the compliance with the policy and limitations of risk consistently. The Group does not make and transact the financial instrument contract, including derivatives, for speculative purposes.

Finance sector is reporting on a quarterly basis to the Risk Management Committee, an independent organization to monitor the risk and policy in order to reduce the degree of risk.

2) Market risk

The Group is mainly exposed to financial risks, such as foreign exchange rate risk, interest rate risk and oil price risk. Therefore, the Group made a contract for derivative instruments.

a) Foreign exchange risk management

The Group is exposed to various foreign currency risks since it makes transactions in foreign currencies. By using the currency option contracts, the Group manages the degree of risk exposure due to the changes in exchange rates within the limit decided in the policy that has been approved.

The carrying amounts of the Group’s foreign currency denominated monetary assets and monetary liabilities as of December 31, 2016 and 2015 are as follows:

	Korean won			
	Assets		Liabilities	
	2016	2015	2016	2015
	(In millions)			
USD	₩ 917,259	₩ 968,342	₩ 9,932,407	₩10,811,335
JPY	249,277	155,163	847,589	809,684
Others	296,832	266,216	1,313,886	768,818
	₩1,463,368	₩1,389,721	₩12,093,882	₩12,389,837

	Translation into U.S. dollars (Note 2)			
	Assets		Liabilities	
	2016	2015	2016	2015
	(In thousands)			
USD	$ 759,007	$ 801,276	$ 8,218,790	$ 8,946,078
JPY	206,270	128,393	701,356	669,991
Others	245,621	220,286	1,087,204	636,176
	$1,210,898	$1,149,955	$10,007,350	$10,252,245

a-1) Foreign currency sensitivity analysis

The Group is mainly exposed to the risk on USD, JPY and other currencies (EUR, CNY and others).

The Group’s sensitivity to a 10% increase or decrease and in KRW (functional currency of the Group) against the foreign currencies as of December 31, 2016 and 2015 is presented in the table below. The sensitivity rate used in reporting foreign currency risk internally to key management personnel is 10% and it represents management’s assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period-end for a 10% change in foreign currency rates. A positive number below indicates an increase in income (loss) before income tax expense and other equity where the KRW is strengthening 10% against the relevant currency. For a 10% weakness of KRW against the relevant currency, there would be an equal and opposite impact on the income (loss) before income tax expense and other equity.

	Korean won					
	USD		JPY		Others	
	2016	2015	2016	2015	2016	2015
	(In millions)					
Net income (loss) before income tax expense (*)	₩901,515	₩984,299	₩59,831	₩65,452	₩101,705	₩50,260

	Translation into U.S. dollars (Note 2)					
	USD		JPY		Others	
	2016	2015	2016	2015	2016	2015
	(In thousands)					
Net income (loss) before income tax expense (*)	$745,978	$814,480	$49,509	$54,160	$84,158	$41,589

(*) Increase (decrease) is mainly due to exchange rate fluctuations of USD, JPY currency receivables and payables as of December 31, 2016 and 2015.

b) Interest risk management

The Group has borrowed funds in fixed and floating interest rate; therefore, the Group is exposed to interest rate risk. In order to manage interest rate risk, the Group maintains the proper balance between floating rate borrowings and fixed-rate borrowings, or the Group has entered into interest rate swap contracts. In order to appropriately adjust to situation of interest and the defined tendency of risk, the risk aversion activity is evaluated periodically and optimal hedging strategy is applied.

The exposure degree of interest rate risk for financial assets and liabilities is described in more detail in the footnotes of liquidity risk management.

b-1) Interest sensitivity analysis

The sensitivity analyses above have been determined based on the exposure to interest rates for both derivative and non-derivative instruments at the end of the reporting period. For floating rate financial assets and liabilities, the analysis is prepared assuming the amount of the financial assets and liabilities outstanding at the end of the reporting period was outstanding for whole year. The sensitivity rate used in reporting interest risk internally to key management personnel is 50 bp and it represents management's assessment of the reasonable possible change in interest rates.

The Group's sensitivity to a 50 bp change in interest rates on net income when all other variables are fixed, as of December 31, 2016 and 2015 is as follows:

- The Group's net loss will increase (decrease) to ₩52,874 million ($43,752 thousand) (prior year ₩53,637 million ($44,383 thousand)), and it is mainly due to the interest rate risk of floating rate borrowings.

b-2) Interest rate swap contracts

On the basis of the interest rate swap agreement, the Group will exchange the balance that is calculated by applying the difference between fixed-rate and floating rate interest of the nominal principal that is determined in advance. These contracts will reduce the risk of changes in fair value of the fixed-rate liabilities and cash flows of floating rate liabilities with the Group attributable to changes in interest rates. The fair value of the interest rate swap is determined by discounting the future cash flows estimated using the credit risk that is inherent in the contract with the yield curve as of December 31, 2016 and it is disclosed in the following table. The average interest rate is determined based on the outstanding balance as of December 31, 2016.

The interest rate swap outstanding as of December 31, 2016 and 2015 is as follows:

2016

Classification	Average contracted fixed rate (%)	Korean won	
		Contract amount	Fair value
		(In millions)	
For trading			
Within 1 year	3M LIBOR + 2.76%	₩ 230,000	₩(23,315)
	1.82%	EUR 190,000 thousand	(127)
More than 1 year	2.22%	JPY 30,821,139 thousand	(16,164)
		₩ 230,000	₩(39,606)
		EUR 190,000 thousand	
		JPY 30,821,139 thousand	

Classification	Average contracted fixed rate (%)	Translation into U.S. dollars (Note 2)	
		Contract amount	Fair value
		(In thousands)	
For trading			
Within 1 year	3M LIBOR + 2.76%	$ 190,319	$(19,293)
	1.82%	EUR 190,000 thousand	(105)
More than 1 years	2.22%	JPY 30,821,139 thousand	(13,375)
		$ 190,319	$(32,773)
		EUR 190,000 thousand	
		JPY 30,821,139 thousand	

2015

Classification	Average contracted fixed rate (%)	Korean won	
		Contract amount	Fair value
		(In millions)	
For trading			
Within 1 year	3.90	₩ 15,000	₩ (252)
1 ~ 2 years	3M LIBOR + 2.76%	230,000	(15,763)
More than 2 years	2.70	JPY 25,917,175 thousand	(6,704)
		₩ 245,000	₩(22,719)
		JPY 25,917,175 thousand	

Classification	Average contracted fixed rate (%)	Translation into U.S. dollars (Note 2)	
		Contract amount	Fair value
		(In thousands)	
For trading			
Within 1 year	3.90	$ 12,412	$ (209)
1 ~ 2 years	3M LIBOR + 2.76%	190,319	(13,043)
More than 2 years	2.70	JPY 25,917,175 thousand	(5,547)
		$ 202,731	$(18,799)
		JPY 25,917,175 thousand	

c) Risk of changes in oil prices

Market prices of oil products, such as jet fuel, have fluctuated greatly due to various factors that affect to determine the supply and demand of crude oil in the world market. These factors will affect the cash flow and performance of air transportation business, which is the largest business segment of the Group.

