

IMPORTANT NOTICE

THIS SUPPLEMENT IS AVAILABLE ONLY TO INVESTORS WHO ARE PERSONS OR ADDRESSEES OUTSIDE OF THE UNITED STATES.

IMPORTANT: You must read the following before continuing. The following applies to this supplement to the preliminary offering circular dated January 26, 2018 (“Supplement”) following this page, and you are therefore advised to read this carefully before reading, accessing or making any other use of this Supplement. In accessing this Supplement, you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information from Korean Air Lines Co., Ltd. (the “Company”) as a result of such access.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN THE UNITED STATES OR 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, SOLD OR OTHERWISE TRANSFERRED WITHIN THE UNITED STATES, OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT), 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 SUPPLEMENT MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. 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. 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 HEREIN.

Confirmation and your representation: In order to be eligible to view this Supplement or make an investment decision with respect to the securities described herein, investors must not be located in the United States or be a non-U.S. person (within the meaning of Regulation S under the Securities Act). By accepting the e-mail and accessing this Supplement, you shall be deemed to have represented to the Company that (1) the electronic mail address that you gave the Company 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 this Supplement, you will be doing so pursuant to Regulation S under the Securities Act and (2) you consent to the delivery of this Supplement and any amendments and supplements thereto by electronic transmission.

You are reminded that this Supplement has been delivered to you on the basis that you are a person into whose possession this Supplement may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorized to, deliver or disclose the contents of this Supplement to any other person. If this is not the case, you must return this Supplement to the Company 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 initial purchasers or any affiliate of the initial purchasers is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the initial purchasers or such affiliate on behalf of the issuer in such jurisdiction.

This Supplement 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, none of the Company, the Initial Purchasers, or any person who controls any of them or any director, officer, employee or agent of any of them or affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between this Supplement distributed to you in electronic format and the hard copy version available to you on request from the Initial Purchasers.

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.



**Korean Air Lines Co., Ltd.
Senior Unsecured Notes**

This document is a supplement to and should be read in conjunction with the preliminary offering circular dated January 26, 2018 (the "Preliminary Offering Circular") relating to the offering of Senior Unsecured Notes by Korean Air Lines Co., Ltd. The information in this document supplements and supersedes any contrary information contained in the Preliminary Offering Circular.

The following is inserted after the last paragraph in "*Summary Financial Information*" on page 8 of the Preliminary Offering Circular:

Recent Developments

On February 8, 2018, the Company announced its preliminary results of operations for the year ended December 31, 2017 on a consolidated basis, which have not yet been audited by the Company's independent auditors and are therefore subject to change. The preliminary results have been filed with the Financial Supervisory Service ("FSS") and are publicly available on the Data Analysis, Retrieval and Transfer System of the FSS.

The Company's operating income for the three months ended December 31, 2017 increased significantly compared to the Company's operating income for the three months ended December 31, 2016, and the Company recorded a net income for the three months ended December 31, 2017 compared to a net loss for the three months ended December 31, 2016. The increase in the Company's operating income was primarily due to a significant decrease in the Company's selling and administrative expenses and an increase in revenue, which offset an increase in cost of sales. The Company's net income for the three months ended December 31, 2017 was enhanced by other non-operating income.

The Company's net income for the three months ended December 31, 2017 increased significantly compared to the Company's net income for the three months ended September 30, 2017 primarily due to an increase in other non-operating income. However, the Company's operating income for the three months ended December 31, 2017 decreased significantly compared to the Company's operating income for the three months ended September 30, 2017 primarily due to a decrease in revenue attributable to a seasonal drop in air travel following the end of the summer vacation period in the third quarter (which decrease was less than the decrease the Company experienced in the previous year between the third and fourth quarters) coupled with an increase in cost of sales, which resulted in a significant decrease in gross profit.

The phrase "with voting rights" in the first sentence in "*Principal Shareholders*" on page 55 of the Preliminary Offering Circular is deleted.

References to "3M LIBOR" and "1M HIBOR" in "*Description of Other Indebtedness*" on pages 58 and 59 of the Preliminary Offering Circular are replaced with "various interbank offered rates."

The amount "Won 998 billion" in the second sentence in "*Description of Other Indebtedness—Finance Leases*" on page 58 of the Preliminary Offering Circular is replaced with "Won 989 billion."

The percentages "2.00%" and "2.76%" in the second sentence in "*Description of Other Indebtedness—Borrowings and Debentures—Debentures*" on page 58 of the Preliminary Offering Circular are replaced with "4.00%" and "4.10%", respectively.

The percentage "3.50%" in the second sentence in "*Description of Other Indebtedness—Asset Backed Securities*" on page 59 of the Preliminary Offering Circular is replaced with "3.74%."

The following replaces the second sentence in "*Description of Other Indebtedness—Repayment of Existing Debt*" on page 59 of the Preliminary Offering Circular:

As of September 30, 2017, the scheduled payments on the Company's indebtedness, on a separate basis, are as follows:

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You are reminded that this Offering Circular has been delivered to you on the basis that you are a person into whose possession this Offering Circular may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorized to, deliver or disclose the contents of this Offering Circular to any other person. If this is not the case, you must return this Offering Circular to the Company 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 initial purchasers or any affiliate of the initial purchasers is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the initial purchasers or such affiliate on behalf of the issuer in such jurisdiction.

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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.

The information in this Preliminary Offering Circular is not complete and may be changed. This Preliminary Offering Circular is not an offer to sell these securities and it is not a solicitation of an offer to buy these securities in any jurisdictions where the offer or sale is not permitted.

PRELIMINARY OFFERING CIRCULAR DATED JANUARY 26, 2018

STRICTLY CONFIDENTIAL

Offering Circular dated _____, 2018



Korean Air Lines Co., Ltd.

US\$ _____ % Senior Unsecured Notes due 20 _____

Issue Price: _____ %

US\$ _____ % Senior Notes due 20 _____ (the "Notes") will bear interest from _____, 2018 at _____ % per annum payable semi-annually in arrears on _____ and _____ of each year, beginning _____, 2018. The Notes will mature on _____, 20 _____. The Notes are unsecured, senior obligations of Korean Air Lines Co., Ltd. (the "Company").

At any time, the Company may at its option redeem the Notes, in whole but not in part, at a redemption price equal to 100% of the principal amount of the Notes redeemed plus the Applicable Premium (as defined herein) as of, and accrued and unpaid interest, if any, to (but not including), the redemption date. At any time and from time to time, the Company may at its option redeem up to 35% of the aggregate principal amount of the Notes with the Net Cash Proceeds (as defined herein) of one or more sales of Common Stock (as defined herein) of the Company in an Equity Offering (as defined herein) at a redemption price of _____ % of the principal amount of the Notes redeemed, plus accrued and unpaid interest, if any, to (but not including) the redemption date; provided that at least 65% of the aggregate principal amount of the Notes originally issued on the Original Issue Date (as defined herein) remains outstanding after each such redemption and any such redemption takes place within 60 days after the closing of the related Equity Offering. See "*Description of the Notes — Optional Redemption.*"

Upon the occurrence of a Change of Control (as defined herein), the Company must make an offer to repurchase all Notes outstanding at a purchase price of 101% of their principal amount, plus accrued and unpaid interest, if any, to the date of repurchase.

The Notes will be (i) senior in right of payment to any existing and future obligations of the Company expressly subordinated in right of payment to the Notes; (ii) at least *pari passu* in right of payment with all other unsecured, unsubordinated Indebtedness of the Company (subject to any priority rights of such unsubordinated Indebtedness pursuant to applicable law); (iii) effectively subordinated to the secured obligations of the Company to the extent of the value of the assets serving as security therefor; and (iv) effectively subordinated to all existing and future obligations of the Company's Subsidiaries.

For a more detailed description of the Notes, see "*Description of the Notes*" beginning on page 60.

Investing in the Notes involves certain risks. See "*Risk Factors*" beginning on page 9.

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

The Notes 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 Notes and the distribution of this Offering Circular, see "*Plan of Distribution.*"

The Notes 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 _____, 2018 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 Notes will not be issued in exchange for interests in the Global Certificate.

Joint Global Coordinators, Bookrunners and Lead Managers

BOC International

Citigroup

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You should rely only on the information contained in this Offering Circular. Neither the Company nor the Initial Purchasers (as defined in “*Plan of Distribution*”) have 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 Notes. 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 Notes 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 Notes, including the merits and risks involved. The Company is not making any representation to any purchaser of the Notes regarding the legality of an investment in the Notes 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 Initial Purchasers that any recipient of this Offering Circular should purchase the Notes. 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 Notes.

The Company has furnished the information contained in this Offering Circular. No representation, undertaking or warranty, express or implied, is made by the Initial Purchasers, the Agents (as defined in “*Description of the Notes*”) 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 Initial Purchasers, the Trustee, the Agents or any of their respective affiliates or advisers. None of the Initial Purchasers, the Trustee or 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 Notes or the future performance of the Notes. Each person receiving this Offering Circular acknowledges that such person has not relied on the Initial Purchasers, the Trustee, 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 Notes. Neither the Company nor the Initial Purchasers are making an offer to sell the Notes 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 Notes 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 Notes or the distribution of this Offering Circular in any jurisdiction where action would be required for those purposes.

This Offering Circular has been prepared by the Company solely for use in connection with the proposed offering of the Notes 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 Notes. 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 Notes 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 Notes will be deemed to have made acknowledgements, representations, warranties and agreements intended to restrict the resale or other transfer of the Notes, as set forth under “*Plan of Distribution — Selling 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 Initial Purchasers (or person(s) acting on its behalf) (each, a “Stabilizing Manager”) may, subject to all applicable laws, rules and regulations, over-allot Notes or effect transactions that stabilize or maintain the market price of the Notes at a higher level than the Notes might otherwise achieve in the open market for a limited period of time after the issue date. However, there is no assurance that a Stabilizing Manager 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 “*Plan of Distribution.*”

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 Indenture (the “Indenture”) will be on file and available for inspection at the specified office of the Trustee upon prior written request during normal office hours. In accordance with the Notes and the Indenture, the Trustee also will make available for inspection by holders of the Notes (“Holders”) or, in certain cases, arrange for the mailing to such Holders, certain documents or communications received from the Company. See “*Description of the Notes.*”

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 (“K-IFRS”). The Company’s audited annual consolidated financial statements and information as of and for the years ended December 31, 2015 and 2016 and the Company’s unaudited condensed consolidated interim financial statements and information as of September 30, 2017 and for the nine months ended September 30, 2016 and 2017 included in this Offering Circular have been prepared in accordance with K-IFRS. Unless expressly stated otherwise, all financial and other information in the Offering Circular regarding the Company’s activities, financial condition and results of operations are presented on a consolidated basis.

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,” or “US\$” 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 21.8% and 32.0%, respectively, in the nine months ended September 30, 2017, 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 December 31, 2017, the Company provided services to 110 international destinations in 42 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 one of the founding members of the SkyTeam alliance, a global alliance with 20 member airlines. SkyTeam 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. In June 2017, the Company signed a joint venture agreement with Delta Air Lines allowing the carriers to market and sell each other’s seats and share costs, resources and revenues for flights within the scope of the joint venture, which is pending domestic regulatory approval.

The Company has received various awards and accolades over the years, including “Best Airline Service Provider — 2017 Global Customer Satisfaction Competency Index”, organized by Japan Management Association Consulting (“JMAC”) and the Chinese in-flight magazine ‘Han Sang’, a part of the Beijing Youth Daily Group; “Best Airline Service Provider — 2016 Global Customer Satisfaction Competency Index”, organized by the Korean Global Management Association and JMAC in 2016; “Best Airline Service Provider — 2015 Global Customer Satisfaction Competency Index” organized by JMAC 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 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 nine months ended September 30, 2016 and 2017, the Company recognized revenues of Won 8,803 billion and Won 8,985 billion, respectively, and net income of Won 85 billion and Won 420 billion, respectively.

At any time and from time to time, the Company may at its option redeem up to 35% of the aggregate principal amount of the Notes with the Net Cash Proceeds (as defined herein) of one or more sales of Common Stock (as defined herein) of the Company in an Equity Offering (as defined herein) at a redemption price of _____ % of the principal amount of the Notes redeemed, plus accrued and unpaid interest, if any, to (but not including) the redemption date; provided that at least 65% of the aggregate principal amount of the Notes originally issued on the Original Issue Date remains outstanding after each such redemption and any such redemption takes place within 60 days after the closing of the related Equity Offering. See “*Description of the Notes — Optional Redemption.*”

Repurchase of Notes Upon a Change of Control

Not later than 60 days following a Change of Control, the Company will make a Change of Control Offer (as defined herein) at a purchase price equal to 101% of the principal amount thereof plus accrued and unpaid interest, if any, to (but not including) the Offer to Purchase Payment Date (as defined herein). See “*Description of the Notes — Redemption of Notes Upon a Change of Control.*”

Redemption for Tax Reasons

Subject to certain exceptions and as more fully described herein, the Notes may be redeemed, at the option of the Company, as a whole but not in part, at a redemption price equal to 100% of the principal amount thereof, together with accrued and unpaid interest (including any Additional Amounts (as defined herein)), if any, to the date fixed by the Company for redemption as a result of certain changes in specified tax laws. See “*Description of the Notes — Redemption for Taxation Reasons.*”

Covenants

The Notes and the Indenture governing the Notes will limit the Company’s ability and, in some cases, the ability of its Subsidiaries to, among other things:

- incur or guarantee additional indebtedness;
- sell assets;
- create liens; and
- enter into transactions with certain affiliates.

These covenants are subject to a number of important qualifications and exceptions described in “*Description of the Notes — Certain Covenants.*”

Transfer Restrictions

The Notes will not be registered under the Securities Act or under any state securities laws of the United States and will be subject to customary restrictions on transfer and resale. See “*Transfer Restrictions.*”

Form, Denomination and Registration

The Notes will be issued only in fully registered form, without coupons, in minimum denominations of US\$200,000 and integral

multiples of US\$1,000 in excess thereof and will initially be represented by one or more permanent global notes registered in the name of the common depository or its nominee for the accounts of Euroclear and Clearstream.

Book-Entry Only

The Notes will be issued in book-entry form through the facilities of Euroclear and Clearstream for the accounts of its participants. For a description of certain factors relating to clearance and settlement, see “*Description of the Notes.*”

Delivery of the Notes

The Company expects to make delivery of the Notes, against payment in same-day funds, on or about _____, 2018.

Trustee

DB Trustees (Hong Kong) Limited

Paying Agent, Registrar and Transfer Agent

Deutsche Bank AG, Hong Kong Branch

Listing

Application will be made to the SGX-ST for the listing and quotation of the Notes on the SGX-ST. For so long as the Notes are listed on the SGX-ST and the rules of the SGX-ST so require, the Notes, if traded on the SGX-ST, will be traded in a minimum board lot size of S\$200,000 (or its equivalent in foreign currencies). Accordingly, the Notes, if traded on the SGX-ST, will be traded in a minimum board lot size of US\$200,000.

For so long as the Notes are listed on the SGX-ST and the rules of the SGX-ST so require, in the event that a Global Certificate is exchanged for definitive certificates, we 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, an 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.

Ratings

The Notes will not be rated.

Governing Law

The Notes and the Indenture will be governed by and will be construed in accordance with the laws of the State of New York.

ISIN/Common Code

ISIN:

Common Code:

Risk Factors

For a discussion of certain factors that should be considered in evaluating an investment in the Notes, see “*Risk Factors.*”

SUMMARY FINANCIAL INFORMATION

The following tables present summary financial information of the Company. The summary 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 financial information as of September 30, 2017 and for the nine months ended September 30, 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 nine months ended September 30, 2017 may not be indicative of its result of operations for any future interim period or for the full year 2017.

Summary Statements of Comprehensive Income (Loss) Information

	For the year ended December 31,		For the nine months ended September 30,	
	2015	2016	2016	2017
	(in billions of Won, except per share data)			
Revenue	₩11,545	₩11,732	₩8,803	₩8,985
Cost of sales	9,517	9,435	6,989	7,355
Gross profit	2,028	2,297	1,814	1,630
Selling and administrative expenses	1,144	1,176	871	910
Operating income	884	1,121	942	720
Finance income	56	51	62	58
Finance expenses	516	559	491	358
Gain (loss) on equity method	17	(112)	(122)	12
Other non-operating income	386	511	1,049	835
Other non-operating expenses	1,313	1,730	1,299	683
Income (loss) before income tax	(486)	(718)	143	583
Income tax expense (benefit)	(85)	(161)	58	162
Income (loss) from continuing operations	(401)	(557)	85	420
Income (loss) from discontinued operations	(162)	—	—	—
Income (loss) for the period	<u>₩ (563)</u>	<u>₩ (557)</u>	<u>₩ 85</u>	<u>₩ 420</u>
Income (loss) attributable to:				
Owners of the Parent Company	₩ (565)	₩ (565)	₩ 78	₩ 412
Non-controlling interests	2	8	7	8
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)	₩1,050	₩4,573
Attributable to preferred stock	(7,868)	(7,589)	1,100	4,623
Continuing operation:				
Attributable to common stock	(5,713)	(7,639)	1,050	4,573
Attributable to preferred stock	(5,663)	(7,589)	1,100	4,623

Summary Statements of Financial Position Information

	As of December 31,		As of
	2015	2016	September 30, 2017
	(in billions of Won)		
Assets			
Cash and cash equivalents	₩ 967	₩ 1,090	₩ 1,109
Trade and other receivables	951	727	844
Other current assets	1,325	1,511	2,041
Assets held for sale	46	—	163
Total current assets	<u>3,289</u>	<u>3,328</u>	<u>4,158</u>
Investments in associates	520	24	38
Property, aircraft and equipment, net	17,851	17,873	18,365
Other non-current assets	2,520	2,731	2,631
Total non-current assets	<u>20,891</u>	<u>20,628</u>	<u>21,034</u>
Total assets	<u>₩24,180</u>	<u>₩23,956</u>	<u>₩25,192</u>
Liabilities			
Trade and other payables	₩ 870	₩ 846	₩ 1,082
Short-term borrowings	869	1,168	852
Current portion of long-term liabilities	3,926	3,461	2,997
Current portion of finance lease obligations	1,234	1,714	1,256
Other current liabilities	1,551	1,942	1,933
Total current liabilities	<u>8,450</u>	<u>9,131</u>	<u>8,120</u>
Long-term borrowings	1,095	1,016	1,459
Debentures	693	83	844
Asset-backed securitization loans	1,181	1,732	1,478
Finance lease obligations	7,155	6,774	6,759
Defined benefit obligations, net	1,028	1,126	1,164
Provisions	171	179	134
Deferred revenue	1,702	1,868	2,020
Other non-current liabilities	206	173	175
Total non-current liabilities	<u>13,231</u>	<u>12,951</u>	<u>14,034</u>
Total liabilities	<u>₩21,681</u>	<u>₩22,082</u>	<u>₩22,154</u>
Equity			
Capital stock	₩ 370	₩ 370	₩ 480
Other capital surplus	818	1,198	1,875
Other capital components	405	385	359
Retained earnings	794	(193)	203
Equity attributable to owners of the Parent Company	<u>2,387</u>	<u>1,760</u>	<u>2,917</u>
Non-controlling interests	<u>112</u>	<u>114</u>	<u>121</u>
Total equity	<u>₩ 2,499</u>	<u>₩ 1,874</u>	<u>₩ 3,038</u>

Summary Statement of Cash Flows

	For the year ended December 31,		For the nine months ended September 30,	
	2015	2016	2016	2017
	(in billions of Won)			
Net cash provided by (used in) operating activities	₩ 2,728	₩ 2,806	₩ 2,334	₩ 2,172
Net cash provided by (used in) investing activities	419	(874)	(823)	(1,904)
Capital expenditures ⁽¹⁾	(1,743)	(1,145)	(948)	(1,603)
Net cash provided by (used in) financing activities	(2,997)	(1,829)	(1,459)	(210)

Note:

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

Other Financial Data

	As of or for the year ended December 31,		As of or for the nine months ended September 30,		As of or for the twelve months ended September 30,
	2015	2016	2016	2017	2017
	(in billions of Won, except percentages and ratios)				
Revenue	₩11,545	₩11,732	₩ 8,803	₩8,985	₩11,914
Adjusted EBITDA⁽¹⁾	2,578	2,905	2,295	2,017	2,626
Adjusted EBITDA margin ⁽²⁾	22.3%	24.8%	26.1%	22.4%	22.0%
Adjusted EBITDA ⁽¹⁾ / interest expense	7.0x	7.1x	7.7x	6.2x	6.1x
Net debt ⁽³⁾ / Adjusted EBITDA ⁽¹⁾	5.9x	5.2x	—	—	5.4x
Total debt ⁽⁴⁾ / Adjusted EBITDA ⁽¹⁾	6.3x	5.6x	—	—	6.0x
Total debt ⁽⁴⁾ / total capitalization ⁽⁵⁾	86.6%	89.7%		83.9%	83.9%
Adjusted EBITDA/fixed charges ⁽⁶⁾	6.2x	6.2x	6.7x	5.5x	5.3x
Total liabilities to total equity ⁽⁷⁾	868%	1,178%		729%	729%
Adjusted EBITDAR⁽⁸⁾	₩ 2,808	₩ 3,202	₩ 2,505	₩2,287	₩ 2,984
Adjusted EBITDAR margin ⁽⁹⁾	24.3%	27.3%	28.5%	25.5%	25.0%

Notes:

- (1) Adjusted EBITDA refers to the Company's income before income tax expense, before interest expense, depreciation, amortization, net gain (loss) on valuation of derivatives, net gain (loss) on derivative transactions, gain (loss) on valuation of equity method, other non-operating income and other non-operating expenses. Adjusted EBITDA is not a standard measure under K-IFRS. Adjusted EBITDA is a widely used financial indicator of a company's ability to service and incur debt. Adjusted EBITDA should not be considered in isolation or construed as an alternative to cash flows, net income or any other measure of financial performance or as an indicator of the Company's operating performance, liquidity, profitability or cash flows generated by operating, investing or financing activities. In evaluating Adjusted EBITDA, the Company believes that investors should consider, among other things, the components of Adjusted EBITDA and the amount by which Adjusted EBITDA exceeds capital expenditures and other charges. The Company has included Adjusted EBITDA because the Company believes it is a useful supplement to cash flow data as a measure of the Company's performance and the Company's ability to generate cash flow from operations to cover debt service and taxes. Adjusted EBITDA presented herein may not be comparable to similarly titled measures presented by other companies and is not intended to comply with any reporting requirement. Investors should not compare the Company's Adjusted EBITDA to EBITDA presented by other companies because not all companies use the same definition. Investors should also note that Adjusted EBITDA as presented herein may be calculated differently from Consolidated EBITDA as defined and used in the Indenture governing the Notes. Interest expense excludes amounts capitalized. See "Description of the Notes — Definitions" for a description of the manner in which Consolidated EBITDA is defined for purposes of the Indenture governing the Notes.

The following table reconciles the Company's income before income tax expense to the Company's definition of Adjusted EBITDA for the periods indicated.

	For the year ended December 31,		For the nine months ended September 30,		For the twelve months ended September 30,
	2015	2016	2016	2017	2017
	(in billions of Won)				
Income before income tax expense	₩ (486)	₩ (717)	₩ 143	₩ 583	₩ (278)
<i>Adjustment for:</i>					
Interest expense	(371)	(407)	(297)	(324)	(434)
Depreciation	(1,611)	(1,698)	(1,285)	(1,238)	(1,651)
Amortization	(40)	(53)	(39)	(34)	(48)
Net gain(loss) on valuation of derivatives	(72)	(60)	(84)	(2)	21
Net gain(loss) on derivative transactions	(61)	(73)	(76)	1	3
Gain(loss) on equity method valuation	17	(112)	(122)	12	21
Other non-operating income	386	511	1,049	835	297
Other non-operating expenses	(1,313)	(1,730)	(1,299)	(683)	(1,114)
Adjusted EBITDA	2,578	2,905	2,295	2,017	2,626

- (2) Adjusted EBITDA margin is Adjusted EBITDA divided by revenue.
- (3) Net debt is total debt minus (i) cash and cash equivalents and (ii) short-term financial instruments.
- (4) Total debt is short-term debt plus long-term debt. Short-term debt consists of short-term borrowings, short-term debentures, current portion of long-term borrowings and current portion of finance lease obligations. Long-term debt consists of long-term borrowings, debentures, asset-backed securitization loans, guaranteed loans and finance lease obligations.
- (5) Total capitalization is total debt plus total equity.
- (6) Fixed charges are the sum of interest expense, dividends from hybrid securities paid and capitalized borrowing cost. The Adjusted EBITDA/fixed charges may not be comparable to similarly titled measures presented by other companies and is not intended to comply with any reporting requirement. Investors should not compare the Company's Adjusted EBITDA/fixed charges to similarly titled measures presented by other companies because not all companies use the same definition. Investors should also note that Adjusted EBITDA/fixed charges as presented herein may be calculated differently from Fixed Charge Coverage Ratio as defined and used in the Indenture governing the Notes. See "Description of the Notes — Definitions" for a description of the manner in which Fixed Charge Coverage Ratio is defined for purposes of the Indenture governing the Notes.
- (7) Total liabilities to total equity is total liabilities on a consolidated basis divided by total equity on a consolidated basis.
- (8) Adjusted EBITDAR is Adjusted EBITDA plus rental expense.
- (9) Adjusted EBITDAR margin is Adjusted EBITDAR divided by revenue.

RISK FACTORS

An investment in the Notes 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 Notes. These risks, as well as other risks of which the Company is not currently aware or which it currently deems to be immaterial, could materially affect the Company's ability to meet its obligations under the Notes 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 Notes.

Risks Relating to the Airline Industry

Increased competition in the airline industry and competition from alternative 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, 2017, the Company is a member of the SkyTeam alliance and SkyTeam Cargo and has entered into code-sharing agreements with 35 airlines for passenger flights, including 17 members of the SkyTeam alliance and 18 airlines outside of the SkyTeam alliance, and 3 airlines for cargo flights, including two members of SkyTeam Cargo and one airline outside of SkyTeam Cargo.

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 conferencing 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.

Incheon International Airport ("Incheon Airport"), the Company's airport hub in Incheon, Korea, enjoys a geographical advantage in linking traffic between regions. However, other developing and growing hub airports in the Asia-Pacific and/or the Middle East may draw traffic away or allow traffic to by-pass Incheon Airport, which in turn may cause a decline in traffic for the Company.

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. A 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 two decades, 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.
- 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 known as "swine flu," in 2009; and the Middle East Respiratory Syndrome ("MERS"), in 2015.
- The powerful earthquake off the coast of Japan in March 2011, which triggered a violent tsunami and seriously damaged the nuclear power plant in Fukushima.

The adverse effects experienced by the airline industry due to such events include increased security and insurance costs, increased concerns about the recurrence of such events, 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. 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 US\$93 per barrel in 2014 to US\$49 per barrel in 2015 and further to US\$43 in 2016 but increased to US\$51 in 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 23.0% of its total operating expenses in the years ended December 31, 2015 and 2016 and the nine months ended September 30, 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 businesses, 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 approximately US\$65 million, approximately US\$4 million, approximately US\$4 million, approximately US\$3 million and approximately US\$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, all of which have been paid as of September 30, 2017.

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 ("The Chicago Convention") 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 September 30, 2017, Korea had air service agreements with 100 countries and 'open skies' agreements with 32 countries, including the United States, Canada, Japan, Brazil, Chile, Panama and Ecuador. 'Open skies' agreements allow airlines from each country signing the agreement to use all international airports in the other country, to form strategic alliances, to lease aircraft or crew 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 September 30, 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 9,062 billion. As of September 30, 2017, its total current assets were Won 4,158 billion, while its total current liabilities were Won 8,120 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 September 30, 2017, the amount of the Company's outstanding ABS loans was Won 2,406 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, as of January 1, 2018, the Company has firm orders for 56 new aircraft to be delivered by The Boeing Company, Airbus and Bombardier by the end of 2021 for an aggregate contract amount of US\$3,934 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 has 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 September 30, 2017, the Company operated 160 aircraft in its fleet, 76 and 30 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. dollars. 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. dollars, Renminbi and Japanese Yen. For the year ended December 31, 2016 and the nine months ended September 30, 2017, revenue and operating expenses denominated in U.S. dollars, Renminbi and Japanese Yen collectively accounted for 36.7% and 34.2% of the Company's total revenue, respectively, and 41.4% and 44.0% 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. dollars, Renminbi and Japanese Yen, respectively, and for the nine months ended September 30, 2017, 21.5%, 6.9% and 5.8% of the Company's total revenue was denominated in U.S. dollars, 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. dollars, Renminbi and Japanese Yen, respectively, and for the nine months ended September 30, 2017, 39.7%, 1.5% and 2.8% of the Company's total operating expenses was denominated in U.S. dollars, Renminbi and Japanese Yen, respectively, all on a separate basis. In addition, as of September 30, 2017, 71.6% 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 September 30, 2017, the Company had 76 aircraft under finance leases, five of which were on fixed rates and 30 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 prices, 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 its 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 damage.

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 other periods of 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 may lose future customers due to the harm caused to its reputation.

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, for reasons beyond its control, the Company is unable to guarantee that such airports will not be closed or their services suspended. 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, terrorist attack or equipment failure 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 attack, equipment failure 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, terrorist attacks or equipment failures, 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 disruptions 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 personnel.

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 personnel 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 the years ended December 31, 2015 and 2016, approximately 80% and 78%, respectively, of the Company's total bookings, and in the nine months ended September 30, 2017, approximately 79% of passenger bookings and approximately 100% of cargo 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. There can be no assurance that the Company will be able to maintain favorable relationships with third party sales outlets or be able to replace them on commercially acceptable terms or at all. The Company's revenues may be adversely impacted if third party sales outlets 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, and any negative interactions may harm the Company's reputation and 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"), which is located in 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 or may become a party to litigation or government investigation 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 legal proceedings or 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 and media coverage in connection therewith 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. Many of the Company's employees belong to one of three labor unions, and maintaining relations with labor unions can be highly complicated, requiring significant dedication of time and resources by the management. As a result, the Company has, from time to time, experienced labor disputes and has made certain concessions to its employees, most recently in connection with a strike by the Company's pilots in December 2016. If, in the future, the Company is unable to reach agreements with its labor unions on key issues, such as wages or 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 could be subject to liability or 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, hacked or otherwise improperly accessed. In the event that personal information of the Company's customers is leaked, hacked 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 Company has contractual commitments to purchase or lease aircraft it intends to operate. 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 September 30, 2017, Hanjin KAL Corp. (“Hanjin KAL”), the largest shareholder of the Company and the holding company of the Hanjin Group, owned 29.96% 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 business, 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 April 5, 2017, the Financial Services Commission imposed 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);
- decline 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 price of Korean real estate;
- the impeachment and dismissal of former President Park Geun-hye in March 2017 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 MERS 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 Notes.

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

- North Korea renounced its obligations under the Nuclear Non-Proliferation Treaty in January 2003 and conducted six rounds of nuclear tests since October 2006, including claimed detonations of hydrogen bombs, which are more powerful than plutonium bombs, and warheads that can be mounted on ballistic missiles. Over the years, North Korea has also conducted a series of ballistic missile tests, including missiles launched from submarines and intercontinental ballistic missiles that it claims can reach the United States mainland. In response, the Government has repeatedly condemned the provocations and flagrant violations of relevant United Nations Security Council resolutions. In February 2016, the Government also closed the inter-Korea Gaesong Industrial Complex in response to North Korea's fourth nuclear test in January 2016. Internationally, the United Nations Security Council has passed a series of resolutions condemning North Korea's actions and significantly expanding the scope of sanctions applicable to North Korea, most recently in December 2017 in response to North Korea's intercontinental ballistic missile test in November 2017. Over the years, the United States and the European Union have also expanded their sanctions applicable to North Korea.
- In August 2015, two Korean soldiers were injured in a landmine explosion near the 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, results of operations and the market value of the Notes.

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.

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 this offering and the Notes.

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 judgments obtained in foreign courts against them or the Company. 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 Notes

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

Each potential investor in the Notes 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 Notes, the merits and risks of investing in the Notes 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 Notes and the impact the Notes will have on its overall investment portfolio;
- have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, 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 Notes 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 Notes 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 Notes unless it has the expertise (either alone or with the help of a financial adviser) to evaluate how the Notes will perform under changing conditions, the resulting effects on the value of the Notes and the impact this investment will have on the potential investor's overall investment portfolio.

The Notes are unsecured obligations and the Company may not be able to satisfy its obligations to Holders upon an event of default.

The Notes and the Company's existing debt agreements contain customary cross-acceleration or cross-default provisions. As a result, the Company's default under one debt obligation, including the Notes, may cause the acceleration of repayment or default of the Company's other debt obligations. If any of these events occur, the Company's assets and cash flow may be insufficient to repay its unsecured indebtedness, including the Notes, in full if at all.

The Company's operations are restricted by the terms of the Notes, which could limit its ability to plan for or to react to market conditions or meet its capital needs.

The Notes include a number of significant restrictive covenants. These covenants limit, among other things, the Company's ability to:

- incur or guarantee additional indebtedness;
- sell assets;
- create liens; and
- enter into transactions with affiliates.

These covenants could limit the Company's ability to plan for or react to market conditions or to meet its capital needs. The Company's ability to comply with these covenants may be affected by events beyond its control, and it may have to curtail some of its operations and growth plans to maintain compliance.

Although the Notes restricts the Company from incurring additional debt and contingent liabilities, these restrictions are subject to important exceptions and qualifications.

The Company has a substantial amount of indebtedness. See "Description of Other Indebtedness." As of September 30, 2017, the Company's total liabilities was Won 22,154 billion compared to its total assets of Won 25,192 billion. The Company continues to expect to incur additional indebtedness during its ordinary course of business to finance its operations.

The Notes prohibit the Company from incurring additional indebtedness unless (i) it is able to satisfy certain financial ratios or (ii) it is able to incur such additional indebtedness pursuant to any of the exceptions to the financial ratio requirement, and meet other applicable restrictions. If the Company incurs significant amounts of additional debt through these exceptions, the risks that the Company faces due to its indebtedness and leverage could intensify and limit the Company's ability to satisfy its obligations under the Notes.

A trading market for the Notes may not develop and there are restrictions on resale of the Notes.

The Notes are a new issue of securities for which there is currently no trading market. Application will be made to the SGX-ST for the listing and quotation of the Notes on the SGX-ST. The Company may not be able to maintain the listing of the Notes on the SGX-ST and even if it were able to, a liquid trading market may not develop. If no active trading market develops, you may not be able to resell your Notes at their fair market value or at all. Future trading prices of the Notes will depend on many factors, including prevailing interest rates, the Company's operating results and the market for similar securities. The Company has been advised that the Initial Purchasers intend to make a market in the Notes, but the Initial Purchasers are not obligated to do so and may discontinue such market making activity at any time without notice. In addition, the Notes are being offered pursuant to an exemption from registration under the Securities Act. See "*Transfer Restrictions.*" The Company cannot predict whether an active trading market for the Notes will develop or be sustained.

The liquidity and price of the Notes following the offering may be volatile.

The price and trading volume of the Notes 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 acquisitions, interest rates and fluctuations in prices of securities of comparable companies may affect the price of the Notes. Any such developments may result in large and sudden changes in the trading volume and price of the Notes.

The Notes will initially be held in book-entry form, and therefore you must rely on the procedures of the relevant clearing systems to exercise any rights and remedies.

The Notes will initially only be issued in global certificated form and held through Euroclear and Clearstream. Interests in the global notes representing the Notes will trade in book-entry form only, and notes in definitive registered form will be issued in exchange for book-entry interests only in very limited circumstances. Owners of book-entry interests will not be considered owners or holders of the Notes for purposes of the Indenture. Accordingly, you must rely on the procedures of Euroclear and Clearstream, and if you are not a participant in Euroclear and Clearstream, on the procedures of the participant through which you own your interest, to exercise any rights and obligations of a holder of the Notes under the Indenture. Upon the occurrence of an Event of Default (as defined herein) under the Notes, unless and until definitive registered notes are issued with respect to all book-entry interests, if you own a book-entry interest, you will be restricted to acting through Euroclear and Clearstream. The procedures to be implemented through Euroclear and Clearstream may not be adequate to ensure the timely exercise of rights under the Notes. See "*Description of the Notes — Book-Entry; Delivery and Form.*"

The Trustee may request holders of Notes to provide an indemnity, security and/or pre-funding to its satisfaction.

Under certain circumstances, including without limitation giving notice to the Company upon an event of default and taking enforcement steps pursuant to the terms of the Indenture, the Trustee may, at its sole discretion, request Holders to provide an indemnity, security and/or pre-funding to its satisfaction before it takes actions on behalf of Holders. The Trustee shall not be obliged to take any such actions if not indemnified, secured and/or pre-funded to its satisfaction. Negotiating and agreeing to an indemnity, security and/or pre-funding can be a lengthy process and may impact on when such actions can be taken. The Trustee may not be able to take actions,

notwithstanding the provision of an indemnity, security and/or pre-funding to it, in breach of the terms of the Indenture and in circumstances where there is uncertainty or dispute as to the applicable laws or regulations and, to the extent permitted by the agreements and the applicable law, it will be for the Holders to take such actions directly.

USE OF PROCEEDS

The net proceeds of this offering, after deducting a combined management and underwriting commission but not estimated expenses of this offering, will be approximately US\$. The Company intends to use the net proceeds from this offering to refinance its U.S. dollar denominated aircraft finance leases.

CAPITALIZATION

The following table sets forth the Company's capitalization, defined for the purposes of this Offering Circular as the sum of its short-term and long-term debt and its equity, as of September 30, 2017:

	As of September 30, 2017⁽¹⁾	
	(in billions of Won)	
	Actual	As adjusted
Short-term debt		
Short-term borrowings	₩ 852	₩ 852
Short-term debentures	220	220
Current portion of long-term liabilities	2,997	2,997
Current portion of finance lease obligations	1,256	1,256
Total short-term debt	₩ 5,325	₩ 5,325
Long-term debt		
Long-term borrowings	₩ 1,459	₩ 1,459
Debentures	844	844
Asset-backed securitization loans	1,478	1,478
Finance lease obligations	6,759	6,759
Notes to be issued hereby	—	—
Total long-term debt	₩10,540	₩
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	1,875	1,875
Other capital components	360	360
Retained earnings	203	203
Non-controlling interest	121	121
Total equity	₩ 3,038	₩ 3,038
Total capitalization	₩18,903	₩

Note:

- (1) Other than as described herein, there has been no material adverse change in the capitalization of the Company since September 30, 2017.

EXCHANGE RATES

The table below sets forth, for the periods and dates indicated, information concerning the market average exchange rate announced by the Seoul Money Brokerage Services, Ltd. (the “Market Average Exchange Rate”). 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.

<u>Period</u>	<u>At End of Period</u>	<u>Average Rate⁽¹⁾</u>	<u>High</u>	<u>Low</u>
		(Won per US\$1.00)		
2013	1,055.3	1,095.0	1,159.1	1,051.5
2014	1,099.2	1,053.2	1,118.3	1,008.9
2015	1,172.0	1,131.5	1,203.1	1,068.1
2016	1,208.5	1,160.5	1,240.9	1,093.2
2017	1,071.4	1,130.8	1,208.5	1,071.4
July	1,119.1	1,134.4	1,155.8	1,112.5
August	1,122.8	1,130.8	1,146.3	1,118.0
September	1,146.7	1,131.6	1,146.7	1,122.7
October	1,125.0	1,131.6	1,145.7	1,124.7
November	1,082.4	1,105.0	1,121.2	1,082.4
December	1,071.4	1,085.8	1,093.4	1,071.4
2018 (through January 24)	1,069.7	1,066.7	1,071.4	1,061.3

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 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 Rate 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 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 financial information as of September 30, 2017 and for the nine months ended September 30, 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 nine months ended September 30, 2017 may not be indicative of its results of operations for any future interim period or for the full year of 2017.

Selected Statements of Comprehensive Income (Loss) Information

	For the year ended December 31,		For the nine months ended September 30,	
	2015	2016	2016	2017
	(in billions of Won, except per share data)			
Revenue	₩ 11,545	₩ 11,732	₩ 8,803	₩ 8,985
Cost of sales	9,517	9,435	6,989	7,355
Gross profit	2,028	2,297	1,814	1,630
Selling and administrative expenses	1,144	1,176	871	910
Operating income	884	1,121	942	720
Finance income	56	51	62	58
Finance expenses	516	559	491	358
Gain (loss) on equity method	17	(112)	(122)	12
Other non-operating income	386	511	1,049	835
Other non-operating expenses	1,313	1,730	1,299	683
Income (loss) before income tax	(486)	(718)	143	583
Income tax expense (benefit)	(85)	(161)	58	162
Income (loss) from continuing operations	(401)	(557)	85	420
Income (loss) from discontinued operations	(162)	—	—	—
Income (loss) for the period	<u>₩ (563)</u>	<u>₩ (557)</u>	<u>₩ 85</u>	<u>₩ 420</u>
Income (loss) attributable to:				
Owners of the Parent Company	₩ (565)	₩ (565)	₩ 78	₩ 412
Non-controlling interests	2	8	7	8
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)	₩ 1,050	₩ 4,573
Attributable to preferred stock	(7,868)	(7,589)	1,100	4,623
Continuing operation:				
Attributable to common stock	(5,713)	(7,639)	1,050	4,573
Attributable to preferred stock	(5,663)	(7,589)	1,100	4,623

Selected Statements of Financial Position Information

	As of December 31,		As of
	2015	2016	September 30, 2017
	(in billions of Won)		
Assets			
Cash and cash equivalents	₩ 967	₩ 1,090	₩ 1,109
Trade and other receivables	951	727	844
Other current assets	1,325	1,511	2,041
Assets held for sale	46	—	163
Total current assets	<u>3,289</u>	<u>3,328</u>	<u>4,158</u>
Investments in associates	520	24	38
Property, aircraft and equipment, net	17,851	17,873	18,365
Other non-current assets	2,520	2,731	2,631
Total non-current assets	<u>20,891</u>	<u>20,628</u>	<u>21,034</u>
Total assets	<u>₩24,180</u>	<u>₩23,956</u>	<u>₩25,192</u>
Liabilities			
Trade and other payables	₩ 870	₩ 846	₩ 1,082
Short-term borrowings	869	1,168	852
Current portion of long-term liabilities	3,926	3,461	2,997
Current portion of finance lease obligations	1,234	1,714	1,256
Other current liabilities	1,551	1,942	1,933
Total current liabilities	<u>8,450</u>	<u>9,131</u>	<u>8,120</u>
Long-term borrowings	1,095	1,016	1,459
Debentures	693	83	844
Asset-backed securitization loans	1,181	1,732	1,478
Finance lease obligations	7,155	6,774	6,759
Defined benefit obligations, net	1,028	1,126	1,164
Provisions	171	179	134
Deferred revenue	1,702	1,868	2,020
Other non-current liabilities	206	173	175
Total non-current liabilities	<u>13,231</u>	<u>12,951</u>	<u>14,034</u>
Total liabilities	<u>₩21,681</u>	<u>₩22,082</u>	<u>₩22,154</u>
Equity			
Capital stock	₩ 370	₩ 370	₩ 480
Other capital surplus	818	1,198	1,875
Other capital components	405	385	359
Retained earnings	794	(193)	203
Equity attributable to owners of the Parent Company	<u>2,387</u>	<u>1,760</u>	<u>2,917</u>
Non-controlling interests	<u>112</u>	<u>114</u>	<u>121</u>
Total equity	<u>₩ 2,499</u>	<u>₩ 1,874</u>	<u>₩ 3,038</u>

Selected Statements of Cash Flows

	For the year ended December 31,		For the nine months ended September 30,	
	2015	2016	2016	2017
	(in billions of Won)			
Net cash provided by (used in) operating activities	₩ 2,728	₩ 2,806	₩ 2,334	₩ 2,172
Net cash provided by (used in) investing activities	419	(874)	(823)	(1,904)
Capital expenditures ⁽¹⁾	(1,743)	(1,145)	(948)	(1,603)
Net cash provided by (used in) financing activities	(2,997)	(1,829)	(1,459)	(210)

Note:

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

Other Financial Data

	As of or for the year ended December 31,		As of or for the nine months ended September 30,		As of or for the twelve months ended September 30,
	2015	2016	2016	2017	2017
	(in billions of Won, except percentages and ratios)				
Revenue	₩11,545	₩11,732	₩ 8,803	₩8,985	₩11,914
Adjusted EBITDA⁽¹⁾	2,578	2,905	2,295	2,017	2,626
Adjusted EBITDA margin ⁽²⁾	22.3%	24.8%	26.1%	22.4%	22.0%
Adjusted EBITDA ⁽¹⁾ / interest expense	7.0x	7.1x	7.7x	6.2x	6.1x
Net debt ⁽³⁾ / Adjusted EBITDA ⁽¹⁾	5.9x	5.2x	—	—	5.4x
Total debt ⁽⁴⁾ / Adjusted EBITDA ⁽¹⁾	6.3x	5.6x	—	—	6.0x
Total debt ⁽⁴⁾ / total capitalization ⁽⁵⁾	86.6%	89.7%		83.9%	83.9%
Adjusted EBITDA/fixed charges ⁽⁶⁾	6.2x	6.2x	6.7x	5.5x	5.3x
Total liabilities to total equity ⁽⁷⁾	868%	1,178%		729%	729%
Adjusted EBITDAR⁽⁸⁾	₩ 2,808	₩ 3,202	₩ 2,505	₩2,287	₩ 2,984
Adjusted EBITDAR margin ⁽⁹⁾	24.3%	27.3%	28.5%	25.5%	25.0%

Notes:

- (1) Adjusted EBITDA refers to the Company's income before income tax expense, before interest expense, depreciation, amortization, net gain (loss) on valuation of derivatives, net gain (loss) on derivative transactions, gain (loss) on valuation of equity method, other non-operating income and other non-operating expenses. Adjusted EBITDA is not a standard measure under K-IFRS. Adjusted EBITDA is a widely used financial indicator of a company's ability to service and incur debt. Adjusted EBITDA should not be considered in isolation or construed as an alternative to cash flows, net income or any other measure of financial performance or as an indicator of the Company's operating performance, liquidity, profitability or cash flows generated by operating, investing or financing activities. In evaluating Adjusted EBITDA, the Company believes that investors should consider, among other things, the components of Adjusted EBITDA and the amount by which Adjusted EBITDA exceeds capital expenditures and other charges. The Company has included Adjusted EBITDA because the Company believes it is a useful supplement to cash flow data as a measure of the Company's performance and the Company's ability to generate cash flow from operations to cover debt service and taxes. Adjusted EBITDA presented herein may not be comparable to similarly titled measures presented by other companies and is not intended to comply with any reporting requirement. Investors should not compare the Company's Adjusted EBITDA to EBITDA presented by other companies because not all companies use the same definition. Investors should also note that Adjusted EBITDA as presented herein may be calculated differently from Consolidated EBITDA as defined and used in the Indenture governing the Notes. Interest expense excludes amounts capitalized. See "Description of the Notes — Definitions" for a description of the manner in which Consolidated EBITDA is defined for purposes of the Indenture governing the Notes.

The following table reconciles the Company's income before income tax expense to the Company's definition of Adjusted EBITDA for the periods indicated.

	For the year ended December 31,		For the nine months ended September 30,		For the twelve months ended September 30,
	2015	2016	2016	2017	2017
	(in billions of Won)				
Income before income tax expense	₩ (486)	₩ (717)	₩ 143	₩ 583	₩ (278)
<i>Adjustment for:</i>					
Interest expense	(371)	(407)	(297)	(324)	(434)
Depreciation	(1,611)	(1,698)	(1,285)	(1,238)	(1,651)
Amortization	(40)	(53)	(39)	(34)	(48)
Net gain(loss) on valuation of derivatives	(72)	(60)	(84)	(2)	21
Net gain(loss) on derivative transactions	(61)	(73)	(76)	1	3
Gain(loss) on equity method valuation	17	(112)	(122)	12	21
Other non-operating income	386	511	1,049	835	297
Other non-operating expenses	(1,313)	(1,730)	(1,299)	(683)	(1,114)
Adjusted EBITDA	2,578	2,905	2,295	2,017	2,626

- (2) Adjusted EBITDA margin is Adjusted EBITDA divided by revenue.
- (3) Net debt is total debt minus (i) cash and cash equivalents and (ii) short-term financial instruments.
- (4) Total debt is short-term debt plus long-term debt. Short-term debt consists of short-term borrowings, short-term debentures, current portion of long-term borrowings and current portion of finance lease obligations. Long-term debt consists of long-term borrowings, debentures, asset-backed securitization loans, guaranteed loans and finance lease obligations.
- (5) Total capitalization is total debt plus total equity.
- (6) Fixed charges are the sum of interest expense, dividends from hybrid securities paid and capitalized borrowing cost. The Adjusted EBITDA/fixed charges may not be comparable to similarly titled measures presented by other companies and is not intended to comply with any reporting requirement. Investors should not compare the Company's Adjusted EBITDA/fixed charges to similarly titled measures presented by other companies because not all companies use the same definition. Investors should also note that Adjusted EBITDA/fixed charges as presented herein may be calculated differently from Fixed Charge Coverage Ratio as defined and used in the Indenture governing the Notes. See "Description of the Notes — Definitions" for a description of the manner in which Fixed Charge Coverage Ratio is defined for purposes of the Indenture governing the Notes.
- (7) Total liabilities to total equity is total liabilities on a consolidated basis divided by total equity on a consolidated basis.
- (8) Adjusted EBITDAR is Adjusted EBITDA plus rental expense.
- (9) Adjusted EBITDAR margin is Adjusted EBITDAR divided by revenue.

BUSINESS

Overview

The Company is the leading airline in Korea in terms of total passengers and cargo carried, with market shares of 21.8% and 32.0%, respectively, in the nine months ended September 30, 2017, 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 December 31, 2017, the Company provided services to 110 international destinations in 42 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 one of the founding members of the SkyTeam alliance, a global passenger alliance with 20 member airlines. SkyTeam 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. In June 2017, the Company signed a joint venture agreement with Delta Air Lines allowing the carriers to market and sell each other's seats and share costs, resources and revenues for flights within the scope of the joint venture, which is pending domestic regulatory approval.

The Company has received various awards and accolades over the years, including "Best Airline Service Provider — 2017 Global Customer Satisfaction Competency Index", organized by JMAC and the Chinese in-flight magazine 'Han Sang', a part of the Beijing Youth Daily Group; "Best Airline Service Provider — 2016 Global Customer Satisfaction Competency Index", organized by the Korean Global Management Association and JMAC in 2016; "Best Airline Service Provider — 2015 Global Customer Satisfaction Competency Index" organized by JMAC 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 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 nine months ended September 30, 2016 and 2017, the Company recognized revenues of Won 8,803 billion and Won 8,985 billion, respectively, and net income of Won 85 billion and Won 420 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 September 30, 2017, Hanjin KAL was the largest shareholder of the Company and owned 29.96% 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, such as the Boeing 787-9, Bombardier CS300 and Airbus 321NEO. 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 December 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,				Nine Months Ended September 30,			
	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%	5,368	61.0%	5,300	59.0%
Cargo	2,615	22.7	2,444	20.8	1,737	19.7	2,012	22.4
Others ⁽¹⁾	1,070	9.3	1,219	10.4	896	10.2	929	10.3
Other Services								
Aerospace	914	7.9	899	7.7	654	7.4	565	6.3
Catering	94	0.8	98	0.8	74	0.8	74	0.8
Hotel/Limousine	39	0.3	44	0.4	33	0.4	51	0.6
Others ⁽²⁾	140	1.2	62	0.5	41	0.5	53	0.6
Total	11,545	100.0%	11,732	100.0%	8,803	100.0%	8,985	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 8,241 billion, or 89.7%, 90.6% and 91.7% of the Company's total revenues, respectively, for the years ended December 31, 2015 and 2016 and the nine months ended September 30, 2017, respectively.

Passenger Services Business

The Company maintains a global network of passenger services. As of December 31, 2017, the Company operated passenger flights connecting 111 destinations (13 domestic and 98 international) in 37 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 2018, the Company plans to increase capacity globally on routes with higher demand.

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

<u>Regions</u>	<u>Routes</u>	<u>Destination Cities</u>
Domestic	13	Incheon, Seoul, Busan, Jeju, Gwangju, Daegu, Yeosu, Ulsan, Jinju, Gunsan, Cheongju, Wonju, Pohang
Japan	12	Tokyo, Osaka, Nagoya, Fukuoka, Kagoshima, Niigata, Okayama, Sapporo, Aomori, Komatsu, Oita*, Okinawa
China, Taiwan and Mongolia	28	Beijing, Tianjin, Qingdao, Shanghai, Guangzhou, Xiamen, Shenyang, Wuhan, Kunming, Jinan, Weihai, Mudanjiang, Yanji, Shenzhen, Dalian, Changsha, Zhengzhou, Xian, Huangshan, Hangzhou, Urumqi*, Nanjing, Hefei, Nanning, Guiyang, Hong Kong, Taipei, Ulaanbaatar
Southeast Asia, India and Guam	22	Bangkok, Phuket, Chiang Mai, Singapore, Manila, Cebu, Jakarta, Denpasar-Bali, Kuala Lumpur, Mumbai, Delhi, Ho Chi Minh City, Hanoi, Da Nang, Nha Trang, Kathmandu, Yangon, Phnom Penh, Colombo, Male, Koror-Palau Island, Guam
Oceania	4	Sydney, Brisbane, Nadi, Auckland
Americas	13	Los Angeles, New York, Chicago, Atlanta, Dallas, San Francisco, Seattle, Washington, Honolulu, Las Vegas, Houston*, Vancouver, Toronto
Europe	13	Paris, Frankfurt, London, Zurich, Amsterdam, Rome, Milan, Vienna, Madrid, Barcelona, Prague, Istanbul, Tel Aviv
Russia, Mongolia and Central Asia	5	Moscow, Vladivostok, St. Petersburg*, Irkutsk*, Tashkent
Middle East and Africa	<u>1</u>	Dubai
Total	111	

* Temporarily suspended

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,		Nine Months Ended September 30,	
	2015	2016	2016	2017
Number of seats flown (in thousands)	33,365	34,850	26,317	26,019
Domestic	10,078	10,180	7,669	7,865
International	23,287	24,670	18,648	18,154
Passengers carried (in thousands)	24,968	26,910	20,366	20,158
Domestic	7,380	7,861	5,929	6,084
International	17,589	19,049	14,437	14,074
Load factor (%)	77%	79%	79%	80%
Domestic (%)	74%	78%	78%	78%
International (%)	77%	79%	79%	80%
Yield (Won)	93	92	93	90
ASK (millions)	93,142	96,654	73,332	73,265
Domestic	3,665	3,708	2,800	2,851
International	89,477	92,946	70,532	70,414
RPK (millions)	71,647	75,908	57,684	58,750
Domestic	2,699	2,879	2,180	2,220
International	68,948	73,029	55,504	56,530

Cargo Services Business

The Company's cargo services extended to 40 cities in 25 countries as of December 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 2,012 billion in revenues, which constituted approximately 22.7%, 20.8% and 22.4% of total revenues, respectively, in the years ended December 31, 2015 and 2016, and the nine months ended September 30, 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 December 31, 2017:

<u>Destination</u>	<u>Routes</u>	<u>Destination Cities</u>
Domestic	1	Incheon
Japan	2	Tokyo, Osaka
China	4	Tianjin, Shanghai, Guangzhou, Hong Kong
Southeast Asia	6	Singapore, Jakarta, Kuala Lumpur, Penang, Ho Chi Minh City, Hanoi
Americas	15	Los Angeles, New York, Chicago, Atlanta, Dallas, San Francisco, Seattle, Miami, Anchorage, Vancouver, Toronto, São Paulo, Lima, Guadalajara, Santiago
Europe/Middle East/ CIS/Africa	12	Paris, Frankfurt, London, Basel, Amsterdam, Milan, Stockholm, Vienna, Zaragoza, Oslo, Moscow, Navoi
Total	40	

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:

	<u>Year Ended December 31,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2015</u>	<u>2016</u>	<u>2016</u>	<u>2017</u>
AFTK (millions)	10,614	10,621	7,871	8,090
RFTK (millions)	8,266	8,164	5,959	6,313
Load Factor (%)	78%	77%	76%	78%
Yield (Won)	287	269	261	289

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:

<u>Airports</u>	<u>Opened</u>	<u>Capacity (in tons)</u>	<u>Owned/Leased</u>
Incheon Terminal 1	March 2001	1,430,000	Owned
Incheon Terminal 2	August 2007	230,000	Owned
Los Angeles	December 1981	125,000	Owned
New York	December 2000	200,000	Owned
Tokyo	January 1985	35,000	Leased
Osaka	September 1994	34,000	Leased
Gimpo	October 1988	183,000	Leased
Busan	February 2009	70,000	Leased
Jeju	August 2000	104,000	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 December 31, 2017, the Company operated a fleet of 161 aircraft, including 133 passenger aircraft and 28 cargo aircraft. The average age of the Company's fleet was 9.2 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 December 31, 2017:

<u>Aircraft Type</u>	<u>Owned</u>	<u>Leased</u>	<u>Total</u>
Passenger aircraft:			
Airbus 380-800	2	8	10
Airbus 330-300	9	12	21
Airbus 330-200	3	5	8
Boeing 747-400	4	0	4
Boeing 747-8I	2	8	10
Boeing 777-200ER	13	1	14
Boeing 777-300/300ER	3	21	24
Boeing 737-900/900ER	11	11	22
Boeing 737-800	0	13	13
Boeing 787-9	0	5	5
Bombardier CS300	0	2	2
Total Passenger*	47	86	133
Cargo aircraft:			
Boeing 747-400F/ERF	8	1	9
Boeing 747-8F	0	7	7
Boeing 777-F	0	12	12
Total Cargo	8	20	28
Total Fleet	<u>55</u>	<u>106</u>	<u>161</u>

* Aircraft subleased from Korean Air to Jin Air not included.

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 56 new aircraft are to be delivered between 2018 and 2021 from Boeing, Airbus and Bombardier. Currently, the Company is operating seven types of aircraft, including the Boeing 787-9, 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 Boeing 787-9, 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 the 747-8I passenger aircraft were introduced in 2015. By operating the 787-9, 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. The Company will take delivery of ten Bombardier CS300s between 2017 and 2018 to meet the large demand for Korean domestic and Japanese feeder lines. With the Bombardier CS300s, the Company expects to gain significant operating efficiencies for short-haul routes lasting less than three hours.

Beginning in 2019, the Company will start taking delivery of Airbus 321NEOs aircraft, which are optimized for short- to mid-haul routes and will replace older aircraft.

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 US\$3,934 million from 2018 to 2021. The Company plans to fund such acquisitions primarily through finance leases. The Company's finance leases are provided through foreign export credit agencies (including U.S. EXIM, Bpifrance 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 through 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 over 500,000 flights per year with rated capacity for 72 million passengers and 5.0 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 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, and the Company has been providing its services from this terminal since January 18, 2018. In 2017, the Company accounted for approximately 27.1% and 44.9% 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 2017, Gimpo Airport had approximately 23 million travelers, and the volume of cargo traffic was approximately 245,000 tons. In 2017, the Company accounted for approximately 25.3% and 39.8% 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 co-ordinator who acts in accordance with guidelines laid down by the IATA, sometimes supported by the local scheduling committee or co-ordination 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.

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 January 1, 2018, the Company had 52 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., Ltd., 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 opened the Intercontinental Los Angeles Downtown Hotel and the Wilshire Grand Center after completing redevelopment 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 September 30, 2017, Korea had air service agreements with 100 countries and 'open skies' agreements with 32 countries for passenger routes and 42 countries for cargo routes, including the United States, Canada, Japan, Brazil, Chile, Panama and Ecuador. 'Open skies' agreements allow airlines on either side of the agreement to use all international airports of the other, to form strategic alliances, to lease airplanes or crew and share international routes with other airlines.

Flight Safety

Safety is the Company's top priority. The Company completed its eighteenth consecutive fatal-accident-free and zero hull loss year of operation in 2017 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 96.6% between January 1, 2014 and September 30, 2017, based on MOLIT numbers.

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 the years ended December 31, 2015 and 2016, approximately 80% and 78%, respectively, of the Company's total bookings, and in the nine months ended September 30, 2017, approximately 79% of passenger bookings and nearly 100% of cargo 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 106 sales offices in 37 countries as of November 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 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 November 30, 2017, SKYPASS had approximately 26 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. The Group's deferred income in connection with the SKYPASS system recognized in the condensed consolidated statements of financial position as of September 30, 2017, amounted to Won 2,053 billion, including Won 33 billion of advance receipts from customers and Won 2,020 billion of deferred revenue. See Note 26 of the notes to the Company's condensed consolidated interim financial statements as of September 30, 2017 and December 31, 2016 and for the nine months ended September 30, 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 December 31, 2017, the SkyTeam 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 1,074 destinations in approximately 177 countries with approximately 16,600 daily flights and approximately 730 million annual passengers. The SkyTeam alliance is focused 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. SkyTeam Cargo'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 alliance, SkyTeam Cargo 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 December 31, 2017, SkyTeam Cargo had 11 members.

The following table sets forth members of the SkyTeam alliance and SkyTeam Cargo as of December 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	11	Aeroflot Cargo, Aerolíneas Argentinas Cargo, Aeroméxico Cargo, Air France-KLM Cargo, Alitalia Cargo, China Airlines Cargo, China Cargo Airlines, China Southern Cargo, Czech Airlines Cargo, Delta 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.

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, 2017, the Company had bilateral code-sharing agreements for passenger flights with 35 airlines, including 17 members of the SkyTeam alliance and 18 airlines outside of the SkyTeam alliance.

Joint Venture with Delta Air Lines

In June 2017, the Company and Delta Air Lines signed a joint venture agreement allowing the carriers to market and sell each other's seats and share costs, resources and revenues for flights within the scope of the joint venture. The joint venture was approved by the U.S. Department of Transportation in November 2017 and is currently pending approval by South Korean regulators. Through the joint venture, the Company and Delta Air Lines expect to increase sales and operational efficiency by combining their existing sales networks.

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 2017, the Company had approximately 27.1% 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 2017, the Company's market share was approximately 22.9% 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 Airways.

Insurance

The Company has an aviation insurance policy arranged by AON, providing insurance coverage in respect of loss or damage to its aircraft (including spares) and in respect of aircraft third party, general third party, passenger, baggage, cargo and mail legal liability. The aviation insurance policy is provided by a syndicate of insurers and reinsurers in the international market, and the maximum coverage for hull insurance under the policy is US\$400 million per aircraft and the maximum coverage for liability under any one accident is US\$2.25 billion per aircraft, subject to certain deductibles.

The Company also maintains a package insurance policy providing insurance coverage for tangible property (including 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 September 30, 2017, the Company had approximately 18,369 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 57% of the Company's employees are KALU members and approximately 45% and 27% 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.*" The Company has, from time to time, experienced labor disputes and has made certain concessions to its employees. In 2016, the Company entered into an agreement with KALU for a 3.2% increase in wages.

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 August 2007, two civil class action lawsuits were filed against the Company in Canada by purchasers of passenger tickets, with one of the claims being amended and refiled in 2015. Because no further developments have occurred since, the outcome or impact of the litigation to the Company is not predictable.

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 US\$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 ongoing, the outcome or impact of the litigation to the Company is not predictable.

In June 2015, five airline companies, including Lufthansa, which were 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 ongoing, 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 ongoing, 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, in the reasonable judgment of its management, would 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 September 30, 2017 and December 31, 2016 and for the nine months ended September 30, 2017 and 2016 included in this Offering Circular.

GOVERNMENT REGULATION

The Company is subject to the rules and regulations governing the aerospace industry such as the Aviation Business Act and the Aviation Safety Act.

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 aerospace industry in Korea. It does not consider any regulatory facets such as those relating to company law or taxation.

Rules and Regulations Governing the Aerospace Industry

The Aviation Business Act provides that any person that intends to engage in the domestic or international aviation transportation business must obtain a license from the MOLIT. Prior to the launch of an aviation transportation business, an aviation transportation operator (an “Operator”) must obtain from the MOLIT a certification of safe operations (an “Air Operator Certificate”). Although the Air Operator Certificate would be, 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 Safety Act. The Operator must comply with the operation specifications issued by the MOLIT and maintain its original operation conditions. When an Operator’s operational safety system undergoes changes due to certain circumstances, such as the establishment of a new air route, it is subject to inspection by the MOLIT. Pursuant to the Aviation Safety Act, the Operator must establish internal regulations pertaining to the operation and repair of an aircraft and obtain approval of such internal regulations from the MOLIT prior to the commencement of the operation of the aircraft, and if the Operator plans to amend such internal regulations, it must file a report with the MOLIT, in each case in accordance with the Regulations on the Aviation Security as promulgated by the MOLIT. However, the Operator must obtain prior approval from the MOLIT if any material aspect of such internal regulations is to be amended.

An international aviation transportation operator and a small-scale aviation transportation operator (in connection with its international regular air routes) must 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 or file a report with the MOLIT pursuant to the Aviation Business Act. Also, a domestic aviation transportation operator and a small-scale aviation transportation operator (in connection with its domestic regular air routes) must announce any proposed changes to fares for passengers of its freight service at least 20 days in advance of implementing such changes pursuant to the Aviation Business Act.

An Operator must obtain the approval of the MOLIT prior to the implementation of, or amendment to, its business plan, and it must 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, in which case the Operator must file a report with the MOLIT pursuant to the Aviation Business Act. Moreover, if an Operator intends to amend the business plan, the Operator must obtain prior approval from the MOLIT pursuant to the Aviation Business Act.

If an Operator executes or amends an agreement with another aviation transportation operator (including a foreign international 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 must become effective only after the Operator has obtained prior approval from the MOLIT pursuant to the Aviation Business Act.

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 an aviation transportation business, it must first obtain prior approval from the MOLIT pursuant to the Aviation Business Act. Also, if an international aviation transportation operator intends to cease its aviation transportation business

(including but not limited to the cessation of its international air routes) or a small-scale aviation transportation operator intends to cease its international air routes, it must first obtain prior approval from the MOLIT under the Aviation Business Act. If an international aviation transportation operator intends to cease its domestic aviation transportation business (including but not limited to the cessation of its domestic air routes), it must file a report with the MOLIT.

Also, an Operator must take out aviation insurance pursuant to the Aviation Business Act 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 must 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 Safety Act (an “Aircraft Owner”) must 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 must be obtained (which certificate must be valid for one year, subject to an extension as set forth in the Regulations on the Aviation Safety as promulgated by the MOLIT, 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 or when the aircraft’s noise level has been altered after repair and remodeling pursuant to the Aviation Safety Act.

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 pursuant to the Aviation Safety Act. In case an Aircraft Owner repairs its aircraft or any equipment or part thereof, it must obtain the confirmation from the licensed aircraft repair mechanic that such aircraft, equipment or part satisfies the required technology standard pursuant to the Aviation Safety Act.

Regulations on Aircrew

Any person who intends to work in the aviation business must first obtain a certification of qualification based on the type of work from the MOLIT and be subject to medical examination prior to their employment pursuant to the Aviation Safety Act. Depending on the type of work and the position of such person, 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 aircraft operated in the airspace of two or more countries), in each case pursuant to the Aviation Safety Act.

Regulations on Operation of Aircraft

In relation to the operation of aircraft, the Aviation Safety Act sets out detailed requirements of radio equipment, aeronautical instrument, first-aid kit and fuel, aviation safety reporting obligations, rights and obligations of the captain, the 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 nine members, including five 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-standing 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.; Director, Hanjin Information Systems & Telecommunication Co., Ltd.; Director, Hanjin Travel Service Co., Ltd.
Won-Tae Cho	42	Representative Director; Vice President	March 2016	March 2018	Director, Hanjin KAL Corp. Director, Jungseok Enterprise Co., Ltd.
Ki-Hong Woo	55	Representative Director	March 2017	March 2020	Director, Wangsan Leisure Development Co., Ltd.; Director, Jedong Leisure Co., Ltd.
Soo-Geun Lee	57	Standing Director	March 2017	March 2020	Representative Director, IAT Co., Ltd., Representative Director, Wangsan Leisure Development Co., Ltd.
Seung-Yu Kim	74	Non-standing Director	March 2012	March 2018	—
Yun-Woo Lee	68	Non-standing Director	March 2009	March 2018	—
Jae-Il Kim	64	Non-standing Director	March 2016	March 2019	—
Yong-Seok Ahn	55	Non-standing Director	March 2014	March 2020	—
Jin-Soo Chung	56	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.

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.

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 the Future Leadership Center of Daewoo Shipbuilding & Marine Engineering Co., Ltd. Mr. Lee received a B.A. in business management from Seoul National University.

Jae-II 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. and an M.A. in business administration from Seoul National University and a Ph.D. in business administration from the University of California, Berkeley.

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.

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 two non-standing directors.

The Audit Committee holds regular meetings at least once each quarter, and more frequently as needed. Due to a recent resignation by one of its non-standing members, the committee is currently composed of two non-standing Directors, Yun-Woo Lee and Jin-Soo Chung. In accordance with the Korean Commercial Code, the Company plans to fill the vacancy by electing a non-standing Director at its next general meeting of shareholders. 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, Won-Tae Cho 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 three non-standing directors, Seung-Yu Kim, Jae-Il Kim, 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 September 30, 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 September 30, 2017:

<u>Principal shareholders⁽¹⁾</u>	<u>Number of shares held</u>	<u>Percentage of total shares outstanding</u>
		(%)
Hanjin KAL Corp. ⁽²⁾	28,426,706	29.62
National Pension Service ⁽³⁾	<u>9,566,137</u>	<u>9.97</u>
Total	<u><u>37,992,843</u></u>	<u><u>39.59</u></u>

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 17.70% as of September 30, 2017.
- (3) Based on information publicly disclosed by the National Pension Service.

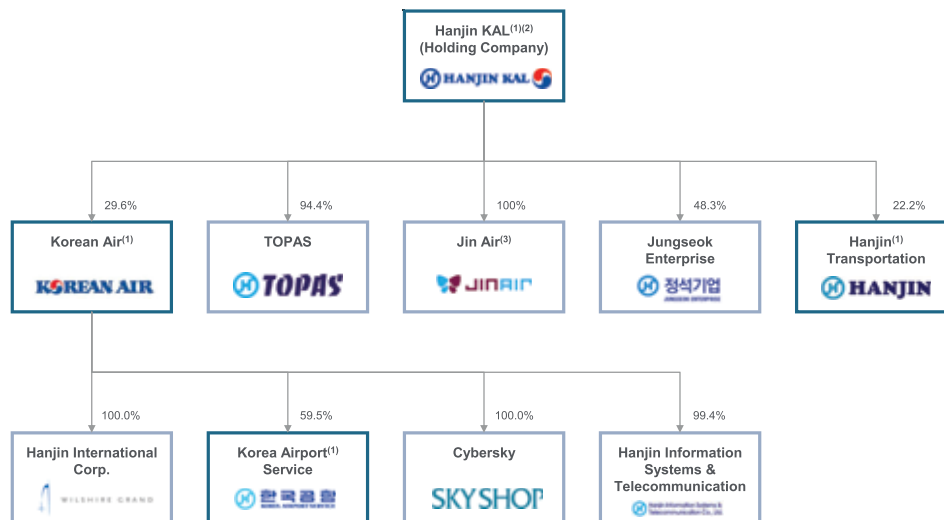
HANJIN GROUP

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 September 30, 2017, Hanjin Group had a presence on six continents and consisted of 30 companies, including four that are listed on the Korea Exchange.

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 following chart shows select member companies of the Hanjin Group and the percentage of stock ownership as of September 30, 2017:



Notes:

- (1) Listed on the Korea Exchange.
- (2) Hanjin KAL owns 29.96% of the Company’s common stock.
- (3) On December 8, 2017, Jin Air was listed on the Korea Exchange through an initial public offering. As a result, Hanjin KAL’s ownership in Jin Air decreased to 60.0%.

RELATED PARTY TRANSACTIONS

The Company from time to time engages 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 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 September 30, 2017 and December 31, 2016 and for the nine months ended September 30, 2016 and 2017, each included in this Offering Circular.

DESCRIPTION OF OTHER INDEBTEDNESS

Below is a description of other indebtedness of the Company that will remain outstanding following the issuance of the Notes. This summary does not purport to be complete and is subject to, and qualified in its entirety by reference to, the underlying documents governing such arrangements.

The financing arrangements described below generally contain customary representations and warranties, covenants, events of default and indemnification provisions.

For additional information in relation to the interest-bearing liabilities of the Company, see Notes 21, 22 and 30 to the consolidated financial statements of the Company as of and for the nine months ended September 30, 2016 and 2017 and the related notes thereto included elsewhere in this Offering Circular.

Finance Leases

The Company has entered into specialized financing arrangements in order to fund the purchase of its aircraft, usually involving one or more special purpose vehicles (“SPVs”) that purchase the aircraft using loans obtained from financial institutions and secured by the aircraft, and then lease the aircraft to the Company. As of September 30, 2017, the aggregate principal amount outstanding of the non-current portion of such financing arrangements was Won 6,759 billion, constituting 48.2% of the Company’s total non-current liabilities, with principal amounts outstanding ranging from Won 113 billion to Won 998 billion per financing arrangement, interest rates ranging from 2.74% to 5.55% (with one financing arrangement at 9.57%) for fixed rate loans and 0.25% to 3.50% plus 3M LIBOR for floating rate loans with varying maturity dates.

The financing arrangements do not require compliance with any financial covenants, but some financing arrangements restrict the Company from making reciprocal guarantees with its affiliates.

Borrowings and Debentures

Long-Term Borrowings

The Company has received long-term financings from Korea Development Bank, Korea Resource Corporation, Kookmin Bank, The Export-Import Bank of Korea, the Industrial Bank of Korea and other banks and financial institutions in local and foreign currencies. As of September 30, 2017, the aggregate principal amount outstanding of the non-current portion of such financing arrangements was Won 1,459 billion, constituting 10.4% of the Company’s total non-current liabilities, with principal amounts outstanding ranging from Won 0.3 billion to Won 487 billion per borrowing, interest rates ranging from 1.79% to 5.45% for fixed rate borrowings and 2.00% to 3.75% plus 3M LIBOR for floating rate borrowings and maturity dates ranging from April 2018 to July 2027.

The borrowings do not require compliance with any financial covenants.

Debentures

The Company’s debentures as of September 30, 2017 consists of senior unsecured fixed rate and floating rate notes guaranteed by Kookmin Bank, Shinhan Bank and The Export-Import Bank of Korea. The aggregate principal amount outstanding of the non-current portion of the debentures is Won 844 billion, constituting 6.0% of the Company’s total non-current liabilities, with principal amounts outstanding ranging from Won 10 billion to Won 344 billion per series of debentures, interest rates ranging from 2.00% to 4.90% for fixed rate debentures and 0.88% to 2.76% plus 3M LIBOR for floating rate debentures and maturity dates ranging from October 2017 to September 2020.

Some of the debentures require compliance with a number of financial covenants, including maintaining a debt-to-equity ratio of lower than 10:1 or 15:1 and granting of security interests in the aggregate amount of less

than 400% of shareholders' equity. Other covenants include a restriction from disposing of assets in an aggregate amount greater than Won 2,000 billion in a fiscal year.

Asset Backed Securities

The Company utilizes ABSs backed by cash or credit card receivables from its domestic and foreign air transport businesses to obtain financing for its business operations. As of September 30, 2017, the aggregate principal amount outstanding of non-current ABS financings was Won 1,478 billion, constituting 10.5% of the Company's total non-current liabilities, with principal amounts outstanding ranging from Won 23 billion to Won 900 billion per series of ABSs, weighted average interest rates ranging from 1.43% to 5.11% for fixed rate ABSs and 3.00% to 3.50% plus 1M HIBOR for floating rate ABSs and maturity dates ranging from November 2017 to April 2022.

Some of the ABSs require compliance with a number of financial covenants, including maintaining a debt-to-equity ratio of lower than 10:1 and maintaining an EBITDAR to interest expense ratio of lower than 1:1, in each case as evidenced by its latest available audited annual financial statements. Other covenants include a restriction against non-ordinary course transactions which may have a material adverse effect on the Company's business.

Capital Securities

The Company issued Won 210 billion 6.40% senior capital securities in June 2013, US\$300 million 2.50% senior capital securities guaranteed by The Export-Import Bank of Korea in November 2015 and US\$300 million 6.875% senior capital securities in June 2017. As of September 30, 2017, an aggregate principal amount of Won 883 billion of the Company's capital securities, constituting 29.1% of the Company's total shareholders' equity, was outstanding. Each series has an option for early repayment after a period ranging from three to five years which, if not exercised, triggers an increase in interest rates.

Some of the series of securities require the Company to maintain a debt-to-equity ratio lower than 15:1, based on its annual audited consolidated financial statements as of the most recent balance sheet date for which such financial statements are available.

Repayment of Existing Debt

Payments of principal and interest on indebtedness will require considerable resources. As of September 30, 2017, the scheduled payments on indebtedness are as follows:

	Three months ended December 31,	Year ended December 31,			
	2017	2018	2019	2020	2021 ⁽¹⁾
		<i>(in billions of Won)</i>			
Finance Leases	315	1,226	1,117	1,084	4,273
Domestic Borrowings	218	1,146	611	137	469
Debentures	160	876	492	7	—
ABS	253	882	603	354	315
Capital Securities	—	554	—	344	—
Total	946	4,684	2,822	1,926	5,057

Note:

(1) Includes scheduled payments beyond 2021.

The Company plans to repay the principal and interest on its existing debt primarily through borrowings from financial institutions, issuance of securities in the capital markets and net operating cash.

DESCRIPTION OF THE NOTES

For purposes of this “*Description of the Notes*,” the term “**Company**” refers only to Korean Air Lines Co., Ltd., a corporation with limited liability established under the laws of Korea, and any successor obligor on the Notes, and not to any of its Subsidiaries.

The Notes are to be issued under an indenture (the “**Indenture**”), to be dated as of the Original Issue Date, among the Company and DB Trustees (Hong Kong) Limited, as trustee (the “**Trustee**”).

The following is a summary of certain provisions of the Indenture and the Notes. This summary does not purport to be complete and is qualified in its entirety by reference to all of the provisions of the Indenture and the Notes. It does not restate those agreements in their entirety. Whenever particular sections or defined terms of the Indenture not otherwise defined herein are referred to, such sections or defined terms are incorporated herein by reference. Copies of the Indenture will be available on or after the Original Issue Date during normal office hours at the corporate trust office of the Trustee at Level 52, International Commerce Centre, 1 Austin Road West, Kowloon, Hong Kong; Fax: +852 2203 7320; Attention: The Directors.

Brief Description of the Notes

The Notes are:

- general obligations of the Company;
- senior in right of payment to any existing and future obligations of the Company expressly subordinated in right of payment to the Notes;
- at least *pari passu* in right of payment with all other unsecured, unsubordinated Indebtedness of the Company (subject to any priority rights of such unsubordinated Indebtedness pursuant to applicable law);
- effectively subordinated to the secured obligations of the Company to the extent of the value of the assets serving as security therefor; and
- effectively subordinated to all existing and future obligations of the Company’s Subsidiaries.

The Notes will mature on _____, 20____, unless earlier redeemed or repurchased by the Company pursuant to the terms thereof and the Indenture.

The Indenture allows additional Notes to be issued from time to time (the “**Additional Notes**”), subject to certain limitations described under “— *Further Issues*.” Unless the context requires otherwise, references to the “*Notes*” for all purposes of the Indenture and this “*Description of the Notes*” include any Additional Notes that are actually issued.

The Notes will bear interest at _____ % per annum from the Original Issue Date or from the most recent interest payment date to which interest has been paid or duly provided for, payable semi-annually in arrears on _____ and _____ of each year (each an “**Interest Payment Date**”), commencing _____, 2018.

Interest on Notes held in individual certificated form will be paid to Holders of record at the close of business on _____ and _____ immediately preceding an Interest Payment Date and interest on Notes held in global certificated form will be paid to Holders of record at the close of business on the Business Day immediately preceding an Interest Payment Date (each, a “**Record Date**”), notwithstanding any transfer, exchange or cancellation thereof after a Record Date and prior to the immediately following Interest Payment Date. In any case in which the date of the payment of principal of or premium (if any) or interest on the Notes is not a Business Day in the relevant place of payment, then payment of such principal, premium (if any) or interest need not be made in such place on such date but may be made on the next succeeding Business Day in such place. Any

payment made on such Business Day shall have the same force and effect as if made on the date on which such payment is due, and no interest on the Notes shall accrue for the period after such date. Interest on the Notes will be calculated on the basis of a 360 day year comprised of twelve 30-day months.

The Notes will be issued only in fully registered form, without coupons, in minimum denominations of US\$200,000 and integral multiples of US\$1,000 in excess thereof. No service charge will be made for any registration of transfer or exchange of Notes, but the Company may require payment of a sum sufficient to cover any transfer tax or other similar governmental charge payable in connection therewith.

All payments on the Notes will be made in U.S. dollars by the Company at the office or agency of the Company maintained for that purpose in the City of London (which initially will be the specified office of the Paying Agent, currently located at Level 52, International Commerce Centre, 1 Austin Road West, Kowloon, Hong Kong; Fax: +852 2203 7320; Attention: Corporate Trust), and the Notes may be presented for registration of transfer or exchange at such office or agency; *provided* that payment of interest may be made by wire transfer. Interest payable on the Notes held through Euroclear or Clearstream will be available to Euroclear or Clearstream participants (as defined herein) on the Business Day following payment thereof.

Further Issues

Subject to the covenants described below, the Company may, from time to time, without notice to or the consent of the Holders, create and issue Additional Notes having the same terms and conditions as the Notes in all respects (or in all respects except for the issue date, issue price and the date and/or amount of the first payment of interest on them and, to the extent necessary, certain temporary securities law transfer restrictions) (a “**Further Issue**”) so that such Additional Notes may be consolidated and form a single class with the previously outstanding Notes and vote together as one class on all matters with respect to the Notes; *provided* that the issuance of any such Additional Notes shall then be permitted under the “— *Certain Covenants — Limitation on Indebtedness and Preferred Stock*” covenant described below and the other provisions of the Indenture.

Optional Redemption

At any time, the Company may at its option redeem the Notes, in whole but not in part, at a redemption price equal to 100.0% of the principal amount of the Notes redeemed plus the Applicable Premium as of, and accrued and unpaid interest, if any, to (but not including), the redemption date. Neither the Trustee nor any of the Agents shall be responsible for verifying or calculating the Applicable Premium.

At any time and from time to time, the Company may at its option redeem up to 35% of the aggregate principal amount of the Notes with the Net Cash Proceeds of one or more sales of Common Stock of the Company in an Equity Offering at a redemption price of _____ % of the principal amount of the Notes redeemed, plus accrued and unpaid interest, if any, to (but not including) the redemption date; *provided* that at least 65% of the aggregate principal amount of the Notes originally issued on the Original Issue Date remains outstanding after each such redemption and any such redemption takes place within 60 days after the closing of the related Equity Offering.

The Company will give not less than 30 days’ nor more than 60 days’ notice of any redemption. If less than all of the Notes are to be redeemed at any time, the Notes for redemption will be selected on a *pro rata* basis and, if represented by a Global Note, in accordance with the procedures of Euroclear or Clearstream.

A Note of US\$200,000 in principal amount or less shall not be redeemed in part. If any Note is to be redeemed in part only, the notice of redemption relating to such Note will state the portion of the principal amount to be redeemed. A new Note in principal amount equal to the unredeemed portion will be issued upon cancellation of the original Note. On and after the redemption date, interest will cease to accrue on Notes or portions of them called for redemption.

Repurchase of Notes Upon a Change of Control

Not later than 60 days following a Change of Control, the Company will make an Offer to Purchase all outstanding Notes (a “**Change of Control Offer**”) at a purchase price equal to 101% of the principal amount thereof plus accrued and unpaid interest, if any, to (but not including) the Offer to Purchase Payment Date.

Certain of the events constituting a Change of Control under the Notes will also constitute an event of default under certain other debt instruments of the Company or its Subsidiaries. Future debt of the Company may also (i) prohibit the Company from purchasing Notes in the event of a Change of Control, (ii) provide that a Change of Control is a default or (iii) require repurchase of such debt upon a Change of Control. Moreover, the exercise by the Holders of their right to require the Company to purchase the Notes could cause a default under other Indebtedness, even if the Change of Control itself does not, due to the financial effect of the purchase on the Company. The ability of the Company to pay cash to the Holders following the occurrence of a Change of Control may be limited by the Company’s then existing financial resources. There can be no assurance that sufficient funds will be available when necessary to make the required purchase of the Notes. See “*Risk Factors — Risks Relating to the Notes — We may not be able to repurchase the Notes upon a Change of Control.*”

The phrase “all or substantially all” as used with respect to the assets of the Company in the definition of “**Change of Control**” will likely be interpreted under applicable law of the relevant jurisdictions and will be dependent upon particular facts and circumstances. As a result, there may be a degree of uncertainty in ascertaining whether a sale or transfer of “all or substantially all” the assets of the Company has occurred.

Notwithstanding the above, the Company will not be required to make a Change of Control Offer following a Change of Control if a third party makes the Change of Control Offer in the same manner, at the same times and otherwise in compliance with the requirements set forth in the Indenture applicable to a Change of Control Offer made by the Company and purchases all Notes validly tendered and not withdrawn under such Change of Control Offer.

Except as described above with respect to a Change of Control, the Indenture does not contain provisions that permit the Holders to require that the Company purchase or redeem the Notes in the event of a takeover, recapitalization or similar transaction.

Neither the Trustee nor any of the Agents shall be required to take any steps to ascertain whether a Change of Control has occurred or may occur, and shall be entitled to assume that no such event has occurred until it has received written notice to the contrary from the Company. Neither the Trustee nor any of the Agents shall be required to take any steps to ascertain whether the condition for the exercise of the rights herein has occurred. The Trustee and the Agents shall not be responsible for determining or verifying whether a Note is to be accepted for redemption and will not be responsible to the Holders for any loss arising from any failure by any of them to do so.

No Mandatory Redemption or Sinking Fund

There will be no mandatory redemption or sinking fund payments for the Notes.

Additional Amounts

All payments of principal of, and premium (if any) and interest on, the Notes will be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or within any jurisdiction in which the Company is organized or resident for tax purposes (or any political subdivision or taxing authority thereof or therein) (each, as applicable, a “**Relevant Taxing Jurisdiction**”), or any jurisdiction through which payments are made by or on behalf of the Company or any political subdivision or taxing authority thereof or therein (together with the Relevant Taxing

Jurisdictions, the “**Relevant Jurisdictions**”), unless such withholding or deduction is required by law or by regulation or governmental policy having the force of law. In the event that any such withholding or deduction is so required, the Company will pay such additional amounts (“**Additional Amounts**”) as will result in receipt by the Holder of each Note of such amounts as would have been received by such Holder had no such withholding or deduction been required, except that no Additional Amounts shall be payable:

- (a) for or on account of:
 - (i) any tax, duty, assessment or other governmental charge that would not have been imposed but for:
 - (A) the existence of any present or former connection between the Holder or beneficial owner of such Note and the Relevant Jurisdiction other than merely holding such Note, including, without limitation, such Holder or beneficial owner being or having been a national, domiciliary or resident of such Relevant Jurisdiction or treated as a resident thereof or being or having been physically present or engaged in a trade or business therein or having or having had a permanent establishment therein;
 - (B) the presentation of such Note (in cases in which presentation is required) more than 30 days after the later of the date on which the payment of the principal of, premium, if any, and interest on, such Note became due and payable pursuant to the terms thereof or was made or duly provided for, except to the extent that the Holder thereof would have been entitled to such Additional Amounts if it had presented such Note for payment on any date within such 30 day period; or
 - (C) the failure of the Holder or beneficial owner to comply with a timely request of the Company addressed to the Holder to provide information concerning such Holder’s or beneficial owner’s nationality, residence, identity or connection with any Relevant Jurisdiction, if and to the extent that due and timely compliance with such request is required under the tax laws of such jurisdiction in order to reduce or eliminate any withholding or deduction as to which Additional Amounts would have otherwise been payable to such Holder;
 - (ii) any estate, inheritance, gift, sale, transfer, personal property or similar tax, assessment or other governmental charge;
 - (iii) any tax, duty, assessment or other governmental charge to the extent such tax, duty, assessment or other governmental charge results from the presentation of the Note (where presentation is required) for payment and the payment can be made without such withholding or deduction by the presentation of the Note for payment elsewhere;
 - (iv) any tax, assessment, withholding or deduction required by section 1471 through 1474 of the U.S. Internal Revenue Code of 1986, as amended (“**FATCA**”), any current or future U.S. Treasury Regulations or rulings promulgated thereunder, any intergovernmental agreement between the United States and any other jurisdiction to implement FATCA, any law, regulation or other official guidance enacted or published in any jurisdiction implementing FATCA or an intergovernmental agreement with respect thereto, or any agreement with the U.S. Internal Revenue Service under FATCA; or
 - (v) any combination of taxes, duties, assessments or other governmental charges referred to in the preceding clauses (i), (ii), (iii) and (iv); or
- (b) to a Holder that is a fiduciary, partnership or person other than the sole beneficial owner of any payment, to the extent that such payment would be required to be included for tax purposes in the income under the laws of a Relevant Jurisdiction of a beneficiary or settlor with respect to the fiduciary, or a member of that partnership or a beneficial owner who would not have been entitled to such Additional Amounts had that beneficiary, settlor, partner or beneficial owner been the Holder thereof.

The Company will (i) make any such withholding or deduction and (ii) remit the full amount deducted or withheld to the relevant authority in accordance with applicable law. The Company will make reasonable efforts

to obtain certified copies of tax receipts evidencing the payment of any taxes so deducted or withheld from the Relevant Jurisdiction imposing such taxes and will furnish to the Trustee, within 90 days after the date the payment of any taxes so deducted or withheld is due pursuant to applicable law, either such certified copies of tax receipts evidencing such payment or, if such receipts are not obtainable, other evidence of such payments.

At least 30 days prior to each date on which any payment under or with respect to the Notes is due and payable (unless the obligation to pay Additional Amounts arises after the 30th day prior to the payment date), if the Company becomes aware that it will be obligated to pay Additional Amounts with respect to such payment, the Company will deliver to the Trustee an Officer's Certificate stating the fact that such Additional Amounts will be payable and the amounts so payable.

In addition, the Company will pay any stamp, issue, registration, documentary, value added or other similar taxes and other duties (including interest and penalties) payable in any Relevant Jurisdiction in respect of the creation, issue, offering, execution or enforcement of the Notes, or any documentation with respect thereto.

Whenever there is mentioned in any context the payment of principal of, and any premium or interest on any Note, such mention shall be deemed to include payment of Additional Amounts provided for in the Indenture to the extent that, in such context, Additional Amounts are, were or would be payable in respect thereof.

Neither the Trustee nor any Agent shall be responsible for paying any tax, duty, charges, withholding or other payment referred to above or for determining whether such amounts are payable or the amount thereof, and none of them shall be responsible or liable for any failure by the Company, any Holder or any third party to pay such tax, duty, charges, withholding or other payment in any jurisdiction or to provide any notice or information to the Trustee or any Agent that would permit, enable or facilitate the payment of any principal, premium (if any), interest or other amount under or in respect of the Notes without deduction or withholding for or on account of any tax, duty, charge, withholding or other payment imposed by or in any jurisdiction.

Redemption for Tax Reasons

The Notes may be redeemed, at the option of the Company, as a whole but not in part, upon giving not less than 30 days' nor more than 60 days' notice to the Holders and the Trustee (which notice shall be irrevocable), at a redemption price equal to 100% of the principal amount thereof, together with accrued and unpaid interest (including any Additional Amounts), if any, to the date fixed by the Company for redemption (the "**Tax Redemption Date**") if, as a result of:

- (1) any change in, or amendment to, the laws (or any regulations or rulings promulgated thereunder) of a Relevant Taxing Jurisdiction affecting taxation; or
- (2) any change in the existing official position, or the stating of an official position, regarding the application or interpretation of such laws, regulations or rulings (including a holding, judgment or order by a court of competent jurisdiction),

which change or amendment becomes effective or, in the case of a change in or stating of official position, is announced on or after the Original Issue Date, with respect to any payment due or to become due under the Notes or the Indenture, the Company is, or on the next Interest Payment Date would be, required to pay Additional Amounts, and such requirement cannot be avoided by the taking of reasonable measures by the Company; *provided* that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Company would be obligated to pay such Additional Amounts if a payment in respect of the Notes were then due.

Prior to the mailing of any notice of redemption of the Notes pursuant to the foregoing, the Company will deliver to the Trustee at least 30 days but not more than 60 days before the Tax Redemption Date:

- (1) an Officer's Certificate stating that such change, amendment, or other event referred to above has occurred, describing the facts related thereto and stating that such requirement cannot be avoided by the Company taking reasonable measures available to it; and
- (2) an Opinion of Counsel or an opinion of a tax consultant, in either case, of recognized standing with respect to tax matters of the Relevant Taxing Jurisdiction, stating that the requirement to pay such Additional Amounts results from such change, amendment, or other event referred to above.

The Trustee shall be entitled to accept and conclusively rely upon such certificate and opinion as sufficient evidence of the satisfaction of the conditions precedent described above and will not be responsible for any loss occasioned by acting in reliance on such certificate or opinion. The Trustee has no duty to investigate or verify such opinion or certificate.

Any Notes that are redeemed or repurchased by the Company will be cancelled and will not be reissued and any Notes purchased by a Subsidiary will not be sold or transferred except to the Company.

Certain Covenants

Set forth below are summaries of certain covenants contained in the Indenture.