The effect of 10% change in oil price on operating income (loss) for the years ended December 31, 2016 and 2015 is as follows:

	Korean won			
	2016		2015	
	Increase by 10%	Decrease by 10%	Increase by 10%	Decrease by 10%
	(In millions)			
Operating income (loss)	₩(217,579)	₩217,579	₩(266,711)	₩266,711

	Translation into U.S. dollars (Note 2)			
	2016		2015	
	Increase by 10%	Decrease by 10%	Increase by 10%	Decrease by 10%
	(In thousands)			
Operating income (loss)	$(180,040)	$180,040	$(220,696)	$220,696

d) Other price risk

The Group is exposed to price risk arising from equity instruments. The Group holds equity instruments for a strategic purpose and not for trading, and has not actively traded the investment assets.

d-1) Stock price sensitivity analysis

The following sensitivity analysis is based on the current stock price fluctuation risk as of December 31, 2016 and 2015.

The effect of 5% change in stock price is as follows:

- The Group's other comprehensive income (loss) will increase (decrease) to ₩4,899 million ($4,054 thousand) (prior year ₩5,425 million ($4,489 thousand)), and it is due to the change of the fair value of AFS financial assets.

The stock price sensitivity of the Group has decreased because the stock price as of December 31, 2016 is lower than December 31, 2015.

3) Credit risk management

The credit risk refers to risk of financial losses to the Group when the counterpart defaults on the obligations of the contract. As a means to reduce the economic losses due to default, the Group trades with the customers whose credit ratings are above a certain level, and the Group has adopted a policy to receive adequate collateral. The Group has traded only with companies that received a credit rating that is applicable to investment grade and above. This credit information is provided by independent credit-rating agencies. If the Group is not able to use information that credit rating agency provided, the Group uses the another financial information and trading performance, which officially announces for the purpose of the Group to determine the credit rating of major customers. The Group has reviewed the exposure of credit risk and credit rating of customers consistently, and transaction amounts are distributed to the approved customers. Credit risk is controlled by the approved transaction limits that are reviewed annually by the Risk Management Committee.

The trade receivables consist of many suppliers and distribute in various regions. The credit evaluation about the trade receivables has been carried out consistently.

The maximum amount of exposure to credit risk as of December 31, 2016 and 2015 is as follows:

	Korean won		Translation into U.S. dollars (Note 2)	
	2016	2015	2016	2015
	(In millions)		(In thousands)	
Financial guarantee contract	₩178,955	₩207,469	$148,081	$171,675

4) Liquidity risk management

The board of directors to formulate the basic policy for financing the Group's short-term and long-term funds and managing liquidity management regulations has ultimate responsibility for liquidity risk management. The Group manages liquidity risk by maintaining the sufficient reserves and borrowing limit, observing the predicted and actual cash flows, and matching the maturity structure of financial assets and financial liabilities.

a) Details related to liquidity and interest rate risk

The following table shows the contractual maturity of the Group's non-derivative financial liabilities. The table is formed based on the earliest maturity date on which the Group has to pay on the basis of the cash flows of the financial liabilities that are not discounted, and the cash flows include both the principal and interest. If the interest cash flows are based on a floating interest rate, cash flows that are not discounted have been derived based on the yield curve at the end of the reporting period. The maturity analysis is based on the earliest maturity date on which the Group can be required to pay.

2016

	Korean won			
Classification	Within 1 year	1–5 years	More than 5 years	Total
	(In millions)			
Trade and other payables	₩ 846,152	₩ 16,403	₩ —	₩ 862,555
Finance lease obligations	1,871,419	4,460,981	2,735,971	9,068,371
Borrowings	2,006,898	3,323,189	579,397	5,909,484
Debentures	2,465,002	90,796	—	2,555,798
	₩7,189,471	₩7,891,369	₩3,315,368	₩18,396,208

	Translation into U.S. dollars (Note 2)			
Classification	Within 1 year	1–5 years	More than 5 years	Total
	(In thousands)			
Trade and other payables	$ 700,167	$ 13,573	$ —	$ 713,740
Finance lease obligations	1,548,547	3,691,337	2,263,940	7,503,824
Borrowings	1,660,652	2,749,846	479,435	4,889,933
Debentures	2,039,720	75,131	—	2,114,851
	$5,949,086	$6,529,887	$2,743,375	$15,222,348

2015

	Korean won			
Classification	Within 1 year	1–5 years	More than 5 years	Total
	(In millions)			
Trade and other payables	₩ 870,087	₩ 28,803	₩ —	₩ 898,890
Finance lease obligations	1,358,049	4,309,481	3,182,421	8,849,951
Borrowings	2,875,950	2,140,511	318,859	5,335,320
Debentures	2,169,569	726,491	—	2,896,060
	₩7,273,655	₩7,205,286	₩3,501,280	₩17,980,221

Classification	Translation into U.S. dollars (Note 2) Within 1 year	1–5 years	More than 5 years	Total
	(In thousands)			
Trade and other payables	$ 719,973	$ 23,834	$ —	$ 743,807
Finance lease obligations	1,123,747	3,565,975	2,633,364	7,323,086
Borrowings	2,379,769	1,771,213	263,847	4,414,829
Debentures	1,795,258	601,151	—	2,396,409
	$6,018,747	$5,962,173	$2,897,211	$14,878,131

The following table shows the expected maturity of the Group's non-derivative financial assets, and the table is formed based on the contractual maturity amount of the financial assets that are not discounted. In order to understand the liquidity risk management of the Group, the information about the non-derivative financial assets has to be included because the Group manages the liquidity based on the net assets and net liabilities.

2016

Classification	Korean won Within 1 year	1–5 years	More than 5 years	Total
	(In millions)			
Cash and cash equivalents	₩1,089,927	₩ —	₩ —	₩1,089,927
Short- and long-term financial instruments	176,914	45,941	11	222,866
Finance lease receivables	18,698	49,721	—	68,419
Trade and other receivables	791,921	239	—	792,160
AFS financial assets	—	6	53,912	53,918
Held-to-maturity financial assets	129	1,001	—	1,130
Other financial assets	—	77,412	252,396	329,808
	₩2,077,589	₩174,320	₩306,319	₩2,558,228

Classification	Translation into U.S. dollars (Note 2) Within 1 year	1–5 years	More than 5 years	Total
	(In thousands)			
Cash and cash equivalents	$ 901,884	$ —	$ —	$ 901,884
Short- and long-term financial instruments	146,391	38,015	9	184,415
Finance lease receivables	15,472	41,143	—	56,615
Trade and other receivables	655,293	198	—	655,491
AFS financial assets	—	5	44,611	44,616
Held-to-maturity financial assets	106	828	—	934
Other financial assets	—	64,057	208,851	272,908
	$1,719,146	$144,246	$253,471	$ 2,116,863

2015

Classification	Korean won			
	Within 1 year	1–5 years	More than 5 years	Total
	(In millions)			
Cash and cash equivalents	₩ 967,481	₩ —	₩ —	₩ 967,481
Short- and long-term financial instruments	111,988	112,112	3,143	227,243
Finance lease receivables	10,479	28,996	—	39,475
Trade and other receivables	951,421	43	—	951,464
AFS financial assets	—	6	—	6
Held-to-maturity financial assets	71	895	5	971
Other financial assets	—	106,162	224,848	331,010
	₩2,041,440	₩248,214	₩227,996	₩2,517,650

Classification	Translation into U.S. dollars (Note 2)			
	Within 1 year	1–5 years	More than 5 years	Total
	(In thousands)			
Cash and cash equivalents	$ 800,564	$ —	$ —	$ 800,564
Short- and long-term financial instruments	92,667	92,769	2,601	188,037
Finance lease receivables	8,671	23,993	—	32,664
Trade and other receivables	787,274	36	—	787,310
AFS financial assets	—	5	—	5
Held-to-maturity financial assets	59	741	4	804
Other financial assets	—	87,846	186,056	273,902
	$1,689,235	$205,390	$188,661	$2,083,286

The amount of the floating rate instruments (non-derivative financial assets and liabilities) contained in the table above may be changed if the changes in floating interest rates are different from the determined estimate rate at the end of the reporting period.