Limitation on Indebtedness and Preferred Stock

- (a) The Company will not, and will not permit any of its Subsidiaries to, Incur any Indebtedness (including Acquired Indebtedness); *provided* that the Company or any of its Subsidiaries may Incur Indebtedness (including Acquired Indebtedness) if, after giving effect to the Incurrence of such Indebtedness (including Acquired Indebtedness) and the receipt and application of the proceeds therefrom, (x) no Default has occurred and is continuing, (y) the Fixed Charge Coverage Ratio would be not less than 2.5 to 1.0 and (z) the Consolidated Liabilities to Equity Ratio would not be greater than 15 to 1.0.
- (b) Notwithstanding the foregoing, the Company and, to the extent provided below, any of its Subsidiaries, may Incur each and all of the following ("**Permitted Indebtedness**"):
 - (i) Indebtedness represented by the Notes (excluding any Additional Notes);
 - (ii) any Indebtedness of the Company or any of its Subsidiaries outstanding on the Original Issue Date (excluding Indebtedness permitted under clause (b)(iii) of this covenant);
 - (iii) Indebtedness of the Company or any Subsidiary owed to the Company or any Subsidiary; *provided* that (x) any event which results in any such Subsidiary to which such Indebtedness is owed ceasing to be a Subsidiary or any subsequent transfer of such Indebtedness (other than to the Company or any Subsidiary) shall be deemed, in each case, to constitute an Incurrence of such Indebtedness not permitted by this clause (b)(iii) and (y) if the Company is the obligor on such Indebtedness and any of its Subsidiaries is an obligee, such Indebtedness must be unsecured and be expressly subordinated in right of payment to the Notes;
 - (iv) Indebtedness Incurred by the Company or any Subsidiary pursuant to Hedging Obligations designed solely to protect the Company or any Subsidiary from fluctuations in interest rates, currencies or the price of commodities and not for speculation;
 - (v) the Incurrence by the Company or any of its Subsidiaries of Indebtedness (including Capitalized Lease Obligations, mortgage financings, purchase money obligations and government bond financings) incurred to finance (or to reimburse the Company or any of its Subsidiaries for) all or any

part of the purchase price or cost of use, design, construction, installation or improvement of property, plant or equipment (including without limitation (and in each case, whether or not owned by the Company or its Subsidiaries) Aircraft Related Facilities or Aircraft Related Equipment);

- (vi) the Incurrence by the Company or any of its Subsidiaries of (A) Permitted Refinancing Indebtedness in exchange for, or the net proceeds of which are used to renew, refund, refinance, replace, extend, defease or discharge any Indebtedness (other than intercompany Indebtedness) that was permitted by the Indenture to be Incurred under paragraph (a) or paragraphs (b)(ii), (v), (vi), (vii), (xi) or (xv) of this covenant and (B) Permitted Refinancing Indebtedness secured by Aircraft Related Equipment or other assets replacing, renewing, refunding, extending, refinancing, defeasing or discharging any other Indebtedness of the Company or any of its Subsidiaries that was secured by Aircraft Related Equipment or other assets; including, in the case of both clauses (A) and (B), the Incurrence (including by way of assumption, merger or co-obligation) by one or more of the Company and its Subsidiaries of Indebtedness of any other Subsidiaries in connection with, or in contemplation of, a spin-off of such other Subsidiary;
- (vii) the Incurrence by the Company or any of its Subsidiaries of Indebtedness (including Acquired Indebtedness) (A) as part of, or to finance, the acquisition (including by way of merger) of any Permitted Business, (B) Incurred in connection with, or as a result of, the merger, consolidation or amalgamation of any Person (including the Company or any of its Subsidiaries) that owns a Permitted Business with or into the Company or a Subsidiary of the Company, or into which the Company or a Subsidiary of the Company is merged, consolidated or amalgamated, or (C) that is an outstanding obligation or commitment to enter into an obligation of a Person that owns a Permitted Business at the time that such Person is acquired by the Company or a Subsidiary of the Company and becomes a Subsidiary of the Company; *provided* that after giving *pro forma* effect to any such transaction described in clauses (A), (B) or (C) of this clause (vii), either (x) the Company would be permitted to Incur at least US\$1.00 of additional Indebtedness pursuant to the proviso in clause (a) of this covenant or (y) the Company would have had a Fixed Charge Coverage Ratio not less than the actual Fixed Charge Coverage Ratio of the Company immediately prior to and without giving effect to such transactions;
- (viii) the guarantee (including by way of co-obligation or assumption) by the Company or any Subsidiary of the Company of Indebtedness of the Company or a Subsidiary of the Company (including in connection with or in contemplation of a spin-off of the original obligor of the guaranteed or assumed Indebtedness) to the extent that the guaranteed Indebtedness was permitted to be incurred by another provision of this covenant; *provided* that if the Indebtedness being guaranteed is subordinated to or *pari passu* with the Notes, then the guarantee must be subordinated or *pari passu*, as applicable, to the same extent as the Indebtedness guaranteed or assumed;
- (ix) the Incurrence by the Company or any of its Subsidiaries of Indebtedness or reimbursement obligations in respect of workers' compensation claims, self-insurance obligations (including reinsurance), bankers' acceptances, performance bonds and surety bonds in the ordinary course of business (including without limitation in respect of customs obligations, landing fees, taxes, airport charges, overfly rights and any other obligations to airport and governmental authorities);
- (x) the Incurrence by the Company or any of its Subsidiaries of Indebtedness in respect of any overdrafts and related liabilities arising from treasury, depository and cash management services or in connection with any automated clearing house transfers of funds;
- (xi) Indebtedness (A) constituting credit support or financing from aircraft, engine or parts manufacturers or their affiliates or (B) incurred to finance or refinance Aircraft Related Equipment or other assets (including, without limitation, to reimburse or provide funds to the Company or any of its Subsidiaries for or in respect of the acquisition cost of, or value of any of the foregoing, to finance or refinance any pre-delivery, progress or similar payment or pursuant to a sale and leaseback) (whether in advance of or at any time following any acquisition of items being financed or refinanced, and

whether such indebtedness is unsecured in whole or in part or is secured by such items or by other items or by any combination); *provided* that the principal amount of such Indebtedness incurred in reliance on subsection (B) of this clause (xi), at the time of Incurrence of such Indebtedness, may exceed the aggregate incurred and anticipated costs to finance or refinance the acquisition of the item or items being financed or refinanced by such Indebtedness (calculated at the time of incurrence of such Indebtedness and determined in good faith by an Officer of the Company or Subsidiary, as applicable, (including reasonable estimates of anticipated costs) and calculated to include, without limitation, purchase price, fees, expenses, repayment of any pre-delivery financing and related interest expense (whether or not capitalized) and premium (if any), delivery and late charges and other costs associated with such acquisition (as so calculated, for purposes of this proviso, the “**financing costs**”) but, if such principal amount exceeds such financing costs, it may not exceed the aggregate Fair Market Value of the relevant item or items (which Fair Market Value may, at the time of an advance commitment, be determined to be the Fair Market Value at the time of such commitment or (at the option of the issuer or such Indebtedness) the Fair Market Value projected for the time of incurrence of such Indebtedness);

- (xii) reimbursement obligations in respect of standby or documentary letters of credit or banker’s undertakings (including those under any credit facilities);
- (xiii) Indebtedness of the Company or any of its Subsidiaries to credit card or travel charge processing service providers or other clearing house processors in connection with credit card, travel charge or similar transactions in relation to the sale of air travel, clearing house services and other services incurred pursuant to any card acceptance and processing agreements or otherwise in the ordinary course of business, whether in the form of hold-backs or otherwise;
- (xiv) the Incurrence of Indebtedness in connection with a Qualified Receivables Transaction that is without recourse to the Company or to any other Subsidiary of the Company or their assets (other than the relevant receivables) and is not guaranteed by any such Person;
- (xv) credit card purchases of fuel; and
- (xvi) Indebtedness of the Company in an aggregate outstanding principal amount which, when taken together with the principal amount of all other Indebtedness Incurred pursuant to this paragraph (xvi) and then outstanding, will not exceed US\$10.0 million.

Limitation on Guarantees and Liens

So long as any Notes 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 Original Issue Date or thereafter acquired, unless the Notes are equally and ratably secured by such Lien;

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

- (1) (i) any Guarantee to the extent 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 Consolidated 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 the original amount of secured Indebtedness refinanced.

Limitation on Transactions with Sponsor Affiliates

So long as any Notes 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.

Limitation on Asset Sales

So long as any Notes 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 apply 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 receivable 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.

Provision of Financial Statements and Reports

- (a) So long as any of the Notes remain outstanding, the Company will file with the Trustee and furnish to the Holders upon request:
 - (i) as soon as they are available, but in any event within 120 calendar days after the end of the financial year of the Company, copies of its financial statements (on a consolidated basis and in the English language) in respect of such financial year (including a statement of income, balance sheet and cash flow statement) prepared in accordance with GAAP and audited by a member firm of an internationally recognized firm of independent accountants;
 - (ii) as soon as they are available, but in any event within 90 calendar days after the end of each fiscal quarters of the Company, copies of its unaudited financial statements (on a consolidated basis and in the English language), including a statement of income, balance sheet and cash flow statement, prepared on a basis consistent with the audited financial statements of the Company together with a certificate signed by the person then authorized to sign financial statements on behalf of the Company to the effect that such financial statements are true in all material respects and present fairly the financial position of the Company as at the end of, and the results of its operations for, the relevant quarterly period.

- (b) In addition, so long as any of the Notes remain outstanding, the Company will provide to the Trustee (1) within 120 days after the close of each financial year, an Officer's Certificate stating the Fixed Charge Coverage Ratio with respect to the four most recent fiscal quarter periods and showing in reasonable detail the calculation of the Fixed Charge Coverage Ratio, including the arithmetic computations of each component of the Fixed Charge Coverage Ratio; and (2) as soon as possible and in any event within 20 days after the Company becomes aware of the occurrence of a Default, an Officer's Certificate setting forth the details of such Default, and the action which the Company proposes to take with respect thereto. The Trustee shall not be responsible for the determination of the Fixed Charge Coverage Ratio or the verification thereof in the Officer's Certificate.

Events of Default

The following events will be defined as "**Events of Default**" in the Indenture:

- (a) default in the payment of principal of (or premium, if any, on) the Notes when the same becomes due and payable at maturity, upon acceleration, redemption or otherwise;
- (b) default in the payment of interest or Additional Amounts on any Note when the same becomes due and payable, and such default continues for a period of 30 consecutive days;
- (c) the failure by the Company to make or consummate an Offer to Purchase in the manner described under the captions "*— Repurchase of Notes upon a Change of Control*";
- (d) the Company or any of its Subsidiaries defaults in the performance of or breaches any other covenant or agreement in the Indenture or under the Notes (other than a default specified in clause (a), (b) or (c) above) and such default or breach continues for a period of 30 consecutive days after written notice of such default or breach to the Company by the Trustee or the Holders of 25% or more in aggregate principal amount of the Notes;
- (e) there occurs with respect to any Indebtedness of the Company or any of its Subsidiaries having an outstanding principal amount of US\$15.0 million (or the Dollar Equivalent thereof) or more in the aggregate for all such Indebtedness of all such Persons, whether such Indebtedness now exists or shall hereafter be created, (1) an event of default that has caused any holder thereof to declare such Indebtedness to be due and payable prior to its Stated Maturity and/or (2) the failure to make a principal payment when due;
- (f) one or more final judgments or orders for the payment of money are rendered against the Company or any of its Subsidiaries and are not paid or discharged, and there is a period of 60 consecutive days following entry of the final judgment or order that causes the aggregate amount for all such final judgments or orders outstanding and not paid or discharged against all such Persons to exceed US\$15.0 million (or the Dollar Equivalent thereof) (in excess of amounts that the Company's insurance carriers have agreed to pay under applicable policies) during which a stay of enforcement, by reason of a pending appeal or otherwise, is not in effect;
- (g) an involuntary case or other proceeding is commenced against the Company or any of its Significant Subsidiaries with respect to it or its debts under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect seeking the appointment of a receiver, liquidator, assignee, custodian, trustee, sequestrator or similar official of the Company or any of its Significant Subsidiaries or for any substantial part of the property and assets of the Company or any of its Significant Subsidiaries and such involuntary case or other proceeding remains undismissed and unstayed for a period of 60 consecutive days; or an order for relief is entered against the Company or any of its Significant Subsidiaries under any applicable bankruptcy, insolvency or other similar law as now or hereafter in effect; or
- (h) the Company or any of its Significant Subsidiaries (1) commences a voluntary case under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, or consents to the entry of an order for relief in an involuntary case under any such law, (2) consents to the appointment of or taking possession by a receiver, liquidator, assignee, custodian, trustee, sequestrator or similar official of the Company or any

of its Significant Subsidiaries, or for all or substantially all of the property and assets of the Company or any of its Significant Subsidiaries, or (3) effects any general assignment for the benefit of creditors.

If an Event of Default (other than an Event of Default specified in clause (g) or (h) above) occurs and is continuing under the Indenture, the Trustee or the Holders of at least 25% in aggregate principal amount of the Notes, then outstanding, by written notice to the Company (and to the Trustee if such notice is given by the Holders), may, and the Trustee at the request of such Holders shall (subject to being indemnified and/or secured and/or pre-funded to its satisfaction), declare the principal of, premium, if any, and accrued and unpaid interest on the Notes to be immediately due and payable. Upon a declaration of acceleration, such principal of, premium, if any, and accrued and unpaid interest shall be immediately due and payable. If an Event of Default specified in clause (g) or (h) above occurs with respect to the Company or any of its Significant Subsidiaries, the principal of, premium, if any, and accrued and unpaid interest on the Notes then outstanding shall automatically become and be immediately due and payable without any declaration or other act on the part of the Trustee or any Holder.

The Holders of at least a majority in principal amount of the outstanding Notes by written notice to the Company and to the Trustee may on behalf of all Holders waive all past defaults and rescind and annul a declaration of acceleration and its consequences if:

- (x) all existing Events of Default, other than the non-payment of the principal of, premium, if any, and interest on the Notes that have become due solely by such declaration of acceleration, have been cured or waived; and
- (y) the rescission would not conflict with any judgment or decree of a court of competent jurisdiction.

Upon such waiver, the Default will cease to exist, and any Event of Default arising therefrom will be deemed to have been cured, but no such waiver will extend to any subsequent or other Default or impair any right consequent thereon.

If an Event of Default occurs and is continuing, the Trustee may, and shall upon request of Holders of at least 25% in aggregate principal amount of outstanding Notes (subject to being indemnified and/or secured and/or pre-funded to its satisfaction), pursue, in its own name or as trustee of an express trust, any available remedy by proceeding at law or in equity to collect the payment of principal of and interest on the Notes or to enforce the performance of any provision of the Notes or the Indenture. The Trustee may maintain a proceeding even if it does not possess any of the Notes or does not produce any of them in the proceeding.

The Holders of at least a majority in aggregate principal amount of the outstanding Notes may direct the time, method and place of conducting any proceeding for any remedy available to the Trustee exercising any trust or power conferred on the Trustee. However, the Trustee may refuse to follow any direction that is unclear, conflicting or equivocal, conflicts with law or the Indenture that may involve the Trustee in personal liability, or that may be unduly prejudicial to the rights of Holders not joining in the giving of such direction and may take any other action it deems proper that is not inconsistent with any such direction received from Holders. In addition, the Trustee will not be required to expend its own funds in following such direction if it does not reasonably believe that reimbursement or satisfactory indemnification and/or security and/or pre-funding is assured to it. A Holder of Notes may not institute any proceedings, judicial or otherwise, with respect to the Indenture or the Notes, or for the appointment of a receiver or trustee, or for any other remedy under the Indenture or the Notes, unless:

- (1) the Holder has previously given the Trustee written notice of a continuing Event of Default;
- (2) the Holders of at least 25% in aggregate principal amount of outstanding Notes make a written request to the Trustee to pursue the remedy;
- (3) such Holder or Holders offer the Trustee indemnity and/or security and/or pre-funding satisfactory to the Trustee against any liability or any cost or expense to be properly incurred in compliance with such request;

- (4) the Trustee does not comply with the request within 60 days after receipt of the request and the offer of indemnity and/or security and/or pre-funding; and
- (5) during such 60-day period, the Holders of a majority in aggregate principal amount of the outstanding Notes do not give the Trustee a direction that is inconsistent with the request.

However, such limitations do not apply to the right of any Holder to receive payment of the principal of, premium, if any, or interest on, such Note, or to bring suit for the enforcement of any such payment, on or after the due date expressed in the Notes, which right shall not be impaired or affected without the consent of the Holder.

Two Officers of the Company must certify to the Trustee in writing, on or before a date not more than 120 days after the end of each financial year and after request from the Trustee, that a review has been conducted of the activities of the Company and its Subsidiaries and the Company's and its Subsidiaries' performance under the Indenture and that the Company and its Subsidiaries have fulfilled all obligations thereunder, or, if there has been a default in the fulfillment of any such obligation, specifying each such default and the nature and status thereof. The Company will also be obligated to notify the Trustee promptly in writing of any default or defaults in the performance of any covenants or agreements under the Indenture. See "*— Provision of Financial Statements and Reports.*"

None of the Trustee or any Agent is obligated to do anything to ascertain whether any Event of Default or Default has occurred or is continuing and will not be responsible to Holders or any other person for any loss arising from any failure by it to do so, and each of the Trustee and the Agents may assume that no such event has occurred and that the Company is performing all of its obligations under the Indenture and the Notes unless the Trustee, or the Agent, as the case may be, has received written notice of the occurrence of such event or facts establishing that a Default or an Event of Default has occurred or that the Company is not performing all of its obligations under the Indenture and/or the Notes. The Trustee is entitled to rely on any Opinion of Counsel or Officer's Certificate regarding whether an Event of Default has occurred.

No Payments for Consents

The Company will not and shall not permit any of its Subsidiaries to, directly or indirectly, pay or cause to be paid any consideration, whether by way of interest, fee or otherwise, to any Holder for or as an inducement to any consent, waiver or amendment of any of the terms or provisions of the Indenture or the Notes unless such consideration is offered to be paid or is paid to all Holders that consent, waive or agree to amend such term or provision within the time period set forth in the solicitation documents relating to such consent, waiver or amendment.

Amendments and Waivers

Amendments Without Consent of Holders

The Indenture may be amended by the Company and the Trustee, without the consent of any Holder, to:

- (a) cure any ambiguity, defect, omission or inconsistency in the Indenture or the Notes;
- (b) evidence and provide for the acceptance of appointment by a successor Trustee;
- (c) provide for the issuance of Additional Notes in accordance with the limitations set forth in the Indenture;
- (d) add collateral to secure the Notes or guarantee to the Notes and create or register Liens on such additional collateral or to enter into any intercreditor agreement relating thereto;
- (e) effect any changes to the Indenture in a manner necessary to comply with the procedures of the relevant clearing system;

- (f) make any other change that does not adversely affect the rights of any Holder;
- (g) conform the text of the Indenture or the Notes, to any provision of this “*Description of the Notes*” to the extent that such provision in this “*Description of the Notes*” was intended to be a verbatim recitation of a provision in the Indenture or the Notes; or
- (h) comply with mandatory provisions of law.

Amendments With Consent of Holders

Amendments of the Indenture may be made by the Company and the Trustee with the consent of the Holders of not less than a majority in aggregate principal amount of the outstanding Notes, and the holders of a majority in principal amount of the outstanding Notes may waive future compliance by the Company with any provision of the Indenture or the Notes; **provided, however, that** that no such modification, amendment or waiver may, without the consent of the Holders of not less than 90% of the aggregate principal amount of the outstanding Notes affected thereby:

- (a) change the Stated Maturity of the principal of, or any installment of interest on, any Note;
- (b) reduce the principal amount of, or premium, if any, or interest on, any Note;
- (c) change the place, currency or time of payment of principal of, or premium, if any, or interest on, any Note;
- (d) impair the right to institute suit for the enforcement of any payment on or after the Stated Maturity (or, in the case of a redemption, on or after the redemption date) of any Note;
- (e) reduce the above stated percentage of outstanding Notes the consent of whose Holders is necessary to modify or amend the Indenture;
- (f) waive a default in the payment of principal of, premium, if any, or interest on the Notes;
- (h) reduce the percentage or aggregate principal amount of outstanding Notes the consent of whose Holders is necessary for waiver of compliance with certain provisions of the Indenture or for waiver of certain defaults;
- (j) reduce the amount payable upon a Change of Control Offer or change the time or manner by which a Change of Control Offer may be made or by which the Notes must be repurchased pursuant to a Change of Control Offer;
- (k) change the redemption date or the redemption price of the Notes from that stated under the caption “— *Optional Redemption*” or “— *Redemption for Tax Reasons*”;
- (l) amend, change or modify the obligation of the Company to pay Additional Amounts; or
- (m) amend, change or modify any provision of the Indenture or the related definition affecting the ranking of the Notes in a manner which adversely affects the Holders.

Unclaimed Money

Claims against the Company for the payment of principal of, premium, if any, or interest, on the Notes will become void unless presentation for payment is made as required in the Indenture within a period of six years.

Concerning the Trustee and the Agents

DB Trustees (Hong Kong) Limited has been appointed as Trustee under the Indenture and as paying agent and Deutsche Bank AG, Hong Kong Branch has been appointed as paying agent (the “**Paying Agent**”) registrar (in such capacity, the “**Registrar**” and the “**Transfer Agent**”; collectively with the Paying Agent, the “**Agents**”) with regard to the Notes. The Trustee undertakes to perform such duties and only such duties as are specifically set forth in the Indenture or the Notes, as the case may be, and no implied covenant or obligation shall be read

into the Indenture, or the Notes, (as the case may be) against the Trustee. If an Event of Default has occurred and is continuing, the Trustee will use the same degree of care and skill in its exercise of the rights and powers vested in it under the Indenture or the Notes, as the case may be, as a prudent person would exercise under the circumstances in the conduct of such person's own affairs. The Trustee will be under no obligation to exercise any of its rights or powers under the Indenture at the request of any Holder, unless such Holder shall have offered to the Trustee security and/or indemnity and/or pre-funding satisfactory to it against any loss, liability or expense.

Notwithstanding anything to the contrary in the Notes or the Indenture, whenever the Trustee is required or entitled by the terms or the conditions of the Notes and/or the Indenture to exercise any discretion or power, take any action, make any decision or give any direction or certification, the Trustee is entitled, prior to exercising any such discretion or power, taking any such action, making any such decision, or giving any such direction or certification, to seek directions from the Holders and shall have been indemnified and/or provided with security and/or pre-funded to its satisfaction against all action, proceedings, claims and demands to which it may be or become liable and all costs, charges, damages, expenses (including but not limited to legal expenses) and liabilities which may be incurred by it in connection therewith, and the Trustee is not responsible for any loss or liability incurred by any person as a result of any delay in it exercising such discretion or power, taking such action, making such decision, or giving such direction or certification where the Trustee is seeking such directions.

The Trustee may refrain from taking any action in any jurisdiction if the taking of such action in that jurisdiction would, in its opinion based upon legal advice in the relevant jurisdiction, be contrary to any law of that jurisdiction. Furthermore, the Trustee may also refrain from taking such action if it would otherwise render it liable to any person in that jurisdiction or if, in its opinion based upon such legal advice, it would not have the power to do the relevant thing in that jurisdiction by virtue of any applicable law in that jurisdiction or if it is determined by any court or other competent authority in that jurisdiction that it does not have such power.

The Trustee and the Agents are permitted to engage in other transactions with the Company and its Affiliates and shall not be obligated to account for any profits therefrom; **provided, however, that** if the Trustee or any Agent acquires any conflicting interest, it must eliminate such conflict or resign.

Each Holder, by accepting the Notes will agree, for the benefit of the Trustee, that it is solely responsible for its own independent appraisal of and investigation into all risks arising under or in connection with the Notes and has not relied on and will not at any time rely on the Trustee in respect of such risks.

Book-Entry; Delivery and Form

The Notes will be represented by a global note in registered form without interest coupons attached (the “**Global Note**”). On the Original Issue Date, the Global Note will be deposited with a common depository and registered in the name of the common depository or its nominee for the accounts of Euroclear and Clearstream.

Global Note

Ownership of beneficial interests in the Global Note (the “**book-entry interests**”) will be limited to persons that have accounts with Euroclear and/or Clearstream or persons that may hold interests through such participants. Book-entry interests will be shown on, and transfers thereof will be effected only through, records maintained in book-entry form by Euroclear and Clearstream and their participants.

Except as set forth below under “— *Individual Definitive Notes,*” the book-entry interests will not be held in definitive form. Instead, Euroclear and/or Clearstream will credit on their respective book-entry registration and transfer systems a participant's account with the interest beneficially owned by such participant. The laws of some jurisdictions may require that certain purchasers of securities take physical delivery of such securities in definitive form. The foregoing limitations may impair the ability to own, transfer or pledge book-entry interests.

So long as the Notes are held in global form, the common depositary for Euroclear and/or Clearstream (or its nominee) will be considered the sole holder of the Global Note for all purposes under the Indenture and “holders” of book-entry interests will not be considered the owners or “Holders” of the Notes for any purpose. As such, participants must rely on the procedures of Euroclear and Clearstream and indirect participants must rely on the procedures of the participants through which they own book-entry interests in order to transfer their interests in the Notes or to exercise any rights of Holders under the Indenture.

None of the Company, the Trustee or any of their respective agents will have any responsibility or be liable for any aspect of the records relating to the book-entry interests. The Notes are not issuable in bearer form.

Payments of any amounts owing in respect of the Global Note (including principal, premium, interest and Additional Amounts) will be made to the principal paying agent in U.S. dollars. The principal paying agent will, in turn, make such payments to the common depositary for Euroclear and Clearstream, which will distribute such payments to participants in accordance with their procedures. The Company will make payments of all such amounts without deduction or withholding for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature, except as may be required by law and as described under “— *Additional Amounts.*”

Under the terms of the Indenture, the Company and the Trustee will treat the registered holder of the Global Note (i.e., the common depositary or its nominee) as the owner thereof for the purpose of receiving payments and for all other purposes. Consequently, none of the Company, the Trustee or any of their respective agents has or will have any responsibility or liability for:

- any aspect of the records of Euroclear, Clearstream or any participant or indirect participant relating to or payments made on account of a book-entry interest, for any such payments made by Euroclear, Clearstream or any participant or indirect participants, or for maintaining, supervising or reviewing any of the records of Euroclear, Clearstream or any participant or indirect participant relating to or payments made on account of a book-entry interest; or
- Euroclear, Clearstream or any participant or indirect participant.

Payments by participants to owners of book-entry interests held through participants are the responsibility of such participants.

Redemption of Global Note

In the event any Global Note, or any portion thereof, is redeemed, the common depositary will distribute the U.S. dollar amount received by it in respect of the Global Note so redeemed to Euroclear and/or Clearstream, as applicable, who will distribute such amount to the holders of the book-entry interests in such Global Note. The redemption price payable in connection with the redemption of such book-entry interests will be equal to the U.S. dollar amount received by the common depositary, Euroclear or Clearstream, as applicable in connection with the redemption of such Global Note (or any portion thereof). The Company understands that under existing practices of Euroclear and Clearstream, if fewer than all of the Notes are to be redeemed at any time, Euroclear and Clearstream will credit their respective participants’ accounts on a proportionate basis (with adjustments to prevent fractions) or by lot or on such other basis as they deem fair and appropriate; **provided, however, that** no book-entry interests of US\$200,000 principal amount, or less, as the case may be, will be redeemed in part.

Action by Owners of Book-Entry Interests

Euroclear and Clearstream have advised that they will take any action permitted to be taken by a Holder of Notes only at the direction of one or more participants to whose account the book-entry interests in the Global Notes are credited and only in respect of such portion of the aggregate principal amount of Notes as to which such participant or participants has or have given such direction. Euroclear and Clearstream will not exercise any

discretion in the granting of consents, waivers or the taking of any other action in respect of the Global Note. If there is an Event of Default under the Notes, however, each of Euroclear and Clearstream reserves the right to exchange the Global Note for individual definitive notes in certificated form, and to distribute such individual definitive notes to their participants.

Transfers

Transfers between participants in Euroclear and Clearstream will be effected in accordance with Euroclear and Clearstream's rules and will be settled in immediately available funds. If a Holder requires physical delivery of individual definitive notes for any reason, including to sell the Notes to persons in jurisdictions which require physical delivery of such securities or to pledge such securities, such Holder must transfer its interest in the Global Note in accordance with the normal procedures of Euroclear and Clearstream and in accordance with the provisions of the Indenture.

Book-entry interests in the Global Note will be subject to the restrictions on transfer discussed under "*Transfer Restrictions*."

Any book-entry interest in a Global Note that is transferred to a person who takes delivery in the form of a book-entry interest in another Global Note will, upon transfer, cease to be a book-entry interest in the first-mentioned Global Note and become a book-entry interest in the other Global Note and, accordingly, will thereafter be subject to all transfer restrictions, if any, and other procedures applicable to book-entry interests in such other Global Note for as long as it retains such a book-entry interest.

Global Clearance and Settlement Under the Book-Entry System

Book-entry interests owned through Euroclear or Clearstream accounts will follow the settlement procedures applicable. Book-entry interests will be credited to the securities custody accounts of Euroclear and Clearstream holders on the business day following the settlement date against payment for value on the settlement date.

The book-entry interests will trade through participants of Euroclear or Clearstream, and will settle in same-day funds. Since the purchaser determines the place of delivery, it is important to establish at the time of trading of any book-entry interests where both the purchaser's and seller's accounts are located to ensure that settlement can be made on the desired value date.

Information Concerning Euroclear and Clearstream

We understand as follows with respect to Euroclear and Clearstream:

Euroclear and Clearstream hold securities for participating organizations and facilitate the clearance and settlement of securities transactions between their respective participants through electronic book-entry changes in accounts of such participants. Euroclear and Clearstream provide to their participants, among other things, services for safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream interface with domestic securities markets. Euroclear and Clearstream participants are financial institutions, such as underwriters, securities brokers and dealers, banks and trust companies, and certain other organizations. Indirect access to Euroclear and Clearstream is also available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodian relationship with a Euroclear or Clearstream participant, either directly or indirectly.

Although the foregoing sets out the procedures of Euroclear and Clearstream in order to facilitate the original issue and subsequent transfers of interests in the Notes among participants of Euroclear and Clearstream, neither Euroclear nor Clearstream is under any obligation to perform or continue to perform such procedures, and such procedures relating to book-entry interests.

Individual Definitive Notes

If (1) the common depositary or any successor to the common depositary is at any time unwilling or unable to continue as a depositary for the reasons described in the Indenture and a successor depositary is not appointed by the Company within 90 days, (2) either Euroclear or Clearstream, or a successor clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention to permanently cease business or does in fact do so, or (3) any of the Notes has become immediately due and payable in accordance with “— *Events of Default*” and the Company has received a written request from a Holder, the Company will issue individual definitive notes in registered form in exchange for the Global Note. Upon receipt of such notice from the common depositary or the Trustee, as the case may be, the Company will use its best efforts to make arrangements with the common depositary for the exchange of interests in the Global Note for individual definitive notes and cause the requested individual definitive notes to be executed and delivered to the Registrar in sufficient quantities and authenticated by or on behalf of the Registrar for delivery to the Holders. Persons exchanging interests in a Global Note for individual definitive notes will be required to provide the Registrar, through the relevant clearing system, with written instruction and other information required by the Company and the Registrar to complete, execute and deliver such individual definitive notes. In all cases, individual definitive notes delivered in exchange for any Global Note or beneficial interest therein will be registered in the names, and issued in any approved denominations, requested by the relevant clearing system.

Individual definitive notes will not be eligible for clearing and settlement through Euroclear or Clearstream.

Notices

All notices or demands required or permitted by the terms of the Notes or the Indenture to be given to or by the Holders are required to be in writing and may be given or served by being sent by prepaid courier or by being deposited, first-class postage prepaid, in the mails of the relevant jurisdiction (if intended for the Company) addressed to the Company at 260 Haneul-gil, Gangseo-gu, Seoul, Korea 07505, Fax: +822 2656 8959, Attention: Finance Department, or (if intended for the Trustee) addressed to Trustee at the corporate trust office of the Trustee; and (if intended for any Holder) addressed to such Holder at such Holder’s last address as it appears in the Note register (or otherwise delivered to such Holders in accordance with applicable Euroclear or Clearstream procedures).

Any such notice or demand will be deemed to have been sufficiently given or served when so sent or deposited and, if to the Holders, when delivered in accordance with the applicable rules and procedures of the relevant clearing system. Any such notice shall be deemed to have been delivered on the day such notice is delivered to the relevant clearing system or if by mail, when so sent or deposited.

Consent to Jurisdiction; Service of Process

The Company will irrevocably (i) submit to the non-exclusive jurisdiction of any U.S. federal or New York state court located in the Borough of Manhattan, The City of New York in connection with any suit, action or proceeding arising out of, or relating to, the Notes, the Indenture or any transaction contemplated thereby and (ii) designate and appoint Korean Air Lines Co., Ltd., New York Office at 609 5th Ave., Suite 1108, New York, NY 10017, United States, for receipt of service of process in any such suit, action or proceeding.

Governing Law

Each of the Notes and the Indenture provides that such instrument will be governed by, and construed in accordance with, the laws of the State of New York.

Definitions

Set forth below are defined terms used in the covenants and other provisions of the Indenture. Reference is made to the Indenture for other capitalized terms used in this “*Description of the Notes*” for which no definition is provided.

“**Acquired Indebtedness**” means Indebtedness of a Person existing at the time such Person is merged with or into or becomes a Subsidiary of the Company or Indebtedness of a Subsidiary of the Company assumed in connection with an Asset Acquisition by such Subsidiary, whether or not such Indebtedness is Incurred in connection with, or in contemplation of, the Person merging with or into or becoming a Subsidiary of the Company.

“**Adjusted Treasury Rate**” means, with respect to any redemption date, (i) the yield, under the heading which represents the average for the immediately preceding week, appearing in the most recently published statistical release designated “H.15(519)” or any successor publication which is published weekly by the Board of Governors of the Federal Reserve System and which establishes yields on actively traded United States Treasury securities adjusted to constant maturity under the caption “Treasury Constant Maturities”, for the maturity corresponding to the Comparable Treasury Issue (if no maturity is within three (3) months before or after , 20 , yields for the two published maturities most closely corresponding to the Comparable Treasury Issue shall be determined and the Adjusted Treasury Rate shall be interpolated or extrapolated from such yields on a straight line basis, rounding to the nearest month) or (ii) if such release (or any successor release) is not published during the week preceding the calculation date or does not contain such yields, the rate per annum equal to the semi-annual equivalent yield to maturity of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such redemption date, in each case calculated on the third Business Day immediately preceding the redemption date.

“**Affiliate**” means, with respect to any Person, any other Person (i) directly or indirectly controlling, controlled by, or under direct or indirect common control with, such Person, (ii) who is a director or officer of such Person or any Subsidiary of such Person or of any Person referred to in clause (i) of this definition or (iii) who is a spouse or any person cohabiting as a spouse, child or step-child, parent or step-parent, brother, sister, step-brother or step-sister, parent-in-law, grandchild, grandparent, uncle, aunt, nephew and niece of a Person described in clause (i) or (ii). 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 voting securities, by contract or otherwise. No Person (other than the Company or any Subsidiary of the Company) in whom a Receivables Subsidiary makes an Investment in connection with a Qualified Receivables Transaction will be deemed to be an Affiliate of the Company or any of its Subsidiaries solely by reason of such Investment. A specified Person shall not be deemed to control another Person solely because such specified Person has the right to determine the aircraft flights operated by such other Person under a code sharing, capacity purchase or similar agreement.

“**Aircraft Related Equipment**” means aircraft (including engines, airframes, propellers and appliances), engines, propellers, spare parts, aircraft parts, simulators and other training devices, quick engine change kits, passenger loading bridges or other flight or ground equipment and other operating assets, including any modifications and improvements with respect to any such equipment.

“**Aircraft Related Facilities**” means (i) airport terminal facilities, including without limitation, baggage systems, loading bridges and related equipment, building, infrastructure and maintenance facilities, tooling facilities, club rooms, apron, fueling systems or facilities, signage/image systems, administrative offices, information technology systems and security systems, (ii) airline support facilities, including without limitation, cargo, catering, mail, ground service equipment, ramp control, deicing, hangars, aircraft parts/storage, training, office and reservations facilities and (iii) all equipment and tooling used in connection with the foregoing.

“**Applicable Premium**” means with respect to a Note at any redemption date, the greater of (i) 1.00% of the principal amount of such Note and (ii) the excess of (A) the present value at such redemption date of the principal amount of such Note on _____, 20____, plus all required remaining scheduled interest payments due on such Note through _____, 20____ (but excluding accrued and unpaid interest to the redemption date), computed using a discount rate equal to the Adjusted Treasury Rate plus 100 basis points, over (B) the principal amount of such Note on such redemption date.

“**Asset Acquisition**” means (1) an investment by the Company or any of its Subsidiaries in any other Person pursuant to which such Person shall become a Subsidiary of the Company or shall be merged into or consolidated with the Company or any of its Subsidiaries or (2) an acquisition by the Company or any of its Subsidiaries of the property and assets of any Person other than the Company or any of its Subsidiaries that constitute substantially all of a division or line of business of such Person.

“**Asset Disposition**” means the sale or other disposition by the Company or any of its Subsidiaries (other than to the Company or another Subsidiary of the Company) of (1) all or substantially all of the Capital Stock of any Subsidiary of the Company or (2) all or substantially all of the assets that constitute a division or line of business of the Company or any of its Subsidiaries.

“**Attributable Indebtedness**” means, in respect of a Sale and Leaseback Transaction, at the time of determination, the present value, discounted at the interest rate implicit in such Sale and Leaseback Transaction, of the total obligations of the lessee for rental payments during the remaining term of the lease in such Sale and Leaseback Transaction.

“**Average Life**” means, at any date of determination with respect to any Indebtedness, the quotient obtained by dividing (1) the sum of the products of (a) the number of years from such date of determination to the dates of each successive scheduled principal payment of such Indebtedness and (b) the amount of such principal payment by (2) the sum of all such principal payments.

“**Board of Directors**” means the board of directors elected or appointed by the stockholders of the Company to manage the business of the Company or any committee of such board duly authorized to take the action purported to be taken by such committee.

“**Board Resolution**” means any resolution of the Board of Directors taking an action which it is authorized to take and adopted at a meeting duly called and held at which a quorum of disinterested members (if so required) was present and acting throughout or adopted by written resolution executed by every member of the Board of Directors.

“**Business Day**” means any day which is not a Saturday, Sunday, legal holiday or other day on which banking institutions in The City of New York, Hong Kong or Seoul (or in any other place in which payments on the Notes are to be made) are authorized by law or governmental regulation to close.

“**Capital Stock**” means, with respect to any Person, any and all shares, interests, participations or other equivalents (however designated, whether voting or non-voting) in equity of such Person, whether outstanding on the Original Issue Date or issued thereafter, including, without limitation, all Common Stock and Preferred Stock, but excluding debt securities convertible into such equity and Perpetual Securities Obligations.

“**Capitalized Lease**” means, with respect to any Person, any lease of any property (whether real, personal or mixed) which, in conformity with GAAP, is required to be capitalized on the balance sheet of such Person.

“**Capitalized Lease Obligations**” means the discounted present value of the rental obligations under a Capitalized Lease.

“Change of Control” means the occurrence of one or more of the following events:

- (1) the direct or indirect sale, transfer, conveyance or other disposition (other than by way of merger or consolidation), in one or a series of related transactions, of all or substantially all of the properties or assets of the Company and its Subsidiaries, taken as a whole, to any “person” (within the meaning of Section 13(d) of the Exchange Act), other than one or more Permitted Holders;
- (2) the Company consolidates with, or merges with or into, any Person (other than one or more Permitted Holders), or any Person consolidates with, or merges with or into, the Company, in any such event pursuant to a transaction in which any of the outstanding Voting Stock of the Company or such other Person is converted into or exchanged for cash, securities or other property, other than any such transaction where the Voting Stock of the Company outstanding immediately prior to such transaction is converted into or exchanged for (or continues as) Voting Stock (other than Disqualified Stock) of the surviving or transferee Person constituting a majority of the outstanding shares of Voting Stock of such surviving or transferee Person (immediately after giving effect to such issuance) and in substantially the same proportion as before the transaction;
- (3) the Permitted Holders are the beneficial owners (as such term is used in Rule 13d-3 of the Exchange Act) of less than 20.0% of the total voting power of the Voting Stock of the Company;
- (4) any “person” or “group” (as such terms are used in Sections 13(d) and 14(d) of the Exchange Act), other than the NPS, is or becomes the “beneficial owner” (as defined above), directly or indirectly, of total voting power of the Voting Stock of the Company greater than such total voting power held beneficially by the Permitted Holders; or
- (5) the adoption of a plan relating to the liquidation or dissolution of the Company.

“Clearstream” means Clearstream Banking S.A.

“Commodity Hedging Agreement” means any spot forward or option, commodity price protection agreement or other similar agreement or arrangement designed to protect against fluctuations in commodity prices.

“Common Stock” means, with respect to any Person, any and all shares, interests or other participations in, and other equivalents (however designated and whether voting or non-voting) of such Person’s common stock or ordinary shares, whether or not outstanding on the Original Issue Date, and include, without limitation, all series and classes of such common stock or ordinary shares.

“Comparable Treasury Issue” means the U.S. Treasury security having a maturity comparable to _____, 20____ that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to _____, 20____.

“Comparable Treasury Price” means, with respect to any redemption date, if clause (ii) of the Adjusted Treasury Rate is applicable, the average of three, or such lesser number as is obtained by the Company and promptly notified to the Trustee, Reference Treasury Dealer Quotations for such redemption date.

“Consolidated EBITDA” means, for any period, Consolidated Net Income for such period plus, to the extent such amount was deducted in calculating such Consolidated Net Income:

- (a) Consolidated Interest Expense;
- (b) income taxes (other than income taxes attributable to extraordinary and non-recurring gains or losses or sales of assets); and
- (c) depreciation expense, amortization expense and all other non-cash items reducing Consolidated Net Income (other than non-cash items in a period which reflect cash expenses paid or to be paid in another period), less all non-cash items increasing Consolidated Net Income,

all as determined on a consolidated basis for the Company and its Subsidiaries in conformity with GAAP; *provided* that if any Subsidiary is not a Wholly Owned Subsidiary of the Company, Consolidated EBITDA shall be reduced (to the extent not otherwise reduced in accordance with GAAP) by an amount equal to (A) the amount of the Consolidated Net Income attributable to such Subsidiary multiplied by (B) the percentage ownership interest in the income of such Subsidiary not owned on the last day of such period by the Company or any of its Subsidiaries.

“**Consolidated Equity**” means, as of any determination date, an amount equal to the total stockholders’ equity of the Company and its Subsidiaries on a consolidated basis (determined in conformity with GAAP).

“**Consolidated Fixed Charges**” means, for any period, the sum (without duplication) of (i) Consolidated Interest Expense for such period and (ii) all cash and non-cash dividends paid, declared, accrued or accumulated during such period on any Disqualified Stock, Preferred Stock or Perpetual Securities Obligation of the Company or any of its Subsidiaries held by Persons other than the Company or any of its Wholly Owned Subsidiary, except for dividends payable in the Company’s Capital Stock (other than Disqualified Stock) or dividends paid to the Company or to a Wholly Owned Subsidiary of the Company.

“**Consolidated Interest Expense**” means, for any period, the amount that would be included in gross interest expense on a consolidated income statement prepared in accordance with GAAP for such period of the Company and its Subsidiaries, plus, to the extent not included in such gross interest expense, and to the extent incurred, accrued or payable during such period by the Company and its Subsidiaries, without duplication, (i) interest expense attributable to Capitalized Lease Obligations and imputed interest with respect to Attributable Indebtedness, (ii) amortization of debt issuance costs and original issue discount expense and non-cash interest payments in respect of any Indebtedness, (iii) all commissions, discounts and other fees and charges with respect to letters of credit or similar instruments issued for financing purposes or in respect of any Indebtedness, (iv) the net costs associated with Hedging Obligations (including the amortization of fees), (v) interest accruing on Indebtedness of any other Person that is guaranteed by or secured by a Lien on assets of the Company or any of its Subsidiaries and (vi) any capitalized interest; *provided* that interest expense attributable to interest on any Indebtedness bearing a floating interest rate will be computed on a *pro forma* basis as if the rate in effect on the date of determination had been the applicable rate for the entire relevant period.

“**Consolidated Liabilities**” means, as of any determination date, an amount equal to the total liabilities of the Company and its Subsidiaries on a consolidated basis (determined in conformity with GAAP).

“**Consolidated Liabilities to Equity Ratio**” means, with respect to any determination date, the ratio of Consolidated Liabilities as of the date of the most recent annual audited or quarterly reviewed consolidated balance sheet of the Company and its Subsidiaries that is available (the “**Most Recent Balance Sheet Date**”) to the Consolidated Equity as of the Most Recent Balance Sheet Date. In the event that the Company or any of its Subsidiaries Incurs, assumes, guarantees, redeems, repays, discharges, defeases, retires or extinguishes any Consolidated Liabilities (other than Consolidated Liabilities Incurred under any revolving credit facility unless (x) such liabilities has been permanently repaid and has not been replaced or (y) such liabilities was reduced with proceeds of an Equity Offering or other Indebtedness) or issues, redeems or cancels any equity securities of the Company subsequent to the Most Recent Balance Sheet Date for which the Consolidated Liabilities to Equity Ratio is being calculated but prior to or simultaneously with the event for which the calculation of the Consolidated Liabilities to Equity Ratio is made (the “**Consolidated Liabilities to Equity Ratio Calculation Date**”), then the Consolidated Liabilities to Equity Ratio shall be calculated giving *pro forma* effect to such Incurrence, assumption, guarantee, redemption, repayment, discharge, defeasance, retirement or extinguishment of liabilities or such issuance, redemption or cancellation of equity securities, as if the same had occurred on the Most Recent Balance Sheet Date. For purposes of making the computation referred to above, any Investments, acquisitions, dispositions, mergers, consolidations and disposed operations that have been made by the Company or any of its Subsidiaries on or prior to or simultaneously with the Consolidated Liabilities to Equity Ratio Calculation Date shall be calculated on a *pro forma* basis assuming that all such Investments, acquisitions,

dispositions, mergers, consolidations and disposed or discontinued operations had occurred on the Most Recent Balance Sheet Date.

For purposes of this definition, whenever *pro forma* effect is to be given to a transaction, the *pro forma* calculations shall be made in good faith by a responsible financial or accounting officer of the Company.

“**Consolidated Net Income**” means, for any period, the aggregate of the net income (or loss) of the Company and its Subsidiaries for such period, on a consolidated basis, determined in conformity with GAAP; *provided* that the following items shall be excluded in computing Consolidated Net Income (without duplication):

- (a) the net income (or loss) of any Person that is not a Subsidiary of the Company or that is accounted for by the equity method of accounting, except that:
 - (i) subject to the exclusion contained in clause (e) below, the Company’s equity in the net income of any such Person for such period shall be included in such Consolidated Net Income up to the aggregate amount of cash actually distributed by such Person during such period to the Company or a Subsidiary of the Company as a dividend or other distribution (subject, in the case of a dividend or other distribution paid to a Subsidiary of the Company, to the limitations contained in clause (c) below); and
 - (ii) the Company’s equity in a net loss of any such Person for such period shall be included in determining such Consolidated Net Income to the extent funded with cash or other assets of the Company or its Subsidiaries;
- (b) the net income (or loss) of any Person accrued prior to the date it becomes a Subsidiary of the Company or is merged into or consolidated with the Company or any of its Subsidiaries or all or substantially all of the property and assets of such Person are acquired by the Company or any of its Subsidiaries;
- (c) the net income (but not loss) of any Subsidiary of the Company to the extent that the declaration or payment of dividends or similar distributions by such Subsidiary of such net income is not at the time permitted by the operation of the terms of its charter, articles of association or other similar constitutive documents, or any agreement, instrument, judgment, decree, order, statute, rule or governmental regulation applicable to such Subsidiary;
- (d) the cumulative effect of a change in accounting principles;
- (e) any net after-tax gains or loss realized on the sale or other disposition of (A) any property or assets of the Company or any of its Subsidiaries which is not sold in the ordinary course of business or (B) any Capital Stock of any Person (including any gains or loss by the Company realized on sales of Capital Stock of the Company or any of its Subsidiaries);
- (f) any translation gains or losses due solely to fluctuations in currency values and related tax effects; and
- (g) any net after-tax extraordinary or non-recurring gains or losses.

“**Currency Agreement**” means any foreign exchange forward contract, currency swap agreement, currency hedge agreement, currency option agreement, accumulator or other similar agreement or arrangement designed to protect against fluctuations in foreign exchange rates.

“**Default**” means any event that is, or after notice or passage of time or both would be, an Event of Default.

“**Disposition**” means, with respect to any property, any sale, lease, sale and leaseback, conveyance, transfer or other disposition thereof. The terms “**Dispose**” and “**Disposed of**” shall have correlative meanings.

“**Disqualified Stock**” means any class or series of Capital Stock of any Person that by its terms or otherwise is (1) required to be redeemed prior to the date that is 90 days after the Stated Maturity of the Notes, (2) redeemable at the option of the holder of such class or series of Capital Stock at any time prior to the date that is 90 days after

the Stated Maturity of the Notes or (3) convertible into or exchangeable for Capital Stock referred to in clause (1) or (2) above or Indebtedness having a scheduled maturity prior to the date that is 90 days after the Stated Maturity of the Notes; *provided* that any Capital Stock that would not constitute Disqualified Stock but for provisions thereof giving holders thereof the right to require such Person to repurchase or redeem such Capital Stock upon the occurrence of “change of control” occurring prior to the date that is 90 days after the Stated Maturity of the Notes shall not constitute Disqualified Stock if the “change of control” provisions applicable to such Capital Stock are no more favorable to the holders of such Capital Stock than the provisions contained in “*Repurchase of Notes upon a Change of Control*” covenants and such Capital Stock specifically provides that such Person will not repurchase or redeem any such stock pursuant to such provision prior to the Company’s repurchase of such Notes as are required to be repurchased pursuant to the “*Repurchase of Notes upon a Change of Control*” covenant.

“**Dollar Equivalent**” means, with respect to any monetary amount in a currency other than U.S. dollars, at any time for the determination thereof, the amount of U.S. dollars obtained by converting such foreign currency involved in such computation into U.S. dollars at the base rate for the purchase of U.S. dollars with the applicable foreign currency as quoted by the Federal Reserve Bank of New York on the date of determination.

“**Equity Offering**” means (i) any bona fide primary public offering or private placement of Common Stock of the Company after the Original Issue Date or (ii) any bona fide secondary public offering or secondary private placement of Common Stock of the Company beneficially owned by a Permitted Holder, after the Original Issue Date the net proceeds of which are contributed to the common equity capital of the Company; *provided* that the aggregate gross cash proceeds received by the Company from such transaction are no less than US\$20.0 million (or the Dollar Equivalent thereof).

“**Euroclear**” means Euroclear Bank S.A./N.V.

“**Exchange Act**” means the U.S. Securities Exchange Act of 1934, as amended.

“**Fair Market Value**” means the price that would be paid in an arm’s-length transaction between an informed and willing seller under no compulsion to sell and an informed and willing buyer under no compulsion to buy, as determined in good faith by the Company.

“**Fixed Charge Coverage Ratio**” means, on any Transaction Date, the ratio of (1) the aggregate amount of Consolidated EBITDA for the then most recent four fiscal quarters prior to such Transaction Date for which consolidated financial statements of the Company (which the Company shall use its reasonable best efforts to compile in a timely manner) are available (which may be internal consolidated financial statements) (the “**Four Quarter Period**”) to (2) the aggregate Consolidated Fixed Charges during such Four Quarter Period. In making the foregoing calculation:

- (a) *pro forma* effect shall be given to any Indebtedness, Disqualified Stock or Preferred Stock Incurred, repaid or redeemed during the period (the “**Reference Period**”) commencing on and including the first day of the Four Quarter Period and ending on and including the Transaction Date (other than Indebtedness Incurred or repaid under a revolving credit or similar arrangement (or under any predecessor revolving credit or similar arrangement) in effect on the last day of such Four Quarter Periods), in each case as if such Indebtedness, Disqualified Stock or Preferred Stock had been Incurred, repaid or redeemed on the first day of such Reference Period; *provided* that in the event of any such repayment or redemption, Consolidated EBITDA for such Four Quarter Period shall not include any interest income actually earned by the Company or such Subsidiary during such Four Quarter Period in respect of the funds used to repay or redeem such Indebtedness, Disqualified Stock or Preferred Stock;
- (b) Consolidated Interest Expense attributable to interest on any Indebtedness (whether existing or being Incurred) computed on a *pro forma* basis and bearing a floating interest rate shall be computed as if the rate in effect on the Transaction Date (taking into account any Interest Rate Agreement applicable to such

Indebtedness if such Interest Rate Agreement has a remaining term in excess of 12 months or, if shorter, at least equal to the remaining term of such Indebtedness) had been the applicable rate for the entire period;

- (c) *pro forma* effect shall be given to Asset Dispositions and Asset Acquisitions (including giving *pro forma* effect to the application of proceeds of any Asset Disposition) that occur during such Reference Period as if they had occurred and such proceeds had been applied on the first day of such Reference Period; and
- (d) *pro forma* effect shall be given to asset dispositions and asset acquisitions (including giving *pro forma* effect to the application of proceeds of any asset disposition) that have been made by any Person that has become a Subsidiary of the Company or has been merged with or into the Company or any of its Subsidiaries during such Reference Period and that would have constituted Asset Dispositions or Asset Acquisitions had such transactions occurred when such Person was a Subsidiary of the Company as if such asset dispositions or asset acquisitions were Asset Dispositions or Asset Acquisitions that occurred on the first day of such Reference Period;

provided that to the extent that clause (c) or (d) of this paragraph requires that *pro forma* effect be given to an Asset Acquisition or Asset Disposition (or asset acquisition or asset disposition), such *pro forma* calculation shall be based upon the four fiscal quarter periods immediately preceding the Transaction Date of the Person, or division or line of business of the Person, that is acquired or disposed for which financial information is available.

For purposes of this definition, whenever *pro forma* effect is to be given to a transaction, the *pro forma* calculations shall be made in good faith by a responsible financial or accounting officer of the Company.

“**GAAP**” means Korean International Financial Reporting Standards (“**K-IFRS**”) as in effect from time to time. All ratios and computations contained or referred to in the Indenture shall be computed in conformity with GAAP.

“**guarantee**” means any obligation, contingent or otherwise, of any Person directly or indirectly guaranteeing any Indebtedness or other obligation of any other Person and, without limiting the generality of the foregoing, any obligation, direct or indirect, contingent or otherwise, of such Person (1) to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness or other obligation of such other Person (whether arising by virtue of partnership arrangements, or by agreements to keep-well, to purchase assets, goods, securities or services, to take-or-pay, or to maintain financial statement conditions or otherwise) or (2) entered into for purposes of assuring in any other manner the obligee of such Indebtedness or other obligation of the payment thereof or to protect such obligee against loss in respect thereof (in whole or in part); *provided* that the term “**guarantee**” shall not include endorsements for collection or deposit in the ordinary course of business. The term “**guarantee**” used as a verb has a corresponding meaning.

“**Hedging Obligation**” of any Person means the obligations of such Person pursuant to any Commodity Hedging Agreement, Currency Agreement or Interest Rate Agreement.

“**Holder**” means the Person in whose name a Note is registered in the Note register.

“**Incur**” means, with respect to any Indebtedness or Capital Stock, to incur, create, issue, assume, guarantee or otherwise become liable for or with respect to, or become responsible for, the payment of, contingently or otherwise, such Indebtedness or Capital Stock; *provided* that (1) any Indebtedness and Capital Stock of a Person existing at the time such Person becomes a Subsidiary of the Company will be deemed to be Incurred by such Subsidiary at the time it becomes a Subsidiary of the Company and (2) the accretion of original issue discount shall not be considered an Incurrence of Indebtedness. The terms “**Incurrence**,” “**Incurred**” and “**Incurring**” have meanings correlative with the foregoing.

“**Indebtedness**” means, with respect to any Person at any date of determination (without duplication):

- (a) all indebtedness of such Person for borrowed money;

- (b) all obligations of such Person evidenced by bonds, debentures, notes or other similar instruments;
- (c) all obligations of such Person in respect of letters of credit, bankers' acceptances or other similar instruments;
- (d) all obligations of such Person to pay the deferred and unpaid purchase price of property or services, except Trade Payables;
- (e) all Capitalized Lease Obligations and Attributable Indebtedness;
- (f) all Indebtedness of other Persons secured by a Lien on any asset of such Person, whether or not such Indebtedness is assumed by such Person; *provided* that the amount of such Indebtedness shall be the lesser of (A) the Fair Market Value of such asset at such date of determination and (B) the amount of such Indebtedness;
- (g) all Indebtedness of other Persons guaranteed by such Person to the extent such Indebtedness is guaranteed by such Person;
- (h) to the extent not otherwise included in this definition, Hedging Obligations;
- (i) all Disqualified Stock issued by such Person valued at the greater of its voluntary or involuntary liquidation preference and its maximum fixed repurchase price plus accrued dividends;
- (j) all Perpetual Securities Obligations; and
- (k) any Preferred Stock issued by (i) such Person, if such Person is a Subsidiary of the Company or (ii) any Subsidiary of such Person, valued at the greater of its voluntary or involuntary liquidation preference and its maximum fixed repurchase price plus accrued dividends.

Notwithstanding the foregoing, "Indebtedness" shall not include:

- (i) anything accounted for as an operating lease under GAAP as in effect on the Original Issue Date and any guarantee solely in connection with, and in respect of any such operating lease;
- (ii) any compensation or other obligations to management or employees pursuant to any deferred compensation, incentive or similar plan, any contingent obligations in respect of workers' compensation claims, early retirement or termination obligations, pension fund obligations or contributions or similar claims, insurance, tour operator, airport or other claims arising in the ordinary course of business, obligations or contributions or social security or wage taxes;
- (iii) Indebtedness pursuant to performance bonds, mined land reclamation bonds or advance payment bonds issued in respect of the obligations of any Subsidiary of the Company for the supply of goods or services or any environmental clean-up or restoration obligations arising in the ordinary course of business for such Subsidiary and not in connection with the borrowing of money, in each case, to the extent that no demand has been made in respect of such Indebtedness;
- (iv) the accretion or amortization of original issue discount, the payment of interest on any Indebtedness in the form of additional Indebtedness and the reclassification of Preferred Stock as indebtedness due to a change in accounting principles; and
- (v) any capital commitments, deferred payment obligation, pre-sale receipts in advance from customers or any contingent obligations to refund payments (including deposits) to customers (or any guarantee thereof) in connection with mandatory obligations under or pending completion of a customer contract, in each case, entered into in the ordinary course of business and in accordance with customary market practice; *provided* that, in each case, such Indebtedness is not reflected as borrowings on the consolidated balance sheet of the Company (contingent obligations and commitments referred to in a footnote to financial statements and not otherwise reflected as borrowings on the balance sheet will not be deemed to be reflected on such balance sheet).

The amount of Indebtedness of any Person at any time shall be the outstanding balance at such time of all unconditional obligations as described above and, with respect to contingent obligations, the maximum liability upon the occurrence of the contingency giving rise to the obligation; provided:

- (A) that the amount outstanding at any time of any Indebtedness issued with original issue discount is the face amount of such Indebtedness less the remaining unamortized portion of the original issue discount of such Indebtedness at such time as determined in conformity with GAAP;
- (B) that money borrowed and set aside at the time of the Incurrence of any Indebtedness in order to prefund the payment of the interest on such Indebtedness shall not be deemed to be “**Indebtedness**” so long as such money is held to secure the payment of such interest; and
- (C) that the amount of Indebtedness with respect to any Hedging Obligation shall be: (i) zero if Incurred in the ordinary course of business and designed to protect the Company or any of its Subsidiaries from fluctuations in interest rates, currencies or the price of commodities and not for speculation; and (ii) equal to the net amount payable if such Hedging Obligation terminated at or prior to that time due to a default by such Person if not Incurred pursuant to (i) above.

“**Interest Rate Agreement**” means any interest rate protection agreement, interest rate future agreement, interest rate option agreement, interest rate swap agreement, interest rate cap agreement, interest rate collar agreement, interest rate hedge agreement, option or future contract or other similar agreement or arrangement designed to protect against fluctuations in interest rates.

“**Investment**” means:

- (a) any direct or indirect advance, loan or other extension of credit to another Person,
- (b) any capital contribution to another Person (by means of any transfer of cash or other property to others or any payment for property or services for the account or use of others),
- (c) any purchase or acquisition of Capital Stock (or options, warrants or other rights to acquire such Capital Stock), Indebtedness, bonds, notes, debentures or other similar instruments or securities issued by another Person, or
- (d) any guarantee of any obligation of another Person to the extent such obligation is outstanding.

“**Lien**” means 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).

“**Moody’s**” means Moody’s Investors Service, Inc. and its successors.

“**Net Cash Proceeds**” means:

- (a) with respect to any Asset Sale, the proceeds of such Asset Sale in the form of cash or cash equivalents, including payments in respect of deferred payment obligations (to the extent corresponding to the principal, but not interest, component thereof) when received in the form of cash or cash equivalents and proceeds from the conversion of other property received when converted to cash or cash equivalents, net of
 - (1) brokerage commissions and other fees and expenses (including fees and expenses of counsel and investment banks) related to such Asset Sale;
 - (2) provisions for all taxes (whether or not such taxes will actually be paid or are payable) as a result of such Asset Sale without regard to the consolidated results of operations of the Company and its Subsidiaries, taken as a whole;
 - (3) payments made to repay Indebtedness or any other obligation outstanding at the time of such Asset Sale that either (x) is secured by a Lien on the property or assets sold or (y) is required to be paid as a result of such sale; and

- (4) appropriate amounts to be provided by the Company or any of its Subsidiaries as a reserve against any liabilities associated with such Asset Sale, including, without limitation, pension and other post-employment benefit liabilities, liabilities related to environmental matters and liabilities under any indemnification obligations associated with such Asset Sale, all as determined in conformity with GAAP; and
- (b) with respect to any issuance or sale of Capital Stock, the proceeds of such issuance or sale in the form of cash or cash equivalents, including payments in respect of deferred payment obligations (to the extent corresponding to the principal, but not interest, component thereof) when received in the form of cash or cash equivalents and proceeds from the conversion of other property received when converted to cash or cash equivalents, net of attorneys' fees, accountants' fees, underwriters' or placement agents' fees, discounts or commissions and brokerage, consultant and other fees incurred in connection with such issuance or sale and net of taxes paid or payable as a result thereof.

“NPS” means the National Pension Service of Korea.

“Offer to Purchase” means an offer to purchase the Notes by the Company from the Holders commenced by the Company mailing a notice by first class mail, postage prepaid, to the Trustee and each Holder at its last address appearing in the Note register stating:

- (a) the provision of the Indenture pursuant to which the offer is being made and that all Notes validly tendered will be accepted for payment on a *pro rata* basis;
- (b) the purchase price and the date of purchase (which shall be a Business Day no earlier than 30 days nor later than 60 days from the date such notice is mailed) (the “Offer to Purchase Payment Date”);
- (c) that any Note not tendered will continue to accrue interest pursuant to its terms;
- (d) that, unless the Company defaults in the payment of the purchase price, any Note accepted for payment pursuant to the Offer to Purchase shall cease to accrue interest on and after the Offer to Purchase Payment Date;
- (e) that Holders electing to have a Note purchased pursuant to the Offer to Purchase will be required to surrender the Note, together with the form entitled “*Option of the Holder to Elect Purchase*” on the reverse side of the Note completed, to the Paying Agent at the address specified in the notice prior to the close of business on the Business Day immediately preceding the Offer to Purchase Payment Date;
- (f) that Holders will be entitled to withdraw their election if the Paying Agent receives, not later than the close of business on the third Business Day immediately preceding the Offer to Purchase Payment Date, a facsimile transmission or letter setting forth the name of such Holder, the principal amount of Notes delivered for purchase and a statement that such Holder is withdrawing his election to have such Notes purchased; and
- (g) that Holders whose Notes are being purchased only in part will be issued new Notes equal in principal amount to the unpurchased portion of the Notes surrendered; *provided* that each Note purchased and each new Note issued shall be in a principal amount of US\$200,000 or integral multiples of US\$1,000 in excess thereof.

One Business Day prior to the Offer to Purchase Payment Date, the Company shall deposit with the Paying Agent money sufficient to pay the purchase price of all Notes or portions thereof to be accepted by the Company for payment on the Offer to Purchase Payment Date. On the Offer to Purchase Payment Date, the Company shall (a) accept for payment on a *pro rata* basis Notes or portions thereof tendered pursuant to an Offer to Purchase; and (b) deliver, or cause to be delivered, to the Trustee all Notes or portions thereof so accepted together with an Officer's Certificate specifying the Notes or portions thereof accepted for payment by the Company. The Paying Agent shall promptly mail to the Holders of Notes so accepted payment in an amount equal to the purchase price, and the Trustee shall promptly authenticate and mail to such Holders a new Note equal in principal amount to

any unpurchased portion of the Note surrendered; *provided* that each Note purchased and each new Note issued shall be in a principal amount of US\$200,000 or integral multiples of US\$1,000 in excess thereof. The Company will publicly announce the results of an Offer to Purchase as soon as practicable after the Offer to Purchase Payment Date. The Company will comply with Rule 14e-1 under the Exchange Act and any other securities laws and regulations to the extent such laws and regulations are applicable, in the event that the Company is required to repurchase Notes pursuant to an Offer to Purchase.

To the extent that the provisions of any securities laws or regulations of any jurisdiction conflict with the provisions of the Indenture governing any Offer to Purchase, the Company will comply with the applicable securities laws and regulations and will not be deemed to have breached its obligations under the Indenture by virtue of such compliance.

The Company will not be required to make an Offer to Purchase if a third party makes the Offer to Purchase in compliance with the requirements set forth in the Indenture applicable to an Offer to Purchase made by the Company and purchases all Notes properly tendered and not withdrawn under the Offer to Purchase.

The materials used in connection with an Offer to Purchase are required to contain or incorporate by reference information concerning the business of the Company and its Subsidiaries which the Company in good faith believes will assist such Holders to make an informed decision with respect to the Offer to Purchase, including a brief description of the events requiring the Company to make the Offer to Purchase, and any other information required by applicable law to be included therein. The offer is required to contain all instructions and materials necessary to enable such Holders to tender Notes pursuant to the Offer to Purchase.

“**Officer**” means one of the executive officers of the Company.

“**Officer’s Certificate**” means a certificate signed by one Officer.

“**Opinion of Counsel**” means a written opinion from legal counsel selected by the Company; *provided* that such counsel shall be in form and substance acceptable to the Trustee.

“**Original Issue Date**” means the date on which the Notes are originally issued under the Indenture.

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

“**Permitted Holders**” means Hanjin KAL Corp. and any of its Affiliates and any group (within the meaning of Section 13(d)(3) or Section 14(d)(2) of the Exchange Act or any successor provision) of which any of the foregoing are members; *provided* that, in the case of such group and without giving effect to the existence of such group or any other group, Hanjin KAL Corp. and its Affiliates, collectively, have beneficial ownership of more than 50.0% of the total voting power of the Voting Stock of such group. Any Person or group whose acquisition of beneficial ownership constitutes a Change of Control in respect of which a Change of Control Offer is made in accordance with the requirements of the Indenture (or would result in a Change of Control Offer in the absence of the waiver of such requirement by Holders in accordance with the provisions of the Indenture) will thereafter, together with its Affiliates, constitute an additional Permitted Holder.

“**Permitted Refinancing Indebtedness**” means any Indebtedness (or commitments in respect thereof) of the Company or any of its Subsidiaries to the extent issued in exchange for, or the net proceeds of which are used to renew, refund, extend, refinance, replace, defease or discharge other Indebtedness of the Company or any of its Subsidiaries (other than intercompany Indebtedness); *provided* that:

- (1) the principal amount (or accreted value, if applicable) of such Permitted Refinancing Indebtedness does not exceed the original principal amount (or accreted value, if applicable) when initially incurred of the

Indebtedness renewed, refunded, extended, refinanced, replaced, defeased or discharged (plus all accrued interest on the Indebtedness (whether or not capitalized or accreted or payable on a current basis) and the amount of all fees and expenses, including premiums, incurred in connection therewith (such original principal amount plus such amounts described above, collectively, for purposes of this clause (1), the “**preceding amount**”)); *provided* that with respect to any such Permitted Refinancing Indebtedness that is to renew, refund, extend, refinance, replace, defease or discharge Indebtedness used to finance or refinance any assets (“**Refinanced Indebtedness**”), the principal amount (or accreted value, if applicable) of such Permitted Refinancing Indebtedness plus the principal amount (or accreted value, if applicable) of any remaining Refinanced Indebtedness with respect to such assets shall not exceed the greater of the preceding amount and the Fair Market Value of the assets (which Fair Market Value may, at the time of an advance commitment, be determined to be the Fair Market Value at the time of such commitment or (at the option of the issuer of such Indebtedness) the Fair Market Value projected for the time of incurrence of such Indebtedness);

- (2) if such Permitted Refinancing Indebtedness has a maturity date that is after the final maturity date of the Notes (with any amortization payment comprising such Permitted Refinancing Indebtedness being treated as maturing on its amortization date), such Permitted Refinancing Indebtedness has a Weighted Average Life to Maturity that, at the time such Permitted Refinancing Indebtedness is incurred, is (a) equal to or greater than the Weighted Average Life to Maturity of, the Indebtedness being renewed, refunded, extended, refinanced, replaced, defeased or discharged as at the date of such renewal, refund, extension, refinancing, replacement, defeasance or discharge or (b) more than 60 days after the final maturity date of the Notes;
- (3) if the Indebtedness being renewed, refunded, extended, refinanced, replaced, defeased or discharged is subordinated in right of payment to the Notes, such Permitted Refinancing Indebtedness is subordinated in right of payment to the Notes on terms at least as favorable to the holders of Notes as those contained in the documentation governing the Indebtedness being renewed, refunded, extended, refinanced, replaced, defeased or discharged; and
- (4) notwithstanding that the Indebtedness being renewed, refunded, refinanced, extended, replaced, defeased or discharged may have been repaid or discharged by the Company or any of its Subsidiaries prior to the date on which the new Indebtedness is incurred, Indebtedness that otherwise satisfies the requirements of this definition may be designated as Permitted Refinancing Indebtedness so long as such renewal, refunding, refinancing, extension, replacement, defeasance or discharge occurred not more than 36 months prior to the date of such incurrence of Permitted Refinancing Indebtedness.

“**Perpetual Securities Obligation**” means any debt security or other obligation (howsoever described) incurred by the Company or any of its Subsidiaries under any “perpetual bond,” “perpetual loan,” “perpetual securities” or similar instruments which is treated as equity under GAAP.

“**Person**” means any individual, corporation, partnership, limited liability company, joint venture, trust, unincorporated organization or government or any agency or political subdivision thereof.

“**Preferred Stock**” as applied to the Capital Stock of any Person means Capital Stock of any class or classes that by its term is preferred as to the payment of dividends, or as to the distribution of assets upon any voluntary or involuntary liquidation or dissolution of such Person, over any other class of Capital Stock of such Person.

“**Qualified Receivables Transaction**” means any transaction or series of transactions entered into by the Company or any of its Subsidiaries pursuant to which the Company or any of its Subsidiaries sells, conveys or otherwise transfers to (1) a Receivables Subsidiary or any other Person (in the case of a transfer by the Company or any of its Subsidiaries) and (2) any other Person (in the case of a transfer by a Receivables Subsidiary), or grants a security interest in, any accounts receivables (whether now existing or arising in the future) of the Company or any of its Subsidiaries, and any assets related thereto including, without limitation, all equity interests and other investments in, or assets of, the Receivables Subsidiary, all collateral securing such accounts

receivable, all contracts and all guarantees or other obligations in respect of such accounts receivable, proceeds of such accounts receivables and other assets which are related thereto or which are customarily transferred or in respect of which security interests are customarily granted in connection with asset securitization or financing transactions involving accounts receivables.

“Receivables Subsidiary” means a Subsidiary of the Company which engages in no activities other than in connection with (x) the financing or securitization of accounts receivables or (y) the holding of shares in another Subsidiary which engages in no activities other than in connection with the financing or securitization of accounts receivables and, in either case, which is designated by the Board of Directors of the Company (as provided below) as a Receivables Subsidiary (a) no portion of the Indebtedness or any other obligations (contingent or otherwise) of which (i) is guaranteed by the Company or any Subsidiary of the Company (other than comprising a pledge of the Capital Stock or other interests in such Receivables Subsidiary (an **“incidental pledge”**)), and excluding any guarantees of obligations (other than the principal of, and interest on, Indebtedness) pursuant to representations, warranties, covenants and indemnities entered into in the ordinary course of business in connection with a Qualified Receivables Transaction), (ii) is recourse to or obligates the Company or any Subsidiary of the Company in any way other than through an incidental pledge or pursuant to representations, warranties, covenants and indemnities entered into in the ordinary course of business in connection with a Qualified Receivables Transaction or (iii) subjects any property or asset of the Company or any Subsidiary of the Company (other than accounts receivable and related assets as provided in the definition of **“Qualified Receivables Transaction”**), directly or indirectly, contingently or otherwise, to the satisfaction thereof, other than pursuant to representations, warranties, covenants and indemnities entered into in the ordinary course of business in connection with a Qualified Receivables Transaction, (b) with which neither the Company nor any Subsidiary of the Company has any material contract, agreement, arrangement or understanding (other than pursuant to the Qualified Receivables Transaction) other than (i) on terms no less favorable to the Company or such Subsidiary than those that might be obtained at the time from Persons who are not Affiliates of the Company, and (ii) fees payable in the ordinary course of business in connection with servicing accounts receivable and (c) with which neither the Company nor any Subsidiary of the Company has any obligation to maintain or preserve such Subsidiary’s financial condition, other than a minimum capitalization in customary amounts, or to cause such Subsidiary to achieve certain levels of operating results. Any such designation by the Board of Directors of the Company will be evidenced to the Trustee by filing with the Trustee a certified copy of the resolution of the Board of Directors of the Company giving effect to such designation and an officers’ certificate certifying that such designation complied with the foregoing conditions.

“Reference Treasury Dealer” means each of any three investment banks of recognized standing that is a primary U.S. Government securities dealer in the City of New York, selected by the Company in good faith.

“Reference Treasury Dealer Quotations” means, with respect to each Reference Treasury Dealer and any redemption date, the average of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) requested by the Company and quoted in writing by such Reference Treasury Dealer at 5:00 p.m., New York city time, on the third Business Day preceding such redemption date.

“S&P” means Standard & Poor’s Ratings Services and its affiliates and successors.

“Sale and Leaseback Transaction” means any direct or indirect arrangement relating to property (whether real, personal or mixed), now owned or hereafter acquired whereby the Company or any of its Subsidiaries transfers such property to another Person and the Company or any of its Subsidiaries leases it from such Person.

“Security Obligations” shall mean Liens and/or Guarantees.

“Significant Subsidiary” means any Subsidiary or any group of Subsidiaries that, taken together, would be a “significant subsidiary” using the conditions specified in the definition of significant subsidiary in Article 1, Rule 1-02(w) of Regulation S-X, promulgated pursuant to the Securities Act, as such Regulation is in effect on the date of the Indenture, if any of the conditions exceeds 5 percent.

“**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 the covenants in the Indenture, the Company’s Subsidiaries are not Sponsor Affiliates.

“**Stated Maturity**” means, (1) with respect to any Indebtedness, the date specified in such debt security as the fixed date on which the final installment of principal of such Indebtedness is due and payable as set forth in the documentation governing such Indebtedness and (2) with respect to any scheduled installment of principal of or interest on any Indebtedness, the date specified as the fixed date on which such installment is due and payable as set forth in the documentation governing such Indebtedness.

“**Subsidiary**” means, with respect to any Person, any corporation, association or other business entity of which more than 50% of the voting power of the outstanding Voting Stock is owned, directly or indirectly, by such Person and one or more other Subsidiaries of such Person.

“**Trade Payables**” means, with respect to any Person, any accounts payable or any other indebtedness or monetary obligation to trade creditors created, assumed or guaranteed by such Person or any of its Subsidiaries arising in the ordinary course of business in connection with the acquisition of goods or services.

“**Transaction Date**” means, with respect to the Incurrence of any Indebtedness, the date such Indebtedness is to be Incurred.

“**U.S. Government Obligations**” means securities that are (1) direct obligations of the United States of America for the payment of which its full faith and credit is pledged or (2) obligations of a Person controlled or supervised by and acting as an agency or instrumentality of the United States of America the payment of which is unconditionally guaranteed as a full faith and credit obligation by the United States of America, which, in either case, are not callable or redeemable at the option of the issuer thereof at any time prior to the Stated Maturity of the Notes, and shall also include a depository receipt issued by a bank or trust company as custodian with respect to any such U.S. Government Obligation or a specific payment of interest on or principal of any such U.S. Government Obligation held by such custodian for the account of the holder of a depository receipt; *provided* that (except as required by law) such custodian is not authorized to make any deduction from the amount payable to the holder of such depository receipt from any amount received by the custodian in respect of the U.S. Government Obligation or the specific payment of interest on or principal of the U.S. Government Obligation evidenced by such depository receipt.

“**Voting Stock**” means, with respect to any Person, Capital Stock of any class or kind ordinarily having the power to vote for the election of directors, managers or other voting members of the governing body of such Person.

“**Weighted Average Life to Maturity**” means, when applied to any Indebtedness at any date, the number of years obtained by dividing:

- (1) the sum of the products obtained by multiplying (a) the amount of each then remaining installment, sinking fund, serial maturity or other required payments of principal, including payment at final maturity, in respect of the Indebtedness, by (b) the number of years (calculated to the nearest one-twelfth) that will elapse between such date and the making of such payment; by
- (2) the then outstanding principal amount of such Indebtedness.

“**Wholly Owned**” means, with respect to any Subsidiary of any Person, the ownership of all of the outstanding Capital Stock of such Subsidiary (other than any director’s qualifying shares or Investments by foreign nationals mandated by applicable law) by such Person or one or more Wholly Owned Subsidiaries of such Person.

TAXATION

Korean Taxation

The information provided below does not purport to be a complete summary of Korean tax law and practice currently applicable. Prospective investors who are in any doubt as to their tax position should consult with their own professional advisers.

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

Tax on Interest

In principle, interest paid to a Non-Resident by a Korean company is subject to withholding of Korean income or corporation tax unless exempted by relevant laws or tax treaties.

The Special Tax Treatment Control Law (the STTCL) exempts interest on bonds or notes (including the Notes) denominated in a foreign currency issued outside of Korea by a Korean corporation (excluding payments to a Korean resident, Korean corporation or a Permanent Establishment of a foreign corporation) from Korean income or corporation tax. The local income tax referred to below is also therefore eliminated.

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

Tax is withheld by the payer of the interest and any person who had been subject to withholding of Korean tax previously was not entitled to recover from the Government any part of the Korean tax withheld, even if such person subsequently produced evidence that such person was entitled to have tax withheld at a lower rate. However, such person is entitled, following an amendment to the Framework Act on National Tax of Korea, to recover any tax amount paid in excess or in error.

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

For a Non-Resident to obtain the benefits of treaty-reduced tax rates on Korean source interest under an applicable tax treaty, Korean tax law requires such Non-Resident (or its agents) to submit to the payer of such interest an application for entitlement to reduced tax rates together with such evidence of the Non-Resident's tax residence as the Korean tax authorities may require in support of the claim for treaty protection prior to receipt of such Korean source income. Subject to certain exceptions, an overseas investment vehicle (which is defined as an organization established in a foreign jurisdiction that manages funds collected through investment solicitation by way of acquiring, disposing or otherwise investing in proprietary targets and then distributes the outcome of such management to investors) must collect from each of its beneficial owners an application for entitlement to reduced tax rates and submit a report of overseas investment vehicle to the payer of the interest, together with a detailed statement on the beneficial owner of the income.

Further, in order to obtain a benefit of tax exemption available under an applicable tax treaty, a Non-Resident should submit an application for exemption by the ninth day of the month following the month in which the first payment occurred together with a certificate of the Non-Resident's tax residence issued by a competent authority of the Non-Resident's residence country. Subject to certain exceptions, an overseas investment vehicle must

collect from each of its beneficial owners an application for exemption, together with a certificate of tax residence of the beneficial owner and submit a report of overseas investment vehicle to the payer of the interest, together with a detailed statement on the beneficial owner of the income and its beneficial owners' applications for exemption. However, this requirement does not apply to any exemption under Korean tax law.

Tax on Capital Gains

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

If the exclusion or exemption from Korean taxation referred to above ceases to be in effect, in the absence of an applicable treaty or any other special tax laws reducing or eliminating capital gains tax, the applicable rate of tax would be the lower of 11% of the gross realization proceeds (the Gross Realization Proceeds) or (subject to the production of satisfactory evidence of the acquisition cost and certain direct transaction costs of the relevant Korean securities) 22% of the gain made. The gain is calculated as the Gross Realization Proceeds less the acquisition cost and certain direct transaction costs. There is no provision under relevant Korean law for offsetting gains and losses or otherwise aggregating transactions for the purpose of computing the net gain attributable to sales of Korean securities. Unless the seller can claim the benefit of an exemption or a reduced rate of tax under an applicable treaty or in the absence of the seller producing satisfactory evidence of its acquisition cost and certain direct transaction costs in relation to the Korean securities being sold, the purchaser or the securities company, as applicable, must withhold an amount equal to 11% of the Gross Realization Proceeds. Any withheld tax must be paid no later than the tenth day of the month following the month in which the payment for the purchase of the relevant Korean securities occurred. Failure to timely transmit the withheld tax to the Korean tax authorities technically subjects the purchaser or the securities company to penalties under Korean tax law.

In order to obtain the benefit of reduced rates of withholding tax under an applicable tax treaty, a Non-Resident seller should submit to the purchaser prior to or at the time of payment an application for entitlement to reduced tax rates together with such evidence of tax residence of the seller as the Korean tax authorities may require in support of the claim for treaty protection. Subject to certain exceptions, an overseas investment vehicle must collect from each of its beneficial owners an application for entitlement to reduced tax rates and submit a report of overseas investment vehicle to the purchaser, together with a detailed statement on the beneficial owner of the income. Further, Korean tax law requires a Non-Resident seller to submit to the purchaser or the securities company, as applicable, the application for exemption with a certificate of tax residence of the Non-Resident seller issued by a competent authority of the Non-Resident seller's country of residence by the ninth day of the month following the month in which the first payment occurred in order to obtain the benefit of a tax treaty exemption. Subject to certain exceptions, an overseas investment vehicle must collect from each of its beneficial owners an application for exemption, together with a certificate of tax residence of the beneficial owner and submit a report of overseas investment vehicle to the purchaser or the securities company, as the case may be, together with a detailed statement on the beneficial owner of the income and its beneficial owners' applications for exemption. However, this requirement will not be applied to the exemption under Korean tax law.

Inheritance Tax and Gift Tax

Korean inheritance tax is imposed upon (1) all assets (wherever located) of the deceased if at the time of death the deceased was domiciled or resided in Korea for at least 183 days immediately prior to death and (2) all property located in Korea which passes on death (irrespective of the domicile of the deceased). Gift tax is imposed in similar circumstances to the above. The taxes are imposed if the value of the relevant property is above a certain limit and the tax amount varies from the rate of 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 regarding its inheritance or gift taxes.

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

Stamp Duty

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

Tax Treaties

At the date of this Offering Circular, Korea has tax treaties with, inter alia, Albania, Algeria, Australia, Austria, Azerbaijan, Bangladesh, Belarus, Belgium, Brazil, Bulgaria, Canada, Chile, China, Croatia, the Czech Republic, Denmark, Egypt, Estonia, Fiji, Finland, France, Germany, Greece, Hungary, Iceland, India, Indonesia, Iran, Ireland, Israel, Italy, Japan, Jordan, Kazakhstan, Kuwait, the Lao People's Democratic Republic, Latvia, Lithuania, Luxembourg, Malaysia, Malta, Mexico, Mongolia, Morocco, Myanmar, Nepal, the Netherlands, New Zealand, Norway, Oman, Pakistan, Panama, Papua New Guinea, the Philippines, Poland, Portugal, Qatar, Romania, Russia, Saudi Arabia, Singapore, Slovakia, Slovenia, South Africa, Spain, Sri Lanka, Sweden, Switzerland, Thailand, Tunisia, Turkey, Ukraine, the United Arab Emirates, the United Kingdom, the United States of America, Uruguay, Uzbekistan, Venezuela and Vietnam. Under these treaties, the rate of withholding tax generally is reduced to a rate ranging from nil to 16.5% and the tax on capital gains is often eliminated.

Each Holder should inquire whether he or she is entitled to the benefit of a tax treaty with Korea with respect to any transaction involving the Notes. It is the responsibility of the party claiming the benefits of a tax treaty in respect of interest payments to file with the Company, the purchaser or the securities company, as applicable, a certificate as to his or her 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.

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 Notes 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 Notes where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

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 are advised to seek their own professional advice in relation to the FTT.

PLAN OF DISTRIBUTION

Subject to the terms and conditions stated in the purchase agreement (the “Purchase Agreement”) dated _____, 2018, each Initial Purchaser named below has severally agreed to purchase, and the Company has agreed to sell to such Initial Purchaser, the principal amount of the Notes set forth opposite the Initial Purchaser’s name.

Initial Purchaser	Principal Amount of the Notes
BOCI Asia Limited	US\$
Citigroup Global Markets Limited	_____
Total	US\$

The Purchase Agreement provides that the obligation of the Initial Purchasers to pay for and accept delivery of the Notes is several and not joint and is subject to the approval of certain legal matters by their counsel and certain other conditions. The Company has agreed to indemnify the Initial Purchasers against certain liabilities or to contribute to payments that the Initial Purchasers may be required to make because of any of those liabilities.

The Initial Purchasers propose to resell the Notes at the offering price set forth on the cover page of this Offering Circular only outside the United States in reliance on Regulation S. See “*Selling Restrictions.*” The price at which the Notes are offered may be changed at any time without notice.

The Company has agreed that, for a period until 30 days after the date of the Purchase Agreement, it will not, without the prior written consent of the Initial Purchasers, issue or guarantee any debt securities (other than ABSs) outside of Korea. The Initial Purchasers in their sole discretion may consent to the offering and sale of such securities by the Company at any time without notice.

The Notes will constitute a new class of securities with no established trading market. Application will be made to the SGX-ST for the listing and quotation of the Notes on the SGX-ST. However, the Company cannot assure you that the prices at which the Notes will trade in the market after this offering will not be lower than the initial offering price or that an active trading market for the Notes will develop and continue after this offering.

The Initial Purchasers have advised the Company that they currently intend to make a market in the Notes. However, they are not obligated to do so and they may discontinue any market-making activities with respect to the Notes at any time without notice. Accordingly, the Company cannot assure you as to the liquidity of, or the trading market for, the Notes.

The Stabilizing Managers may engage in overallocation, stabilizing transactions, syndicate covering transactions and penalty bids to the extent permitted by applicable laws and regulations. Overallocation involves sales in excess of the offering size, which creates a short position. Stabilizing transactions permit bids to purchase the underlying security so long as the stabilizing bids do not exceed a specified maximum. Covering transactions involve purchase of the Notes in the open market after the distribution has been completed in order to cover short positions. Penalty bids permit the Stabilizing Managers to reclaim a selling concession from a dealer when the Notes originally sold by such dealer are purchased in a stabilizing transaction or a covering transaction to cover short positions. The Initial Purchasers do not make any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the Notes. In addition, the Initial Purchasers do not make any representation that the Stabilizing Managers will engage in these transactions or that these transactions, once commenced, will not be discontinued without notice.

The Company expects to deliver the Notes against payment for the Notes on or about the date specified in the last paragraph of the cover page of this Offering Circular.

The Initial Purchasers and their affiliates have in the past engaged in transactions with and performed services, including financial advisory and investment banking services, for the Company and its affiliates in the ordinary course of business, for which they received customary fees and expenses and they may engage in similar transactions or perform similar services for the Company in the future. Certain of the Initial Purchasers or their affiliates are lenders to the Company. They may provide additional loans to the Company in the future. Furthermore, the Company may enter into hedging or other derivative transactions as part of its risk management strategy with one or more of the Initial Purchasers, which may include transactions relating to the Company's obligations under the Notes. The Company's obligations under these transactions may be secured by cash or other collateral.

The Initial Purchasers or certain of their affiliates may purchase the Notes and be allocated Notes for asset management and/or proprietary purposes and not with a view to distribution. The Initial Purchasers or their respective affiliates may purchase the Notes for their own account and enter into transactions, including credit derivatives, such as asset swaps, repackaging and credit default swaps relating to the Notes and/or other securities of the Company or their respective subsidiaries or associates at the same time as the offer and sale of the Notes 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 Notes to which this Offering Circular relates (notwithstanding that such selected counterparties may also be purchasers of the Notes).

Selling Restrictions

General

No action has been taken or will be taken in any jurisdiction by the Company or the Initial Purchasers that would permit a public offering of the Notes, or the possession, circulation or distribution of this Offering Circular or any other material relating to the Notes or this offering, in any jurisdiction where action for that purpose is required. Accordingly, the Notes may not be offered or sold, directly or indirectly, and neither this Offering Circular nor such other material may be distributed or published, in or from any country or jurisdiction except in compliance with any applicable rules and regulations of such country or jurisdiction.

United States

The Notes have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States. The Notes 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. Each of the Initial Purchasers has agreed that it will not offer, sell or deliver the Notes within the United States, or to, or for the account or benefit of, U.S. persons. In addition, until 40 days after commencement of the offering, an offer or sale of Notes within the United States by a dealer, whether or not participating in the offering may violate the registration requirements of the Securities Act.

Prohibition of Sales to EEA Retail Investors

Each of the Initial Purchasers has represented and agreed that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes to any retail investor in the European Economic Area. For the purposes of this provision:

- (a) the expression "retail investor" means a person who is one (or more) of the following:
 - (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "MiFID II"); or
 - (ii) a customer within the meaning of Directive 2002/92/EC (as amended, the "Insurance Mediation Directive"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or

- (iii) not a qualified investor as defined in Directive 2003/71/EC (as amended, the “Prospectus Directive”); and
- (b) the expression “offer” includes the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes.

United Kingdom

Each Initial Purchaser has further represented, warranted and undertaken that:

- (a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000 (the “FSMA”)) received by it in connection with the issue or sale of the Notes in circumstances in which Section 21(1) of the FSMA 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 Notes in, from or otherwise involving the United Kingdom.

Hong Kong

Each of the Initial Purchasers has represented and agreed that (1) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Notes other than (i) to “professional investors” as defined in the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the “SFO”) and any rules made thereunder; or (ii) in other circumstances which do not result in the document being a “prospectus” as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance; and (2) it has not issued or had in its possession for the purposes of issue and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Notes, which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to the Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” as defined in the SFO and any rules made thereunder.

Singapore

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

Where the Notes are initially subscribed or purchased by (i) an institutional investor under Section 274 of the SFA, or (ii) 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, the Notes may only be sold or transferred: (a) at any time, to an institutional investor under Section 274 of the SFA; (b) at any time, to a relevant person defined in Section 275(2) of the SFA or to any person pursuant to an offer referred to in Section 275(1A) of the SFA; or (c) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

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

1. 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
2. a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

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

- (i) to an institutional investor or to a relevant person defined in Section 275(2) of the SFA or to any person arising from an offer referred to in section 275(1A) or section 276(4)(i)(B) of the SFA;
- (ii) where no consideration is or will be given for the transfer;
- (iii) where the transfer is by operation of law;
- (iv) as specified in Section 276(7) of the SFA; or
- (v) as specified in Regulation 32 of the Securities and Futures (Offer of Investments) (Shares and Debentures) Regulations 2005 of Singapore.

Korea

Each of the Initial Purchasers has represented and agreed that the Notes have not been and will not be registered with the Financial Services Commission (the "FSC") under the Financial Investment Services and Capital Markets Act of Korea (the "FSCMA"), as amended. Accordingly, the Notes 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 Act of Korea and the Enforcement Decree thereof), 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, other than to a qualified institutional investor (a "QIB") as specified in Article 2-2, Paragraph 2, Item 4 of the Regulations on the Issuance of Securities and Public Disclosure, Etc. of Korea and registered with the Korea Financial Investment Association (the "KOFIA") as a QIB and the Notes to be acquired by such QIBs at the time of issuance must be less than 20% of the aggregate issue amount of the Notes pursuant to Article 2-2-2, Paragraph 2, Item 3 of the above Regulations or except as otherwise permitted by the applicable Korean laws and regulations.

TRANSFER RESTRICTIONS

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

Transfer Restrictions under Korean Law

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

- (a) The Notes have not been and will not be registered with the FSC under the FSCMA, as amended. Accordingly, the Notes 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 Act of Korea and the Enforcement Decree thereof) 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 Notes, the Notes may not be transferred to any resident of Korea other than a QIB as specified in Article 2-2, Paragraph 2, Item 4 of the Regulations on the Issuance of Securities and Public Disclosure, Etc. of Korea and registered with the KOFIA as a QIB, provided that, pursuant to Article 2-2-2, Paragraph 2, Item 3 of the above Regulations, (a) the Notes are denominated, and the principal and interest payments thereunder are made, in a currency other than Korean Won, (b) at least 80% of the aggregate issue amount of the Notes shall be allocated to non-residents of Korea (as defined in the Foreign Exchange Transactions Act of Korea and the Enforcement Decree thereof) at the time of issuance of the Notes, which means that the amount of the Notes acquired by such QIBs in the primary market is limited to less than 20% of the aggregate issue amount of the Notes, (c) the Notes 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 Notes in a major overseas securities market, (d) the one-year restriction on offering, delivering or selling of Notes to a Korean resident other than a QIB is expressly stated in the Notes, the relevant underwriting agreement, subscription agreement, and this 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 Notes will bear legends to the effect described in paragraph (a) above.

Other Transfer Restrictions Applicable to the Notes

The Notes have not been and will not be registered under the Securities Act. The Notes may not be offered or sold 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 Notes 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 “*Description of the Notes*”.

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

- (a) The Notes have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state of the United States or any other jurisdiction and are subject to significant restrictions on transfer.
- (b) Until forty (40) days after the commencement of offering of the Notes, an offer or sale of Notes 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 Notes except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.
- (d) The Notes 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 NOTES HAVE NOT BEEN AND WILL NOT BE REGISTERED WITH THE FINANCIAL SERVICES COMMISSION OF KOREA UNDER THE FINANCIAL INVESTMENT SERVICES AND CAPITAL MARKETS ACT OF KOREA, AS AMENDED. ACCORDINGLY, THE NOTES 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 ACT OF KOREA AND THE ENFORCEMENT DECREE THEREOF), 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 NOTES, THE NOTES MAY NOT BE TRANSFERRED TO ANY RESIDENT OF KOREA OTHER THAN A QUALIFIED INSTITUTIONAL BUYER (A “QIB”), AS SPECIFIED IN ARTICLE 2-2, PARAGRAPH 2, ITEM 4 OF THE REGULATIONS ON THE ISSUANCE OF SECURITIES AND PUBLIC DISCLOSURE, ETC. OF KOREA AND REGISTERED WITH THE KOREA FINANCIAL INVESTMENT ASSOCIATION AS A QIB, PROVIDED THAT, PURSUANT TO ARTICLE 2-2-2, PARAGRAPH 2, ITEM 3 OF THE ABOVE REGULATIONS, (A) THE NOTES ARE DENOMINATED, AND THE PRINCIPAL AND INTEREST PAYMENTS THEREUNDER ARE MADE, IN A CURRENCY OTHER THAN KOREAN WON, (B) AT LEAST 80% OF THE AGGREGATE ISSUE AMOUNT OF THE NOTES SHALL BE ALLOCATED TO NON-RESIDENTS OF KOREA (AS DEFINED IN THE FOREIGN EXCHANGE TRANSACTIONS ACT OF KOREA AND THE ENFORCEMENT DECREE THEREOF) AT THE TIME OF ISSUANCE OF THE NOTES, WHICH MEANS THAT THE AMOUNT OF THE NOTES ACQUIRED BY SUCH QIBS IN THE PRIMARY MARKET IS LIMITED TO LESS THAN 20% OF THE AGGREGATE ISSUE AMOUNT OF THE NOTES, (C) THE NOTES 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 NOTES IN A MAJOR OVERSEAS SECURITIES MARKET, (D) THE ONE-YEAR RESTRICTION ON OFFERING, DELIVERING OR SELLING OF NOTES TO A KOREAN RESIDENT OTHER THAN A QIB IS EXPRESSLY STATED IN THE NOTES, 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 Notes will be passed upon for the Company by Cleary Gottlieb Steen & Hamilton LLP as to matters of New York law and by Shin & Kim as to matters of Korean law, and for the Initial Purchasers by Clifford Chance LLP as to matters of New York law. Shin & Kim may rely as to all matters of New York law on the opinion of Cleary Gottlieb Steen & Hamilton LLP and Clifford Chance LLP, and Cleary Gottlieb Steen & Hamilton LLP and Clifford Chance LLP may rely as to all matters of Korean law on the opinion of Shin & Kim.