The table below shows in detail the breakdown of the liquidity analysis of derivative financial instruments. The amount of the derivative instruments that are settled in net amounts is based on undiscounted net cash inflows and outflows in accordance with the terms of the contract, and that of the derivative instruments that are settled in gross amounts is based on undiscounted total cash inflows and outflows. In case the amounts to be received or paid are not settled, an interest rate estimated based on the yield curve at the end of the reporting period is used.

2016

Classification	Korean won		
	Within 1 year	1–2 years	More than 2 years
	(In millions)		
Gross settlement:			
Interest rate swaps:			
Inflows	96,139	83,932	182,742
Outflows	(94,738)	(83,075)	(177,936)
	₩ 1,401	₩ 857	₩ 4,806

Classification	Translation into U.S. dollars (Note 2)		
	Within 1 year	1–2 years	More than 2 years
		(In thousands)	
Gross settlement:			
Interest rate swaps:			
Inflows	79,553	69,452	151,214
Outflows	(78,393)	(68,743)	(147,237)
	$ 1,160	$ 709	$ 3,977

2015

Classification	Korean won		
	Within 1 year	1–2 years	More than 2 years
		(In millions)	
Net settlement:			
Oil price option	₩(35,476)	₩ —	₩ —
TRS	—	—	(11,589)
Gross settlement:			
Interest rate swaps:			
Inflows	87,144	299,670	154,070
Outflows	(84,209)	(312,393)	(148,731)
	₩(32,541)	₩ (12,723)	₩ (6,250)

Classification	Translation into U.S. dollars (Note 2)		
	Within 1 year	1–2 years	More than 2 years
		(In thousands)	
Net settlement:			
Oil price option	$(29,356)	$ —	$ —
TRS	—	—	(9,589)
Gross settlement:			
Interest rate swaps:			
Inflows	72,109	247,969	127,489
Outflows	(69,681)	(258,497)	(123,071)
	$(26,928)	$ (10,528)	$ (5,171)

(6) Reclassification of financial assets

There are no financial assets that have been reclassified due to the change of use or their purpose for the year ended December 31, 2016.

41. FAIR VALUE OF FINANCIAL INSTRUMENTS:

(1) Financial instruments that are measured subsequent to initial recognition at fair value are categorized into Level 1 to Level 3 and fair value measurements of financial instruments by fair value hierarchy level as of December 31, 2016 and 2015 are as follows:

2016

Classification	Korean won Level 1	Level 2	Level 3	Total
	(In millions)			
AFS:				
Listed securities	₩97,982	₩ —	₩ —	₩ 97,982
Unlisted securities	—	—	21,325	21,325
Special bonds	—	53,912	—	53,912
Beneficiary certificates	—	—	2,100	2,100
Derivative financial assets	—	27	—	27
	₩97,982	₩53,939	₩23,425	₩175,346
Derivative financial liabilities	₩ —	₩39,725	₩ —	₩ 39,725

Classification	Translation into U.S. dollars (Note 2) Level 1	Level 2	Level 3	Total
	(In thousands)			
AFS:				
Listed securities	$81,078	$ —	$ —	$ 81,078
Unlisted securities	—	—	17,646	17,646
Special bonds	—	44,611	—	44,611
Beneficiary certificates	—	—	1,738	1,738
Derivative financial assets	—	22	—	22
	$81,078	$44,633	$19,384	$145,095
Derivative financial liabilities	$ —	$32,871	$ —	$ 32,871

2015

Classification	Korean won Level 1	Level 2	Level 3	Total
	(In millions)			
AFS:				
Listed securities	₩108,505	₩ —	₩ —	₩108,505
Unlisted securities	—	—	21,113	21,113
	₩108,505	₩ —	₩21,113	₩129,618
Derivative financial liabilities	₩ —	₩69,781	₩ —	₩ 69,781

Classification	Translation into U.S. dollars (Note 2) Level 1	Level 2	Level 3	Total
	(In thousands)			
AFS:				
Listed securities	$89,785	$ —	$ —	$ 89,785
Unlisted securities	—	—	17,470	17,470
	$89,785	$ —	$17,470	$107,255
Derivative financial liabilities	$ —	$57,742	$ —	$ 57,742

There is no significant movement between the Level 1 and Level 2 for the years ended December 31, 2016 and 2015.

(2) The management of the Group considers that the carrying amounts of financial assets and financial liabilities recognized at amortized cost in the consolidated financial statements approximate their fair values.

(3) The following table gives information about how the fair values of financial instruments categorized into Levels 2 and 3 are determined, in particular, the valuation techniques and relationship of significant unobservable inputs to fair value.

Description	Fair value: Korean won	Fair value: Translation into U.S. dollars (Note 2)	Valuation techniques	Significant unobservable inputs	Description of relationships
	(In millions)	(In thousands)			
Derivative financial assets (Note 27)	₩ 27	$ 22	DISCOUNTED CASH FLOW AND OTHERS	N/A	N/A
Derivative financial liabilities (Note 27)	39,725	32,871		N/A	N/A
AFS financial assets – special bonds (Note 8)	53,912	44,611		N/A	N/A
AFS financial assets (Note 8)	23,425	19,384		Sales growth rate Pretax operating income ratio Weighted-average cost of capital	Fair value of non-listed shares will increase if the weighted-average cost of capital is reduced along with the increase in pretax operating margin and sales growth rate.

(4) Changes in financial instruments that are measured at fair value on a recurring basis and classified as Level 3 for the year ended December 31, 2016, are as follows. There were no changes for the year ended December 31, 2015.

Description	Korean won: Beginning balance	Purchase	Disposal	Other comprehensive income	Ending balance
			(In millions)		
AFS financial assets	₩21,113	₩2,100	₩(374)	₩586	₩23,425

Description	Translation into U.S. dollars (Note 2): Loans and receivables	Financial assets at FVTPL	Held-to-maturity financial assets	AFS financial assets	Total
			(In thousands)		
AFS financial assets	$17,470	$1,738	$(309)	$485	$19,384

(5) The Group recognizes transfers between levels of the fair value hierarchy at the time of the event or change in circumstances that caused the transfer. In addition, there is no change in the valuation techniques that have been used to measure the fair value of financial instruments classified as Level 2 and Level 3 for the year ended December 31, 2016.

(6) Though principle of subsequent measurement to financial assets and liabilities is fair value, the Group could not measure reliable fair value. The list and amount of financial assets and liabilities that do not have disclosed fair value information are as follows:

Category	Description (*)	Korean won		Translation into U.S. dollars (Note 2)	
		2016	2015	2016	2015
		(In millions)		(In thousands)	
AFS financial assets	Unlisted securities and investments in other equity securities	₩44,131	₩42,549	$36,517	$35,208
	Government and public bonds	6	6	5	5

(*) These are stocks issued by non-listed companies in early stages of business and others. They are measured at cost because it is hard to obtain reliable financial information required for the measurement of fair value, or even if the financial information were obtained, the range of fair value measurements is significant and it is impossible to reliably evaluate the occurrence probability of various estimates.