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 September 30, 2017 and for the nine months ended September 30, 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.

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Deloitte Anjin LLC
9F., One IFC,
10, Gukjegeumyung-ro,
Youngdeungpo-gu, Seoul
07326, Korea

Tel: +82 (2) 6676 1000
Fax: +82 (2) 6674 2114
www.deloitteanjin.co.kr

Independent Accountants' Review Report

English Translation of Independent Accountants' Review Report Originally Issued in Korean on November 14, 2017.

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 September 30, 2017; the related condensed consolidated statements of comprehensive income (loss) for the three and nine months ended September 30, 2017 and 2016, respectively; the condensed consolidated statements of changes in shareholders' equity and condensed consolidated statements of cash flows for the nine months ended September 30, 2017 and 2016, respectively, all expressed in Korean won; 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 condensed consolidated 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*.

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee ("DTTL"), its network of member firms, and their related entities. DTTL and each of its member firms are legally separate and independent entities. DTTL (also referred to as "Deloitte Global") does not provide services to clients. Please see www.deloitte.com/kr/about for a more detailed description of DTTL and its member firms.

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Emphasis of matter

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

- (1) The independent accountants' emphasis of matter about additional stated matters is 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 reviews 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 reviews 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 reviews.

- a) General matter

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

As of September 30, 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 material costs, labor costs and contract period. As discussed in Note 46, estimated increase (decrease) in contract revenue and cost is ₩(6,748) million (\$5,885) thousand and ₩27,179 million (\$23,701 thousand), respectively, for the nine months ended September 30, 2017; and current profit decrease is

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₩30,787 million (\$26,848 thousand) and future profit decrease is ₩3,140 million (\$2,738 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 September 30, 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 September 30, 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 ₩27,179 million (\$23,701 thousand) for the nine months ended September 30, 2017, and as of September 30, 2017, cost incurred to date is ₩992,884 million (\$865,862 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 ₩235,344 million (\$205,236 thousand), and we selected the recoverability of the amount due from customers for contract

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work as a significant risk because there is a possibility that the increase of the amount due from customers for contract work and the increase rate of the amount due from customers for contract work exceeding the increase rate of revenues incurred to date can influence future profit negatively.

We performed the following review procedures about the project such that the amount due from customers for contract work increases significantly for the nine months ended September 30, 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 statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended December 31, 2016 (not presented in the accompanying condensed consolidated financial statements), in accordance with Korean Standards on Auditing (“KSAs”). We expressed an unqualified opinion in our independent auditors’ report dated March 16, 2017. The condensed consolidated statement of financial position as of December 31, 2016, presented for a comparative purpose in the accompanying condensed consolidated financial statements, does not differ, in all material respects, from the audited consolidated statement of financial position as of December 31, 2016.

Our reviews 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 statements presentation in Note 2. Such U.S. dollar amounts are presented solely for the convenience of readers outside of Korea.

Deloitte Anjin LLC

November 14, 2017



Notice to Readers

This report is effective as of November 14, 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 SEPTEMBER 30, 2017, AND DECEMBER 31, 2016

ASSETS	NOTES	Korean won		Translation into U.S. dollars (Note 2)	
		2017	2016	2017	2016
		(In millions)		(In thousands)	
CURRENT ASSETS:					
Cash and cash equivalents	5	₩ 1,109,075	₩ 1,089,927	\$ 967,188	\$ 950,490
Short-term financial instruments	6	534,525	176,914	466,142	154,281
Current portion of financing lease receivables	11	30,826	18,698	26,883	16,306
Trade and other receivables	7	844,422	726,913	736,393	633,917
Amount due from customers for contract work	46	235,344	195,389	205,236	170,393
Current portion of held-to-maturity investments	6,9	708	129	617	112
Inventories	10	675,435	564,705	589,025	492,461
Current tax assets		1,033	5,576	901	4,863
Current portion of financial derivative assets	27,41	80	—	70	—
Other current assets	20	563,281	549,738	491,219	479,409
Assets held for sale	16,47	163,395	—	142,491	—
Total current assets		4,158,124	3,327,989	3,626,165	2,902,232
NON-CURRENT ASSETS:					
Long-term financial instruments	6	42,029	45,951	36,652	40,073
Long-term trade and other receivables	7	39	239	34	209
Available-for-sale (“AFS”) financial assets	6,8,41	189,616	219,456	165,358	191,381
Held-to-maturity investments	6,9	342	1,001	298	873
Finance lease receivables	11	117,582	49,721	102,539	43,360
Investments in associates	13	38,411	24,387	33,497	21,267
Property, aircraft and equipment	14,15,16	18,364,642	17,873,282	16,015,211	15,586,711
Investment property	16,17	364,299	324,881	317,694	283,318
Intangible assets	16,18	374,746	405,030	326,804	353,214
Derivative financial assets	27,41	10,001	27	8,722	23
Other financial assets	19	383,544	329,751	334,476	287,565
Deferred tax assets		953,445	1,107,329	831,468	965,666
Other non-current assets	20	195,614	247,491	170,589	215,829
Total non-current assets		21,034,310	20,628,546	18,343,342	17,989,489
Total assets		₩25,192,434	₩23,956,535	\$21,969,507	\$20,891,721

(Continued)

KOREAN AIR LINES CO., LTD. AND ITS SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (CONTINUED)
AS OF SEPTEMBER 30, 2017, AND DECEMBER 31, 2016

LIABILITIES AND SHAREHOLDERS' EQUITY	NOTES	Korean won		Translation into U.S. dollars (Note 2)	
		2017	2016	2017	2016
		(In millions)		(In thousands)	
CURRENT LIABILITIES:					
Trade and other payables	21	₩ 1,082,256	₩ 846,152	\$ 943,800	\$ 737,902
Short-term borrowings	16,22	851,747	1,167,972	742,781	1,018,551
Short-term debentures	22	219,834	336,230	191,710	293,215
Current portion of long-term borrowings	16,22	2,997,414	3,460,677	2,613,948	3,017,945
Current portion of finance lease obligations	16,23	1,256,107	1,714,470	1,095,410	1,495,134
Current portion of financial derivative liabilities	27,41	4,974	—	4,338	—
Current portion of provisions	25	6,079	5,431	5,302	4,736
Amount due to customers for contract work	46	44,350	24,696	38,676	21,536
Current tax liabilities		9,785	3,747	8,533	3,268
Other current liabilities	26,28	1,647,587	1,571,743	1,436,807	1,370,666
Total current liabilities		8,120,133	9,131,118	7,081,305	7,962,953
NON-CURRENT LIABILITIES:					
Long-term trade and other payables	21	18,798	30,273	16,393	26,400
Long-term borrowings	16,22	1,458,755	1,016,089	1,272,133	886,099
Debentures	22	844,462	83,169	736,428	72,529
Asset-backed securitization ("ABS") loans	19,20,22	1,478,019	1,731,952	1,288,933	1,510,379
Finance lease obligation	16,23	6,759,108	6,774,326	5,894,400	5,907,670
Net defined benefit obligation	24	1,163,892	1,126,332	1,014,993	982,238
Provisions	25	134,272	178,674	117,094	155,816
Deferred revenue	26	2,020,286	1,868,288	1,761,826	1,629,274
Financial derivative liabilities	27,41	42,421	39,725	36,994	34,643
Deferred tax liabilities		27,457	25,748	23,944	22,454
Other non-current liabilities	28	86,671	76,491	75,583	66,706
Total non-current liabilities		14,034,141	12,951,067	12,238,721	11,294,208
Total liabilities		22,154,274	22,082,185	19,320,026	19,257,161
SHAREHOLDERS' EQUITY:					
Capital stock	1,29	479,777	369,753	418,398	322,449
Other capital surplus	30	1,875,045	1,198,374	1,635,166	1,045,063
Other capital components	15,32	359,519	385,436	313,525	336,126
Retained earnings	31	202,756	(192,877)	176,816	(168,202)
NON-CONTROLLING INTERESTS:					
Total shareholders' equity		3,038,160	1,874,350	2,649,481	1,634,560
Total liabilities and shareholders' equity		₩25,192,434	₩23,956,535	\$21,969,507	\$20,891,721

(Concluded)

See accompanying notes to condensed consolidated financial statements.

KOREAN AIR LINES CO., LTD. AND ITS SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2017 AND 2016

	NOTES	Korean won			
		Three months ended September 30, 2017	Nine months ended September 30, 2017	Three months ended September 30, 2016	Nine months ended September 30, 2016
(In millions, except for earnings per share)					
SALES	4,33	₩3,213,921	₩8,985,151	₩3,117,942	₩8,802,612
COST OF SALES	38	2,528,732	7,355,020	2,367,797	6,989,034
GROSS PROFIT		685,189	1,630,131	750,145	1,813,578
Selling and administrative expenses	34,38	329,701	910,320	290,147	871,112
OPERATING INCOME		355,488	719,811	459,998	942,466
Financial income	35	22,885	57,786	24,823	62,383
Financial expenses	35	125,454	358,170	178,234	490,538
Gain (loss) on valuation of equity method	13	10,247	11,558	(8,270)	(121,766)
Other non-operating income	36	146,053	834,690	717,381	1,048,873
Other non-operating expenses	36	299,963	683,083	410,152	1,298,576
INCOME BEFORE INCOME TAX					
EXPENSE		109,256	582,592	605,546	142,842
INCOME TAX EXPENSE	37	47,622	162,110	94,722	57,752
NET INCOME		₩ 61,634	₩ 420,482	₩ 510,824	₩ 85,090
OTHER COMPREHENSIVE LOSS AFTER INCOME TAX EXPENSE:		(2,540)	(26,349)	(199,577)	(205,398)
Items not to be reclassified subsequent to income or loss:					
Remeasurement of the net defined benefit liabilities	24	₩ (114)	₩ (1,035)	₩ (107,660)	₩ (107,974)
Change in retained earnings – equity method – accounted investments	13	—	—	—	(82)
Revaluation surplus	32	—	100	(397)	(1,235)
		(114)	(935)	(108,057)	(109,291)

(Continued)

KOREAN AIR LINES CO., LTD. AND ITS SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (CONTINUED)
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2017 AND 2016

	NOTES	Korean won			
		Three months ended September 30, 2017	Nine months ended September 30, 2017	Three months ended September 30, 2016	Nine months ended September 30, 2016
(In millions, except for earnings per share)					
Items to be reclassified subsequent to income or loss:					
Gain (loss) on AFS financial assets, net	32	₩(6,116)	₩ 18,747	₩ (1,884)	₩ (9,713)
Change in capital adjustments – equity method – accounted investments	13,32	2,534	2,312	(49,391)	(42,229)
Gain (loss) on foreign operation translation	32	1,156	(46,473)	(40,245)	(44,165)
		<u>(2,426)</u>	<u>(25,414)</u>	<u>(91,520)</u>	<u>(96,107)</u>
COMPREHENSIVE INCOME (LOSS)		<u>₩59,094</u>	<u>₩394,133</u>	<u>₩311,247</u>	<u>₩(120,308)</u>
NET INCOME ATTRIBUTABLE TO:					
Owners of the Company		₩57,851	₩412,288	₩508,103	₩ 77,727
Non-controlling interests		3,783	8,194	2,721	7,363
COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO:					
Owners of the Company		₩55,842	₩385,618	₩309,184	₩(127,121)
Non-controlling interests		3,252	8,515	2,063	6,813
EARNINGS PER SHARE:	39				
Attributable to common stock		₩ 602	₩ 4,573	₩ 6,870	₩ 1,050
Attributable to preferred stock		652	4,623	6,920	1,100

(Concluded)

See accompanying notes to condensed consolidated financial statements.

KOREAN AIR LINES CO., LTD. AND ITS SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2017 AND 2016

	NOTES	Translation into U.S. dollars (Note 2)			
		Three months ended September 30, 2017	Nine months ended September 30, 2017	Three months ended September 30, 2016	Nine months ended September 30, 2016
(In thousands, except for earnings per share)					
SALES	4,33	\$2,802,757	\$7,835,660	\$2,719,056	\$7,676,473
COST OF SALES	38	2,205,226	6,414,075	2,064,879	6,094,910
GROSS PROFIT		597,531	1,421,585	654,177	1,581,563
Selling and administrative expenses	34,38	287,521	793,861	253,028	759,668
OPERATING INCOME		310,010	627,724	401,149	821,895
Financial income	35	19,958	50,393	21,648	54,402
Financial expenses	35	109,404	312,348	155,432	427,782
Gain (loss) on valuation of equity method	13	8,936	10,079	(7,212)	(106,188)
Other non-operating income	36	127,368	727,906	625,605	914,688
Other non-operating expenses	36	261,588	595,695	357,681	1,132,446
INCOME BEFORE INCOME TAX EXPENSE		95,280	508,059	528,077	124,569
INCOME TAX EXPENSE	37	41,530	141,369	82,603	50,364
NET INCOME		<u>\$ 53,750</u>	<u>\$ 366,690</u>	<u>\$ 445,474</u>	<u>\$ 74,205</u>
OTHER COMPREHENSIVE LOSS AFTER INCOME TAX EXPENSE:		(2,215)	(22,978)	(174,045)	(179,119)
Items not to be reclassified subsequent to income or loss:					
Remeasurement of the net defined benefit liabilities	24	\$ (100)	\$ (902)	\$ (93,887)	\$ (94,161)
Change in retained earnings – equity method – accounted investments	13	—	—	—	(71)
Revaluation surplus	32	—	87	(346)	(1,076)
		<u>(100)</u>	<u>(815)</u>	<u>(94,233)</u>	<u>(95,308)</u>

(Continued)

KOREAN AIR LINES CO., LTD. AND ITS SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (CONTINUED)
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2017 AND 2016

	NOTES	Translation into U.S. dollars (Note 2)		Three months ended September 30, 2016	Nine months ended September 30, 2016
		Three months ended September 30, 2017	Nine months ended September 30, 2017		
(In thousands except for earnings per share)					
Items to be reclassified subsequent to income or loss:					
Gain (loss) on AFS financial assets, net	32	\$ (5,333)	\$ 16,349	\$ (1,643)	\$ (8,470)
Change in capital adjustments – equity method – accounted investments	13,32	2,210	2,016	(43,072)	(36,826)
Gain (loss) on foreign operation translation	32	1,008	(40,528)	(35,097)	(38,515)
		(2,115)	(22,163)	(79,812)	(83,811)
COMPREHENSIVE INCOME (LOSS)		\$51,535	\$343,712	\$271,429	\$(104,914)
NET INCOME ATTRIBUTABLE TO:					
Owners of the Company		\$50,450	\$359,543	\$443,100	\$ 67,783
Non-controlling interests		3,300	7,147	2,374	6,422
COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO:					
Owners of the Company		\$48,698	\$336,285	\$269,630	\$(110,857)
Non-controlling interests		2,837	7,427	1,799	5,943
EARNINGS PER SHARE:	39				
Attributable to common stock		\$ 1	\$ 4	\$ 6	\$ 1
Attributable to preferred stock		1	4	6	1

(Concluded)

See accompanying notes to condensed consolidated financial statements.

KOREAN AIR LINES CO., LTD. AND ITS SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
 FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2017 AND 2016

	Korean won							
	Owners of the Company							
	Capital stock	Other capital surplus		Retained earnings	Subtotal	Non-controlling interests	Total	
	Additional paid-up capital	Others	Other capital components	(In millions)				
January 1, 2016	₩369,753	₩602,855	₩214,928	₩405,311	₩794,265	₩2,387,112	₩111,923	₩2,499,035
Dividends	—	—	—	—	—	—	(991)	(991)
Net income	—	—	—	77,727	77,727	77,727	7,363	85,090
Other comprehensive income (loss)	—	—	—	(96,876)	(107,972)	(204,848)	(549)	(205,397)
Dividends from hybrid securities	—	—	—	—	(16,513)	(16,513)	—	(16,513)
Change in retained earnings of associates and subsidiaries	—	—	—	—	3,031	3,031	(302)	2,729
Others	—	—	4,090	—	(1,391)	2,699	(3,427)	(728)
September 30, 2016	₩369,753	₩602,855	₩219,018	₩308,435	₩749,147	₩2,249,208	₩114,017	₩2,363,225
January 1, 2017	₩369,753	₩602,855	₩595,519	₩385,436	₩(192,877)	₩1,760,686	₩113,664	₩1,874,350
Dividends	—	—	—	—	—	—	(629)	(629)
Net income	—	—	—	—	412,288	412,288	8,194	420,482
Other comprehensive income (loss)	—	—	—	(25,917)	(753)	(26,670)	321	(26,349)
Increase in paid-in capital	110,024	343,340	—	—	—	453,364	—	453,364
Issuance of hybrid securities	—	—	333,427	—	—	333,427	—	333,427
Dividends from hybrid securities	—	—	—	—	(14,297)	(14,297)	—	(14,297)
Change in retained earnings of associates and subsidiaries	—	—	—	—	(479)	(479)	(394)	(873)
Others	—	—	(96)	—	(1,126)	(1,222)	(93)	(1,315)
September 30, 2017	₩479,777	₩946,195	₩928,850	₩359,519	₩202,756	₩2,917,097	₩121,063	₩3,038,160

(Continued)

KOREAN AIR LINES CO., LTD. AND ITS SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (CONTINUED)
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2017 AND 2016

	Translation into U.S. dollars (Note 2)							
	Owners of the Company							
	Other capital surplus		Additional paid-up capital	Others	Other capital components (In thousands)	Retained earnings	Subtotal	Non-controlling interests
Capital stock	Total							
January 1, 2016	\$322,449	\$525,730	\$187,432	\$353,459	\$692,653	\$2,081,723	\$97,605	\$2,179,328
Dividends	—	—	—	—	—	—	(864)	(864)
Net income	—	—	—	—	67,783	67,783	6,422	74,205
Other comprehensive income (loss)	—	—	—	(84,482)	(94,159)	(178,641)	(480)	(179,121)
Dividends from hybrid securities	—	—	—	—	(14,401)	(14,401)	—	(14,401)
Change in retained earnings of associates and subsidiaries	—	—	—	—	2,643	2,643	(263)	2,380
Others	—	—	3,566	—	(1,213)	2,353	(2,988)	(635)
September 30, 2016	<u>\$322,449</u>	<u>\$525,730</u>	<u>\$190,998</u>	<u>\$268,977</u>	<u>\$653,306</u>	<u>\$1,961,460</u>	<u>\$99,432</u>	<u>\$2,060,892</u>
January 1, 2017	<u>\$322,449</u>	<u>\$525,730</u>	<u>\$519,333</u>	<u>\$336,126</u>	<u>\$(168,202)</u>	<u>\$1,535,436</u>	<u>\$99,124</u>	<u>\$1,634,560</u>
Dividends	—	—	—	—	—	—	(548)	(548)
Net income	—	—	—	—	359,543	359,543	7,147	366,690
Other comprehensive income (loss)	—	—	—	(22,601)	(657)	(23,258)	280	(22,978)
Increase in paid-in capital	95,949	299,416	—	—	—	395,365	—	395,365
Issuance of hybrid securities	—	—	290,771	—	—	290,771	—	290,771
Dividends from hybrid securities	—	—	—	—	(12,468)	(12,468)	—	(12,468)
Change in retained earnings of associates and subsidiaries	—	—	—	—	(418)	(418)	(344)	(762)
Others	—	—	(84)	—	(982)	(1,066)	(83)	(1,149)
September 30, 2017	<u>\$418,398</u>	<u>\$825,146</u>	<u>\$810,020</u>	<u>\$313,525</u>	<u>\$176,816</u>	<u>\$2,543,905</u>	<u>\$105,576</u>	<u>\$2,649,481</u>

(Concluded)

See accompanying notes to condensed consolidated financial statements.

KOREAN AIR LINES CO., LTD. AND ITS SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 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	₩ 420,482	₩ 85,090	\$ 366,690	\$ 74,205
Adjustments to reconcile net income to net cash provided by operating activities:				
Provision for leased aircraft maintenance	33,156	22,034	28,914	19,215
Retirement benefit costs	118,545	113,856	103,379	99,290
Depreciation	1,237,682	1,285,368	1,079,343	1,120,928
Amortization	33,857	38,855	29,526	33,884
Bad debt expenses	978	1,431	853	1,248
Interest expense	324,101	297,246	282,638	259,219
Loss on valuation of derivatives	29,706	103,472	25,906	90,234
Loss on valuation of equity method	—	121,766	—	106,188
Loss on foreign currency translation	191,364	137,719	166,883	120,100
Loss on foreign currency transaction	1,495	35,208	1,304	30,704
Other bad debt expenses	92	20,024	80	17,462
Loss on disposal of property, aircraft and equipment	219,733	102,690	191,622	89,553
Loss on disposal of intangible assets	—	459	—	400
Impairment loss on intangible assets	—	7,873	—	6,865
Loss on disposal of assets held for sale	—	19,311	—	16,841
Impairment loss on property, aircraft and equipment	69,502	72,886	60,611	63,561
Loss on revaluation of assets	—	2	—	1
Loss on disposal of AFS securities	—	109	—	95
Impairment loss on AFS financial assets	—	252,637	—	220,316
Loss on disposal of investments in associates	—	8,505	—	7,417
Impairment loss on investments in associates	—	333,798	—	291,094
Income tax expenses	162,108	57,752	141,369	50,364
Other expenses	9,181	19,798	8,007	17,267
Interest income	(20,661)	(24,683)	(18,018)	(21,525)
Dividend income	(4,587)	(3,865)	(4,000)	(3,371)
Gain on valuation of derivatives	(27,268)	(19,876)	(23,780)	(17,333)
Gain on valuation of equity method	(11,558)	—	(10,079)	—
Gain on foreign currency translation	(413,092)	(773,239)	(360,244)	(674,317)
Reversal of allowance for other doubtful accounts	(286)	(608)	(250)	(531)
Gain on disposal of AFS financial assets	(5,058)	—	(4,411)	—
Gain on assets contributed	(36,342)	—	(31,693)	—
Gain on disposal of property, aircraft and Equipment	(30,946)	(13,282)	(26,987)	(11,583)
Gain on disposal of assets held for sale	—	(955)	—	(833)
Gain on disposal of intangible assets	(65)	(80)	(56)	(70)
Gain on foreign currency transaction	(167,867)	—	(146,391)	—
Other income	(8)	(9)	(7)	(7)
	<u>1,713,762</u>	<u>2,216,202</u>	<u>1,494,519</u>	<u>1,932,676</u>

(Continued)

KOREAN AIR LINES CO., LTD. AND ITS SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 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	₩ (83,538)	₩ (15,693)	\$ (72,851)	\$ (13,685)
Increase in other receivables	(10,044)	(5,903)	(8,759)	(5,148)
Decrease (increase) in accrued revenues	(15,388)	4,469	(13,419)	3,897
Increase in amount due from customers for contract work	(40,035)	(15,687)	(34,913)	(13,680)
Increase in inventories	(108,781)	(31,007)	(94,864)	(27,040)
Decrease in financial derivative assets	8	—	7	—
Increase in advance payments	(43,803)	(37,249)	(38,200)	(32,484)
Decrease (increase) in prepaid expenses	(5,388)	33,045	(4,699)	28,818
Increase (decrease) in trade payables	30,769	(24,712)	26,833	(21,550)
Decrease in non-trade payables	(15,577)	(2,237)	(13,584)	(1,951)
Increase in accrued expenses	218,310	174,361	190,381	152,054
Increase (decrease) in advances	75,760	(15,781)	66,068	(13,762)
Decrease in unearned revenues	(188)	—	(164)	—
Increase (decrease) in amount due to customers for contract work	19,659	(26,979)	17,144	(23,527)
Decrease in financial derivative liabilities	(3,518)	(86,373)	(3,068)	(75,323)
Decrease in plan assets	25,476	17,524	22,217	15,282
Payment of severance benefit	(107,300)	(71,101)	(93,572)	(62,005)
Succession of defined benefit obligation	107	645	94	563
Decrease in provisions	(76,190)	(26,441)	(66,443)	(23,058)
Increase in deferred revenue	151,998	126,685	132,553	110,478
Others	4,950	26,282	4,317	22,919
	<u>17,287</u>	<u>23,848</u>	<u>15,078</u>	<u>20,798</u>
Interest received	20,222	14,855	17,635	12,955
Dividend received	4,529	3,625	3,949	3,161
Income taxes paid	(3,873)	(9,763)	(3,378)	(8,514)
Net cash provided by operating activities	<u>2,172,409</u>	<u>2,333,857</u>	<u>1,894,493</u>	<u>2,035,281</u>

(Continued)

KOREAN AIR LINES CO., LTD. AND ITS SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 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 instruments	₩ (360,443)	₩ (15,325)	\$ (314,331)	\$ (13,364)
Recovery of finance lease receivables	22,714	11,291	19,809	9,846
Decrease in current portion of held-to-maturity investments	74	38	65	33
Net increase (decrease) in long-term financial instruments	1,762	(970)	1,536	(846)
Purchase of AFS financial assets	(2,100)	(37,830)	(1,831)	(32,991)
Disposal of AFS financial assets	7,876	266	6,868	232
Purchase of held-to-maturity investments	(14)	(19,615)	(13)	(17,105)
Net cash inflows from purchase of subsidiaries	38,649	—	33,705	—
Disposal of investment in subsidiaries	—	—	—	—
Decrease in short-term loans	19	(60,000)	17	(52,324)
Decrease in long-term loans	—	(13)	—	(11)
Disposal of property, aircraft, equipment and investment property	59,828	187,145	52,174	163,203
Acquisition of property, aircraft, equipment and investment property	(1,603,059)	(948,309)	(1,397,976)	(826,990)
Disposal of assets held for sale	—	45,086	—	39,318
Disposal of intangible assets	136	752	119	656
Acquisition of intangible assets	(463)	(672)	(404)	(586)
Decrease in guarantee deposits	145,815	129,118	127,160	112,599
Increase in guarantee deposits	(214,915)	(114,209)	(187,421)	(99,598)
Net cash outflows from other investing activities	—	(225)	—	(196)
Net cash used in investing activities	<u>(1,904,121)</u>	<u>(823,472)</u>	<u>(1,660,523)</u>	<u>(718,124)</u>

(Continued)

KOREAN AIR LINES CO., LTD. AND ITS SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 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	₩ (333,688)	₩ 285,622	\$ (290,998)	\$ 249,081
Proceeds from short-term debentures	70,000	188,783	61,045	164,632
Repayment of short-term debentures	(181,877)	—	(158,609)	—
Repayment of current portion of long-term borrowings	(1,135,048)	(2,704,864)	(989,839)	(2,358,824)
Repayment of current portion of finance lease obligations	(1,406,006)	(1,041,479)	(1,226,132)	(908,240)
Repayment of long-term borrowings	(4,439)	(1,000)	(3,871)	(872)
Proceeds from long-term borrowings	911,062	348,119	794,508	303,583
Proceeds from debentures	389,330	486,859	339,522	424,574
Proceeds from ABS loans	504,665	1,230,635	440,102	1,073,197
Defeasance of finance lease obligations	529,170	—	461,472	—
Increase in paid-up capital	453,269	439	395,281	383
Repayment of guaranteed loans	(3,810)	(913)	(3,323)	(797)
Dividends paid	(629)	(952)	(548)	(830)
Dividends from hybrid securities paid	333,427	—	290,771	—
Issuance of hybrid securities	(14,297)	(14,552)	(12,468)	(12,690)
Interest paid	(321,432)	(293,785)	(280,311)	(256,199)
Net cash inflows (outflows) from other financing activities	—	58,047	—	50,622
Net cash used in financing activities	(210,303)	(1,459,041)	(183,398)	(1,272,380)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	57,985	51,344	50,572	44,777
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	1,089,927	967,481	950,490	843,709
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(38,837)	(26,687)	(33,874)	(23,274)
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	₩ 1,109,075	₩ 992,138	\$ 967,188	\$ 865,212

(Concluded)

See accompanying notes to condensed consolidated financial statements.

KOREAN AIR LINES CO., LTD. AND ITS SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
AS OF SEPTEMBER 30, 2017, AND DECEMBER 31, 2016, AND
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2017 AND 2016

1. GENERAL:

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

Total capital stock of the Company as of September 30, 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. (29.96%) and its affiliates (3.39%).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Basis of Condensed Consolidated Financial Statement Presentation

The Company and its subsidiaries’ (the “Group”) interim condensed consolidated financial statements as of and for the three and nine months ended September 30, 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-IFRSs 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 ₩1,146.70 to USD 1.00 on September 30, 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 nine months ended September 30, 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 exceeding its carrying amount shall be estimated by probable future taxable profit. The application of these amendments has no significant impact on the disclosure in the Group’s condensed 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:

Enactment of K-IFRS 1109 – *Financial Instruments*

The enactment of K-IFRS 1109 contains 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 and 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 condensed consolidated financial statements is as follows:

A. Classification and measurement of financial assets

When the Group adopts new standard of K-IFRS 1109, it 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 assets: 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.

Business model	Contractual cash flow characteristic	
	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 ₩3,062,043 million (\$2,670,309 thousand), financial assets at FVTPL of ₩10,081 million (\$8,791 thousand), held-to-maturity investments of ₩1,049 million (\$915 thousand) and AFS financial assets of ₩189,616 million (\$165,358 thousand) in the condensed consolidated statement of financial position as of September 30, 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 September 30, 2017, the Group has financial assets at FVTPL of ₩47,395 million (\$41,332 thousand) and financial liabilities measured at amortized cost of ₩16,953,753 million (\$14,784,820 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 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 September 30, 2017, the Group has loans and receivables, debt instruments 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 in 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 September 30, 2017, the Group does not apply hedge accounting.

Enactment of K-IFRS 1115 – Revenue from Contracts with Customers

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

of Assets from Customers and K-IFRS 2031 – Revenue-Barter Transactions Involving Advertising Services. The amendments are effective for annual periods beginning on or after January 1, 2018.

The Group is planning to organize the internal management process and evaluate the potential impact on the condensed consolidated 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 condensed consolidated 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 share-based payment in its entirety (it, otherwise, would be classified as equity-settled share-based payment 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 clarifies that the date of the transaction for 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	Ministry of National Defense, etc.
In-flight meals	Catering of in-flight meals	Foreign airlines, etc.
Hotel/limousine, etc.	Hotel and limousine bus service, etc.	Individual, etc.

- (2) Operating results by reportable segment for the nine months ended September 30, 2017, are as follows:

	Korean won						Total
	Air transport	Aerospace	In-flight meals	Hotel/limousine	Others	Adjustment for consolidation	
	(In millions)						
Total sales	₩ 8,510,471	₩ 564,596	₩74,239	₩ 53,424	₩ 159,008	₩ (376,587)	₩ 8,985,151
Internal sales	(269,208)	—	—	(2,081)	(105,298)	376,587	—
Net sales	8,241,263	564,596	74,239	51,343	53,710	—	8,985,151
Operating income	723,109	2,445	22,797	(35,054)	6,635	(121)	719,811
Depreciation and amortization	(1,222,069)	(26,368)	(2,844)	(14,586)	(5,501)	(172)	(1,271,540)
Total assets	22,750,920	1,141,627	60,268	2,056,236	406,582	(1,223,199)	25,192,434
Total liabilities							22,154,274

	Translation into U.S. dollars (Note 2)						Total
	Air transport	Aerospace	In-flight meals	Hotel/limousine	Others	Adjustment for consolidation	
	(In thousands)						
Total sales	\$ 7,421,707	\$492,366	\$64,741	\$ 46,589	\$138,666	\$ (328,409)	\$ 7,835,660
Internal sales	(234,768)	—	—	(1,816)	(91,825)	328,409	—
Net sales	7,186,939	492,366	64,741	44,773	46,841	—	7,835,660
Operating income	630,600	2,132	19,881	(30,569)	5,786	(106)	627,724
Depreciation and amortization	(1,065,727)	(22,995)	(2,480)	(12,720)	(4,797)	(150)	(1,108,869)
Total assets	19,840,342	995,576	52,557	1,793,177	354,567	(1,066,712)	21,969,507
Total liabilities							19,320,026

- (3) Operating results by geographical area for the nine months ended September 30, 2017, are as follows:

	Korean won				Adjustment for consolidation	Total
	Local companies		Overseas companies			
	Domestic	International	Americas	Asia		
	(In millions)					
Total sales	₩1,579,488	₩ 7,729,755	₩ 29,568	₩ 22,928	₩ (376,588)	₩ 8,985,151
Internal sales		(348,570)	(11,101)	(16,917)	376,588	—
Net sales		8,960,673	18,467	6,011	—	8,985,151
Operating income		752,246	(34,808)	2,495	(122)	719,811
Total assets		24,361,687	2,034,600	19,345	(1,223,199)	25,192,434
Total liabilities						22,154,274

Translation into U.S. dollars (Note 2)

	Local companies		Overseas companies		Adjustment for consolidation	Total
	Domestic	International	Americas	Asia		
	(In thousands)					
Total sales	\$1,377,421	\$ 6,740,869	\$ 25,785	\$ 19,995	\$ (328,410)	\$ 7,835,660
Internal sales		(303,977)	(9,680)	(14,753)	328,410	—
Net sales		7,814,313	16,105	5,242	—	7,835,660
Operating income		656,009	(30,355)	2,176	(106)	627,724
Total assets		21,245,040	1,774,309	16,870	(1,066,712)	21,969,507
Total liabilities						19,320,026

(4) There is no single customer who accounted for more than 10% of the Group's revenue for the nine months ended September 30, 2017 and 2016.

5. CASH AND CASH EQUIVALENTS:

Cash and cash equivalents as of September 30, 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	₩ 173	₩ 256	\$ 150	\$ 223
Bank deposits	1,108,902	1,089,671	967,038	950,267
	<u>₩1,109,075</u>	<u>₩1,089,927</u>	<u>\$967,188</u>	<u>\$950,490</u>

6. RESTRICTED DEPOSITS:

Restricted deposits as of September 30, 2017, consist of the following:

	2017	Remark
	(In millions of Korean won and in thousands of U.S. dollars)	
Short-term financial instruments	₩ 34,726	Performance guarantee deposit on the freight and pledged for the Floating Rate Note contract extension and others
	\$ 54,684	Guarantee deposit on North America L/C and pledged for Hanjin Int'l Corp's borrowings
Held-to-maturity investments	₩ 1,750	Rental guarantee for Incheon International Airport terminal
	₩ 690	Performance guarantee deposit on the mail delivery contract with Korea Post
AFS financial assets	₩ 96,949	Pledged for hybrid securities
	₩ 423	Performance guarantee for Korea Software Financial Cooperative and others
Long-term financial instruments	₩ 500	Pledged for industrial facility fund loans
	₩ 307	Performance guarantee for the U.S. Air Force delivery service and bank account deposit
	₩ 1,036	Accident compensation for employees
	₩ 53	Garnishment for employees
	\$ 35,388	Pledged for hybrid securities
	<u>₩136,434</u>	
	<u>\$ 90,072</u>	

7. TRADE AND OTHER RECEIVABLES:

Trade and other receivables as of September 30, 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	₩708,564	₩—	\$617,916	\$—
Allowance for doubtful accounts	(7,149)	—	(6,235)	—
Discount on present value	—	—	—	—
	<u>701,415</u>	<u>—</u>	<u>611,681</u>	<u>—</u>
Short-term loans	30	39	26	34
Non-trade receivables	124,476	—	108,551	—
Allowance for doubtful accounts	(46,833)	—	(40,842)	—
	<u>77,643</u>	<u>—</u>	<u>67,709</u>	<u>—</u>
Accrued revenues	65,888	—	57,459	—
Allowance for doubtful accounts	(554)	—	(482)	—
	<u>65,334</u>	<u>—</u>	<u>56,977</u>	<u>—</u>
	<u>₩844,422</u>	<u>₩ 39</u>	<u>\$736,393</u>	<u>\$ 34</u>

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	\$534,896	\$166
Allowance for doubtful accounts	(6,260)	—	(5,459)	—
Discount on present value	—	—	—	—
	<u>607,105</u>	<u>190</u>	<u>529,437</u>	<u>166</u>
Short-term loans	42	49	36	43
Non-trade receivables	118,671	—	103,489	—
Allowance for doubtful accounts	(47,052)	—	(41,033)	—
	<u>71,619</u>	<u>—</u>	<u>62,456</u>	<u>—</u>
Accrued revenues	59,844	—	52,188	—
Allowance for doubtful accounts	(11,697)	—	(10,200)	—
	<u>48,147</u>	<u>—</u>	<u>41,988</u>	<u>—</u>
	<u>₩726,913</u>	<u>₩239</u>	<u>\$633,917</u>	<u>\$209</u>

8. AFS FINANCIAL ASSETS:

AFS financial assets as of September 30, 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)	₩119,895	₩ 97,982	\$104,557	\$ 85,447
Unlisted securities	50,370	50,370	43,926	43,927
Beneficiary certificates	4,200	2,100	3,663	1,831
Debt securities:				
Government and public bonds	6	6	5	5
Special bonds	—	53,912	—	47,015
Investments in other equity securities (*2)	15,145	15,086	13,207	13,156
	<u>₩189,616</u>	<u>₩219,456</u>	<u>\$165,358</u>	<u>\$191,381</u>

(*1) Listed securities amounting to ₩96,949 million (\$84,546 thousand) are pledged for hybrid securities as of September 30, 2017 (see Note 6).

(*2) As of September 30, 2017, ₩423 million (\$369 thousand) of investments in other equity securities is 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 nine months ended September 30, 2017, as compared to an impairment loss of ₩252,630 million (\$220,310 thousand), which occurred in corporate bonds of AFS financial assets for the nine months ended September 30, 2016. There was no reversal of impairment loss occurred in AFS financial assets for the nine months ended September 30, 2017 and 2016.

9. HELD-TO-MATURITY INVESTMENTS:

Held-to-maturity investments as of September 30, 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 (*)	₩708	₩342	₩129	₩1,001
	Translation into U.S. dollars (Note 2)			
	2017		2016	
	Current	Non-current	Current	Non-current
	(In thousands)			
Government and public bonds (*)	\$617	\$298	\$112	\$873

(*) Government and public bonds amounting to ₩690 million (\$602 thousand) are pledged for performance guarantee as of September 30, 2017 (see Note 6).

There were no held-to-maturity investments overdue or impaired for the nine months ended September 30, 2017 and 2016.

10. INVENTORIES:

Inventories as of September 30, 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	₩ 20,080	₩—	₩ 20,080	₩ 19,983	₩—	₩ 19,983
Finished goods	11,799	—	11,799	11,509	—	11,509
Raw materials	110,636	—	110,636	95,951	—	95,951
Supplies	456,228	—	456,228	363,310	—	363,310
Materials in transit	76,692	—	76,692	73,952	—	73,952
	<u>₩675,435</u>	<u>₩—</u>	<u>₩675,435</u>	<u>₩564,705</u>	<u>₩—</u>	<u>₩564,705</u>

	Translation into U.S. dollars (Note 2)					
	2017			2016		
	Acquisition cost	Valuation allowance	Book value	Acquisition cost	Valuation allowance	Book value
	(In thousands)					
Merchandise	\$ 17,511	\$ —	\$ 17,511	\$ 17,426	\$ —	\$ 17,426
Finished goods	10,290	—	10,290	10,036	—	10,036
Raw materials	96,482	—	96,482	83,676	—	83,676
Supplies	397,862	—	397,862	316,831	—	316,831
Materials in transit	66,880	—	66,880	64,492	—	64,492
	<u>\$ 589,025</u>	<u>\$ —</u>	<u>\$ 589,025</u>	<u>\$ 492,461</u>	<u>\$ —</u>	<u>\$ 492,461</u>

11. FINANCE LEASE RECEIVABLES:

(1) The Group has offered the finance leases of the aircraft, and the minimum lease payments and present value of the finance leases as of September 30, 2017, and December 31, 2016, are as follows:

Description	Korean won		Translation into U.S. dollars (Note 2)	
	2017	2016	2017	2016
	(In millions)		(In thousands)	
Less than one year	₩ 46,476	₩ 22,964	\$ 40,531	\$ 20,027
One year to five years	128,123	53,148	111,732	46,348
	174,599	76,112	152,263	66,375
Present value of discounts	(26,191)	(7,693)	(22,841)	(6,709)
	148,408	68,419	129,422	59,666
Less: current portion of finance lease receivables	(30,826)	(18,698)	(26,883)	(16,306)
	<u>₩117,582</u>	<u>₩ 49,721</u>	<u>\$102,539</u>	<u>\$ 43,360</u>

(2) There were no finance lease receivables impaired for the nine months ended September 30, 2017 and 2016.

12. INVESTMENTS IN SUBSIDIARIES:

(1) Investments in subsidiaries as of September 30, 2017, and December 31, 2016, consist of the following:

Description	Principal business	Location	Ownership of Group	
			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.	Transport and hotel management service	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
Uniconverse Co., Ltd.	Network, hosting and data center service	Korea	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
KAL 13 Asset Securitization Specialty Company (*)	Issuance and repayment of ABS loans	Korea	—	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

Description	Principal business	Location	Ownership of Group	
			2017	2016
			(%)	
KAL 20A Asset Securitization Specialty Company (*)	Issuance and repayment of ABS loans	Korea	0.50	—
KAL 21 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 information of the Group's major subsidiaries as of September 30, 2017, is as follows:

	Korean won		
	Korea Airport Service Co., Ltd.	Hanjin Information Systems & Telecommunication Co., Ltd.	IAT Co., Ltd.
	(In millions)		
Current assets	₩181,169	₩55,914	₩ 6,687
Non-current assets	206,263	32,428	73,091
	<u>₩387,432</u>	<u>₩88,342</u>	<u>₩79,778</u>
Current liabilities	₩ 40,569	₩16,326	₩ 317
Non-current liabilities	52,124	12,806	4,529
	<u>₩ 92,693</u>	<u>₩29,132</u>	<u>₩ 4,846</u>
Shareholders' equity	<u>₩294,739</u>	<u>₩59,210</u>	<u>₩74,932</u>
	Translation into U.S. dollars (Note 2)		
	Korea Airport Service Co., Ltd.	Hanjin Information Systems & Telecommunication Co., Ltd.	IAT Co., Ltd.
	(In thousands)		
Current assets	\$ 157,992	\$ 48,761	\$ 5,832
Non-current assets	179,875	28,279	63,740
	<u>\$ 337,867</u>	<u>\$ 77,040</u>	<u>\$ 69,572</u>
Current liabilities	\$ 35,379	\$ 14,237	\$ 276
Non-current liabilities	45,456	11,167	3,950
	<u>\$ 80,835</u>	<u>\$ 25,404</u>	<u>\$ 4,226</u>
Shareholders' equity	<u>\$ 257,032</u>	<u>\$ 51,636</u>	<u>\$ 65,346</u>

(3) Financial performances of the Group's major subsidiaries for the nine months ended September 30, 2017, are as follows:

	Korean won		
	Korea Airport Service Co., Ltd.	Hanjin Information Systems & Telecommunication Co., Ltd.	IAT Co., Ltd.
	(In millions)		
Sales	₩326,354	₩115,139	₩2,729
Operating income (loss)	22,282	4,750	(542)
Net income (loss)	17,995	3,639	(434)
	Translation into U.S. dollars (Note 2)		
	Korea Airport Service Co., Ltd.	Hanjin Information Systems & Telecommunication Co., Ltd.	IAT Co., Ltd.
	(In thousands)		
Sales	\$284,603	\$100,409	\$2,380
Operating income (loss)	19,431	4,142	(473)
Net income (loss)	15,693	3,173	(379)

(4) Cash flows of the Group's major subsidiaries for the nine months ended September 30, 2017, are as follows:

	Korean won		
	Korea Airport Service Co., Ltd.	Hanjin Information Systems & Telecommunication Co., Ltd.	IAT Co., Ltd.
	(In millions)		
Cash flows from operating activities	₩ 41,428	₩ 14,980	₩ 1,287
Cash flows from investing activities	(39,136)	(10,579)	(6,279)
Cash flows from financing activities	(5,444)	(350)	—
Net changes in cash and cash equivalents	₩ (3,152)	₩ 4,051	₩ (4,992)
Changes in cash and cash equivalents due to foreign currency translation	₩ 6	₩ —	₩ —
Beginning balance	18,219	2,580	10,953
Ending balance	₩ 15,073	₩ 6,631	₩ 5,961
	Translation into U.S. dollars (Note 2)		
	Korea Airport Service Co., Ltd.	Hanjin Information Systems & Telecommunication Co., Ltd.	IAT Co., Ltd.
	(In thousands)		
Cash flows from operating activities	\$ 36,128	\$13,063	\$ 1,123
Cash flows from investing activities	(34,129)	(9,225)	(5,476)
Cash flows from financing activities	(4,747)	(305)	—
Net changes in cash and cash equivalents	\$ (2,748)	\$ 3,533	\$(4,353)
Changes in cash and cash equivalents due to foreign currency translation	\$ 5	\$ —	\$ —
Beginning balance	15,889	2,250	9,551
Ending balance	\$ 13,146	\$ 5,783	\$ 5,198

- (5) The ownership ratio of non-controlling interests' financial position as of September 30, 2017, financial performances for the nine months ended September 30, 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.	IAT Co., Ltd.
	(In millions)		
Ownership ratio (*)	38.36%	0.65%	13.87%
Non-controlling interests	₩113,553	₩ 401	₩ (911)
Net income (loss) attributable to non-controlling interests	6,813	24	(60)
Dividend paid to non-controlling interests	587	2	—

	Translation into U.S. dollars (Note 2)		
	Korea Airport Service Co., Ltd.	Hanjin Information Systems & Telecommunication Co., Ltd.	IAT Co., Ltd.
	(In thousands)		
Ownership ratio (*)	38.36%	0.65%	13.87%
Non-controlling interests	\$99,026	\$ 350	\$ (795)
Net income (loss) attributable to non-controlling interests	5,941	21	(53)
Dividend paid to non-controlling interests	512	2	—

- (*) 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 September 30, 2017, and December 31, 2016, consist of the following:
2017

Description	Principal business	Location	Ownership (%)	Korean won		Closing month
				Acquisition cost	Book value	
				(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	38,411	December
				<u>₩5,405</u>	<u>₩38,411</u>	

Description	Principal business	Location	Ownership (%)	Translation into U.S. dollars (Note 2)		Closing month
				Acquisition cost	Book value	
				(In thousands)		
EIGHTCITY Co., Ltd. (*1)	Real estate	Korea	23.81	1,308	—	December
Czech Airlines j.s.c. (*2)	Airline services	Czech	44.00	3,405	33,497	December
				<u>\$4,713</u>	<u>\$33,497</u>	

2016

Description	Principal business	Location	Ownership (%)	Korean won		Closing month
				Acquisition cost	Book value	
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
				<u>₩5,405</u>	<u>₩24,387</u>	

Description	Principal business	Location	Ownership (%)	Translation into U.S. dollars (Note 2)		Closing month
				Acquisition cost	Book value	
EIGHTCITY Co., Ltd. (*1)	Real estate	Korea	23.81	1,308	—	December
Czech Airlines j.s.c. (*2)	Airline services	Czech	44.00	3,405	21,267	December
				<u>\$4,713</u>	<u>\$21,267</u>	

(*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 nine months ended September 30, 2017 and 2016, are as follows:

2017

	Korean won				
	Beginning balance	Acquisition	Gain on valuation of equity method	Net change in interests of equity method	Ending balance
EIGHT CITY Co., Ltd.	₩ —	₩—	₩ —	₩ —	₩ —
Czech Airlines j.s.c.	24,387	—	11,558	2,466	38,411
	<u>₩24,387</u>	<u>₩—</u>	<u>₩11,558</u>	<u>₩2,466</u>	<u>₩38,411</u>

	Translation into U.S. dollars (Note 2)				
	Beginning balance	Acquisition	Gain on valuation of equity method	Net change in interests of equity method	Ending balance
EIGHT CITY Co., Ltd.	\$ —	\$—	\$ —	\$ —	\$
Czech Airlines j.s.c.	21,267	—	10,079	2,151	33,497
	<u>\$21,267</u>	<u>\$—</u>	<u>\$10,079</u>	<u>\$2,151</u>	<u>\$33,497</u>

2016

	Korean won					Ending balance
	Beginning balance	Acquisition	Gain (loss) on valuation of equity method	Net change in interests of equity method	Others (*)	
	(In millions)					
Hanjin Shipping Co., Ltd.	₩519,975	₩—	₩(121,766)	₩(55,722)	₩(342,487)	₩—
EIGHT CITY Co., Ltd.	—	—	—	—	—	—
Czech Airlines j.s.c.	—	—	—	—	—	—
	<u>₩519,975</u>	<u>₩—</u>	<u>₩(121,766)</u>	<u>₩(55,722)</u>	<u>₩(342,487)</u>	<u>₩—</u>

	Translation into U.S. dollars (Note 2)					Ending balance
	Beginning balance	Acquisition	Gain (loss) on valuation of equity method	Net change in interests of equity method	Others (*)	
	(In thousands)					
Hanjin Shipping Co., Ltd.	\$453,453	\$—	\$(106,188)	\$(48,593)	\$(298,672)	\$—
EIGHT CITY Co., Ltd.	—	—	—	—	—	—
Czech Airlines j.s.c.	—	—	—	—	—	—
	<u>\$453,453</u>	<u>\$—</u>	<u>\$(106,188)</u>	<u>\$(48,593)</u>	<u>\$(298,672)</u>	<u>\$—</u>

(*) Other increase or decrease was due to the recognition of an impairment loss, the changes 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 September 30, 2017, is as follows:

2017

	Translation into U.S. dollars (Note 2)	
	Korean won	Czech Airlines j.s.c.
	(In millions)	(In thousands)
Current assets	₩136,233	\$118,804
Non-current assets	89,915	78,412
	<u>₩226,148</u>	<u>\$197,216</u>
Current liabilities	₩138,851	\$121,088
Non-current liabilities	—	—
	<u>₩138,851</u>	<u>\$121,088</u>
Total shareholders' equity	₩ 87,297	\$ 76,128
Sales	₩335,591	\$292,658
Operating income	₩ 29,539	\$ 25,760

- (4) Adjustments from equity of associates to book value of shares owned as of September 30, 2017, are as follows:

	Korean won Czech Airlines j.s.c.	Translation into U.S. dollars (Note 2) Czech Airlines j.s.c.
	(In millions)	(In thousands)
Net assets (A)	₩87,297	\$76,129
Ownership ratio (B)	44.00%	44.00%
(A)×(B)	38,411	33,497
Investment difference and others	—	—
Book value	<u>₩38,411</u>	<u>\$33,497</u>

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 nine months ended September 30, 2017 and 2016, are as follows:

2017

	Korean won					
	Beginning balance	Acquisition	Disposal	Depreciation	Others (*)	Ending balance
	(In millions)					
Land	₩ 1,975,292	₩ 122,013	₩ —	₩ —	₩ (67,330)	₩ 2,029,975
Leased land	21,460	—	—	—	—	21,460
Buildings	535,986	—	—	(27,477)	1,156,194	1,664,703
Structures	74,184	21,870	—	(3,694)	(1)	92,359
Machinery	82,083	6,451	(115)	(9,299)	198	79,318
Aircraft	1,763,460	5,663	(105,575)	(167,883)	568,280	2,063,945
Engines	715,637	32,532	(23,832)	(159,587)	287,082	851,832
Leased aircraft	8,130,925	44,516	(85,164)	(516,873)	299,836	7,873,240
Leased engines	2,202,542	11,997	(23,769)	(309,472)	274,781	2,156,079
Aircraft parts	125,749	56,170	(320)	(11,577)	(5,612)	164,410
Others	153,463	23,874	(5,402)	(28,188)	94,925	238,672
Construction in progress	2,092,501	2,134,431	(136,667)	—	(2,961,616)	1,128,649
	<u>₩17,873,282</u>	<u>₩2,459,517</u>	<u>₩(380,844)</u>	<u>₩(1,234,050)</u>	<u>₩ (353,263)</u>	<u>₩18,364,642</u>

Translation into U.S. dollars (Note 2)

	Beginning balance	Acquisition	Disposal	Depreciation	Others (*)	Ending balance
	(In thousands)					
Land	\$ 1,722,588	\$ 106,403	\$ —	\$ —	\$ (58,716)	\$ 1,770,275
Leased land	18,715	—	—	—	—	18,715
Buildings	467,416	—	—	(23,962)	1,008,279	1,451,733
Structures	64,693	19,072	—	(3,221)	(1)	80,543
Machinery	71,582	5,626	(100)	(8,110)	173	69,171
Aircraft	1,537,857	4,939	(92,068)	(146,406)	495,579	1,799,901
Engines	624,084	28,371	(20,783)	(139,171)	250,354	742,855
Leased aircraft	7,090,716	38,821	(74,269)	(450,748)	261,477	6,865,997
Leased engines	1,920,766	10,463	(20,729)	(269,881)	239,628	1,880,247
Aircraft parts	109,661	48,984	(279)	(10,096)	(4,894)	143,376
Others	133,830	20,819	(4,711)	(24,582)	82,782	208,138
Construction in progress	1,824,803	1,861,369	(119,183)	—	(2,582,729)	984,260
	<u>\$15,586,711</u>	<u>\$2,144,867</u>	<u>\$(332,122)</u>	<u>\$(1,076,177)</u>	<u>\$ (308,068)</u>	<u>\$16,015,211</u>

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

2016

Korean won

	Beginning balance	Acquisition	Disposal	Depreciation	Others (*)	Ending balance
	(In millions)					
Land	₩ 1,957,074	₩ 15,294	₩ (1,659)	₩ —	₩ (6,909)	₩ 1,963,800
Leased land	21,460	—	—	—	—	21,460
Buildings	519,278	10,415	—	(16,560)	23,817	536,950
Structures	77,995	550	—	(3,444)	—	75,101
Machinery	88,957	8,818	(4)	(11,945)	56	85,882
Aircraft	2,186,987	50,417	(39,753)	(253,754)	12,967	1,956,864
Engines	821,887	—	(96,122)	(176,625)	178,114	727,254
Leased aircraft	7,807,500	58,227	(32,770)	(502,408)	780,172	8,110,721
Leased engines	1,961,370	151,633	(45,807)	(282,052)	393,781	2,178,925
Aircraft parts	119,253	17,315	(496)	(9,291)	(6,900)	119,881
Others	126,624	52,482	(376)	(28,482)	4,192	154,440
Construction in progress	2,162,319	1,672,334	(461)	—	(1,661,899)	2,172,293
	<u>₩17,850,704</u>	<u>₩2,037,485</u>	<u>₩(217,448)</u>	<u>₩(1,284,561)</u>	<u>₩ (282,609)</u>	<u>₩18,103,571</u>

Translation into U.S. dollars (Note 2)

	Beginning balance	Acquisition	Disposal	Depreciation	Others (*)	Ending balance
	(In thousands)					
Land	\$ 1,706,701	\$ 13,337	\$ (1,447)	\$ —	\$ (6,025)	\$ 1,712,566
Leased land	18,715	—	—	—	—	18,715
Buildings	452,846	9,082	—	(14,442)	20,770	468,256
Structures	68,017	480	—	(3,003)	—	65,494
Machinery	77,576	7,690	(4)	(10,416)	49	74,895
Aircraft	1,907,200	43,967	(34,668)	(221,291)	11,308	1,706,516
Engines	716,741	—	(83,825)	(154,029)	155,328	634,215
Leased aircraft	6,808,668	50,778	(28,578)	(438,134)	680,363	7,073,097
Leased engines	1,710,447	132,235	(39,947)	(245,969)	343,404	1,900,170
Aircraft parts	103,996	15,099	(433)	(8,102)	(6,017)	104,543
Others	110,424	45,768	(328)	(24,837)	3,656	134,683
Construction in progress	1,885,689	1,458,389	(402)	—	(1,449,289)	1,894,387
	<u>\$15,567,020</u>	<u>\$1,776,825</u>	<u>\$(189,632)</u>	<u>\$(1,120,223)</u>	<u>\$ (246,453)</u>	<u>\$15,787,537</u>

- (*) Other increase or decrease was mainly due to the transfer of construction in progress and consisted of the transfer of property, aircraft and equipment to investment properties; the transfer of assets held for sale; impairment loss on property, aircraft and equipment; and others.
- (2) The Group capitalized borrowing costs of ₩31,093 million (\$27,115 thousand) into construction in progress for the nine months ended September 30, 2017. 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 4.16% and 3.17%, respectively. In addition, the subsidiaries used the interest rate of 3ML + 0.88%–3.30%, 4.12% on funds specifically for the purpose of obtaining a qualifying asset for the nine months ended September 30, 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 using value of land basis method that uses standard land price that is nearby the land similar to utility value considering the ratio of changing land price, the ratio of increasing producer price index, location, shape, environment, state of usage of land and other factors of valuation from the date of public announcement of land value 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	₩2,029,975	₩1,699,077	\$1,770,275	\$1,481,710
Leased land	21,460	13,385	18,715	11,673
	<u>₩2,051,435</u>	<u>₩1,712,462</u>	<u>\$1,788,990</u>	<u>\$1,493,383</u>

The Group recognized revaluation surplus of ₩424,192 million (\$369,924 thousand, before income tax) and recognized accumulated revaluation loss of ₩85,219 million (\$74,317 thousand) for the period from June 30, 2013, to September 30, 2017.

- (4) Fair value measurements of land and leased land by fair value hierarchy levels as of September 30, 2017, are as follows:

	Korean won			
	Level 1	Level 2	Level 3	Total
			(In millions)	
Land	₩—	₩—	₩2,029,975	₩2,029,975
Leased land	—	—	21,460	21,460
	<u>₩—</u>	<u>₩—</u>	<u>₩2,051,435</u>	<u>₩2,051,435</u>

	Translation into U.S. dollars (Note 2)			
	Level 1	Level 2	Level 3	Total
			(In thousands)	
Land	\$—	\$—	\$1,770,275	\$1,770,275
Leased land	—	—	18,715	18,715
	<u>\$—</u>	<u>\$—</u>	<u>\$1,788,990</u>	<u>\$1,788,990</u>

- (5) There was no movement between Level 1 and Level 2 for the nine months ended September 30, 2017.

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

- (1) Significant pledged assets provided as collateral and guarantees for the Group as of September 30, 2017, are as follows (in millions of Korean won, except for share data):

Pledged assets	Book value	Collateralized amount (*4)/shares	Provided to	In relation to
Land/buildings (*1)	₩3,701,379	4,095,803	Korea Development	Short-term and long-term
Aircraft and engines (*2)	2,476,518	3,614,408	Bank (“KDB”)	borrowings and
Machinery	9,593	8,200	and others	borrowings of Hanjin
Facility usage rights	46,608	157,593		Int’l Corp., etc.
Investments in subsidiaries – Hanjin Int’l Corp. (*3)	—	91,440,000 shares	Industrial Bank of Korea and others	Borrowings of Hanjin Int’l Corp.
	<u>₩6,234,098</u>			

(*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 consists of tangible assets and assets held for sale.

(*3) Investments in subsidiaries – Hanjin Int’l Corp. provided as collateral are part of the Group and, therefore, carry no book value 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 September 30, 2017.

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

17. INVESTMENT PROPERTIES:

- (1) Changes in the carrying amount of investment properties for the nine months ended September 30, 2017 and 2016, are as follows:

2017

	Korean won				Ending balance
	Beginning balance	Acquisition	Depreciation	Others (*)	
			(In millions)		
Land	₩ 64,981	₩ —	₩ —	₩ (5,055)	₩ 59,926
Buildings	16,520	—	(3,632)	291,485	304,373
Construction in progress	243,380	45,470	—	(288,850)	0
	<u>₩324,881</u>	<u>₩45,470</u>	<u>₩(3,632)</u>	<u>₩ (2,420)</u>	<u>₩364,299</u>

	Translation into U.S. dollars (Note 2)				Ending balance
	Beginning balance	Acquisition	Depreciation	Others (*)	
			(In thousands)		
Land	\$ 56,668	\$ —	\$ —	\$ (4,409)	\$ 52,259
Buildings	14,407	—	(3,166)	254,194	265,435
Construction in progress	212,243	39,653	—	(251,896)	—
	<u>\$283,318</u>	<u>\$39,653</u>	<u>\$(3,166)</u>	<u>\$ (2,111)</u>	<u>\$317,694</u>

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

2016

	Korean won				Ending balance
	Beginning balance	Acquisition	Depreciation	Others (*)	
			(In millions)		
Land	₩ 63,173	₩ —	₩ —	₩ (660)	₩ 62,513
Buildings	19,583	—	(807)	5,379	24,155
Construction in progress	226,764	77,828	—	(106,456)	198,136
	<u>₩309,520</u>	<u>₩77,828</u>	<u>₩(807)</u>	<u>₩(101,737)</u>	<u>₩284,804</u>

	Translation into U.S. dollars (Note 2)				Ending balance
	Beginning balance	Acquisition	Depreciation	Others (*)	
			(In thousands)		
Land	\$ 55,091	\$ —	\$ —	\$ (576)	\$ 54,515
Buildings	17,078	—	(705)	4,691	21,064
Construction in progress	197,754	67,872	—	(92,837)	172,789
	<u>\$269,923</u>	<u>\$67,872</u>	<u>\$(705)</u>	<u>\$(88,722)</u>	<u>\$248,368</u>

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

- (2) Revenue and cost related to investment properties for the nine months ended September 30, 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	₩1,964	₩2,289	\$1,712	\$1,996
Rental cost (depreciation)	3,632	807	3,166	705

18. INTANGIBLE ASSETS:

Changes in the carrying amount of intangible assets for the nine months ended September 30, 2017 and 2016, are as follows:

2017

	Korean won					
	Beginning balance	Acquisition	Disposal	Amortization	Others (*)	Ending balance
	(In millions)					
Goodwill	₩ 17,515	₩—	₩—	₩ —	₩ 97	₩ 17,612
Facility usage rights	84,416	—	—	(7,531)	—	76,885
Research and development costs	48,313	—	—	(12,372)	2,936	38,877
Other intangibles	254,786	463	(72)	(13,954)	149	241,372
	<u>₩405,030</u>	<u>₩463</u>	<u>₩(72)</u>	<u>₩(33,857)</u>	<u>₩3,182</u>	<u>₩374,746</u>

	Translation into U.S. dollars (Note 2)					
	Beginning balance	Acquisition	Disposal	Amortization	Others (*)	Ending balance
	(In thousands)					
Goodwill	\$ 15,274	\$—	\$—	\$ —	\$ 85	\$ 15,359
Facility usage rights	73,617	—	—	(6,568)	—	67,049
Research and development costs	42,132	—	—	(10,789)	2,560	33,903
Other intangibles	222,191	404	(63)	(12,169)	130	210,493
	<u>\$353,214</u>	<u>\$404</u>	<u>\$(63)</u>	<u>\$(29,526)</u>	<u>\$2,775</u>	<u>\$326,804</u>

(*) Other increase or decrease was mainly due to the transfer of construction in progress and the exchange rate fluctuations.

2016

	Korean won						
	Beginning balance	Acquisition	Disposal	Amortization	Impairment loss	Others (*)	Ending balance
	(In millions)						
Goodwill	₩ 4,320	₩19,595	₩ —	₩ —	₩ —	₩ —	₩ 23,915
Facility usage rights	94,458	—	—	(7,531)	—	—	86,927
Research and development costs	67,340	—	—	(12,956)	—	—	54,384
Other intangibles	128,625	672	(1,131)	(18,368)	(7,873)	153,591	255,516
	<u>₩294,743</u>	<u>₩20,267</u>	<u>₩(1,131)</u>	<u>₩(38,855)</u>	<u>₩(7,873)</u>	<u>₩153,591</u>	<u>₩420,742</u>

	Translation into U.S. dollars (Note 2)						Ending balance
	Beginning balance	Acquisition	Disposal	Amortization	Impairment loss	Others (*)	
	(In thousands)						
Goodwill	\$ 3,767	\$17,088	\$ —	\$ —	\$ —	\$ —	\$ 20,855
Facility usage rights	82,374	—	—	(6,568)	—	—	75,806
Research and development costs	58,725	—	—	(11,298)	—	—	47,427
Other intangibles	112,170	586	(986)	(16,018)	(6,865)	133,942	222,829
	<u>\$257,036</u>	<u>\$17,674</u>	<u>\$(986)</u>	<u>\$(33,884)</u>	<u>\$(6,865)</u>	<u>\$133,942</u>	<u>\$366,917</u>

(*) Other increase or decrease was mainly due to the transfer of construction in progress.

19. OTHER FINANCIAL ASSETS:

Other financial assets as of September 30, 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	₩383,544	₩329,751	\$334,476	\$287,565

The Group provides guarantee deposits of JPY 6,260,751 thousand, \$32,173 thousand and HKD 430,875 thousand for ABS loans (see Note 22). There were no other financial assets overdue or impaired for the nine months ended September 30, 2017 and 2016.

20. OTHER ASSETS:

Other assets as of September 30, 2017, and December 31, 2016, consist of the following:

	Korean won			
	2017		2016	
	Current	Non-current	Current	Non-current
	(In millions)			
Advance payments	₩432,181	₩ 58	₩415,402	₩ 58
Prepaid expenses	109,931	192,399	119,496	244,276
Others	21,169	3,157	14,840	3,157
	<u>₩563,281</u>	<u>₩195,614</u>	<u>₩549,738</u>	<u>₩247,491</u>

	Translation into U.S. dollars (Note 2)			
	2017		2016	
	Current	Non-current	Current	Non-current
	(In thousands)			
Advance payments	\$376,891	\$ 51	\$362,258	\$ 51
Prepaid expenses	95,867	167,785	104,209	213,025
Others	18,461	2,753	12,942	2,753
	<u>\$491,219</u>	<u>\$170,589</u>	<u>\$479,409</u>	<u>\$215,829</u>

The Group provides advance payments of ₩197,501 million (\$172,234 thousand), JPY 3,504,569 thousand, \$19,491 thousand and HKD 161,930 thousand for ABS loans (see Note 22).

21. TRADE AND OTHER PAYABLES:

Trade and other payables as of September 30, 2017, and December 31, 2016, consist of the following:

	Korean won			
	2017		2016	
	Current	Non-current	Current	Non-current
	(In millions)			
Trade payables	₩ 118,043	₩ —	₩113,875	₩ —
Non-trade payables	172,808	6,050	181,358	16,403
Accrued expenses	791,402	12,748	550,916	13,870
Dividends payable	3	—	3	—
	<u>₩1,082,256</u>	<u>₩18,798</u>	<u>₩846,152</u>	<u>₩30,273</u>
	Translation into U.S. dollars (Note 2)			
	2017		2016	
	Current	Non-current	Current	Non-current
	(In thousands)			
Trade payables	\$102,942	\$ —	\$ 99,307	\$ —
Non-trade payables	150,699	5,276	158,156	14,305
Accrued expenses	690,156	11,117	480,436	12,095
Dividends payable	3	—	3	—
	<u>\$943,800</u>	<u>\$16,393</u>	<u>\$737,902</u>	<u>\$26,400</u>

22. BORROWINGS AND DEBENTURES:

(1) Short-term borrowings as of September 30, 2017, and December 31, 2016, consist of the following:

	Lender	Annual interest rate	Korean won		Translation into U.S. dollars (Note 2)	
			2017	2016	2017	2016
			(In millions)		(In thousands)	
Local currency short-term borrowings	NongHyup Bank	6M MOR + 1.71%	₩108,000	₩ 211,500	\$ 94,183	\$ 184,442
		3M CD + 1.86%	91,500	—	79,794	—
	KDB	3.57%	70,000	70,000	61,045	61,045
	Bookook Securities Co., Ltd.	4.20%	40,000	—	34,883	—
			<u>309,500</u>	<u>281,500</u>	<u>269,905</u>	<u>245,487</u>
Foreign currency short-term borrowings	KDB	3M LIBOR + 1.95%–2.80%	162,936	398,805	142,091	347,785
	KDB (Singapore branch)	3M LIBOR + 2.80%	28,668	54,383	25,000	47,425
	The Export-Import Bank of Korea	3M LIBOR + 3.25%	61,734	—	53,836	—
	Hana Bank and others (*)	3M LIBOR + 2.20%–4.30%	288,909	433,284	251,949	377,854
				<u>542,247</u>	<u>886,472</u>	<u>472,876</u>
			<u>₩851,747</u>	<u>₩1,167,972</u>	<u>\$742,781</u>	<u>\$1,018,551</u>

(*) The Group has provided payment guarantees of \$ 41 million to Minsheng Commercial Aviation (Ireland) Company Limited, the beneficiary of the foreign currency short-term borrowings due to Bluesky 24 Leasing Company Limited, as of September 30, 2017.

(2) Long-term borrowings as of September 30, 2017, and December 31, 2016, consist of the following:

	Lender	Annual interest rate	Maturity	Korean won		Translation into U.S. dollars (Note 2)	
				2017	2016	2017	2016
				(In millions)		(In thousands)	
Local	KDB	3.53%–4.18%	2025-05-25	₩ 423,889	₩ 83,540	\$ 369,660	\$ 72,852
currency	Korea Resource						
long-term	Corporation	2.60%	2019-12-15	285	380	248	331
borrowings	Kookmin Bank						
	and others	2.50%–5.45%	2027-07-31	215,740	65,669	188,140	57,268
				<u>639,914</u>	<u>149,589</u>	<u>558,048</u>	<u>130,451</u>
Foreign	KDB	3M LIBOR +					
currency		2.00%–2.70%	2025-09-30	486,640	449,834	424,383	392,286
long-term		1.79%–1.84%	2019-09-26	256,665	240,844	223,830	210,032
borrowings		3M JPY LIBOR					
		+ 2.00%	2018-04-09	22,959	46,656	20,022	40,688
	The Export-Import Bank of Korea	3M LIBOR +					
		2.51%	2024-06-27	128,767	150,786	112,294	131,495
	Industrial Bank of Korea	LIBOR + 3.30%	2017-10-24	344,010	241,700	300,000	210,779
	Bank of Communications	3M LIBOR +					
		2.70%	2023-08-28	185,963	220,484	162,173	192,277
	Hana Bank	3M LIBOR +					
	and others	2.40%–3.75%	2020-06-27	81,288	142,702	70,887	124,446
				<u>1,506,292</u>	<u>1,493,006</u>	<u>1,313,589</u>	<u>1,302,003</u>
				<u>2,146,206</u>	<u>1,642,595</u>	<u>1,871,637</u>	<u>1,432,454</u>
	Less: current portion of long-term borrowings			<u>(687,451)</u>	<u>(626,506)</u>	<u>(599,504)</u>	<u>(546,355)</u>
				<u>₩1,458,755</u>	<u>₩1,016,089</u>	<u>\$1,272,133</u>	<u>\$ 886,099</u>

(3) Debentures as of September 30, 2017, and December 31, 2016, consist of the following:

Series	Issue date	Maturity	Annual interest rate	Korean won		Translation into U.S. dollars (Note 2)	
				2017	2016	2017	2016
				(In millions)		(In thousands)	
46-2nd	2012-07-19	2017-07-19	—	₩ —	₩ 247,992	\$ —	\$ 216,266
47-2nd	2012-10-08	2019-10-08	4.16%	250,000	250,000	218,017	218,017
49-3rd	2012-12-13	2019-12-13	4.36%	170,000	170,000	148,252	148,252
58th (*1)	2015-02-27	2018-02-27	3M JPY LIBOR + 2.00%	102,042	103,681	88,988	90,417
59th	2015-08-31	2018-08-31	4.75%	200,000	200,000	174,414	174,414
60th	2016-02-17	2018-02-17	4.80%	150,000	150,000	130,810	130,810
61st	2016-02-25	2017-02-25	—	—	70,503	—	61,483
63-1st	2016-03-21	2017-03-21	—	—	36,255	—	31,617
63-2nd (*2)	2016-03-21	2018-03-21	3M LIBOR + 1.10%	34,401	36,255	30,000	31,617
63-3rd (*2)	2016-03-21	2019-03-21	3M LIBOR + 1.20%	45,868	48,340	40,000	42,156
62nd	2016-04-12	2018-04-12	4.90%	250,000	250,000	218,017	218,017
64th	2016-04-20	2017-04-20	—	—	50,000	—	43,603
65th	2016-06-10	2017-06-10	—	—	30,000	—	26,162
66th	2016-06-15	2017-12-15	4.45%	10,000	10,000	8,721	8,721
67th	2016-10-07	2018-04-07	4.40%	50,000	50,000	43,603	43,603
68th	2016-10-24	2017-10-24	4.00%	150,000	150,000	130,810	130,810
69th (*3)	2017-02-27	2020-02-27	3M JPY LIBOR + 4.10%	52,041	—	45,384	—
70th	2017-04-20	2018-04-20	4.20%	70,000	—	61,045	—
Arirang bond	2012-11-02	2017-11-02	3M LIBOR+ 2.76%	230,000	230,000	200,576	200,576
Kexim (*4)	2014-10-30	2017-10-30	3M LIBOR+ 0.88%	344,010	362,550	300,000	316,168
Kexim (*4)	2017-09-28	2020-09-28	3M LIBOR+0.95%	344,010	—	300,000	—
				2,452,372	2,445,576	2,138,637	2,132,709
			Present value of discounts	(5,847)	(5,497)	(5,099)	(4,794)
				2,446,525	2,440,079	2,133,538	2,127,915
			Less: short-term debentures	(220,000)	(336,758)	(191,855)	(293,676)
			Present value of discounts	166	528	145	460
			Less: current portion of debentures	(1,383,463)	(2,024,223)	(1,206,474)	(1,765,259)
			Present value of discounts, less current portion	1,234	3,543	1,074	3,089
				₩ 844,462	₩ 83,169	\$ 736,428	\$ 72,529

(*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 September 30, 2017, and December 31, 2016, consist of the following:

Description	Maturity	Annual interest rate	Korean won		Translation into U.S. dollars (Note 2)	
			2017	2016	2017	2016
			(In millions)		(In thousands)	
KAL-9th ABS	2018-04-25	3.15%	₩ 90,000	₩ 180,000	\$ 78,486	\$ 156,972
KAL-11th ABS	2019-02-14	5.11%	140,000	230,000	122,089	200,576
KAL-12th ABS	2019-05-07	4.74%	51,000	75,000	44,475	65,405
KAL-13th ABS	2017-07-27	—	—	24,676	—	21,519
KAL-14th ABS	2018-08-27	1M HIBOR + 3.50%	34,447	65,968	30,040	57,529
KAL-15th ABS	2017-11-20	1.43%	22,934	132,935	20,000	115,928
KAL-16th ABS	2020-01-28	3.98%	360,000	480,000	313,944	418,592
KAL-17th ABS	2019-04-29	1M LIBOR + 3.00%	121,041	187,989	105,556	163,939
KAL-18th ABS	2020-06-01	3M HIBOR + 3.74%	75,299	101,571	65,666	88,577
KAL-19th ABS	2021-07-11	4.24%	900,000	900,000	784,861	784,861
KAL-20th ABS	2019-12-27	2.01%	118,948	155,522	103,731	135,625
KAL-20th A ABS	2019-12-27	2.01%	92,084	—	80,303	—
KAL-21st ABS	2022-04-07	4.63%	400,000	—	348,827	—
			2,405,753	2,533,661	2,097,978	2,209,523
Less: current portion of ABS loans			(927,734)	(801,709)	(809,045)	(699,144)
			<u>₩1,478,019</u>	<u>₩1,731,952</u>	<u>\$1,288,933</u>	<u>\$1,510,379</u>

The Group provides the guarantee deposits of JPY 6,260,751 thousand, \$32,173 thousand and HKD 430,875 thousand and the advance payments of ₩197,501 million (\$172,234 thousand), JPY 3,504,569 thousand, \$19,491 thousand and HKD 161,930 thousand in connection with the above ABS loans (see Notes 19 and 20).

Meanwhile, above ABS loans are the borrowings to repay in a way to trust. Right to future sales receivable 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 receivable (Hyundai card, Hana (formerly Korea Exchange) card, Kookmin card)	2013.04.17–2018.04.25
KAL-11th ABS	Domestic cargo indirect sales receivable	2014.02.06–2019.02.14
KAL-12th ABS	Domestic passenger card sales receivable (NongHyup card, Lotte card)	2014.04.24–2019.05.07
KAL-14th ABS	Hong Kong cargo receivables	2014.11.05–When the ABS loan's principal and interest have been redeemed in total
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 receivable (BC card)	2015.01.20–2020.01.28
KAL-17th ABS	North America region cargo receivables (settlement of Cargo Accounts Settlement Systems)	2016.04.11–When the ABS loan's principal and interest have been redeemed in total

Description	Receivable	Period
KAL-18th ABS	Hong Kong and Singapore passenger sales receivable	2016.06.01–When the ABS loan’s principal and interest have been redeemed in total
KAL-19th ABS	Korea region cash sales receivable	2016.07.11–When the ABS loan’s principal and interest have been redeemed in total
KAL-20th ABS	Japan region passenger sales receivable	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
KAL-20th A ABS	Japan region passenger sales receivable	2017.05.31–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
KAL-21st ABS	Domestic passenger card sales receivable (Samsung card)	2017.03.30–Of the following conditions, until the earlier date (i) 2022.04.07 (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. Guaranteed loans as of September 30, 2017, and December 31, 2016, consist of the following:

Description	Korean won		Translation into U.S. dollars (Note 2)	
	2017	2016	2017	2016
	(In millions)		(In thousands)	
KDB	₩—	₩ 3,920	\$—	\$ 3,419
Kookmin Bank	—	140	—	122
B G.N. Loan Co., Ltd.	—	196	—	171
Shinhan Bank	—	512	—	446
Daegu Bank	—	486	—	424
Hana Bank (formerly, Korea Exchange Bank)	—	6,386	—	5,569
Tongyang Life Insurance Co., Ltd.	—	878	—	766
Lotte Insurance Co., Ltd.	—	126	—	109
	—	12,644	—	11,026
Present value of discounts	—	(861)	—	(751)
	—	11,783	—	10,275
Less: current portion of liabilities	—	(12,644)	—	(11,027)
Present value of discounts, current portion	—	861	—	752
	<u>₩—</u>	<u>₩ —</u>	<u>\$—</u>	<u>\$ —</u>

23. FINANCE LEASE OBLIGATIONS:

(1) Finance lease obligations as of September 30, 2017, and December 31, 2016, consist of the following:

Lender	Annual interest rate	Korean won		Translation into U.S. dollars (Note 2)	
		2017	2016	2017	2016
		(In millions)		(In thousands)	
ECA-2014B Limited	3M EURIBOR + 0.32%				
	3M LIBOR + 2.85%	₩ 196,682	₩ 205,071	\$ 171,520	\$ 178,836
ECA-2014C Limited	3M LIBOR + 0.84%	113,202	130,223	98,720	113,563
ECA-2015A Limited	3M EURIBOR + 0.31%				
	3M LIBOR + 2.85%–3.00%	244,900	253,294	213,569	220,889
ECA-2015B Limited	3M JPY LIBOR + 0.30%				
	3M LIBOR + 3.00%	128,517	142,064	112,076	123,889
Export Leasing (2015) LLC	3M LIBOR + 0.47%	147,839	168,648	128,926	147,073
Export Leasing (2015)-B	3M LIBOR + 0.73%	182,512	208,353	159,163	181,698
Export Leasing (2015-A) LLC	3M LIBOR + 0.7%–0.72%	355,709	405,838	310,202	353,918
Export Leasing (2015-B) LLC	3M LIBOR + 0.72%	177,351	202,942	154,662	176,979
Export Leasing (2015-C)	3M LIBOR + 0.74%	183,587	209,678	160,101	182,853
Ji Yoo Aviation Ltd.	3M LIBOR + 3.50%	154,632	190,127	134,850	165,804
KALECA11 Aviation Ltd.	3M LIBOR + 0.85%–0.88%	472,769	579,903	412,286	505,715
KALECA11-2 Aviation Ltd.	3M LIBOR + 0.85%	122,530	149,174	106,854	130,090
KALECA12 Aviation Ltd.	3M JPY LIBOR + 0.71%				
	3M LIBOR + 2.80%	123,353	145,994	107,572	127,317
KALECA13 Aviation Ltd.	3M EURIBOR + 0.63%				
	3M LIBOR + 2.55%	169,736	180,164	148,021	157,115
KE Export Leasing (2009) Ltd.	3M LIBOR + 1.25%	116,796	145,852	101,854	127,193
KE Export Leasing (2010) Ltd.	3M LIBOR + 0.30%	217,823	262,728	189,957	229,117
KE Export Leasing (2011) Ltd.	3M LIBOR + 0.25%–0.28%	256,904	309,554	224,037	269,952
KE Export Leasing (2011-II) Ltd.	3M LIBOR + 0.33%–0.39%	185,615	223,101	161,868	194,559
KE Export Leasing (2012) Ltd.	3M LIBOR + 1.13%–1.16%	288,749	347,591	251,809	303,123
KE Export Leasing (2013-A)	3M LIBOR + 0.33%	112,924	131,454	98,477	114,637
KE Export Leasing (2013-B)	3M LIBOR + 0.32%	117,684	137,032	102,628	119,501
KE Export Leasing (2013-C)	3M LIBOR + 0.63%	127,259	147,772	110,978	128,867
KE Export Leasing (2013-D) LLC	3M LIBOR + 0.34%–0.64%	278,978	319,692	243,287	278,793
KE Export Leasing 2014 LLC	3M LIBOR + 0.63%–1.02%	395,142	452,388	344,590	394,513
KE Export Leasing 2015	3M LIBOR + 1.21%	300,682	349,243	262,215	304,563
SKY HIGH LIV	3M LIBOR + 2.20%	159,655	183,106	139,230	159,681
SKY HIGH LXX LEASING	3M LIBOR + 2.40%	186,683	—	162,800	—
Sky Leasing 2017-A	3M LIBOR + 2.25%	164,659	—	143,594	—
Yian Limited	3M LIBOR + 2.09%	166,076	192,478	144,829	167,853
Export Leasing 2016-A	6M EURIBOR + 1.05%	183,782	148,227	160,270	129,264

Lender	Annual interest rate	Korean won		Translation into U.S. dollars (Note 2)	
		2017	2016	2017	2016
		(In millions)		(In thousands)	
Export Leasing 2016-B	3M TIBOR + 2.40%				
	5.55%	173,621	137,005	151,409	119,477
Export Leasing 2016-C	3M LIBOR + 0.90%	141,830	162,285	123,685	141,524
Export Leasing 2016-D	3M LIBOR + 1.60%	175,223	102,723	152,806	89,581
Export Leasing INS (2017-A) LLC	3M LIBOR + 1.25%	337,888	—	294,661	—
Ray Aviation Limited	3M LIBOR + 1.70%				
	5.20%	165,245	189,987	144,104	165,682
RBS and others	2.74%–9.57%	988,682	1,375,105	862,197	1,199,185
		<u>8,015,219</u>	<u>8,488,796</u>	<u>6,989,807</u>	<u>7,402,804</u>
Less: current portion of obligation under finance leases, net of present value of discounts		<u>(1,256,111)</u>	<u>(1,714,470)</u>	<u>(1,095,407)</u>	<u>(1,495,134)</u>
		<u>₩ 6,759,108</u>	<u>₩ 6,774,326</u>	<u>\$ 5,894,400</u>	<u>\$ 5,907,670</u>

The Export-Import Bank of the United States of America and others have provided payment guarantees of \$4,190 million for above finance lease obligations as of September 30, 2017. Meanwhile, the Group has provided payment guarantees of \$125 million to Bank of China, the beneficiary of the financial lease obligations due to Yian Limited, as of September 30, 2017.

- (2) Minimum lease payments and present value of long-term obligation under finance leases as of September 30, 2017, consist of the following:

	Korean won	Translation into U.S. dollars (Note 2)
	(In millions)	(In thousands)
Less than one year	₩1,413,974	\$1,233,081
One year to five years	4,628,739	4,036,574
More than five years	2,671,443	2,329,679
	8,714,156	7,599,334
Present value of discounts	<u>(698,941)</u>	<u>(609,524)</u>
	<u>₩8,015,215</u>	<u>\$6,989,810</u>

24. EMPLOYEE BENEFITS:

- (1) Net defined benefit liabilities as of September 30, 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)	
Present value of defined benefit obligations	₩1,495,017	₩1,477,734	\$1,303,756	\$1,288,684
Fair value of plan assets	<u>(331,125)</u>	<u>(351,402)</u>	<u>(288,763)</u>	<u>(306,446)</u>
	<u>₩1,163,892</u>	<u>₩1,126,332</u>	<u>\$1,014,993</u>	<u>\$ 982,238</u>

(2) Changes in carrying amount of the net defined benefit liabilities for the nine months ended September 30, 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 (In millions)	Total	Present value of defined benefit obligations	Fair value of plan assets (In thousands)	Total
Beginning balance	₩1,477,734	₩(351,402)	₩1,126,332	\$1,288,684	\$(306,446)	\$ 982,238
Current service cost	98,428	—	98,428	85,836	—	85,836
Interest expense (income)	25,101	(4,984)	20,117	21,889	(4,346)	17,543
Remeasurement of net defined benefit liabilities	(215)	1,537	1,322	(188)	1,340	1,152
Retirement benefits paid	(107,300)	25,470	(81,830)	(93,572)	22,212	(71,360)
Contributions	—	(5)	(5)	—	(5)	(5)
Succession of defined benefit obligations	107	—	107	94	—	94
Others (*)	1,162	(1,741)	(579)	1,014	(1,518)	(504)
Ending balance	<u>₩1,495,017</u>	<u>₩(331,125)</u>	<u>₩1,163,892</u>	<u>\$1,303,757</u>	<u>\$(288,763)</u>	<u>\$1,014,994</u>

(*) Other increase or decrease mainly due to the succession of defined benefit obligations by the business combination and others

2016

	Korean won			Translation into U.S. dollars (Note 2)		
	Present value of defined benefit obligations	Fair value of plan assets (In millions)	Total	Present value of defined benefit obligations	Fair value of plan assets (In thousands)	Total
Beginning balance	₩1,367,582	₩(339,901)	₩1,027,681	\$1,192,624	\$(296,416)	\$ 896,208
Current service cost	95,389	—	95,389	83,185	—	83,185
Interest expense (income)	22,924	(3,909)	19,015	19,992	(3,409)	16,583
Remeasurement of net defined benefit liabilities	141,636	762	142,398	123,516	664	124,180
Retirement benefits paid	(71,101)	17,524	(53,577)	(62,005)	15,282	(46,723)
Succession of defined benefit obligations	645	—	645	563	—	563
Others	211	(181)	30	184	(158)	26
Ending balance	<u>₩1,557,286</u>	<u>₩(325,705)</u>	<u>₩1,231,581</u>	<u>\$1,358,059</u>	<u>\$(284,037)</u>	<u>\$1,074,022</u>

25. PROVISIONS:

Changes in the provision liabilities for the nine months ended September 30, 2017 and 2016, are as follows:

2017

	Korean won				Ending balance
	Beginning balance	Charged to income or loss	Utilization	Others	
	(In millions)				
Current:					
Provision for construction loss (*1)	₩ —	₩ 1,702	₩ (1,628)	₩ (74)	₩ —
Liabilities of greenhouse gas emissions (*2)	5,431	6,079	(1,161)	(4,270)	6,079
	<u>5,431</u>	<u>7,781</u>	<u>(2,789)</u>	<u>(4,344)</u>	<u>6,079</u>
Non-current:					
Provision for leased aircraft maintenance (*3)	141,631	33,156	(60,774)	—	114,013
Provision for coupon for passenger flight tickets (*4)	29,624	—	(15,015)	(1,650)	12,959
Provision for construction warranties (*5)	731	—	(731)	—	—
Others (*6)	6,688	612	—	—	7,300
	<u>178,674</u>	<u>33,768</u>	<u>(76,520)</u>	<u>(1,650)</u>	<u>134,272</u>
	<u>₩184,105</u>	<u>₩41,549</u>	<u>₩(79,309)</u>	<u>₩(5,994)</u>	<u>₩140,351</u>
	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)	\$ —	\$ 1,485	\$ (1,420)	\$ (65)	\$ —
Liabilities of greenhouse gas emissions (*2)	4,736	5,302	(1,012)	(3,724)	5,302
	<u>4,736</u>	<u>6,787</u>	<u>(2,432)</u>	<u>(3,789)</u>	<u>5,302</u>
Non-current:					
Provision for leased aircraft maintenance (*3)	123,512	28,914	(52,999)	—	99,427
Provision for coupon for passenger flight tickets (*4)	25,834	—	(13,094)	(1,439)	11,301
Provision for construction warranties (*5)	638	—	(638)	—	—
Others (*6)	5,832	534	—	—	6,366
	<u>155,816</u>	<u>29,448</u>	<u>(66,731)</u>	<u>(1,439)</u>	<u>117,094</u>
	<u>\$ 160,552</u>	<u>\$ 36,235</u>	<u>\$ (69,163)</u>	<u>\$ (5,228)</u>	<u>\$ 122,396</u>

2016

	Korean won				
	Beginning balance	Charged to income or loss	Utilization	Others	Ending balance
	(In millions)				
Current:					
Provision for construction loss (*1)	₩ 15,479	₩ 686	₩(13,324)	₩(2,841)	₩ —
Liabilities of greenhouse gas emissions (*2)	1,316	722	—	(2,038)	—
	<u>16,795</u>	<u>1,408</u>	<u>(13,324)</u>	<u>(4,879)</u>	<u>—</u>
Non-current:					
Provision for leased aircraft maintenance (*3)	135,124	22,034	(26,438)	—	130,720
Provision for coupon for passenger flight tickets (*4)	27,521	—	(171)	986	28,336
Provision for construction warranties (*5)	2,039	—	—	—	2,039
Others (*6)	6,504	497	(4,881)	4,878	6,998
	<u>171,188</u>	<u>22,531</u>	<u>(31,490)</u>	<u>5,864</u>	<u>168,093</u>
	<u>₩187,983</u>	<u>₩23,939</u>	<u>₩(44,814)</u>	<u>₩ 985</u>	<u>₩168,093</u>
	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)	\$ 13,499	\$ 598	\$ (11,620)	\$ (2,477)	\$ —
Liabilities of greenhouse gas emissions (*2)	1,147	630	—	(1,777)	—
	<u>14,646</u>	<u>1,228</u>	<u>(11,620)</u>	<u>(4,254)</u>	<u>—</u>
Non-current:					
Provision for leased aircraft maintenance (*3)	117,837	19,215	(23,056)	—	113,996
Provision for coupon for passenger flight tickets (*4)	24,000	—	(149)	860	24,711
Provision for construction warranties (*5)	1,778	—	—	—	1,778
Others (*6)	5,672	433	(4,257)	4,254	6,102
	<u>149,287</u>	<u>19,648</u>	<u>(27,462)</u>	<u>5,114</u>	<u>146,587</u>
	<u>\$ 163,933</u>	<u>\$ 20,876</u>	<u>\$ (39,082)</u>	<u>\$ 860</u>	<u>\$ 146,587</u>

(*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 and borrowed the shortage of emission allowance from that of next year and submitted it to the government. In addition, the Group recognizes unearned revenues that it borrowed from emission allowance of next year.

(*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 ₩12,959 million (\$11,301 thousand) as a provision for passenger flight ticket coupons as of September 30, 2017 (see Note 45).
- (*5) The Group has recognized provisions for the maintenance expenses expected to incur from aerospace division's sales, and the obligation has been settled for the nine months ended September 30, 2017.
- (*6) The Group has recognized ₩7,024 million (\$6,125 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 statement of financial position as of September 30, 2017, amounted to ₩2,053,339 million (\$1,790,651 thousand), including ₩33,053 million (\$28,824 thousand) of advance receipts from customers and ₩2,020,286 million (\$1,761,827 thousand) of deferred revenue.

27. DERIVATIVE INSTRUMENTS:

- (1) As of September 30, 2017, the Group entered into derivative agreements with KDB and six other financial institutions, and derivatives as of September 30, 2017, are summarized as follows:

Type of transactions	Accounting policy	Maturity		Contract amount
Oil price option	Trading	2018.05.31	BBL	2,400 thousand
Interest rate swaps	Trading	2019.09.26	EUR	190,000 thousand
Cross-currency interest rate swaps	Trading	2023.06.12	JPY	25,435,992 thousand
	Trading	2020.12.11	EUR	266,904 thousand
	Trading	2027.11.17	KRW	632,319 million
	Trading	2017.11.02	KRW	230,000 million

- (2) Impact on the condensed consolidated financial statements in relation to derivatives for the nine months ended September 30, 2017, is as follows:

Derivative instruments	Korean won					
	Condensed consolidated statement of financial position		Condensed consolidated statement of comprehensive income and loss			
	Financial derivative assets	Financial derivative liabilities	Valuation gain	Valuation loss	Transaction gain	Transaction loss
	(In millions)					
Oil price option	₩ 80	₩ —	₩ 80	₩ —	₩ —	₩ —
Interest rate swaps	—	70	—	42	106	7
Cross-currency interest rate swaps	10,001	47,325	27,188	29,664	5,163	4,355
	<u>₩10,081</u>	<u>₩47,395</u>	<u>₩27,268</u>	<u>₩29,706</u>	<u>₩5,269</u>	<u>₩4,362</u>

Derivative instruments	Translation into U.S. dollars (Note 2)					
	Condensed consolidated statement of financial position		Condensed consolidated statement of comprehensive income and loss			
	Financial derivative assets	Financial derivative liabilities	Valuation gain	Valuation loss	Transaction gain	Transaction loss
			(In thousands)			
Oil price option	\$ 70	\$ —	\$ 70	\$ —	\$ —	\$ —
Interest rate swaps	—	61	—	37	93	6
Cross-currency interest rate swaps	8,722	41,271	23,710	25,869	4,502	3,798
	<u>\$8,792</u>	<u>\$41,332</u>	<u>\$23,780</u>	<u>\$25,906</u>	<u>\$4,595</u>	<u>\$3,804</u>

28. OTHER LIABILITIES:

Other liabilities as of September 30, 2017, and December 31, 2016, consist of the following:

	Korean won			
	2017		2016	
	Current	Non-current	Current	Non-current
	(In millions)			
Advances	₩1,144,378	₩ —	₩1,068,867	₩ —
Withholdings	110,209	66,380	100,313	63,786
Unearned revenues	392,672	—	402,563	—
Others	328	20,291	—	12,705
	<u>₩1,647,587</u>	<u>₩86,671</u>	<u>₩1,571,743</u>	<u>₩76,491</u>

	Translation into U.S. dollars (Note 2)			
	2017		2016	
	Current	Non-current	Current	Non-current
	(In thousands)			
Advances	\$ 997,975	\$ —	\$ 932,124	\$ —
Withholdings	96,110	57,888	87,480	55,626
Unearned revenues	342,436	—	351,062	—
Others	286	17,695	—	11,080
	<u>\$1,436,807</u>	<u>\$75,583</u>	<u>\$1,370,666</u>	<u>\$66,706</u>

29. CAPITAL STOCK:

(1) Capital stock as of September 30, 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	\$413,555	\$317,606
Preferred stock (*)		1,110,794	5,000	5,554	5,554	4,843	4,843
	<u>250,000,000</u>	<u>95,955,428</u>		<u>₩479,777</u>	<u>₩369,753</u>	<u>\$418,398</u>	<u>\$322,449</u>

(*) 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 to the resolution of the general meeting of shareholders that the Company pays dividends.