42. TRANSACTIONS AND BALANCES WITH RELATED PARTIES:

(1) The list of related parties of the Group as of December 31, 2016, is as follows:

Relationship	Related parties
Significant influence over the Company	Hanjin Kal Co., Ltd.
Associates	EIGHT CITY Co., Ltd., Czech Airlines j.s.c.
Other related parties	Jin Air Co., Ltd., KAL Hotel Network Co., Ltd., Topas Co., Ltd., Jungseok Enterprise Co., Ltd., Hanjin Travel Service Co., Ltd., Jedong Leisure Co., Ltd., Waikiki Resort Hotel Inc.
Affiliated companies of a conglomerate and others (*2)	Hanjin Transportation Co., Ltd., Hanjin Shipping Co., Ltd. (*1), Uniconverse Co., Ltd., Jungseok-Inha School's Foundation, etc.

(*1) Hanjin Shipping Co., Ltd. was reclassified from associates to affiliated companies of a conglomerate and others for the year ended December 31, 2016.

(*2) These companies are not related parties as defined in paragraph 9 of K-IFRS 1024. However, affiliated companies of a conglomerate and others designated by the Fair Trade Commission are classified as related parties, in accordance with the resolution of the Securities and Futures Commission that these companies are related parties according to the substance of the relationship defined in paragraph 9 of K-IFRS 1024.

(2) Significant transactions with related parties (except for treasury and equity transactions) for years ended December 31, 2016 and 2015, are as follows:

2016

Description		Korean won	
		Sales and others	Purchases and others
		(In millions)	
Significant influence over the Company	Hanjin Kal Co., Ltd.	₩ 271	₩30,685
Associates	Czech Airlines j.s.c.	22,486	19,756
	Others	3,072	5,926

Description		Korean won	
		Sales and others	Purchases and others
		(In millions)	
Other related parties	Jin Air Co., Ltd.	259,321	4,611
	KAL Hotel Network Co., Ltd.	25,516	36,405
	Topas Co., Ltd.	6,166	54
	Jungseok Enterprise Co., Ltd.	224	13,634
	Hanjin Travel Service Co., Ltd.	1,366	5,449
	Others	25	2,756
Affiliated companies of a conglomerate and others	Hanjin Transportation Co., Ltd.	17,034	39,221
	Uniconverse Co., Ltd.	737	8,919
	Jungseok-Inha School's Foundation	18	6,304
	Others	1,572	1,716

Description		Translation into U.S. dollars (Note 2)	
		Sales and others	Purchases and others
		(In thousands)	
Significant influence over the Company	Hanjin Kal Co., Ltd.	$ 224	$25,391
	Czech Airlines j.s.c.	18,607	16,348
Associates	Others	2,542	4,904
Other related parties	Jin Air Co., Ltd.	214,581	3,815
	KAL Hotel Network Co., Ltd.	21,114	30,124
	Topas Co., Ltd.	5,102	44
	Jungseok Enterprise Co., Ltd.	185	11,282
	Hanjin Travel Service Co., Ltd.	1,130	4,509
	Others	21	2,280
Affiliated companies of a conglomerate and others	Hanjin Transportation Co., Ltd.	14,095	32,454
	Uniconverse Co., Ltd.	610	7,380
	Jungseok-Inha School's Foundation	15	5,217
	Others	1,301	1,420

2015

Description		Korean won	
		Sales and others	Purchases and others
		(In millions)	
Significant influence over the Company	Hanjin Kal Co., Ltd.	₩ 435	₩29,731
	Czech Airlines j.s.c.	24,079	25,487
Associates and jointly controlled entities	Others	2,587	45
Other related parties	Jin Air Co., Ltd.	165,808	3,845
	KAL Hotel Network Co., Ltd.	26,257	34,560
	Topas Co., Ltd.	6,395	2,392
	Jungseok Enterprise Co., Ltd.	288	1,874
	Hanjin Travel Service Co., Ltd.	1,117	6,116
	Others	25	2,504
Affiliated companies of a conglomerate and others	Hanjin Transportation Co., Ltd.	15,474	42,392
	Cyber Sky Co., Ltd. (*1)	326	4,212
	Uniconverse Co., Ltd.	1,613	22,132
	Jungseok-Inha School's Foundation	8	6,706
	S-Oil Corp. (*2)	—	14,758
	Others	3,196	1,363

Description		Translation into U.S. dollars (Note 2)	
		Sales and others	Purchases and others
		(In thousands)	
Significant influence over the Company	Hanjin Kal Co., Ltd.	$ 360	$24,602
Associates and jointly controlled entities	Czech Airlines j.s.c.	19,925	21,090
	Others	2,141	37
Other related parties	Jin Air Co., Ltd.	137,202	3,182
	KAL Hotel Network Co., Ltd.	21,727	28,597
	Topas Co., Ltd.	5,292	1,979
	Jungseok Enterprise Co., Ltd.	238	1,551
	Hanjin Travel Service Co., Ltd.	924	5,061
	Others	21	2,072
Affiliated companies of a conglomerate and others	Hanjin Transportation Co., Ltd.	12,804	35,078
	Cyber Sky Co., Ltd. (*1)	269	3,485
	Uniconverse Co., Ltd.	1,335	18,313
	Jungseok-Inha School's Foundation	7	5,549
	S-Oil Corp. (*2)	—	12,211
	Others	2,645	1,128

(*1) It is listed as affiliated companies of a conglomerate and others due to the existence of transaction with the Group for the year ended December 31, 2015, whereas it was reclassified as subsidiaries from affiliated companies of a conglomerated and others as of December 31, 2015.

(*2) It was disposed for the year ended December 31, 2015, and the amount above represents transaction amount up to the disposal date.

(3) Significant receivables and payables to the related parties (except for loan, borrowing and related interest) as of December 31, 2016, and 2015, are as follows:

2016

Description		Korean won	
		Trade and other receivables	Trade and other payables
		(In millions)	
Significant influence over the Company	Hanjin Kal Co., Ltd.	₩ 2,233	₩ 6,477
Associates	Czech Airlines j.s.c.	266	14,604
Other related parties	Jin Air Co., Ltd.	62,975	40,493
	KAL Hotel Network Co., Ltd.	4,310	3,333
	Topas Co., Ltd.	584	1,175
	Jungseok Enterprise Co., Ltd.	523	2,426
	Hanjin Travel Service Co., Ltd.	118	1,323
	Others	8	928
Affiliated companies of a conglomerate and others	Hanjin Transportation Co., Ltd.	2,364	6,398
	Uniconverse Co., Ltd.	83	292
	Others	1,534	3,106

Description		Translation into U.S. dollars (Note 2)	
		Trade and other receivables	Trade and other payables
		(In thousands)	
Significant influence over the	Hanjin Kal Co., Ltd.	$ 1,847	$ 5,359
Company Associates	Czech Airlines j.s.c.	220	12,085
Other related parties	Jin Air Co., Ltd.	52,110	33,507
	KAL Hotel Network Co., Ltd.	3,566	2,758
	Topas Co., Ltd.	483	973
	Jungseok Enterprise Co., Ltd.	432	2,008
	Hanjin Travel Service Co., Ltd.	97	1,095
	Others	7	768
Affiliated companies of a	Hanjin Transportation Co., Ltd.	1,956	5,294
conglomerate and others	Uniconverse Co., Ltd.	69	242
	Others	1,269	2,570