(2) Changes in number of stocks issued for the nine months ended September 30, 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	<u>94,844,634</u>	<u>1,110,794</u>	<u>72,839,744</u>	<u>1,110,794</u>

30. OTHER CAPITAL SURPLUS:

(1) Other capital surplus as of September 30, 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-in capital	₩ 946,195	₩ 602,855	\$ 825,146	\$ 525,730
Other capital	928,850	595,519	810,020	519,333
	<u>₩1,875,045</u>	<u>₩1,198,374</u>	<u>\$1,635,166</u>	<u>\$1,045,063</u>

(2) Changes in additional paid-in capital for the nine months ended September 30, 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	\$525,730	\$525,730
Paid-in capital increase (*)	343,340	—	299,416	—
Ending balance	<u>₩946,195</u>	<u>₩602,855</u>	<u>\$825,146</u>	<u>\$525,730</u>

(*) 22,004,890 common shares were issued for the nine months ended September 30, 2017.

(3) Changes in hybrid securities for the nine months ended September 30, 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	₩550,411	₩550,411	\$479,996	\$479,996
Issuance of hybrid securities	333,427	—	290,771	—
Ending balance	<u>₩883,838</u>	<u>₩550,411</u>	<u>\$770,767</u>	<u>\$479,996</u>

(4) Hybrid securities as of September 30, 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	\$182,140	\$182,140
Registered guaranteed debenture (*2)	2015-11-25	2045-11-25	2.50%	341,551	341,551	297,856	297,856
Registered guaranteed debenture (*3)	2017-06-12	2047-06-12	6.88%	333,427	—	290,771	—
				<u>₩883,838</u>	<u>₩550,411</u>	<u>\$770,767</u>	<u>\$479,996</u>

(*1) The interest rate is 6.40% for five years after issuance, and the increased interest rate (6.40% + 3.50% + (benchmark yield after five years from the date of issue -3.32%)) is applied after five years. The 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 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.

(*3) The interest rate is 6.875% for three and a half years after issuance (the Company enters into an EUR foreign exchange and swap contract to pay 4.875% interest annually to the swap bank and receive 6.875% interest from the swap bank. Therefore, except for exchange rate fluctuations, the Company's actual interest rate is 4.875% per annum. After three and a half years and every three years after three and a half years, US Treasury + interest rate (5.44%) + 5% interest rate is applied. The Company can exercise the right of early repayment every six months after three and a half years of the securities issuance. In addition, the Company can choose not to pay the interest on securities based on the decision to extend maturity. However, the Company cannot suspend payment of the interest if the decision on stock dividend, purchase and redemption of stocks and profit retirement occurred in the last 12 months.

31. RETAINED EARNINGS AND DIVIDENDS:

(1) Retained earnings as of September 30, 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	\$ 3,010	\$ 3,010
Voluntary reserve:				
Facility reserve	—	200,000	—	174,414
Unappropriated retained earnings	199,304	(396,329)	173,806	(345,626)
	<u>₩202,756</u>	<u>₩(192,877)</u>	<u>\$176,816</u>	<u>\$(168,202)</u>

- (*) 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 the nine months ended September 30, 2017 and 2016.

32. OTHER CAPITAL COMPONENTS:

- (1) Other capital components as of September 30, 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	₩ 58,167	₩ 40,120	\$ 50,725	\$ 34,987
Change in retained earnings – equity method – accounted investments	2,476	164	2,160	143
Cumulative effect of foreign currency translation	(14,098)	32,278	(12,294)	28,149
Revaluation surplus	312,974	312,874	272,934	272,847
	<u>₩359,519</u>	<u>₩385,436</u>	<u>\$313,525</u>	<u>\$336,126</u>

- (2) Changes in other capital components for the nine months ended September 30, 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	\$336,126	\$353,459
Gain (loss) on valuation of AFS financial assets, net	18,047	(9,116)	15,738	(7,950)
Change in retained earnings – equity method – accounted investments	2,312	(42,229)	2,017	(36,826)
Cumulative effect of foreign currency translation	(46,376)	(44,693)	(40,443)	(38,975)
Revaluation surplus	100	(838)	87	(731)
Ending balance	<u>₩359,519</u>	<u>₩308,435</u>	<u>\$313,525</u>	<u>\$268,977</u>

33. SALES:

Sales classified as operating income or loss for the three and nine months ended September 30, 2017 and 2016, consist of the following:

	Korean won			
	Three months ended September 30, 2017	Nine months ended September 30, 2017	Three months ended September 30, 2016	Nine months ended September 30, 2016
	(In millions)			
Air transport revenue	₩2,927,030	₩8,241,263	₩2,914,328	₩8,001,183
Other revenues	286,891	743,888	203,614	801,429
	<u>₩3,213,921</u>	<u>₩8,985,151</u>	<u>₩3,117,942</u>	<u>₩8,802,612</u>

	Translation into U.S. dollars (Note 2)			
	Three months ended September 30, 2017	Nine months ended September 30, 2017	Three months ended September 30, 2016	Nine months ended September 30, 2016
	(In thousands)			
Air transport revenue	\$2,552,568	\$7,186,939	\$2,541,491	\$6,977,573
Other revenues	250,189	648,721	177,565	698,900
	<u>\$2,802,757</u>	<u>\$7,835,660</u>	<u>\$2,719,056</u>	<u>\$7,676,473</u>

34. SELLING AND ADMINISTRATIVE EXPENSES:

Selling and administrative expenses for the three and nine months ended September 30, 2017 and 2016, consist of the following:

	Korean won			
	Three months ended September 30, 2017	Nine months ended September 30, 2017	Three months ended September 30, 2016	Nine months ended September 30, 2016
	(In millions)			
Salaries	₩ 82,272	₩239,810	₩ 74,402	₩226,436
Retirement and severance benefits	8,135	24,402	7,137	24,421
Depreciation	17,106	23,447	3,035	8,838
Amortization	7,273	21,779	17,340	28,077
Rental	4,386	13,340	4,887	14,267
Sales commission	83,573	238,294	75,201	223,427
Advertising	26,892	74,778	22,188	75,308
Welfare	18,154	52,427	17,722	50,182
Training	2,087	5,941	1,999	5,942
Communications	6,109	16,848	4,753	15,465
Taxes and dues	4,334	19,664	3,039	17,141
Facility maintenance	5,488	9,101	2,572	7,737
Commission	38,751	115,940	38,434	125,826
Others	25,142	54,552	17,436	48,045
	<u>₩329,702</u>	<u>₩910,323</u>	<u>₩290,145</u>	<u>₩871,112</u>

	Translation into U.S. dollars (Note 2)			
	Three months ended September 30, 2017	Nine months ended September 30, 2017	Three months ended September 30, 2016	Nine months ended September 30, 2016
	(In thousands)			
Salaries	\$ 71,747	\$209,131	\$ 64,883	\$197,468
Retirement and severance benefits	7,094	21,280	6,224	21,297
Depreciation	14,918	20,447	2,647	7,707
Amortization	6,343	18,993	15,122	24,485
Rental	3,825	11,633	4,262	12,442
Sales commission	72,882	207,808	65,580	194,843
Advertising	23,452	65,211	19,350	65,673
Welfare	15,831	45,720	15,455	43,762
Training	1,820	5,181	1,743	5,182
Communications	5,327	14,692	4,145	13,487
Taxes and dues	3,779	17,148	2,650	14,948
Facility maintenance	4,786	7,936	2,243	6,747
Commission	33,793	101,107	33,517	109,729
Others	21,925	47,573	15,206	41,898
	<u>\$287,522</u>	<u>\$793,860</u>	<u>\$253,027</u>	<u>\$759,668</u>

35. FINANCIAL INCOME AND EXPENSES:

- (1) Financial income for the three and nine months ended September 30, 2017 and 2016, consists of the following:

	Korean won			
	Three months ended September 30, 2017	Nine months ended September 30, 2017	Three months ended September 30, 2016	Nine months ended September 30, 2016
	(In millions)			
Interest income	₩ 8,812	₩20,661	₩ 7,789	₩24,683
Dividend income	1	4,587	60	3,865
Gain on valuation of derivatives	10,748	27,268	13,327	19,876
Gain on derivative transactions	3,324	5,270	3,647	13,959
	<u>₩22,885</u>	<u>₩57,786</u>	<u>₩24,823</u>	<u>₩62,383</u>

	Translation into U.S. dollars (Note 2)			
	Three months ended September 30, 2017	Nine months ended September 30, 2017	Three months ended September 30, 2016	Nine months ended September 30, 2016
	(In thousands)			
Interest income	\$ 7,684	\$18,018	\$ 6,793	\$21,525
Dividend income	1	4,000	52	3,371
Gain on valuation of derivatives	9,373	23,780	11,622	17,333
Gain on derivative transactions	2,900	4,595	3,181	12,173
	<u>\$19,958</u>	<u>\$50,393</u>	<u>\$21,648</u>	<u>\$54,402</u>

- (2) Financial expenses for the three and nine months ended September 30, 2017 and 2016, consist of the following:

	Korean won			
	Three months ended September 30, 2017	Nine months ended September 30, 2017	Three months ended September 30, 2016	Nine months ended September 30, 2016
	(In millions)			
Interest expense	₩111,610	₩324,101	₩100,609	₩297,246
Loss on valuation of derivatives	10,798	29,706	—	103,472
Loss on derivative transactions	3,046	4,363	77,625	89,820
	<u>₩125,454</u>	<u>₩358,170</u>	<u>₩178,234</u>	<u>₩490,538</u>
	Translation into U.S. dollars (Note 2)			
	Three months ended September 30, 2017	Nine months ended September 30, 2017	Three months ended September 30, 2016	Nine months ended September 30, 2016
	(In thousands)			
Interest expense	\$ 97,332	\$282,638	\$ 87,738	\$259,219
Loss on valuation of derivatives	9,417	25,906	—	90,234
Loss on derivative transactions	2,655	3,804	67,694	78,329
	<u>\$109,404</u>	<u>\$312,348</u>	<u>\$155,432</u>	<u>\$427,782</u>

36. OTHER NON-OPERATING INCOME AND EXPENSES:

- (1) Other non-operating income for the three and nine months ended September 30, 2017 and 2016, consists of the following:

	Korean won			
	Three months ended September 30, 2017	Nine months ended September 30, 2017	Three months ended September 30, 2016	Nine months ended September 30, 2016
	(In millions)			
Gain on foreign currency transaction	₩ 88,880	₩312,751	₩100,539	₩ 254,595
Gain on foreign currency translation	—	413,092	608,663	773,239
Reversal of allowance for doubtful accounts	—	286	250	608
Gain on disposal of AFS financial assets	555	5,058	—	—
Gain on disposal of property, aircraft and equipment	3,330	30,946	5,824	13,282
Gain on disposal of assets held for sale	—	—	66	955
Gain on disposal of intangible assets	—	65	16	80
Gain on assets contributed	36,342	36,342	—	—
Miscellaneous income	16,946	36,150	2,023	6,114
	<u>₩146,053</u>	<u>₩834,690</u>	<u>₩717,381</u>	<u>₩1,048,873</u>

	Translation into U.S. dollars (Note 2)			
	Three months ended September 30, 2017	Nine months ended September 30, 2017	Three months ended September 30, 2016	Nine months ended September 30, 2016
	(In thousands)			
Gain on foreign currency transaction	\$ 77,510	\$272,740	\$ 87,677	\$222,024
Gain on foreign currency translation	—	360,244	530,796	674,317
Reversal of allowance for doubtful accounts	—	250	218	531
Gain on disposal of AFS financial assets	484	4,411	—	—
Gain on disposal of assets held for sale	2,904	26,987	5,079	11,583
Gain on disposal of property, aircraft and equipment	—	—	58	833
Gain on disposal of intangible assets	—	56	14	70
Gain on assets contributed	31,693	31,693	—	—
Miscellaneous income	14,777	31,525	1,763	5,330
	<u>\$127,368</u>	<u>\$727,906</u>	<u>\$625,605</u>	<u>\$914,688</u>

- (2) Other non-operating expenses for the three and nine months ended September 30, 2017 and 2016, are as follows:

	Korean won			
	Three months ended September 30, 2017	Nine months ended September 30, 2017	Three months ended September 30, 2016	Nine months ended September 30, 2016
	(In millions)			
Other bad debt expenses	₩ 130	₩ 92	₩ 15,337	₩ 20,024
Loss on foreign currency transaction	46,506	140,192	67,914	303,017
Loss on foreign currency translation	138,972	191,364	3,199	137,719
Loss on disposal of AFS financial asset	—	—	1	109
Impairment loss on AFS financial assets	—	—	142,630	252,637
Impairment loss on investments in associates	—	—	85,261	333,798
Loss on disposal of investments in associates	—	—	—	8,505
Loss on disposal of property, aircraft and equipment	70,755	219,733	67,498	102,690
Loss on disposal of assets held for sale	—	—	—	19,311
Loss on disposal of intangible assets	—	—	313	459
Impairment loss on property, aircraft and equipment	27,878	69,502	7,585	72,886
Impairment loss on intangible assets	—	—	7,873	7,873
Revaluation loss of property, aircraft and equipment	—	—	—	2
Donation	883	11,708	2,366	12,755
Miscellaneous loss	14,839	50,492	10,175	26,791
	<u>₩299,963</u>	<u>₩683,083</u>	<u>₩410,152</u>	<u>₩1,298,576</u>

Translation into U.S. dollars (Note 2)

	Three months ended September 30, 2017	Nine months ended September 30, 2017	Three months ended September 30, 2016	Nine months ended September 30, 2016
	(In thousands)			
Other bad debt expenses	\$ 113	\$ 80	\$ 13,375	\$ 17,462
Loss on foreign currency transaction	40,557	122,257	59,225	264,251
Loss on foreign currency translation	121,193	166,883	2,790	120,100
Loss on disposal of AFS financial assets	—	—	1	95
Impairment loss on AFS financial assets	—	—	124,383	220,316
Impairment loss on investments in associates	—	—	74,354	291,094
Loss on disposal of investments in associates	—	—	—	7,417
Loss on disposal of property, aircraft and equipment	61,703	191,622	58,863	89,553
Loss on disposal of assets held for sale	—	—	—	16,841
Loss on disposal of intangible assets	—	—	273	400
Impairment loss on property, aircraft and equipment	24,311	60,611	6,615	63,561
Impairment loss on intangible assets	—	—	6,865	6,865
Revaluation loss of property, aircraft and equipment	—	—	—	1
Donation	770	10,210	2,063	11,123
Miscellaneous loss	12,941	44,032	8,874	23,367
	<u>\$261,588</u>	<u>\$595,695</u>	<u>\$357,681</u>	<u>\$1,132,446</u>

37. INCOME TAX EXPENSE:

- (1) Income tax expense was recognized as current tax expense adjusted to current adjustments for prior periods, deferred tax 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 rates for the nine months ended September 30, 2017 and 2016, were 27.83% and 40.43%, respectively.
- (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 and nine months ended September 30, 2017 and 2016, consist of the following:

	Korean won			
	Three months ended September 30, 2017	Nine months ended September 30, 2017	Three months ended September 30, 2016	Nine months ended September 30, 2016
	(In millions)			
Salaries, retirement and severance benefit	₩ 471,889	₩1,400,066	₩ 442,722	₩1,332,812
Welfare	99,350	268,452	88,577	246,877
Depreciation and amortization	433,569	1,271,539	450,595	1,324,223
Rental	87,509	270,247	73,468	209,994
Fuel and oil charges	653,954	1,898,594	582,165	1,586,647
Airport-related costs	276,913	787,266	284,177	824,255
Sales commission	83,573	238,294	75,201	223,427
Others	751,675	2,130,883	661,039	2,111,911
Total (*)	<u>₩2,858,432</u>	<u>₩8,265,341</u>	<u>₩2,657,944</u>	<u>₩7,860,146</u>
	Translation into U.S. dollars (Note 2)			
	Three months ended September 30, 2017	Nine months ended September 30, 2017	Three months ended September 30, 2016	Nine months ended September 30, 2016
	(In thousands)			
Salaries, retirement and severance benefit	\$ 411,519	\$1,220,952	\$ 386,084	\$1,162,302
Welfare	86,640	234,108	77,245	215,294
Depreciation and amortization	378,101	1,108,868	392,949	1,154,812
Rental	76,314	235,673	64,069	183,129
Fuel and oil charges	570,292	1,655,702	507,687	1,383,664
Airport-related costs	241,487	686,549	247,821	718,806
Sales commission	72,882	207,808	65,580	194,843
Others	655,511	1,858,274	576,471	1,841,729
Total (*)	<u>\$2,492,746</u>	<u>\$7,207,934</u>	<u>\$2,317,906</u>	<u>\$6,854,579</u>

(*) The amount is the sum of cost of sales and selling and administrative expenses from separate statements of comprehensive income (loss).

39. EARNINGS PER SHARE:

Basic earnings per share for the three and nine months ended September 30, 2017 and 2016, are as follows (in millions of Korean won and in thousands of U.S. dollars, except for share data and earnings per share):

(1) Common shares

	Korean won			
	Three months ended September 30, 2017	Nine months ended September 30, 2017	Three months ended September 30, 2016	Nine months ended September 30, 2016
	(In millions)			
Net income	₩57,850,582	₩412,287,631	₩508,103,067	₩77,726,719
Net income applicable to common stock	57,125,999	407,152,834	500,416,263	76,504,498
Weighted-average number of common shares outstanding	94,844,618	89,041,131	72,839,744	72,839,744
Earnings per share (*)	602	4,573	6,870	1,050

	Translation into U.S. dollars (Note 2)			
	Three months ended September 30, 2017	Nine months ended September 30, 2017	Three months ended September 30, 2016	Nine months ended September 30, 2016
	(In thousands)			
Net income	\$50,449,623	\$359,542,715	\$443,100,259	\$67,782,959
Net income applicable to common stock	49,817,737	355,064,824	436,396,845	66,717,099
Weighted-average number of common shares outstanding	94,844,618	89,041,131	72,839,744	72,839,744
Earnings per share (*)	1	4	6	1

(*) Diluted earnings per share for the three and nine months ended September 30, 2017 and 2016, are the same as the basic earnings per share, as there are no dilutive potential common shares and dilutive effect.

(2) Preferred shares

	Korean won			
	Three months ended September 30, 2017	Nine months ended September 30, 2017	Three months ended September 30, 2016	Nine months ended September 30, 2016
	(In millions)			
Net income applicable to preferred stock	₩ 724,584	₩5,134,797	₩7,686,805	₩1,222,221
Weighted-average number of preferred shares outstanding	1,110,794	1,110,794	1,110,794	1,110,794
Earnings per share	652	4,623	6,920	1,100

	Translation into U.S. dollars (Note 2)			
	Three months ended September 30, 2017	Nine months ended September 30, 2017	Three months ended September 30, 2016	Nine months ended September 30, 2016
	(In thousands)			
Net income applicable to preferred stock	\$ 631,886	\$4,477,891	\$6,703,414	\$1,065,859
Weighted-average number of preferred shares outstanding	1,110,794	1,110,794	1,110,794	1,110,794
Earnings per share	1	4	6	1

(3) The contents of weighted-average common shares and weighted-average preferred shares for the three and nine months ended September 30, 2017 and 2016, are as follows:

	Number of shares			
	Three months ended September 30, 2017	Nine months ended September 30, 2017	Three months ended September 30, 2016	Nine months ended September 30, 2016
Cumulative number of weighted-average common shares	8,725,706,328	24,308,233,002	6,701,256,448	19,958,089,856
Cumulative number of weighted-average preferred shares	102,193,048	303,246,762	102,193,048	304,357,556
Number of days	92	273	92	274
Weighted-average number of common shares outstanding	94,844,618	89,041,131	72,839,744	72,839,744
Weighted-average number of preferred shares outstanding	1,110,794	1,110,794	1,110,794	1,110,794

40. FINANCIAL RISK MANAGEMENT:

(1) Capital risk management:

The purpose of capital risk management is to protect the ability to continuously provide profits to 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 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, oil price fluctuation risk and interest rate risk.

3) Credit risk management

There is no significant change in the degree of exposure of the maximum credit risk in comparison with the previous period, except for the maximum amount of ₩190,251 million (\$165,912 thousand), which is to be paid by the warrantee claims under the financial guarantee contracts.

4) Liquidity risk management

There is no significant change in undiscounted net cash inflows and outflows in comparison with the previous period.

41. FAIR VALUE OF FINANCIAL INSTRUMENTS:

- (1) Financial instruments that are measured subsequent to initial recognition at fair value are categorized into Level 1 to Level 3, and fair value measurements of financial instruments by fair value hierarchy level as of September 30, 2017, and December 31, 2016, are as follows:

2017

Classification	Korean won			
	Level 1	Level 2	Level 3	Total
	(In millions)			
AFS:				
Listed securities	₩119,895	₩ —	₩ —	₩119,895
Unlisted securities	—	—	21,325	21,325
Beneficiary certificates	—	—	4,200	4,200
Derivative financial assets	—	10,081	—	10,081
	<u>₩119,895</u>	<u>₩10,081</u>	<u>₩25,525</u>	<u>₩155,501</u>
Derivative financial liabilities	<u>₩ —</u>	<u>₩47,395</u>	<u>₩ —</u>	<u>₩ 47,395</u>

Classification	Translation into U.S. dollars (Note 2)			
	Level 1	Level 2	Level 3	Total
	(In thousands)			
AFS:				
Listed securities	\$104,557	\$ —	\$ —	\$104,557
Unlisted securities	—	—	18,597	18,597
Beneficiary certificates	—	—	3,663	3,663
Derivative financial assets	—	8,791	—	8,791
	<u>\$104,557</u>	<u>\$ 8,791</u>	<u>\$22,260</u>	<u>\$135,608</u>
Derivative financial liabilities	<u>\$ —</u>	<u>\$41,332</u>	<u>\$ —</u>	<u>\$ 41,332</u>

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	—	53,912	—	53,912
Special bonds	—	—	2,100	2,100
Derivative financial assets	—	27	—	27
	<u>₩97,982</u>	<u>₩53,939</u>	<u>₩23,425</u>	<u>₩175,346</u>
Derivative financial liabilities	<u>₩ —</u>	<u>₩39,725</u>	<u>₩ —</u>	<u>₩ 39,725</u>

Classification	Translation into U.S. dollars (Note 2)			
	Level 1	Level 2	Level 3	Total
	(In thousands)			
AFS:				
Listed securities	\$85,447	\$ —	\$ —	\$ 85,447
Unlisted securities	—	—	18,597	18,597
Beneficiary certificates	—	47,015	—	47,015
Special bonds	—	—	1,831	1,831
Derivative financial assets	—	23	—	23
	<u>\$85,447</u>	<u>\$47,038</u>	<u>\$20,428</u>	<u>\$152,913</u>
Derivative financial liabilities	<u>\$ —</u>	<u>\$34,643</u>	<u>\$ —</u>	<u>\$ 34,643</u>

There was no significant movement between Level 1 and Level 2 for the nine months ended September 30, 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		Valuation techniques	Significant unobservable inputs	Description of relationships
	Korean won (In millions)	Translation into U.S. dollars (Note 2) (In thousands)			
Derivative financial assets (see Note 27)	₩10,081	\$ 8,791	Discounted cash flow and others	N/A	N/A
Derivative financial liabilities (see Note 27)	47,395	41,332		N/A	N/A
AFS financial assets (see Note 8)	25,525	22,260		Sales growth rate, pretax operating income ratio and weighted-average cost of capital	Fair value of non-listed shares will increase if the weighted-average cost of capital is reduced along with the increase in pretax operating margin and sales growth rate.

- (4) Changes in financial instruments that are measured at fair value on a recurring basis and classified as Level 3 for the nine months ended September 30, 2017 and 2016, are as follows:

2017

Description	Korean won			Ending balance
	Beginning balance	Purchase	Disposal	
AFS financial assets	₩23,425	₩2,100	₩—	₩25,525

Description	Translation into U.S. dollars (Note 2)			Ending balance
	Beginning balance	Purchase	Disposal	
AFS financial assets	\$20,428	\$1,832	\$—	\$22,260

2016

Description	Korean won			Ending balance
	Beginning balance	Purchase	Disposal	
AFS financial assets	₩21,130	₩2,100	₩(374)	₩22,856

Description	Translation into U.S. dollars (Note 2)			Ending balance
	Beginning balance	Purchase	Disposal	
AFS financial assets	\$18,427	\$1,832	\$(326)	\$19,933

- (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 nine months ended September 30, 2017.

- (6) Though principle of subsequent measurement for 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 disclose fair value information, are as follows:

Category	Description (*)	Korean won		Translation into U.S. dollars (Note 2)	
		2017	2016	2017	2016
		(In millions)		(In thousands)	
AFS financial assets	Unlisted securities and equity investment	₩44,189	₩44,131	\$38,536	\$38,485
	Corporate bond and government bond	6	6	5	5

- (*) 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 September 30, 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), Jungseok-Inha School's Foundation, etc.

- (*1) It was declared bankrupt and was separated from Hanjin Group for the nine months ended September 30, 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 nine months ended September 30, 2017 and 2016, are as follows:

2017

Description	Korean won	
	Sales and others	Purchases and others
	(In millions)	
<i>Significant influence over the Company</i>		
<i>Associates</i>		
<i>Other related parties</i>		
Hanjin Kal Co., Ltd.	₩ 270	₩23,565
Czech Airlines j.s.c.	18,961	16,629
Jin Air Co., Ltd.	205,250	3,334
KAL Hotel Network Co., Ltd.	18,328	27,128
Topas Co., Ltd.	5,890	40
Jungseok Enterprise Co., Ltd.	196	1,700
Hanjin Travel Service Co., Ltd.	1,049	3,305
Others	19	2,051
<i>Affiliated companies of a conglomerate and others</i>		
Hanjin Transportation Co., Ltd.	10,273	31,296
Jungseok-Inha School's Foundation	9	7,874
Others (*)	1,912	7,298

Description	Translation into U.S. dollars (Note 2)	
	Sales and others	Purchases and others
	(In thousands)	
<i>Significant influence over the Company</i>		
<i>Associates</i>		
<i>Other related parties</i>		
Hanjin Kal Co., Ltd.	\$ 235	\$20,550
Czech Airlines j.s.c.	16,535	14,502
Jin Air Co., Ltd.	178,992	2,907
KAL Hotel Network Co., Ltd.	15,984	23,657
Topas Co., Ltd.	5,137	35
Jungseok Enterprise Co., Ltd.	171	1,483
Hanjin Travel Service Co., Ltd.	915	2,882
Others	17	1,789
<i>Affiliated companies of a conglomerate and others</i>		
Hanjin Transportation Co., Ltd.	8,958	27,292
Jungseok-Inha School's Foundation	8	6,866
Others (*)	1,667	6,365

(*) It includes 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)		
<i>Significant influence over the Company</i>	Hanjin Kal Co., Ltd.	₩ 206	₩22,993	
	<i>Associates and jointly controlled entities</i>	Czech Airlines j.s.c.	17,017	14,858
		Others	3,072	5,926
		<i>Other related parties</i>	Jin Air Co., Ltd.	191,747
	KAL Hotel Network Co., Ltd.		19,057	27,623
	Topas Co., Ltd.		4,474	39
	Jungseok Enterprise Co., Ltd.		167	12,966
	Hanjin Travel Service Co., Ltd.		763	4,548
	Others		19	2,071
	<i>Affiliated companies of a conglomerate and others</i>		Hanjin Transportation Co., Ltd.	11,510
Jungseok-Inha School's Foundation		11	6,246	
Others		1,432	9,891	
Description		Translation into U.S. dollars (Note 2)		
		Sales and others	Purchases and others	
		(In thousands)		
<i>Significant influence over the Company</i>	Hanjin Kal Co., Ltd.	\$ 180	\$20,051	
	<i>Associates and jointly controlled entities</i>	Czech Airlines j.s.c.	14,840	12,957
		Others	2,679	5,168
		<i>Other related parties</i>	Jin Air Co., Ltd.	167,216
	KAL Hotel Network Co., Ltd.		16,619	24,089
	Topas Co., Ltd.		3,902	34
	Jungseok Enterprise Co., Ltd.		146	11,308
	Hanjin Travel Service Co., Ltd.		666	3,966
	Others		16	1,806
	<i>Affiliated companies of a conglomerate and others</i>		Hanjin Transportation Co., Ltd.	10,038
Jungseok-Inha School's Foundation		10	5,447	
Others		1,249	8,626	

(3) Significant receivables from and payables to the related parties (except for loan and borrowing transactions) as of September 30, 2017, and December 31, 2016, are as follows:

2017

Description		Korean won	
		Trade and other receivables	Trade and other payables
(In millions)			
<i>Significant influence over the Company</i>	Hanjin Kal Co., Ltd.	₩ 2,249	₩ 7,266
<i>Associates</i>	Czech Airlines j.s.c.	1,436	17,740
<i>Other related parties</i>	Jin Air Co., Ltd.	68,094	41,259
	KAL Hotel Network Co., Ltd.	4,009	3,511
	Topas Co., Ltd.	299	1,158
	Jungseok Enterprise Co., Ltd.	440	2,418
	Hanjin Travel Service Co., Ltd.	331	1,454
	Others	6	976
<i>Affiliated companies of a conglomerate and others</i>	Hanjin Transportation Co., Ltd.	2,216	7,077
	Others	1,185	3,370

Description		Translation into U.S. dollars (Note 2)	
		Trade and other receivables	Trade and other payables
(In thousands)			
<i>Significant influence over the Company</i>	Hanjin Kal Co., Ltd.	\$ 1,961	\$ 6,336
<i>Associates</i>	Czech Airlines j.s.c.	1,252	15,470
<i>Other related parties</i>	Jin Air Co., Ltd.	59,383	35,980
	KAL Hotel Network Co., Ltd.	3,496	3,062
	Topas Co., Ltd.	261	1,010
	Jungseok Enterprise Co., Ltd.	384	2,109
	Hanjin Travel Service Co., Ltd.	288	1,268
	Others	5	851
<i>Affiliated companies of a conglomerate and others</i>	Hanjin Transportation Co., Ltd.	1,932	6,172
	Others	1,033	2,939

2016

Description		Korean won	
		Trade and other receivables	Trade and other payables
(In millions)			
<i>Significant influence over the Company</i>	Hanjin Kal Co., Ltd.	₩ 2,233	₩ 6,477
<i>Associates</i>	Czech Airlines j.s.c.	266	14,604
<i>Other related parties</i>	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
<i>Affiliated companies of a conglomerate and others</i>	Hanjin Transportation Co., Ltd.	2,364	6,398
	Others	1,617	3,398

Description	Translation into U.S. dollars (Note 2)	
	Trade and other receivables	Trade and other payables
	(In thousands)	
<i>Significant influence over the Company</i>		
Hanjin Kal Co., Ltd.	\$ 1,947	\$ 5,648
<i>Associates</i>		
Czech Airlines j.s.c.	232	12,736
<i>Other related parties</i>		
Jin Air Co., Ltd.	54,918	35,313
KAL Hotel Network Co., Ltd.	3,758	2,906
Topas Co., Ltd.	509	1,025
Jungseok Enterprise Co., Ltd.	456	2,116
Hanjin Travel Service Co., Ltd.	103	1,154
Others	7	809
<i>Affiliated companies of a conglomerate and others</i>		
Hanjin Transportation Co., Ltd.	2,062	5,580
Others	1,410	2,963

(4) There were no loan and borrowing transactions with related parties for the nine months ended September 30, 2017. Loan and borrowing transactions with related parties for the year ended December 31, 2016, were as follows:

2016

Description	Account	Korean won			Ending balance
		Beginning balance	Increase	Decrease	
		(In millions)			
<i>Affiliated companies of a conglomerate and others:</i>					
Hanjin Shipping Co., Ltd. (*)	Short-term loans	₩220,000	₩60,000	₩(280,000)	₩—

Description	Account	Translation into U.S. dollars (Note 2)			Ending balance
		Beginning balance	Increase	Decrease	
		(In thousands)			
<i>Affiliated companies of a conglomerate and others:</i>					
Hanjin Shipping Co., Ltd. (*)	Short-term loans	\$191,855	\$52,324	\$(244,179)	\$—

(*) ₩220,000 million (\$191,855 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 (\$52,324 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 (\$9,784 thousand) and ₩342 million (\$298 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 (\$191,855 thousand). In addition, the Group established the collateral for the trade receivable accounts subordinated by priority beneficiary right of the employee's apartment collateral trust and the Atlanta office of Hanjin Shipping Co., Ltd. in the United States 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 nine months ended September 30, 2017, and the year ended December 31, 2016, is as follows:

2017

Description		Transaction	Korean won (In millions)	Translation into U.S. dollars (Note 2) (In thousands)
Capital increase	Hanjin KAL Co., Ltd. <i>(Significant influence over the Company)</i>	Participation in paid-in capital increase	₩113,523	\$99,000
	Jungseok-Inha School's Foundation <i>(Affiliated companies of a conglomerate and others)</i>	Participation in paid-in capital increase	₩ 5,234	\$ 4,565
Equity contribution	Members of the key management personnel <i>(Other related parties)</i>	Receipt of equity shares without consideration	₩ 36,342	\$31,693

2016

Description		Transaction	Korean won (In millions)	Translation into U.S. dollars (Note 2) (In thousands)
Business takeover (*)	Uniconverse Co., Ltd.	Business takeover	₩20,700	\$18,052

- (*) 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 nine months ended September 30, 2017 and 2016, is as follows:

	Korean won		Translation into U.S. dollars (Note 2)	
	2017	2016	2017	2016
	(In millions)		(In thousands)	
Wages and salaries	₩3,364	₩3,471	\$2,933	\$3,027
Retirement benefit costs	1,595	1,678	1,391	1,463
	<u>₩4,959</u>	<u>₩5,149</u>	<u>\$4,324</u>	<u>\$4,490</u>

43. OPERATING LEASE:

(1) Breakdown of the usage of an operating lease

As of September 30, 2017, the Company has entered into operating lease agreements to lease 27 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. The schedule of lease payments as of September 30, 2017, is summarized as follows:

<u>Period</u>	<u>Korean won</u> (In millions)	<u>Translation into</u> <u>U.S. dollars (Note 2)</u> (In thousands)
Less than one year	₩ 279,743	\$ 243,955
One year to five years	971,502	847,216
More than five years	836,779	729,728
	<u>₩2,088,024</u>	<u>\$1,820,899</u>

Also, the Group has entered into operating lease agreements to lease business computing equipment from Macquarie Finance Korea Ltd. and others. The schedule of lease payments as of September 30, 2017, is as follows:

<u>Period</u>	<u>Korean won</u> (In millions)	<u>Translation into</u> <u>U.S. dollars (Note 2)</u> (In thousands)
Less than one year	₩327	\$285
One year to five years	174	152
	<u>₩501</u>	<u>\$437</u>

(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:

<u>Period</u>	<u>Korean won</u> (In millions)	<u>Translation into</u> <u>U.S. dollars (Note 2)</u> (In thousands)
Less than one year	₩ 68,942	\$ 60,122
One year to five years	221,921	193,530
More than five years	44,187	38,534
	<u>₩335,050</u>	<u>\$292,186</u>

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:

<u>Period</u>	<u>Korean won</u> (In millions)	<u>Translation into</u> <u>U.S. dollars (Note 2)</u> (In thousands)
Less than one year	₩ 8,964	\$ 7,817
One year to five years	9,081	7,919
More than five years	395	345
	<u>₩18,440</u>	<u>\$16,081</u>

44. NON-CASH TRANSACTIONS:

The significant non-cash transactions from investing and financing activities that are not included in the condensed consolidated statements of cash flows for the nine months ended September 30, 2017 and 2016, are as follows:

Description	Korean won	
	2017	2016
	(In millions)	
Transfer of long-term borrowings to current portion of long-term borrowings	₩ 203,348	₩1,001,576
Transfer of debentures to current portion of debentures	431,961	974
Transfer of finance lease obligations to current portion of finance lease obligations	458,363	1,318,503
Transfer of construction in progress to property, aircraft, equipment, etc.	1,731,142	1,693,495
Acquisition of financial lease assets	723,146	1,156,141
Transfer of property, aircraft and equipment to non-trade payables	697	—
Recognition of finance lease receivables	107,274	50,713
Transfer of short-term loans to AFS financial assets	—	220,000
Transfer of voluntary reserves to unappropriated retained earnings	200,000	—
	Translation into U.S. dollars (Note 2)	
Description	2017	2016
	(In thousands)	
Transfer of long-term borrowings to current portion of long-term borrowings	\$ 177,333	\$ 873,442
Transfer of debentures to current portion of debentures	376,699	849
Transfer of finance lease obligations to current portion of finance lease obligations	399,723	1,149,823
Transfer of construction in progress to property, aircraft, equipment, etc.	1,509,673	1,476,842
Acquisition of financial lease assets	630,633	1,008,233
Transfer of property, aircraft and equipment to non-trade payables	608	—
Recognition of finance lease receivables	93,551	44,225
Transfer of short-term loans to AFS financial assets	—	191,855
Transfer of voluntary reserves to unappropriated retained earnings	174,414	—

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	10,841	Bids, performance, maintenance and others
Korea Defense Industry Association	KRW	1,003,983	
HSBC Australia and others	KRW	22,743	
Engineering Financial Cooperative	KRW	34,536	
Korea Software Financial Cooperative	KRW	18,249	
Information & Communication Financial Cooperative	KRW	91	
BBCN BANK	USD	5,364	

As of September 30, 2017, the Group has been provided with a payment guarantee (limit: USD 3,000 thousand) for the purchase of facilities from Hana Bank. Also, the Group has been provided with a guarantee amounting to ₩18,437 million (\$16,078 thousand) from Seoul Guarantee Insurance Company in relation to the restoration of forest due to the production of limestone.

(2) The Group provides a guarantee of ₩13,988 million (\$12,198 thousand) in relation to the personal loan of flight training center trainees.

(3) Credit line and details of credit agreements as of September 30, 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 Bank) and others	USD	65,000
		KRW	91,500
Letters of credit	Hana Bank (formerly, Korea Exchange Bank)	USD	1,000
Ordinary loan	Shinhan Bank	KRW	10,000
Line of credit	NongHyup Bank	KRW	10,000
Facility loan	Korea Resource Corporation	KRW	760
		USD	66,000
		KRW	<u>112,260</u>

(4) Promissory note pledged as collateral

As of September 30, 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 ₩12,959 million (\$11,301 thousand) as a provision.

As of September 30, 2017, various claims, lawsuits and complaints arising from airline service operations are pending against the Group, and the ultimate outcome of these cases is unpredictable. Management believes that the ultimate outcome of these cases will not have any material adverse effect on the financial performance and position of the Group.

(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 \$5,158 million as of September 30, 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 part of a group of conglomerates, the Company 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 secure ₩3.49 trillion (\$3,044 million). By December 31, 2016, the Company prepared approximately ₩3.69 trillion (\$3,218 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 ₩209 billion (\$182 million) (capital stock: ₩112.3 billion (\$97.9 million), borrowings: ₩79.9 billion (\$69.7 million), government subsidy: ₩16.7 billion (\$14.6 million))
- Government subsidy: Incheon Metropolitan City government agreed to provide a total of ₩16.7 billion (\$14.6 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 WLD Co., Ltd. has been fully open since June 2017. WLD Co., Ltd. has entered into a contract for repayment of property rights and the transfer of ownership rights was completed in July 2017. WLD Co., Ltd. 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 ₩72,501 million (\$63,226 thousand) as of September 30, 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 Incheon 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 (\$105 million) by IAT Co., Ltd. for construction of an airplane engine maintenance center and acquisition of related land located at 779-11 Unbuk-dong, Jung-gu, Incheon, Korea. Meanwhile, IAT Co., Ltd. shall not provide land, etc., for collateral or guarantee for a period of five years from the date it first entered into an agreement for land, which is recognized in construction in process as of September 30, 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 September 30, 2017, preferred shares of IAT Co., Ltd., as cumulative and non-participative, will be converted proportionately to 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 nine months ended September 30, 2017, are as follows:

Description	Korean won			Ending balance of construction contracts (*)
	Revenues incurred to date	Costs incurred to date	Recognized profits to date	
	(In millions)			
Civil aircraft	₩ 143,963	₩112,316	₩31,648	₩496,234
Military aircraft	911,264	880,568	30,696	447,421
	<u>₩1,055,227</u>	<u>₩992,884</u>	<u>₩62,344</u>	<u>₩943,655</u>
	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	\$125,546	\$ 97,947	\$27,599	\$432,750
Military aircraft	794,684	767,915	26,769	390,181
	<u>\$920,230</u>	<u>\$865,862</u>	<u>\$54,368</u>	<u>\$822,931</u>

(*) The balance as of September 30, 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 ₩1,865,491 million (\$1,626,834 thousand).

(2) Amounts due from and due to customers for contract work as of September 30, 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)	
Amount due from customers for contract work	₩235,344	₩195,389	\$205,236	\$170,393
Amount due to customers for contract work	(44,350)	(24,696)	(38,676)	(21,536)

- (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	₩1,732	₩(15,076)	₩ 4,053	₩(17,411)	₩(1,717)	₩(15,586)
Military aircraft	—	8,328	23,126	(13,376)	(1,423)	(18,242)
	<u>₩1,732</u>	<u>₩ (6,748)</u>	<u>₩27,179</u>	<u>₩(30,787)</u>	<u>₩(3,140)</u>	<u>₩(33,828)</u>
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	₩1,510	₩(13,147)	₩3,534	₩(15,184)	₩(1,497)	₩(13,592)
Military aircraft	—	7,262	20,167	(11,664)	(1,241)	(15,908)
	<u>₩1,510</u>	<u>₩(5,885)</u>	<u>₩23,701</u>	<u>₩(26,848)</u>	<u>₩(2,738)</u>	<u>₩(29,500)</u>

(*) Except for the effect of exchange rate decrease of ₩(14,983) million (\$ (13,066) thousand) in estimated increase (decrease) in contract revenue, the effect is ₩8,235 million (\$ 7,181 thousand).

- (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 on the basis of the percentage of total costs incurred to date bearing to the estimated total contract costs of instruments for the nine months ended September 30, 2017.

47. ASSETS HELD FOR SALE:

- (1) Assets held for sale as of September 30, 2017, and December 31, 2016, are summarized as follows:

Assets held for sale	Korean won	
	2017	2016
	(In millions)	
Current assets:	₩163,396	₩—
Planes and engines	87,744	—
Land	55,312	—
Buildings	20,340	—
Non-current assets	—	—
	<u>₩163,396</u>	<u>₩—</u>

	Translation into U.S. dollars (Note 2)	
	2017	2016
	(In thousands)	
<i>Assets held for sale</i>		
Current assets:	\$142,490	\$—
Planes and engines	76,518	—
Land	48,235	—
Buildings	17,737	—
Non-current assets	—	—
	\$142,490	\$—

- (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 Group accordingly recognized an impairment loss of ₩69,502 million (\$60,610 thousand).

48. BUSINESS COMBINATIONS:

- (1) The Company received 100% of the equity shares of Uniconverse Co., Ltd., one of the affiliated companies, contributed by four of the related parties of the Group on August 14, 2017. Uniconverse Co., Ltd. was consolidated as of September 30, 2017. Details of the equity shares contributed are as follows:

	Number of shares contributed	Korean won (In millions)	Translation into
			U.S. dollars (Note 2) (In thousands)
Uniconverse Co., Ltd.	234,154 shares	₩36,342	\$31,693

- (2) The acquisition-date fair values of the assets acquired and liabilities assumed in the business combination are as follows:

Description	Korean won	Translation into
	(In millions)	U.S. dollars (Note 2) (In thousands)
Identifiable assets acquired	₩40,204	\$35,062
Current assets:	39,730	34,648
Cash and cash equivalents	38,649	33,705
Trade and other receivables	877	765
Other current assets	204	178
Non-current assets	474	414
Identifiable liabilities assumed	3,960	3,453
Total net identifiable assets	36,244	31,609
Goodwill	97	85

- (*) Goodwill is measured as the difference between the fair value of the equity shares contributed and the total net identifiable assets.
- (3) Since acquisition, the sales and net loss of Uniconverse Co., Ltd. amount to ₩608 million (\$530 thousand) and ₩232 million (\$202 thousand), respectively. If Uniconverse Co., Ltd. had been consolidated from January 1, 2017, the sales and net income would have amounted to ₩6,591 million (\$5,748 thousand) and ₩11,100 million (\$9,680 thousand), respectively. Such expected financial amounts represent estimates of the performance of the Company and provide comparative criteria for future periods.

49. SUBSEQUENT EVENTS:

The Group resolved to sell the shares of Czech Airlines j.s.c. held by the board of directors at the end of the reporting period.

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 accompanying consolidated financial statements of Korean Air Lines Co., Ltd. and its subsidiaries (the "Group"), which comprise 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.

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 Unsecured Notes of Korean Air Lines Co., Ltd. in 2018 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 accompanying consolidated financial statements and notes thereto. Accordingly, the readers of the audit report should understand that the above audit report has not been updated to reflect the impact of such subsequent events or circumstances, if any.