2015

Description		Korean won	
		Trade and other receivables	Trade and other payables
		(In millions)	
Significant influence over the Company	Hanjin Kal Co., Ltd.	₩ 2,485	₩ 6,445
Associates	Czech Airlines j.s.c.	1,607	11,998
	Others	451	—
Other related parties	Jin Air Co., Ltd.	25,972	33,317
	KAL Hotel Network Co., Ltd.	4,223	6,192
	Topas Co., Ltd.	425	117
	Jungseok Enterprise Co., Ltd.	569	18
	Hanjin Travel Service Co., Ltd.	90	1,646
	Others	8	193
Affiliated companies of a	Hanjin Transportation Co., Ltd.	2,590	8,889
conglomerate and others	Uniconverse Co., Ltd.	151	2,116
	Others	64	57

Description		Translation into U.S. dollars (Note 2)	
		Trade and other receivables	Trade and other payables
		(In thousands)	
Significant influence over the Company	Hanjin Kal Co., Ltd.	$ 2,056	$ 5,333
Associates	Czech Airlines j.s.c.	1,329	9,928
	Others	373	—
Other related parties	Jin Air Co., Ltd.	21,491	27,569
	KAL Hotel Network Co., Ltd.	3,494	5,123
	Topas Co., Ltd.	351	97
	Jungseok Enterprise Co., Ltd.	471	15
	Hanjin Travel Service Co., Ltd.	74	1,362
	Others	7	159
Affiliated companies of a	Hanjin Transportation Co., Ltd.	2,143	7,356
conglomerate and others	Uniconverse Co., Ltd.	125	1,751
	Others	53	47

(4) Loan and borrowing transactions with related parties for the years ended December 31, 2016 and 2015, are as follows:

2016

	Account	Beginning balance	Increase	Decrease	Ending balance
		(In millions of Korean won)			
Affiliated companies of a conglomerate and others:					
Hanjin Shipping Co., Ltd. (*)	Short-term loans	₩220,000	₩60,000	₩(280,000)	₩—

	Account	Beginning balance	Increase	Decrease	Ending balance
		(In thousands of U.S. dollars)			
Affiliated companies of a conglomerate and others:					
Hanjin Shipping Co., Ltd. (*)	Short-term loans	$ 182,044	$ 49,648	$ (231,692)	$ —

(*) ₩220,000 million ($182,044 thousand) of short-term loans have been converted to unsecured bearer bonds (hybrid securities) issued by Hanjin Shipping Co., Ltd. and the Group provided additional support of ₩60,000 million ($49,648 thousand) for the purpose of operating loans for the year ended December 31, 2016. The Group recognized interest income in relation to the hybrid securities and the short-term loans amounting to ₩11,219 million ($9,283 thousand) and ₩342 million ($283 thousand), respectively. Meanwhile, the Group recognized impairment loss on the total amount of AFS financial assets in relation to the hybrid securities amounting to ₩220,000 million ($182,044 thousand) (see Note 8). In addition, the Group established the collateral for the trade receivable accounts subordinated priority beneficiary right of the employee's apartment collateral trust, and the Atlanta office in the United States of Hanjin Shipping Co., Ltd. in relation to short-term loans and the short-term loans have been fully repaid for the year ended December 31, 2016.

2015

Description	Account	Beginning balance	Increase	Decrease	Ending balance
		(In millions of Korean won)			
Associates:					
Hanjin Shipping Co., Ltd. (*)	Short-term loans	₩220,000	₩—	₩—	₩220,000

Description	Account	Beginning balance	Increase	Decrease	Ending balance
		(In thousands of U.S. dollars)			
Associates:					
Hanjin Shipping Co., Ltd. (*)	Short-term loans	$182,044	$—	$—	$182,044

(*) The Group has received 13,800,000 treasury shares of Hanjin Shipping Co., Ltd., trademark held by Hanjin Shipping Co., Ltd., 526,316 shares of H-Line Co., Ltd. and overseas property (appraised value of ₩40 billion ($33 million)) as collateral as of December 31, 2016. In relation to the above short-term loans, the Group recognized interest income amounting to ₩13,212 million ($10,933 thousand) for the year ended December 31, 2016, and accrued income amounting to ₩2,291 million ($1,896 thousand) as of December 31, 2016. Meanwhile, on February 24, 2016, the short-term loans have been converted to unsecured bearer bonds (hybrid securities) issued by Hanjin Shipping Co., Ltd.

(5) Stock trading with the special relevant parties for years ended December 31, 2016 and 2015, is as follows:

2016

Description	Company	Transaction	Korean won	Translation into U.S. dollars (Note 2)
			(In millions)	(In thousands)
Business takeover (*)	Uniconverse Co., Ltd.	Business takeover	₩20,700	$17,129

(*) Hanjin Information Communication Co., Ltd. took over the call center business of Uniconverse Co., Ltd. for the year ended December 31, 2016.

2015

Description	Company	Transaction	Korean won	Translation into U.S. dollars (Note 2)
			(In millions)	(In thousands)
Capital increase	Hanjin KAL Co., Ltd. (*Significant influence over the Company*)	Participate in paid-in Capital increase	₩128,588	$106,403
Purchase of investment securities	Key management personnel	Purchase of Cyber Sky Co., Ltd.	6,267	5,186
Disposal of investment securities	Hanjin Transportation Co., Ltd. (*) (*Affiliated companies of a conglomerate and others*)	Disposal of Hanjin Int'l Japan Co., Ltd. stocks	36	30
Disposal of investment securities	Uniconverse Co., Ltd. (*Affiliated companies of a conglomerate and others*)	Disposal of stocks	1,658	1,372

(*) The Group has sold part of its shares in Hanjin Int'l Japan to Hanjin Transportation Co., Ltd. for ₩313 million ($259 thousand).

(6) The remuneration of registered directors and unregistered directors for years ended December 31, 2016 and 2015, is as follows:

Transaction	Korean won 2016	Korean won 2015	Translation into U.S. dollars (Note 2) 2016	Translation into U.S. dollars (Note 2) 2015
	(In millions)		(In thousands)	
Wages and salaries	₩4,246	₩ 4,122	$3,514	$ 3,411
Retirement benefit costs	2,237	19,137	1,851	15,835
	₩6,483	₩23,259	$5,365	$19,246

(7) Guarantees that the Group has provided for related parties as of December 31, 2016, consist of the following (in millions of Korean won):

Transaction	Currency	Guaranteed amounts	Financial institutions	Description
Jungseok Enterprise Co., Ltd.	KRW	2,785	Hana Bank (formerly, Korea Exchange Bank) and others	Guaranteed loans (*)
Hanjin Transportation Co., Ltd.	KRW	2,016		
Hanjin Heavy Industries & Construction Holdings Co., Ltd.	KRW	2,159	KDB and others	
	KRW	6,960		

(*) Related to guaranteed loans as of December 31, 2016, Jungseok Enterprise Co., Ltd., Hanjin Transportation Co., Ltd. and Hanjin Heavy Industries & Construction Holdings Co., Ltd. also have guaranteed payment for the same amount.

(8) Guarantees that have been provided to the Group by related parties as of December 31, 2016, are as follows:

	Korean won				
Financial institutions	Guaranteed amounts	Jungseok Enterprise Co., Ltd.	Hanjin Transportation Co., Ltd.	Hanjin Shipping Co., Ltd. (*)	Hanjin Heavy Industries & Construction Holdings
			(In millions)		
Hana Bank (formerly, Korea Exchange Bank)	₩ 6,386	₩ 8,302	₩ 8,302	₩ 8,302	₩ 8,302
KDB	3,920	5,096	5,096	5,096	5,096
Woori Bank and others	2,338	2,582	2,582	2,671	2,582
	₩12,644	₩15,980	₩15,980	₩16,069	₩15,980

	Translation into U.S. dollars (Note 2)				
Financial institutions	Guaranteed amounts	Jungseok Enterprise Co., Ltd.	Hanjin Transportation Co., Ltd.	Hanjin Shipping Co., Ltd. (*)	Hanjin Heavy Industries & Construction Holdings
			(In thousands)		
KDB	$ 5,284	$ 6,869	$ 6,869	$ 6,869	$ 6,869
Hana Bank (formerly, Korea Exchange Bank)	3,244	4,217	4,217	4,217	4,217
Woori Bank and others	1,935	2,137	2,137	2,210	2,137
	$10,463	$13,223	$13,223	$13,296	$13,223

(*) As Hanjin Shipping Co., Ltd. (a new company) was spun off from Eusu Holdings Co., Ltd. (a surviving company) as of December 1, 2009, Eusu Holdings Co., Ltd. jointly provides a guarantee for the long-term liabilities that were assumed by the companies above.

43. OPERATING LEASE:

(1) Breakdown of the usage of an operating lease

As of December 31, 2016, the Company has entered into operating lease agreements to lease 30 aircraft and certain aircraft parts from Air Lease Corporation and other lessors. The Company has also entered into an operating lease agreement to use the cargo terminal at JFK International Airport located in the United States with the New York City Industrial Development Agency ("IDA"). The schedule of lease payments as of December 31, 2016, is summarized as follows:

Period	Korean won	Translation into U.S. dollars (Note 2)
	(In millions)	(In thousands)
Less than one year	₩ 287,385	$ 237,803
One year to five years	1,002,234	829,321
More than five years	922,711	763,518
	₩2,212,330	$1,830,642

Also, the Group has entered into operating lease agreements to lease business computing equipment from Macquarie Finance Korea Ltd. and others. The schedule of lease payments as of December 31, 2016, is as follows:

Period	Korean won	Translation into U.S. dollars (Note 2)
	(In millions)	(In thousands)
Less than one year	₩596	$493
One year to five years	101	84
	₩697	$577

(2) Breakdown of the provision of an operating lease

The Company has entered into operating lease agreements to lease 16 aircraft and certain aircraft parts to Jin Air Co., Ltd. and others. The schedule of lease collection on this agreement is summarized as follows:

Period	Korean won	Translation into U.S. dollars (Note 2)
	(In millions)	(In thousands)
Less than one year	₩ 81,088	$ 67,098
One year to five years	241,838	200,114
More than five years	67,929	56,210
	₩390,855	$323,422

Furthermore, the Group has entered into operating lease agreements to lease data processing equipment to LG Sports Ltd., KAL Hotel Network Co., Ltd. and others. The schedule of lease collection on this agreement is summarized as follows:

Period	Korean won	Translation into U.S. dollars (Note 2)
	(In millions)	(In thousands)
Less than one year	₩ 9,996	$ 8,272
One year to five years	7,612	6,299
More than five years	433	359
	₩18,041	$14,930

44. NON-CASH TRANSACTIONS:

The significant non-cash transactions from investment and financing activities that are not included in the consolidated statements of cash flows for the years ended December 31, 2016 and 2015 are as follows:

Description	Korean won	
	2016	2015
	(In millions)	
Transfer of long-term borrowings to current portion of long-term borrowings	₩1,338,013	₩2,024,468
Transfer of debentures to current portion of debentures	11,534	2,081,693
Transfer of finance lease obligations to current portion of finance lease obligations	1,774,796	1,344,609
Transfer of construction in progress to property, aircraft and equipment	2,023,473	3,111,660
Acquisition of finance lease assets	1,199,009	2,593,028
Transfer of finance lease obligations to finance lease receivables	50,713	—
Transfer of short-term loans to AFS financial assets	220,000	—
Transfer of loss on capital reduction to deficit	377,086	—

Description	Translation into U.S. dollars (Note 2)	
	2016	2015
	(In thousands)	
Transfer of long-term borrowings to current portion of long-term borrowings	$1,107,168	$1,675,190
Transfer of debentures to current portion of debentures	9,544	1,722,543
Transfer of finance lease obligations to current portion of finance lease obligations	1,468,594	1,112,626
Transfer of construction in progress to property, aircraft and equipment	1,674,368	2,574,812
Acquisition of finance lease assets	992,147	2,145,659
Transfer of finance lease obligations to finance lease receivables	41,963	—
Transfer of short-term loans to AFS financial assets	182,044	—
Transfer of loss on capital reduction to deficit	312,028	—

45. COMMITMENTS AND CONTINGENCIES:

(1) The guarantee provided as of December 31, 2016 is as follows (in millions of Korean won and in thousands of U.S. dollars):

Financial institution	Currency	Guaranteed amount	Details
Seoul Guarantee Insurance Co., Ltd.	KRW	2,783	Bids, performance, maintenance, payment guarantee and others
Korea Defense Industry Association	KRW	969,673	
HSBC Australia and others	KRW	17,798	
Engineering Financial Cooperative	KRW	32,744	
Korea Software Financial Cooperative	KRW	17,991	
Information & Communication Financial Cooperative	KRW	90	
BBCN BANK	USD	5,364	

As of December 31, 2016, the Group is provided with guarantees amounting to ₩15,703 million ($12,994 thousand) by Seoul Guarantee Insurance Company in relation to the restoration of forest due to the production of limestone and $3,000 thousand by Hana Bank in connection with the purchase of equipment.

(2) The Group provides a guarantee of ₩12,075 million ($9,992 thousand) in relation to the personal loan of flight-training-center trainees. The Company has also provided a payment guarantee of $ 7,321 thousand to Bank of China for Grandstar Cargo International Airlines Co., Ltd.

(3) Credit line and details of credit agreements as of December 31, 2016 are as follows (in millions of Korean won and in thousands of U.S. dollars):

Description	Financial institutions	Currency	Limit
Credit line agreement	Hana Bank (formerly, Korea	USD	65,000
	Exchange Bank) and others	KRW	91,500
Letters of credit	Kookmin Bank and others	USD	1,000
Ordinary loan	Shinhan Bank	KRW	10,000
Line of credit	NongHyup Bank	KRW	10,000
Operation loan	Korea Resource Corporation	KRW	760
		USD	66,000
		KRW	112,260

(4) Promissory note pledged as collateral

As of December 31, 2016, the Group has an outstanding promissory note pledged as collateral to the Korea Defense Industry Association.

(5) Pending litigations and others

With regard to the passenger antitrust litigation the Company has agreed with the plaintiff to settle the lawsuit with compensation of $39,000 thousand in cash and $26,000 thousand in passenger flight ticket coupons; the Company paid $39,000 thousand in cash payment after 2013, and also recognizes the coupon of passenger flight tickets amounting to ₩29,624 million ($24,513 thousand) as a provision.