KOREAN AIR LINES CO., LTD. AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31, 2016 AND 2015

ASSETS	NOTES	Korean won		Translation into U.S. dollars (Note 2)	
		2016	2015	2016	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		<u>3,327,989</u>	<u>3,289,127</u>	<u>2,753,817</u>	<u>2,721,661</u>
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		<u>20,628,546</u>	<u>20,891,224</u>	<u>17,069,546</u>	<u>17,286,905</u>
Total assets		<u>₩23,956,535</u>	<u>₩24,180,351</u>	<u>\$19,823,363</u>	<u>\$20,008,566</u>

(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		Translation into U.S. dollars (Note 2)	
		2016	2015	2016	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		Translation into U.S. dollars (Note 2)	
		2016	2015	2016	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		Translation into U.S. dollars (Note 2)	
		2016	2015	2016	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
		<u>(19,199)</u>	<u>56,671</u>	<u>(15,886)</u>	<u>46,894</u>
COMPREHENSIVE LOSS		<u>₩(615,322)</u>	<u>₩(580,695)</u>	<u>\$(509,161)</u>	<u>\$(480,509)</u>
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				Amounts recognized in accumulated other comprehensive income relating to assets held for sale			
	Capital stock	Additional paid-in capital	Others	Other capital components	Retained earnings (in millions)	Subtotal	Non-controlling interests	Total
January 1, 2015	₩298,931	₩174,907	₩(122,345)	₩411,347	₩1,389,468	₩(61,364)	₩110,215	₩2,201,159
Dividends	—	—	—	—	—	—	(618)	(618)
Net loss	—	—	—	—	(564,977)	—	2,010	(562,967)
Other comprehensive income (loss)	—	—	—	(6,036)	(72,765)	61,364	(291)	(17,728)
Paid-in capital increase	70,822	423,381	—	—	—	—	—	494,203
Issuance of hybrid securities	—	—	341,551	—	—	—	—	341,551
Dividend from hybrid securities	—	—	—	—	(14,347)	—	—	(14,347)
Liquidation of investments in subsidiary	—	—	—	—	51,636	—	—	51,636
Others	—	4,567	(4,278)	—	5,250	—	607	6,146
December 31, 2015	₩369,753	₩602,855	₩ 214,928	₩405,311	₩ 794,265	₩ —	₩111,923	₩2,499,035
January 1, 2016	₩369,753	₩602,855	₩ 214,928	₩405,311	₩ 794,265	₩ —	₩111,923	₩2,499,035
Dividends	—	—	—	—	—	—	(991)	(991)
Net loss	—	—	—	—	(564,882)	—	8,038	(556,844)
Other comprehensive income (loss)	—	—	—	(19,875)	(37,252)	—	(1,350)	(58,477)
Dividend from hybrid securities	—	—	—	—	(21,364)	—	—	(21,364)
Change in retained earnings of associates and subsidiaries	—	—	—	—	14,997	—	(302)	14,695
Transfer of loss on capital reduction	—	—	377,086	—	(377,086)	—	—	—
Others	—	—	3,505	—	(1,555)	—	(3,654)	(1,704)
December 31, 2016	₩369,753	₩602,855	₩ 595,519	₩385,436	₩ (192,877)	₩ —	₩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					Subtotal	Non-controlling interests	Total
	Capital stock	Additional paid-in capital	Others	Other capital components	Retained earnings			
					(In thousands)			
January 1, 2015	\$247,357	\$144,731	\$(101,237)	\$340,378	\$1,149,746	\$(50,777)	\$91,200	\$1,821,398
Dividends	—	—	—	—	—	—	(511)	(511)
Net loss	—	—	—	—	(467,503)	—	1,663	(465,840)
Other comprehensive income (loss)	—	—	—	(4,994)	(60,211)	50,777	(241)	(14,669)
Paid-in capital increase	58,603	350,336	—	—	—	—	—	408,939
Issuance of hybrid securities	—	—	282,624	—	—	—	—	282,624
Dividend from hybrid securities	—	—	—	—	(11,872)	—	—	(11,872)
Liquidation of investments in subsidiary	—	—	—	—	42,727	—	—	42,727
Others	—	3,779	(3,540)	—	4,345	—	502	5,086
December 31, 2015	\$305,960	\$498,846	\$ 177,847	\$335,384	\$ 657,232	\$ —	\$92,613	\$2,067,882
January 1, 2016	\$305,960	\$498,846	\$ 177,847	\$335,384	\$ 657,232	\$ —	\$92,613	\$2,067,882
Dividends	—	—	—	—	—	—	(820)	(820)
Net loss	—	—	—	—	(467,424)	—	6,651	(460,773)
Other comprehensive income (loss)	—	—	—	(16,446)	(30,825)	—	(1,117)	(48,388)
Dividend from hybrid securities	—	—	—	—	(17,678)	—	—	(17,678)
Change in retained earnings of associates and subsidiaries	—	—	—	—	12,410	—	(250)	12,160
Transfer of loss on capital reduction	—	—	312,028	—	(312,028)	—	—	—
Others	—	—	2,900	—	(1,287)	—	(3,024)	(1,411)
December 31, 2016	\$305,960	\$498,846	\$ 492,775	\$318,938	\$ (159,600)	\$ —	\$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)
	<u>3,449,163</u>	<u>3,197,996</u>	<u>2,854,086</u>	<u>2,646,252</u>

(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
	<u>(97,225)</u>	<u>52,391</u>	<u>(80,451)</u>	<u>43,353</u>
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	<u>2,806,255</u>	<u>2,728,023</u>	<u>2,322,098</u>	<u>2,257,364</u>

(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	<u>(873,500)</u>	<u>418,729</u>	<u>(722,798)</u>	<u>346,488</u>

(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	<u>(1,829,311)</u>	<u>(2,996,599)</u>	<u>(1,513,703)</u>	<u>(2,479,602)</u>
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	<u>₩ 1,089,927</u>	<u>₩ 967,481</u>	<u>\$ 901,884</u>	<u>\$ 800,564</u>

(Concluded)

See accompanying notes to consolidated financial statements.

KOREAN AIR LINES CO., LTD. AND ITS SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

1. GENERAL:

Korean Air Lines Co., Ltd. (the “Company”) was established on June 19, 1962, and is engaged in the business of domestic and international airline services, manufacture of aircraft parts, maintenance of aircraft and catering of in-flight meals. The Company has been a publicly traded company upon listing its common stock on the Korea Exchange since 1966 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.

<u>Business model</u>	<u>Contractual cash flow characteristic</u>	
	<u>Solely payments of principal and interest</u>	<u>Otherwise</u>
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 as 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:

<u>Description</u>	<u>Useful lives (years)</u>
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						Adjustment for consolidation	Total
	Air transport	Aerospace	In-flight meals	Hotel/limousine	Others			
	(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)

	<u>Air transport</u>	<u>Aerospace</u>	<u>In-flight Meals</u>	<u>Hotel/limousine</u>	<u>Others</u>	<u>Adjustment for consolidation</u>	<u>Total</u>
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						
	<u>Local companies</u>		<u>Overseas companies</u>		<u>Adjustment for consolidation</u>	<u>Total</u>
	<u>Domestic</u>	<u>International</u>	<u>Americas</u>	<u>Asia</u>		
	(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)						
	<u>Local companies</u>		<u>Overseas companies</u>		<u>Adjustment for consolidation</u>	<u>Total</u>
	<u>Domestic</u>	<u>International</u>	<u>Americas</u>	<u>Asia</u>		
	(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)

	<u>Local</u>		<u>Overseas</u>		<u>Adjustment for consolidation</u>	<u>Total</u>
	<u>Domestic</u>	<u>International</u>	<u>Americas</u>	<u>Asia</u>		
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
	<u>₩1,089,927</u>	<u>₩967,481</u>	<u>\$901,884</u>	<u>\$800,564</u>

6. RESTRICTED DEPOSITS:

Restricted deposits as of December 31, 2016, consist of the following:

	2016	Remark
	(In millions of won and in thousands of U.S. dollars)	
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
	<u>₩128,934</u>	
	<u>\$ 86,104</u>	

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)	—
	<u>607,105</u>	<u>190</u>	<u>502,362</u>	<u>157</u>
Short-term loans	42	49	35	41
		—		
Non-trade receivables	118,671	—	98,197	—
Allowance for doubtful accounts	(47,052)	—	(38,934)	—
	<u>71,619</u>	<u>—</u>	<u>59,263</u>	<u>—</u>
Accrued revenues	59,843	—	49,518	—
Allowance for doubtful accounts (*)	(11,696)	—	(9,678)	—
	<u>48,147</u>	<u>—</u>	<u>39,840</u>	<u>—</u>
	<u>₩726,913</u>	<u>₩239</u>	<u>\$601,500</u>	<u>\$198</u>

(*) 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)	—
	<u>571,058</u>	<u>9</u>	<u>472,534</u>	<u>7</u>
Short-term loans	220,020	34	182,061	29
Non-trade receivables	140,431	—	116,202	—
Allowance for doubtful accounts	(43,153)	—	(35,708)	—
	<u>97,278</u>	<u>—</u>	<u>80,494</u>	<u>—</u>
Accrued revenues	63,691	—	52,703	—
Allowance for doubtful accounts	(626)	—	(518)	—
	<u>63,065</u>	<u>—</u>	<u>52,185</u>	<u>—</u>
	<u>₩951,421</u>	<u>₩ 43</u>	<u>\$787,274</u>	<u>\$ 36</u>

(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)
	<u>₩37,324</u>	<u>₩166</u>	<u>₩155</u>	<u>₩ 24</u>	<u>₩37,669</u>
	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)
	<u>\$30,885</u>	<u>\$138</u>	<u>\$129</u>	<u>\$ 20</u>	<u>\$31,172</u>

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)
	<u>₩26,302</u>	<u>₩180</u>	<u>₩529</u>	<u>₩691</u>	<u>₩27,702</u>
	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)
	<u>\$21,764</u>	<u>\$149</u>	<u>\$438</u>	<u>\$572</u>	<u>\$22,923</u>

- 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	
	(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	<u>₩ 6,260</u>	<u>\$5,180</u>

	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
	<u>₩564,705</u>	<u>₩—</u>	<u>₩564,705</u>	<u>₩490,648</u>	<u>₩—</u>	<u>₩490,648</u>

	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
	<u>\$467,278</u>	<u>\$—</u>	<u>\$467,278</u>	<u>\$405,997</u>	<u>\$—</u>	<u>\$405,997</u>

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:

Description	Korean won		Translation into U.S. dollars (Note 2)	
	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)
	<u>₩ 49,721</u>	<u>₩26,365</u>	<u>\$ 41,143</u>	<u>\$21,816</u>

(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	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
	<u>₩363,129</u>	<u>₩83,748</u>	<u>₩3,294</u>	<u>₩1,683,751</u>
Current liabilities	₩ 42,557	₩17,915	₩ 419	₩ 887,232
Non-current liabilities	43,427	9,753	46	23,408
	<u>₩ 85,984</u>	<u>₩27,668</u>	<u>₩ 465</u>	<u>₩ 910,640</u>
Total shareholders' equity	<u>₩277,145</u>	<u>₩56,080</u>	<u>₩2,829</u>	<u>₩ 773,111</u>
	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
	<u>\$ 300,479</u>	<u>\$ 69,299</u>	<u>\$ 2,726</u>	<u>\$ 1,393,257</u>
Current liabilities	\$ 35,215	\$ 14,824	\$ 346	\$ 734,160
Non-current liabilities	35,934	8,071	38	19,369
	<u>\$ 71,149</u>	<u>\$ 22,895</u>	<u>\$ 384</u>	<u>\$ 753,529</u>
Total shareholders' equity	<u>\$ 229,330</u>	<u>\$ 46,404</u>	<u>\$ 2,342</u>	<u>\$ 639,728</u>

(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	<u>₩ 18,219</u>	<u>₩ 2,580</u>	<u>₩ 864</u>	<u>₩ 280,538</u>
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	<u>\$ 15,076</u>	<u>\$ 2,135</u>	<u>\$ 715</u>	<u>\$ 232,137</u>

(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	Book value
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
				<u>₩5,405</u>	<u>₩24,387</u>

Description	Principal business	Location	Ownership (%)	Translation into U.S. dollars (Note 2)	
				Acquisition Cost	Book value
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
				<u>\$4,472</u>	<u>\$20,179</u>

2015

Description	Principal business	Location	Ownership (%)	Korean won	
				Acquisition Cost	Book value
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	—
				<u>₩450,234</u>	<u>₩519,975</u>

Description	Principal business	Location	Ownership (%)	Translation into U.S. dollars (Note 2)	
				Acquisition cost	Book value
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	—
				<u>\$372,556</u>	<u>\$430,264</u>

(*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
	<u>₩519,975</u>	<u>₩—</u>	<u>₩(112,267)</u>	<u>₩(55,505)</u>	<u>₩(327,816)</u>	<u>₩24,387</u>
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
	<u>\$430,264</u>	<u>\$—</u>	<u>\$(92,898)</u>	<u>\$(45,929)</u>	<u>\$(271,258)</u>	<u>\$20,179</u>

(*) 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.	—	—	—	—	—	—
	<u>₩467,574</u>	<u>₩—</u>	<u>₩17,485</u>	<u>₩35,570</u>	<u>₩(654)</u>	<u>₩519,975</u>
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.	—	—	—	—	—	—
	<u>\$386,904</u>	<u>\$—</u>	<u>\$14,468</u>	<u>\$29,433</u>	<u>\$(541)</u>	<u>\$430,264</u>

(*) 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 Czech Airlines j.s.c.	Translation into U.S. dollars (Note 2) Czech Airlines j.s.c.
	(In millions)	(In thousands)
Current assets	₩ 90,145	\$ 74,592
Non-current assets	80,232	66,390
	<u>₩170,377</u>	<u>\$140,982</u>
Current liabilities	₩103,958	\$ 86,022
Non-current liabilities	10,995	9,098
	<u>₩114,953</u>	<u>\$ 95,120</u>
Owners of the Company	₩ 55,424	\$ 45,862
Non-controlling interests	—	—
	<u>₩ 55,424</u>	<u>\$ 45,862</u>
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 Czech Airlines j.s.c.	Translation into U.S. dollars (Note 2) 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	<u>₩24,387</u>	<u>\$20,179</u>

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
	<u>₩17,850,703</u>	<u>₩2,349,905</u>	<u>₩(383,578)</u>	<u>₩(1,697,168)</u>	<u>₩ (246,580)</u>	<u>₩17,873,282</u>

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
	<u>\$14,770,958</u>	<u>\$1,944,481</u>	<u>\$(317,400)</u>	<u>\$(1,404,359)</u>	<u>\$ (204,038)</u>	<u>\$14,789,642</u>

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
	<u>₩15,778,074</u>	<u>₩4,207,256</u>	<u>₩(472,959)</u>	<u>₩(1,610,097)</u>	<u>₩ (51,577)</u>	<u>₩ 6</u>	<u>₩17,850,703</u>

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
	<u>\$13,055,915</u>	<u>\$3,481,386</u>	<u>\$(391,360)</u>	<u>\$(1,332,311)</u>	<u>\$ (42,677)</u>	<u>\$ 5</u>	<u>\$14,770,958</u>

(*) 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
	<u>₩1,996,752</u>	<u>₩1,620,909</u>	<u>\$1,652,257</u>	<u>\$1,341,257</u>

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
	<u>₩—</u>	<u>₩—</u>	<u>₩1,996,752</u>	<u>₩1,996,752</u>

	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
	<u>\$—</u>	<u>\$—</u>	<u>\$1,652,257</u>	<u>\$1,652,257</u>

- (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	Korea Development Bank (“KDB”) and others Industrial Bank of Korea and others	Short-term and long-term borrowings and borrowings of Hanjin Int’l Corp., etc. Borrowings of Hanjin Int’l Corp.
Aircraft and engines (*2)	2,064,388	3,561,737,814		
Machinery	12,299	10,350,961		
Facility usage rights	49,183	140,000,000		
Investment in subsidiaries — Hanjin Int’l Corp. (*3)	—	91,440,000 Shares		
	<u>₩5,551,140</u>			

- (*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				Ending balance
	Beginning balance	Acquisition	Depreciation	Others (*)	
			(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
	<u>₩309,520</u>	<u>₩123,095</u>	<u>₩(1,084)</u>	<u>₩(106,650)</u>	<u>₩324,881</u>
	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
	<u>\$256,119</u>	<u>\$101,857</u>	<u>\$(897)</u>	<u>\$(88,249)</u>	<u>\$268,830</u>

2015

	Korean won				Ending balance
	Beginning balance	Acquisition	Depreciation	Others (*)	
			(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
	<u>₩175,570</u>	<u>₩125,828</u>	<u>₩(850)</u>	<u>₩8,972</u>	<u>₩309,520</u>
	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
	<u>\$145,279</u>	<u>\$104,119</u>	<u>\$(703)</u>	<u>\$7,424</u>	<u>\$256,119</u>

- (*) 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
	<u>₩81,501</u>	<u>₩111,930</u>	<u>\$67,440</u>	<u>\$92,619</u>

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
	<u>₩—</u>	<u>₩—</u>	<u>₩111,930</u>	<u>₩111,930</u>
	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
	<u>\$—</u>	<u>\$—</u>	<u>\$92,619</u>	<u>\$92,619</u>

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						Ending balance
	Beginning balance	Acquisition	Disposal	Amortization (In millions)	Impairment loss	Others (*)	
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
	<u>₩294,744</u>	<u>₩1,093</u>	<u>₩(3,236)</u>	<u>₩(53,257)</u>	<u>₩(7,992)</u>	<u>₩173,678</u>	<u>₩405,030</u>

	Translation into U.S. dollars (Note 2)						Ending balance
	Beginning balance	Acquisition	Disposal	Amortization (In thousands)	Impairment loss	Others (*)	
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
	<u>\$243,892</u>	<u>\$906</u>	<u>\$(2,678)</u>	<u>\$(44,068)</u>	<u>\$(6,613)</u>	<u>\$143,712</u>	<u>\$335,151</u>

2015

	Korean won						Ending balance
	Beginning balance	Acquisition	Disposal	Amortization (In millions)	Others (*)		
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	
	<u>₩331,228</u>	<u>₩ 32</u>	<u>₩(425)</u>	<u>₩(39,979)</u>	<u>₩3,888</u>	<u>₩294,744</u>	

	Translation into U.S. dollars (Note 2)						Ending balance
	Beginning balance	Acquisition	Disposal	Amortization (In thousands)	Others (*)		
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	
	<u>\$274,082</u>	<u>\$ 27</u>	<u>\$(352)</u>	<u>\$(33,082)</u>	<u>\$3,217</u>	<u>\$243,892</u>	

(*) 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
	<u>₩549,738</u>	<u>₩247,491</u>	<u>₩550,276</u>	<u>₩330,555</u>

	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
	<u>\$454,893</u>	<u>\$204,792</u>	<u>\$455,338</u>	<u>\$273,525</u>

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	—
	<u>₩846,152</u>	<u>₩30,273</u>	<u>₩870,087</u>	<u>₩41,103</u>

	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	—
	<u>\$700,167</u>	<u>\$25,050</u>	<u>\$719,973</u>	<u>\$34,012</u>

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		Translation into U.S. dollars (Note 2)	
			2016	2015	2016	2015
			(In millions)		(In thousands)	
Local	NongHyup Bank	3M CD + 1.86%				
currency		3.04%	₩ 211,500	₩220,000	\$175,010	\$182,044
short-term	KDB	3.57%	70,000	—	57,923	—
borrowings	Shinhan Bank	2.49%	—	7,000	—	5,792
	Hana Bank and others	—	—	50,000	—	41,374
			<u>281,500</u>	<u>277,000</u>	<u>232,933</u>	<u>229,210</u>
Foreign	KDB	3M London InterBank Offered Rate (LIBOR) + 1.95–2.80%	398,805	57,641	330,000	47,696
currency						
short-term	KDB (Singapore branch)	3M LIBOR + 2.40%	54,383	58,600	45,000	48,490
borrowings	Hana Bank and others	3M LIBOR + 1.65%–4.30%	433,284	476,197	358,531	394,040
			<u>886,472</u>	<u>592,438</u>	<u>733,531</u>	<u>490,226</u>
			<u>₩1,167,972</u>	<u>₩869,438</u>	<u>\$966,464</u>	<u>\$719,436</u>

(2) Long-term borrowings as of December 31, 2016 and 2015, consist of the following:

	Lender	Annual interest rate	Maturity	Korean won		Translation into U.S. dollars (Note 2)	
				2016	2015	2016	2015
				(In millions)		(In thousands)	
Local	KDB	—	—	₩ —	₩ 600	\$ —	\$ 496
currency		4.01%–4.28%	2022-12-15	83,540	87,600	69,127	72,487
long-term	Korea Resource	—	—	—	12	—	10
borrowings	Corporation	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
				<u>149,589</u>	<u>104,361</u>	<u>123,780</u>	<u>86,356</u>
Foreign	KDB	3M LIBOR +					
currency		0.57%–2.70%	2025-09-30	449,834	813,617	372,225	673,245
long-term		3M JPY LIBOR +					
borrowings		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	3M LIBOR +					
	Bank of Korea	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	LIBOR + 3.30%					
	Korea		2017-10-24	241,700	117,200	200,000	96,980
	Bank of	3M LIBOR +					
	Communications	2.70%	2023-08-28	220,484	245,502	182,444	203,146
	Hana Bank and	3M LIBOR +					
	others	2.20%–4.00%	2020-06-27	142,702	376,015	118,083	311,143
				<u>1,493,006</u>	<u>1,983,683</u>	<u>1,235,422</u>	<u>1,641,442</u>
				<u>1,642,595</u>	<u>2,088,044</u>	<u>1,359,202</u>	<u>1,727,798</u>
	Less: current portion of long-term borrowings			<u>(626,506)</u>	<u>(992,554)</u>	<u>(518,416)</u>	<u>(821,311)</u>
				<u>₩1,016,089</u>	<u>1,095,490</u>	<u>\$ 840,786</u>	<u>\$ 906,487</u>

(*) 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		Translation into U.S. dollars (Note 2)	
				2016	2015	2016	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)			3M JPY LIBOR +				
	2015-02-27	2018-02-27	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)			3M JPY LIBOR +				
	2016-02-25	2017-02-25	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			3M LIBOR+2.76%				
	2012-11-02	2017-11-02		230,000	246,173	190,319	203,702
Kexim (*4)			3M LIBOR+0.88%				
	2014-10-30	2017-10-30		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		Translation into U.S. dollars (Note 2)	
			2016	2015	2016	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)
			<u>₩1,731,952</u>	<u>₩1,181,066</u>	<u>\$1,433,142</u>	<u>\$ 977,299</u>

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
	<u>12,644</u>	<u>30,802</u>	<u>10,463</u>	<u>25,488</u>
Present value of discounts	<u>(861)</u>	<u>(3,414)</u>	<u>(713)</u>	<u>(2,825)</u>
	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	<u>861</u>	<u>1,056</u>	<u>713</u>	<u>874</u>
	<u>₩ —</u>	<u>₩ 13,030</u>	<u>\$ —</u>	<u>\$ 10,782</u>

- (*) 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:

Lender	Annual interest rate	Korean won		Translation into U.S. dollars (Note 2)	
		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		Translation into U.S. dollars (Note 2)	
		2016	2015	2016	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%	189,987	—	157,209	—
RBS and others	5.20%	1,018,370	1,137,868	842,673	941,554
	1.59%–9.57%	<u>8,488,796</u>	<u>8,389,834</u>	<u>7,024,241</u>	<u>6,942,354</u>
Less: current portion of obligation under finance leases, net of present value of discounts		<u>(1,714,470)</u>	<u>(1,234,471)</u>	<u>(1,418,676)</u>	<u>(1,021,491)</u>
		<u>₩ 6,774,326</u>	<u>₩ 7,155,363</u>	<u>\$ 5,605,565</u>	<u>\$ 5,920,863</u>

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)
	<u>₩8,488,796</u>	<u>\$7,024,241</u>

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)
	<u>₩1,126,332</u>	<u>₩1,027,681</u>	<u>\$ 932,008</u>	<u>\$ 850,377</u>

- (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	<u>₩1,477,734</u>	<u>₩(351,402)</u>	<u>₩1,126,332</u>	<u>\$1,222,784</u>	<u>\$(290,776)</u>	<u>\$932,008</u>

2015

	Korean won			Translation into U.S. dollars (Note 2)		
	Present value of defined benefit obligations	Fair value of plan assets (In millions)	Total	Present value of defined benefit obligations	Fair value of plan assets (In thousands)	Total
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	<u>₩1,367,582</u>	<u>₩(339,901)</u>	<u>₩1,027,681</u>	<u>\$1,131,636</u>	<u>\$(281,259)</u>	<u>\$850,377</u>

(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
	<u>₩351,402</u>	<u>₩339,901</u>	<u>\$290,776</u>	<u>\$281,258</u>

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
	<u>16,795</u>	<u>7,040</u>	<u>(14,708)</u>	<u>(3,696)</u>	<u>5,431</u>
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
	<u>171,187</u>	<u>33,396</u>	<u>(29,762)</u>	<u>3,853</u>	<u>178,674</u>
	<u>₩187,982</u>	<u>₩40,436</u>	<u>₩(44,470)</u>	<u>₩ 157</u>	<u>₩184,105</u>

	Translation into U.S. dollars (Note 2)				Ending balance
	Beginning balance	Charged to income or loss	Utilization	Others	
	(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
	<u>13,897</u>	<u>5,825</u>	<u>(12,170)</u>	<u>(3,058)</u>	<u>4,494</u>
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
	<u>141,652</u>	<u>27,634</u>	<u>(24,627)</u>	<u>3,189</u>	<u>147,848</u>
	<u>\$155,549</u>	<u>\$33,459</u>	<u>\$(36,797)</u>	<u>\$ 131</u>	<u>\$152,342</u>

2015

	Korean won				Ending balance
	Beginning balance	Charged to income or loss	Utilization	Others	
	(In millions)				
Current :					
Provision for construction loss (*1)	₩ —	₩15,479	₩ —	₩—	₩ 15,479
Liabilities of greenhouse gas emissions (*2)	—	1,316	—	—	1,316
	<u>—</u>	<u>16,795</u>	<u>—</u>	<u>—</u>	<u>16,795</u>
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
	<u>142,449</u>	<u>30,554</u>	<u>(1,770)</u>	<u>(46)</u>	<u>171,187</u>
	<u>₩142,449</u>	<u>₩47,349</u>	<u>₩(1,770)</u>	<u>₩(46)</u>	<u>₩187,982</u>

	Translation into U.S. dollars (Note 2)				Ending balance
	Beginning balance	Charged to income or loss	Utilization	Others	
	(In thousands)				
Current :					
Provision for construction loss (*1)	\$ —	\$12,808	\$ —	\$—	\$ 12,808
Liabilities of greenhouse gas emissions (*2)	—	1,089	—	—	1,089
	<u>—</u>	<u>13,897</u>	<u>—</u>	<u>—</u>	<u>13,897</u>
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
	<u>117,873</u>	<u>25,281</u>	<u>(1,464)</u>	<u>(38)</u>	<u>141,652</u>
	<u>\$117,873</u>	<u>\$39,178</u>	<u>\$(1,464)</u>	<u>\$(38)</u>	<u>\$155,549</u>

- (*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:

<u>Type of transactions</u>	<u>Accounting Policy</u>	<u>Maturity</u>	<u>Contract amount</u>	
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:

Derivative instruments	Korean won					
	Consolidated statement of financial position		Consolidated statement of comprehensive loss			
	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
	<u>₩ 27</u>	<u>₩39,725</u>	<u>₩ 27</u>	<u>₩59,761</u>	<u>₩18,764</u>	<u>₩92,065</u>

Derivative instruments	Translation into U.S. dollars (Note 2)					
	Consolidated statement of financial position		Consolidated statement of comprehensive loss			
	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
	<u>\$ 22</u>	<u>\$32,871</u>	<u>\$ 22</u>	<u>\$49,450</u>	<u>\$15,527</u>	<u>\$76,182</u>

(*) 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
	<u>₩1,571,743</u>	<u>₩76,491</u>	<u>₩1,399,346</u>	<u>₩60,191</u>

	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
	<u>\$1,300,573</u>	<u>\$63,294</u>	<u>\$1,157,920</u>	<u>\$49,806</u>

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
	<u>250,000,000</u>	<u>73,950,538</u>		<u>₩369,753</u>	<u>₩369,753</u>	<u>\$305,960</u>	<u>\$305,960</u>

(*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	<u>72,839,744</u>	<u>1,110,794</u>	<u>72,839,744</u>	<u>1,110,794</u>

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
	<u>₩1,198,374</u>	<u>₩817,783</u>	<u>\$991,621</u>	<u>\$676,693</u>

(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
	<u>₩(192,877)</u>	<u>₩794,265</u>	<u>\$(159,600)</u>	<u>\$657,232</u>

(*) 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	<u>₩(192,877)</u>	<u>₩ 794,265</u>	<u>\$(159,601)</u>	<u>\$ 657,232</u>

(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
	<u>₩385,436</u>	<u>₩405,311</u>	<u>\$318,938</u>	<u>\$335,384</u>

(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	<u>₩385,436</u>	<u>₩405,311</u>	<u>\$318,938</u>	<u>\$335,384</u>

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
	<u>₩11,731,852</u>	<u>₩11,544,831</u>	<u>\$9,707,780</u>	<u>\$9,553,025</u>

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
	<u>₩1,175,822</u>	<u>₩1,144,346</u>	<u>\$972,960</u>	<u>\$946,914</u>

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
	<u>₩51,443</u>	<u>₩56,271</u>	<u>\$42,568</u>	<u>\$46,563</u>

(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
	<u>₩558,649</u>	<u>₩515,967</u>	<u>\$462,267</u>	<u>\$426,948</u>

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
	<u>₩510,958</u>	<u>₩ 385,914</u>	<u>\$422,804</u>	<u>\$319,333</u>

(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
	<u>₩1,729,694</u>	<u>₩1,313,154</u>	<u>\$1,431,273</u>	<u>\$1,086,599</u>

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
	<u>₩2,382,109</u>	<u>₩761,645</u>	<u>₩3,143,754</u>
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
	<u>\$1,971,127</u>	<u>\$630,241</u>	<u>\$2,601,368</u>
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:

	<u>Korean won</u> (In millions)	<u>Translation into U.S. dollars (Note 2)</u> (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
	<u>9,808</u>	<u>8,116</u>
Deferred income tax expense directly adjusted to non-controlling interests	3,714	3,073
	<u>₩13,522</u>	<u>\$11,189</u>

- (5) Deductible temporary differences, tax loss and unused tax credits, not recognized as deferred tax assets as of December 31, 2016 are as follows:

	<u>Korean won</u> (In millions)	<u>Translation into U.S. dollars (Note 2)</u> (In thousands)
Investment in subsidiaries and associates and gains from assets contributed	₩285,031	\$235,856
Unused tax credits	16,029	13,264
	<u>₩301,060</u>	<u>\$249,120</u>

- (6) The expiration date of unused tax credits not recognized as deferred tax assets as of December 31, 2016 consists of the following:

	<u>Korean won</u> (In millions)	<u>Translation into U.S. dollars (Note 2)</u> (In thousands)
Within 1 year	₩ 9,085	\$ 7,518
1 – 2 years	6,944	5,746
	<u>₩16,029</u>	<u>\$13,264</u>

38. CLASSIFICATION OF EXPENSES BY NATURE:

Expenses classified by nature for years ended December 31, 2016 and 2015, consist of the following:

	<u>Korean won</u>		<u>Translation into U.S. dollars (Note 2)</u>	
	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
	<u>₩10,611,043</u>	<u>₩10,661,743</u>	<u>\$8,780,342</u>	<u>\$8,822,294</u>

(*) 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:				
Continuing operation	₩ (564,882)	₩ (564,977)	\$ (467,424)	\$ (467,503)
Discontinued operation	(564,882)	(405,115)	(467,424)	(335,222)
Loss attributable to common shares:				
Continuing operation	—	(159,862)	—	(132,281)
Discontinued operation	(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 (*):				
Continuing operation	(7,639)	(7,968)	(6)	(7)
Discontinued 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:				
Continuing operation	₩ (8,430)	₩ (8,739)	\$ (6,976)	\$ (7,232)
Discontinued 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:				
Continuing operation	(7,589)	(7,868)	(6)	(7)
Discontinued 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 (In millions)	AFS financial assets	Total
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

Description	Translation into U.S. dollars (Note 2)				Total
	Loans and receivables	Financial assets at FVTPL	Held-to-maturity financial assets	AFS financial assets	
			(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
	<u>\$2,017,471</u>	<u>\$ 22</u>	<u>\$935</u>	<u>\$181,594</u>	<u>\$2,200,022</u>

2015

Description	Korean won			
	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
	<u>₩2,510,702</u>	<u>₩971</u>	<u>₩172,173</u>	<u>₩2,683,846</u>

Description	Translation into U.S. dollars (Note 2)			
	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
	<u>\$2,077,537</u>	<u>\$804</u>	<u>\$142,469</u>	<u>\$2,220,810</u>

2) Financial liabilities

2016

Description	Korean won		Total
	Financial liabilities at FVTPL	Financial liabilities recognized at amortized cost	
		(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
	<u>₩39,725</u>	<u>₩17,147,439</u>	<u>₩17,187,164</u>

Description	Translation into U.S. dollars (Note 2)		Total
	Financial liabilities at FVTPL	Financial liabilities recognized at amortized cost	
		(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
	<u>\$32,871</u>	<u>\$14,189,027</u>	<u>\$14,221,898</u>

2015

Description	Korean won		Total
	Financial liabilities at FVTPL	Financial liabilities recognized at amortized cost	
		(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
	<u>₩69,781</u>	<u>₩17,066,916</u>	<u>₩17,136,697</u>

Description	Translation into U.S. dollars (Note 2)		Total
	Financial liabilities at FVTPL	Financial liabilities recognized at amortized cost	
		(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
	<u>\$57,742</u>	<u>\$14,122,397</u>	<u>\$14,180,139</u>

(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

Description	Korean won				Total
	Loans and receivables	Financial assets at FVTPL	Held-to-maturity financial assets	AFS financial assets	
			(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
	<u>₩ 43,401</u>	<u>₩ 27</u>	<u>₩ 24</u>	<u>₩(248,001)</u>	<u>₩(204,549)</u>

Description	Translation into U.S. dollars (Note 2)				Total
	Loans and receivables	Financial assets at FVTPL	Held-to-maturity financial assets	AFS financial assets	
			(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
	<u>\$ 35,913</u>	<u>\$ 22</u>	<u>\$ 20</u>	<u>\$(205,215)</u>	<u>\$(169,260)</u>

2015

Description	Korean won			Total
	Loans and receivables	Held-to-maturity financial assets	AFS financial assets	
	(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
	<u>₩ 34,676</u>	<u>₩ 53</u>	<u>₩(31,921)</u>	<u>₩ 2,808</u>

Description	Translation into U.S. dollars (Note 2)			Total
	Loans and receivables	Held-to-maturity financial assets	AFS financial assets	
	(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
	<u>\$ 28,694</u>	<u>\$ 44</u>	<u>\$(26,414)</u>	<u>\$ 2,324</u>

2) Financial liabilities

2016

Description	Korean won		Total
	Financial liabilities at FVTPL	Financial liabilities recognized at amortized cost	
	(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)
	<u>₩(110,137)</u>	<u>₩(667,456)</u>	<u>₩(777,593)</u>

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)
	<u>\$(91,135)</u>	<u>\$(552,302)</u>	<u>\$(643,437)</u>

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)
	<u>₩(134,041)</u>	<u>₩(906,311)</u>	<u>₩(1,040,352)</u>

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)
	<u>\$(110,915)</u>	<u>\$(749,946)</u>	<u>\$(860,861)</u>

(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
	<u>₩1,463,368</u>	<u>₩1,389,721</u>	<u>₩12,093,882</u>	<u>₩12,389,837</u>
	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
	<u>\$1,210,898</u>	<u>\$1,149,955</u>	<u>\$10,007,350</u>	<u>\$10,252,245</u>

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 (In millions)	Fair value
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	
		Translation into U.S. dollars (Note 2)	
Classification	Average contracted fixed rate (%)	Contract amount (In thousands)	Fair value
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 (In millions)	Fair value
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	
		Translation into U.S. dollars (Note 2)	
Classification	Average contracted fixed rate (%)	Contract amount (In thousands)	Fair value
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

Classification	Korean won			
	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
	<u>₩7,189,471</u>	<u>₩7,891,369</u>	<u>₩3,315,368</u>	<u>₩18,396,208</u>

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	\$ 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
	<u>\$5,949,086</u>	<u>\$6,529,887</u>	<u>\$2,743,375</u>	<u>\$15,222,348</u>

2015

Classification	Korean won			
	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
	<u>₩7,273,655</u>	<u>₩7,205,286</u>	<u>₩3,501,280</u>	<u>₩17,980,221</u>

Classification	Translation into U.S. dollars (Note 2)			Total
	Within 1 year	1–5 years	More than 5 years	
	(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
	<u>\$6,018,747</u>	<u>\$5,962,173</u>	<u>\$2,897,211</u>	<u>\$14,878,131</u>

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			Total
	Within 1 year	1–5 years	More than 5 years	
	(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
	<u>₩2,077,589</u>	<u>₩174,320</u>	<u>₩306,319</u>	<u>₩2,558,228</u>

Classification	Translation into U.S. dollars (Note 2)			Total
	Within 1 year	1–5 years	More than 5 years	
	(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
	<u>\$1,719,146</u>	<u>\$144,246</u>	<u>\$253,471</u>	<u>\$ 2,116,863</u>

2015

Classification	Korean won			Total
	Within 1 year	1-5 years	More than 5 years	
	(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
	<u>₩2,041,440</u>	<u>₩248,214</u>	<u>₩227,996</u>	<u>₩2,517,650</u>

Classification	Translation into U.S. dollars (Note 2)			Total
	Within 1 year	1-5 years	More than 5 years	
	(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
	<u>\$1,689,235</u>	<u>\$205,390</u>	<u>\$188,661</u>	<u>\$2,083,286</u>

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)
	<u>₩ 1,401</u>	<u>₩ 857</u>	<u>₩ 4,806</u>

<u>Classification</u>	Translation into U.S. dollars (Note 2)		
	<u>Within 1 year</u>	<u>1-2 years</u>	<u>More than 2 years</u>
	(In thousands)		
Gross settlement:			
Interest rate swaps:			
Inflows	79,553	69,452	151,214
Outflows	(78,393)	(68,743)	(147,237)
	<u>\$ 1,160</u>	<u>\$ 709</u>	<u>\$ 3,977</u>

2015

<u>Classification</u>	Korean won		
	<u>Within 1 year</u>	<u>1-2 years</u>	<u>More than 2 years</u>
	(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)
	<u>₩(32,541)</u>	<u>₩ (12,723)</u>	<u>₩ (6,250)</u>

<u>Classification</u>	Translation into U.S. dollars (Note 2)		
	<u>Within 1 year</u>	<u>1-2 years</u>	<u>More than 2 years</u>
	(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)
	<u>\$(26,928)</u>	<u>\$ (10,528)</u>	<u>\$ (5,171)</u>

(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			Total
	Level 1	Level 2	Level 3	
	(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
	<u>₩97,982</u>	<u>₩53,939</u>	<u>₩23,425</u>	<u>₩175,346</u>
Derivative financial liabilities	<u>₩ —</u>	<u>₩39,725</u>	<u>₩ —</u>	<u>₩ 39,725</u>

Classification	Translation into U.S. dollars (Note 2)			Total
	Level 1	Level 2	Level 3	
	(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
	<u>\$81,078</u>	<u>\$44,633</u>	<u>\$19,384</u>	<u>\$145,095</u>
Derivative financial liabilities	<u>\$ —</u>	<u>\$32,871</u>	<u>\$ —</u>	<u>\$ 32,871</u>

2015

Classification	Korean won			Total
	Level 1	Level 2	Level 3	
	(In millions)			
AFS:				
Listed securities	₩108,505	₩ —	₩ —	₩108,505
Unlisted securities	—	—	21,113	21,113
	<u>₩108,505</u>	<u>₩ —</u>	<u>₩21,113</u>	<u>₩129,618</u>
Derivative financial liabilities	<u>₩ —</u>	<u>₩69,781</u>	<u>₩ —</u>	<u>₩ 69,781</u>

Classification	Translation into U.S. dollars (Note 2)			Total
	Level 1	Level 2	Level 3	
	(In thousands)			
AFS:				
Listed securities	\$89,785	\$ —	\$ —	\$ 89,785
Unlisted securities	—	—	17,470	17,470
	<u>\$89,785</u>	<u>\$ —</u>	<u>\$17,470</u>	<u>\$107,255</u>
Derivative financial liabilities	<u>\$ —</u>	<u>\$57,742</u>	<u>\$ —</u>	<u>\$ 57,742</u>

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		Valuation techniques	Significant unobservable inputs	Description of relationships
	Korean won (In millions)	Translation into U.S. dollars (Note 2) (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)				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.
	23,425	19,384			

- (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 (In millions)	Other comprehensive income	Ending balance
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 (In thousands)	AFS financial assets	Total
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	₩ 271	₩30,685
Associates	22,486	19,756
Others	3,072	5,926

Description		Korean won	
		Sales and others	Purchases and others
(In millions)			
<i>Other related parties</i>	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
<i>Affiliated companies of a conglomerate and others</i>	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)			
<i>Significant influence over the Company</i>	Hanjin Kal Co., Ltd.	\$ 224	\$25,391
	Czech Airlines j.s.c.	18,607	16,348
	Others	2,542	4,904
<i>Associates</i>	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
<i>Other related parties</i>	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)			
<i>Significant influence over the Company</i>	Hanjin Kal Co., Ltd.	₩ 435	₩29,731
	Czech Airlines j.s.c.	24,079	25,487
	Others	2,587	45
<i>Associates and jointly controlled entities</i>	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
<i>Other related parties</i>	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
<i>Affiliated companies of a conglomerate and others</i>	Others	3,196	1,363

Description		Translation into U.S. dollars (Note 2)	
		Sales and others	Purchases and others
(In thousands)			
<i>Significant influence over the Company</i>	Hanjin Kal Co., Ltd.	\$ 360	\$24,602
<i>Associates and jointly controlled entities</i>	Czech Airlines j.s.c.	19,925	21,090
	Others	2,141	37
<i>Other related parties</i>	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
<i>Affiliated companies of a conglomerate and others</i>	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 conglomerate 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)			
<i>Significant influence over the Company</i>	Hanjin Kal Co., Ltd.	₩ 2,233	₩ 6,477
<i>Associates</i>	Czech Airlines j.s.c.	266	14,604
<i>Other related parties</i>	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
<i>Affiliated companies of a conglomerate and others</i>	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)				
<i>Significant influence over the Company Associates</i>	Hanjin Kal Co., Ltd.	\$ 1,847	\$ 5,359	
	Czech Airlines j.s.c.	220	12,085	
	<i>Other related parties</i>	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	
<i>Affiliated companies of a conglomerate and others</i>	Others	7	768	
	Hanjin Transportation Co., Ltd.	1,956	5,294	
	Uniconverse Co., Ltd.	69	242	
	Others	1,269	2,570	

2015

Description		Korean won	
		Trade and other receivables	Trade and other payables
(In millions)			
<i>Significant influence over the Company Associates</i>	Hanjin Kal Co., Ltd.	₩ 2,485	₩ 6,445
	Czech Airlines j.s.c.	1,607	11,998
	Others	451	—
<i>Other related parties</i>	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
	<i>Affiliated companies of a conglomerate and others</i>	Hanjin Transportation Co., Ltd.	2,590
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)			
<i>Significant influence over the Company Associates</i>	Hanjin Kal Co., Ltd.	\$ 2,056	\$ 5,333
	Czech Airlines j.s.c.	1,329	9,928
	Others	373	—
<i>Other related parties</i>	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
	<i>Affiliated companies of a conglomerate and others</i>	Hanjin Transportation Co., Ltd.	2,143
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)			
<i>Affiliated companies of a conglomerate and others:</i>					
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)	\$ —
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(*) ₩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)			
<i>Associates:</i>					
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)					
<i>Associates:</i>					
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
			(In millions)	U.S. dollars (Note 2)
				(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
			(In millions)	U.S. dollars (Note 2)
				(In thousands)
Capital increase	Hanjin KAL Co., Ltd. <i>(Significant influence over the Company)</i>	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. (*) <i>(Affiliated companies of a conglomerate and others)</i>	Disposal of Hanjin Int'l Japan Co., Ltd. stocks	36	30
Disposal of investment securities	Uniconverse Co., Ltd. <i>(Affiliated companies of a conglomerate and others)</i>	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		Translation into	
	2016	2015	2016	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
	<u>₩6,483</u>	<u>₩23,259</u>	<u>\$5,365</u>	<u>\$19,246</u>

- (7) Guarantees that the Group has provided for related parties as of December 31, 2016, consist of the following (in millions of Korean won):

<u>Transaction</u>	<u>Currency</u>	<u>Guaranteed amounts</u>	<u>Financial institutions</u>	<u>Description</u>
Jungseok Enterprise Co., Ltd.			Hana Bank (formerly, Korea Exchange Bank) and others	Guaranteed loans (*)
	KRW	2,785		
Hanjin Transportation Co., Ltd.	KRW	2,016		
Hanjin Heavy Industries & Construction Holdings Co., Ltd.	KRW	2,159	KDB and others	
	<u>KRW</u>	<u>6,960</u>		

- (*) 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:

<u>Financial institutions</u>	Korean won				
	<u>Guaranteed amounts</u>	<u>Jungseok Enterprise Co., Ltd.</u>	<u>Hanjin Transportation Co., Ltd.</u>	<u>Hanjin Shipping Co., Ltd. (*)</u>	<u>Hanjin Heavy Industries & Construction Holdings</u>
			(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
	<u>₩12,644</u>	<u>₩15,980</u>	<u>₩15,980</u>	<u>₩16,069</u>	<u>₩15,980</u>
	Translation into U.S. dollars (Note 2)				
<u>Financial institutions</u>	<u>Guaranteed amounts</u>	<u>Jungseok Enterprise Co., Ltd.</u>	<u>Hanjin Transportation Co., Ltd.</u>	<u>Hanjin Shipping Co., Ltd. (*)</u>	<u>Hanjin Heavy Industries & Construction Holdings</u>
			(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
	<u>\$10,463</u>	<u>\$13,223</u>	<u>\$13,223</u>	<u>\$13,296</u>	<u>\$13,223</u>

- (*) 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:

<u>Period</u>	<u>Korean won</u> (In millions)	<u>Translation into U.S. dollars (Note 2)</u> (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
	<u>₩2,212,330</u>	<u>\$1,830,642</u>

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:

<u>Period</u>	<u>Korean won</u> (In millions)	<u>Translation into U.S. dollars (Note 2)</u> (In thousands)
Less than one year	₩596	\$493
One year to five years	101	84
	<u>₩697</u>	<u>\$577</u>

(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:

<u>Period</u>	<u>Korean won</u> (In millions)	<u>Translation into U.S. dollars (Note 2)</u> (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
	<u>₩390,855</u>	<u>\$323,422</u>

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:

<u>Period</u>	<u>Korean won</u> (In millions)	<u>Translation into U.S. dollars (Note 2)</u> (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
	<u>₩18,041</u>	<u>\$14,930</u>

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 Incheon 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:

Description	Korean won			Ending balance of construction contracts (*)
	Revenues incurred to date	Costs incurred to date	Recognized profits to date	
	(In millions)			
Civil aircraft	₩161,057	₩116,538	₩44,519	₩ 988,185
Military aircraft	753,245	718,255	34,990	455,779
	<u>₩914,302</u>	<u>₩834,793</u>	<u>₩79,509</u>	<u>₩1,443,964</u>

Description	Translation into U.S. dollars (Note 2)			Ending balance of construction contracts (*)
	Revenues incurred to date	Costs incurred to date	Recognized profits to date	
	(In thousands)			
Civil aircraft	\$133,270	\$ 96,432	\$36,838	\$ 817,695
Military aircraft	623,289	594,336	28,953	377,144
	<u>\$756,559</u>	<u>\$690,768</u>	<u>\$65,791</u>	<u>\$1,194,839</u>

(*) 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
	<u>₩1,657</u>	<u>₩18,966</u>	<u>₩10,475</u>	<u>₩9,968</u>	<u>₩(1,477)</u>	<u>₩9,968</u>
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
	<u>\$1,371</u>	<u>\$15,694</u>	<u>\$ 8,667</u>	<u>\$8,248</u>	<u>\$(1,222)</u>	<u>\$8,248</u>

- (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)		
<i>Assets held for sale</i>		
Current assets:	₩—	₩45,542
Aircraft	—	19,621
Engines	—	25,921
Non-current assets	—	—
	<u>₩—</u>	<u>₩45,542</u>
Translation into U.S. dollars (Note 2)		
	2016	2015
(In thousands)		
<i>Assets held for sale</i>		
Current assets:	\$—	\$37,685
Aircraft	—	16,236
Engines	—	21,449
Non-current assets	—	—
	<u>\$—</u>	<u>\$37,685</u>

- (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:

<u>Description</u>	<u>Korean won</u> (In millions)	<u>Translation into U.S. dollars (Note 2)</u> (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	<u>₩(162,098)</u>	<u>\$(134,132)</u>

- (3) The cash flows from discontinued operations for the years ended December 31, 2014 and 2013 are as follows:

<u>Transaction</u>	<u>Korean won</u> (In millions)	<u>Translation into U.S. dollars (Note 2)</u> (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	<u>₩ (2)</u>	<u>\$ (2)</u>

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.

<u>Description</u>	<u>Call center business</u>	
	<u>Korean won</u> (In millions)	<u>Translation into U.S. dollars (Note 2)</u> (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

Shin & Kim

8th Floor, State Tower Namsan,
100 Toegye-ro, Jung-gu
Seoul 04631
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 INITIAL PURCHASERS

as to U.S. law

Clifford Chance LLP

Foreign Legal Consultant Office
22nd Floor, D1 Tower
17, Jongno-3 gil, Jongno-gu
Seoul 03155, 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

TRUSTEE

DB Trustees (Hong Kong) Limited

Level 52, International Commerce Centre
1 Austin Road West
Kowloon
Hong Kong

PAYING AGENT, REGISTRAR AND TRANSFER AGENT

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