As of December 31, 2016, various claims, lawsuits and complaints arising from airline service operations are pending against the Company and the ultimate outcome of these cases are unpredictable. Management believes that the ultimate outcome of these cases will not have any material adverse effect on the financial performance and position of the Company.

(6) New aircraft introduction plan

The Company has entered into various contracts with manufacturers such as the Boeing Company to purchase aircraft. The amount of such contracts is approximately $5,292 million as of December 31, 2016.

(7) Joint-use agreement of passenger terminal

The Company and four other airlines, including Air France, entered into a joint-use agreement with the JFK Airport in New York and established Terminal One Group Association ("TOGA") to cooperate one of the new terminals of JFK Airport. TOGA may have to repay bond issued by New York Transportation Development Corporation based on terminal lease revenue and they have provided TOGA with a joint guarantee up to $167 million for each terminal usage fee.

(8) The Group recognized impairment loss on the total amount of investments in associates and AFS financial assets, respectively, relating to Hanjin Shipping Co., Ltd. for the year ended December 31, 2016. Details are ₩333,798 million ($276,209 thousand) of impairment losses on investments in associates, ₩252,630 million ($209,044 thousand) of impairment losses on AFS financial assets and ₩116,551 million ($96,443 thousand) of loss on trading of derivatives relating to the TRS contracts (see Notes 27 and 42), respectively. Furthermore, 81,019,733 shares of Hanjin Shipping Co., Ltd. held by the Group is provided as a collateral for Hanjin Int'l Corp.'s borrowings of ₩835,161 million ($691,072 thousand).

(9) Financial structure improvement agreement

As part of a group of conglomerates, the Company is under close supervision and has signed an agreement with its main bank, KDB, to improve its financial structure by going under a financial structural reform in May 2009. Per the agreement, the Company pronounced plans to liquidate the shares of S-OIL Corp. held by its subsidiary (Hanjin Energy Co., Ltd.), used airplanes and other properties to secure ₩3.49 trillion. By

December 31, 2015, the Company prepared approximately ₩3.55 trillion for financial structure improvement. The Company plans to further develop and implement plans to improve its business results in the future.

(10) The main agreements that the Group has entered into are as follows:

1) Korea Airport Service Co., Ltd. contributed certain ground-handling facilities constructed at the Incheon International Airport, in accordance with the agreement with the Ministry of Construction and Transportation dated March 9, 2001, in exchange for usage rights to the contributed facilities for 20 years.

   Korea Airport Service Co., Ltd. owns a building for joint investment purpose pursuant to a joint arrangement. Under the joint arrangement, Korea Airport Service Co., Ltd. has 20% ownership of the INHA International Medical Center building, which is located at Jung-gu, Incheon, and recognized income and expenses in relation to its interest.

2) On March 30, 2011, WLD Co., Ltd. entered into an agreement on "Wang San Marina Business" with Incheon Metropolitan City and Yongyu-muui Project Management Co., Ltd. Details of the agreement are summarized as follows:

   - Location: 980 Eulwang-dong, Jung-gu, Incheon, Korea
   - Business content: Construction of yacht tournament course held in 2014 Incheon Asian Games
   - Total amount of investment: Approximately, ₩189 billion ($156 million) (capital stock: ₩92.3 billion ($76.4 million), borrowings: ₩79.9 billion ($66.1 million), government subsidy: ₩16.7 billion ($13.8 million))
   - Government subsidy: Incheon Metropolitan City government agreed to provide a total of ₩16.7 billion ($13.8 million) as financial subsidy depending on the construction progress.

   WLD Co., Ltd. accomplished timely development of Wang San Marina Business, including construction of 2014 Incheon Asian Games yacht tournament course; cooperated for successful host and operation of yacht tournament at 2014 Incheon Asian Games; and invested rest of the amount after excluding Wang San Marina Business operating expenses granted by the government, construction costs of access road and other infrastructure costs. The marina was completed in August 2016 and was temporarily open from November 2016 and the grand opening will be in the second quarter of 2017. As of December 31, 2016, the ownership transfer is in progress and will be completed for the second quarter of 2017. WLD Co., Ltd. is entitled to acquire business reclamation sites, excluding public sites at composition cost or below, and is granted at least 30 years of operating rights after completion of construction of Wang San Marina facilities.

   Meanwhile, the Company made a commitment with KDB to participate in paid-in capital increase of Wangsan Leisure Development Co., Ltd. if Wangsan Leisure Development Co., Ltd. is short of financial resources to repay the borrowings provided by KDB. The outstanding balance of borrowings is ₩76,940 million ($63,666 thousand) as of December 31, 2016. The deposits, land and buildings acquired under the purpose of Wang San Marina Business are pledged to Korea Development Co., Ltd. as collateral.

3) On June 30, 2011, IAT Co., Ltd. entered into an agreement with Korea Land & Housing Corporation and Inchon Development & Tourism Corporation about a project related to the "Attraction of Incheon Free Economic Zone, Yeongjong Sky City Airways Airplane Engine Maintenance Centre." Major terms of the agreement include investment of ₩120 billion ($99 million) by IAT Co., Ltd. for construction of an airplane engine maintenance center and acquisition of related land located at 779-11 Unbuk-dong, Jung-gu, Incheon, Korea. Meanwhile, IAT Co., Ltd. shall not provide land, etc., for collateral or guarantee, for a period of five years from the date it first entered into an agreement for land, which is recognized in construction in process as of December 31, 2016. In addition, IAT Co., Ltd. shall not dispose or rent out to third parties for the period of five years after transfer of ownership.

IAT Co., Ltd. shall maintain the portion of its foreign investors' ownership to be higher than 10% for at least five years after the engagement date under the Foreign Direct Investment Policy.

As of December 31, 2016, preferred shares of IAT Co., Ltd., as cumulative and non-participative, will be converted proportionately for one common stock per one preferred stock on February 1, 2022 (conversion date). However, 7% of dividend is guaranteed for preferred shareholders until the conversion date, and in case of dividend in arrears, preferred shareholders have a right to refuse conversion until the dividend in arrears is paid. In accordance with the ones described above, the subsidiary classifies the amount asked by preferred shareholders at conversion date as a finance liability, which is discounted for present value.

Meanwhile, from August 1, 2021 to January 31, 2022, the Company has a call option for six months to buy the preferred shares held by United Technologies International Corporation-Asia Private Ltd., a preferred shareholder of Incheon Aviation Tech Co., Ltd., and the preferred shareholder of Incheon Aviation Tech Co., Ltd. also has a put option to sell the preferred shares to the Company during that period.

46. AMOUNT DUE FROM AND DUE TO CUSTOMERS FOR CONTRACT WORK:

(1) Changes in contract work for the year ended December 31, 2016 and 2015, are as follows:

	Korean won			
Description	Revenues incurred to date	Costs incurred to date	Recognized profits to date	Ending balance of construction contracts (*)
	(In millions)			
Civil aircraft	₩161,057	₩116,538	₩44,519	₩ 988,185
Military aircraft	753,245	718,255	34,990	455,779
	₩914,302	₩834,793	₩79,509	₩1,443,964

	Translation into U.S. dollars (Note 2)			
Description	Revenues incurred to date	Costs incurred to date	Recognized profits to date	Ending balance of construction contracts (*)
	(In thousands)			
Civil aircraft	$133,270	$ 96,432	$36,838	$ 817,695
Military aircraft	623,289	594,336	28,953	377,144
	$756,559	$690,768	$65,791	$1,194,839

(*) The balance as of December 31, 2016, does not include amounts for contracts that do not have the specific details (quantity, amount and others) confirmed despite being signed. The Group estimates above amount to be ₩1,596,053 million ($1,320,689 thousand).

(2) Amount due from and due to customers for contract work as of December 31, 2016 and 2015 is as follows:

	Korean won		Translation into U.S. dollars (Note 2)	
	2016	2015	2016	2015
	(In millions)		(In thousands)	
Account due from customers for contract work	₩195,389	₩158,239	$161,679	$130,938
Account due to customers for contract work	(24,696)	(94,297)	(20,435)	(78,028)

(3) The estimated gross contract costs for contracts as of December 31, 2015, changed as cost for power plant segment increased and cost for housing segment decreased during the current period. Details of its effects on profit and loss for the current and future years, and gross amount due from customers for contract work are as follows:

	Korean won					
Description	Construction loss provisions	Estimated increase (decrease) in contract revenue	Estimated increase (decrease) in contract cost	Influence on current profit	Influence on future profit	Increase (decrease) in due from customers for contract work (due to customers for contract work)
	(in millions)					
Civil aircraft	₩1,652	₩ 4,209	₩ (3,455)	₩8,010	₩ (347)	₩8,010
Military aircraft	5	14,757	13,930	1,958	(1,130)	1,958
	₩1,657	₩18,966	₩10,475	₩9,968	₩(1,477)	₩9,968

	Translation into U.S. dollars (Note 2)					
Description	Construction loss provisions	Estimated increase (decrease) in contract revenue	Estimated increase (decrease) in contract cost	Influence on current profit	Influence on future profit	Increase (decrease) in due from customers for contract work (due to customers for contract work)
	(In thousands)					
Civil aircraft	$1,367	$ 3,483	$ (2,859)	$6,628	$ (287)	$6,628
Military aircraft	4	12,211	11,526	1,620	(935)	1,620
	$1,371	$15,694	$ 8,667	$8,248	$(1,222)	$8,248

(4) There is no contract more than 5% of the Group's revenue in the prior period that is recognized in the current period by the stage of completion method for basis of the percentage of total costs incurred to date bear to the estimated total contract costs instruments for the year ended December 31, 2016.

47. ASSETS HELD FOR SALE:

(1) Assets held for sale as of December 31, 2016 and 2015, are summarized as follows:

	Korean won	
	2016	2015
	(In millions)	
Assets held for sale		
Current assets:	₩—	₩45,542
Aircraft	—	19,621
Engines	—	25,921
Non-current assets	—	—
	₩—	₩45,542

	Translation into U.S. dollars (Note 2)	
	2016	2015
	(In thousands)	
Assets held for sale		
Current assets:	$—	$37,685
Aircraft	—	16,236
Engines	—	21,449
Non-current assets	—	—
	$—	$37,685

(2) The Group reclassified a portion of aircraft and engines to assets held for sale and disposed of it according to the aircraft sales plan. The Group accordingly recognized an impairment loss of ₩53,388 million ($44,177 thousand), a gain on disposal of assets held for sale of ₩955 million ($790 thousand) and a loss on disposal of assets held for sale of ₩26,836 million ($22,206 thousand).

48. DISCONTINUED OPERATIONS:

(1) Hanjin Energy Co., Ltd., a subsidiary, was liquidated on March 19, 2015, at the extraordinary general meeting of shareholders after resolution of dissolution. Incurred revenue and costs, and recognized profit and loss until the liquidation of Hanjin Energy Co., Ltd. is classified as a discontinued operation in the consolidated statements of comprehensive income (loss) and the cash flows from discontinued operation are stated separately as below.

(2) The discontinued operation included in the consolidated statements of comprehensive income (loss) for the year ended December 31, 2015 is as follows:

Description	Korean won	Translation into U.S. dollars (Note 2)
	(In millions)	(In thousands)
Sales	₩ —	$ —
Cost of sales	—	—
Gross profit	—	—
Selling and administrative expenses	554	459
Operating income	(554)	(459)
Financial income	2,792	2,310
Financial expenses	2,704	2,237
Other non-operating income	—	—
Other non-operating expenses	92,003	76,130
Loss before income tax expenses	(92,469)	(76,516)
Income tax expenses	69,629	57,616
Net loss from discontinued operations	₩(162,098)	$(134,132)

(3) The cash flows from discontinued operations for the years ended December 31, 2014 and 2013 are as follows:

Transaction	Korean won	Translation into U.S. dollars (Note 2)
	(In millions)	(In thousands)
Cash flows from operating activities	₩ (11,725)	$ (9,702)
Cash flows from investing activities	1,985,777	1,643,175
Cash flows from financing activities	(1,974,054)	(1,633,475)
Net cash flows	₩ (2)	$ (2)

49. BUSINESS TAKEOVER:

In order to enhance business efficiency and strengthen the competitiveness of the call center business, the Group took over the whole business related to the call center business of Uniconverse Co., Ltd. as of April 30, 2016, and details are as follows.

	Call center business	
Description	Korean won	Translation into U.S. dollars (Note 2)
	(In millions)	(In thousands)
Value of business takeover	₩20,228	$16,738
Book value of net assets taken over	(633)	(523)
Overpayment on net assets	19,595	16,215
Goodwill	13,195	10,919
Other intangible assets	₩ 6,400	$ 5,296

50. SUBSEQUENT EVENTS:

(1) The Company increased capital by issuing new stocks amounting to ₩457,702 ($378,736 thousand) in a way of public offering of forfeited stocks after offering to shareholders and the record date for new shares allotment is January 25, 2017.

(2) The Seoul Central District Court declared the bankruptcy of Hanjin Shipping Co., Ltd. on February 17, 2016. Hanjin shipping Co., Ltd. was separated from Hanjin Group on March 3, 2017.

COMPANY

Korean Air Lines Co., Ltd.
260 Haneul-gil
Gangseo-gu
Seoul 07505
Korea

LEGAL ADVISERS TO THE COMPANY

as to Korean law

Kim & Chang
Seyang Building
39, Sajik-ro 8-gil, Jongno-gu
Seoul 03170
Korea

as to U.S. law

Cleary Gottlieb Steen & Hamilton LLP
Foreign Legal Consultant Office
19F Ferrum Tower
19, Eulji-ro 5-gil, Jung-gu
Seoul 04539
Korea

LEGAL ADVISER TO THE MANAGER

as to U.S. law

Linklaters LLP
Foreign Legal Consultant Office
22F East Tower
Mirae Asset Center 1
26, Eulji-ro 5-gil, Jung-gu
Seoul 04539
Korea

INDEPENDENT ACCOUNTANTS OF THE COMPANY

Deloitte Anjin LLC
9th Floor, One IFC
23 Yeouido-dong, Yeongdeungpo-gu
Seoul 07326
Korea

KPMG Samjong Accounting Corp.
27th Floor, Gangnam Finance Center
152, Teheran-ro, Gangnam-gu
Seoul 06236
Korea

FISCAL AGENT, PAYING AGENT, TRANSFER AGENT, CALCULATION AGENT AND REGISTRAR

Deutsche Bank AG, Hong Kong Branch
Level 52, International Commerce Centre
1 Austin Road West
Kowloon
Hong Kong

SINGAPORE LISTING AGENT

Shook Lin & Bok LLP
1 Robinson Road
#18-00 AIA Tower
Singapore, 048542