

# **KOREA RAILROAD CORPORATION**

## **Issue of U.S.\$ 150,000,000 Floating Rate Notes due 2024**

**(the “Notes”)**

### **Issued pursuant to the U.S.\$2,000,000,000 Medium Term Note Program**

Issue Price: 100% of the Aggregate Nominal Amount

Issue Date: November 29, 2019

This investor package includes (a) the offering circular dated August 28, 2018 relating to the U.S.\$2,000,000,000 Medium Term Note Program (the “**Program**”) as supplemented by the pricing supplement dated November 18, 2019 relating to the Notes (the “**Offering Circular**”), and (b) this document dated November 29, 2019 as the cover page to the Offering Circular (the “**Investor Package**”).

The Notes will be issued by Korea Railroad Corporation (the “**Issuer**”).

Application will be made to the Taipei Exchange (the “**TPEX**”) for the listing of, and permission to deal in, the Notes by way of debt issues to professional investors as defined under Paragraph 1, Article 2-1 of the Taipei Exchange Rules Governing Management of Foreign Currency Denominated International Bonds of the ROC only and such permission is expected to become effective on or about November 29, 2019.

TPEX is not responsible for the contents of this Investor Package and no representation is made by TPEX as to the accuracy or completeness of this Investor Package. TPEX expressly disclaims any and all liabilities for any losses arising from, or as a result of, the reliance on, all or part of the contents of this Investor Package. Admission for listing and trading of the Notes on the TPEX is not to be taken as an indication of the merits of the Issuer or the Notes. No assurance can be given that such applications will be granted. If the Notes fail to or cease to be listed on the TPEX, certain investors may not invest in, or continue to hold or invest in, the Notes.

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

### **Lead Manager**

Crédit Agricole Corporate and Investment Bank, Taipei Branch

### **Co-Managers**

E.SUN Commercial Bank, Ltd.

KGI Securities Co. Ltd.

Mega International Commercial Bank Co., Ltd.

President Securities Corporation

SinoPac Securities Corporation

Taishin International Bank Co., Ltd.

November 29, 2019

## IMPORTANT NOTICE

<b>THIS DOCUMENT IS AVAILABLE ONLY TO INVESTORS WHO ARE NON-U.S. PERSONS OUTSIDE THE UNITED STATES</b>
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**IMPORTANT: You must read the following before continuing.** The following applies to the preliminary pricing supplement and the offering circular following this page (collectively, the “Offering Circular”), and you are therefore advised to read this carefully before reading, accessing or making any other use of the Offering Circular. In accessing the Offering Circular, you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information as a result of such access.

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

THE SECURITIES DESCRIBED HEREIN HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION, AND THE SECURITIES DESCRIBED HEREIN MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES, OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT). THIS OFFERING IS MADE SOLELY TO NON-U.S. PERSONS IN OFFSHORE TRANSACTIONS PURSUANT TO REGULATION S THEREUNDER THE SECURITIES ACT.

THE FOLLOWING OFFERING CIRCULAR MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON, IN WHOLE OR IN PART, ELECTRONICALLY OR OTHERWISE 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 THE SECURITIES DESCRIBED THEREIN.

**Confirmation of Your Representation:** In order to be eligible to view the Offering Circular or make an investment decision with respect to the securities described herein, investors must not be located in the United States or be a non-U.S. person (within the meaning of Regulation S under the Securities Act). The Offering Circular is being sent at your request and by accepting the e-mail and accessing the Offering Circular, you shall be deemed to have represented to the Managers (as described in the Offering Circular) that you and any customers you represent are non-U.S. persons (as defined in Regulation S under the Securities Act) and that the electronic mail address that you gave us and to which this e-mail has been delivered is not located in the United States, its territories or possessions and that you consent to delivery of such Offering Circular by electronic transmission.

**Notification under Section 309B(1)(c) of the Securities and Futures Act, Chapter 289 of Singapore (the “SFA”) —** The Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Notes are prescribed capital markets products (as defined in the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

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

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

The Offering Circular has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of the Managers, nor any person who controls any of them nor any of their respective directors, officers, employees, agents or affiliates accepts any liability or responsibility whatsoever in respect of any difference between the Offering Circular distributed to you in electronic format and the hard copy version available to you on request from the Managers.

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

**Pricing Supplement**



**KOREA RAILROAD CORPORATION**

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

**Issue of U.S.\$150,000,000 Floating Rate Notes due 2024  
under the U.S.\$2,000,000,000 Medium Term Note Program**

THE NOTES TO WHICH THIS PRICING SUPPLEMENT RELATES (THE “NOTES”) HAVE NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND, UNLESS SO REGISTERED, MAY NOT BE OFFERED OR SOLD 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 SECURITIES LAWS. ACCORDINGLY, THE NOTES WILL BE OFFERED AND SOLD ONLY OUTSIDE THE UNITED STATES TO NON-U.S. PERSONS IN RELIANCE ON REGULATION S.

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*Lead Manager*

**Crédit Agricole Corporate and Investment Bank, Taipei Branch**

*Co-Managers*

**E.SUN Commercial Bank, Ltd.**

**KGI Securities Co. Ltd.**

**Mega International Commercial Bank Co., Ltd.**

**President Securities Corporation**

**SinoPac Securities Corporation**

**Taishin International Bank Co., Ltd.**

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The date of this pricing supplement is November 18, 2019  
and this pricing supplement was deemed effective on November 14, 2019

## KOREA RAILROAD CORPORATION

### Issue of U.S.\$150,000,000 Floating Rate Notes due 2024 under the U.S.\$2,000,000,000 Medium Term Note Program

This document constitutes the Pricing Supplement relating to the issue of Notes described herein. Terms used herein shall be deemed to be defined as such for the purposes of the terms and conditions of the Notes (the “**Terms and Conditions**”) set forth in the offering circular dated August 28, 2018 (the “**Offering Circular**”). This Pricing Supplement contains the final terms of the Notes and is supplemental to and must be read in conjunction with the Offering Circular. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of this Pricing Supplement and the Offering Circular.

The Notes have not been registered with the Financial Services Commission of Korea under the Financial Investment Services and Capital Markets Act of Korea. Accordingly, the Notes may not be offered, delivered, or sold directly or indirectly in Korea or to any resident of Korea (as defined in the Foreign Exchange Transaction Law of Korea and the regulations thereunder) or to others for re-offering or resale directly or indirectly in Korea or to any resident of Korea except as otherwise permitted under applicable Korean laws and regulations.

The Notes have not been, and shall not be, offered, sold or re-sold, directly or indirectly, to investors other than “professional investors” as defined under Paragraph 1, Article 2-1 of the Taipei Exchange Rules Governing Management of Foreign Currency Denominated International Bonds of the Republic of China (“**ROC**”). Purchasers of the Notes are not permitted to sell or otherwise dispose of the Notes except by transfer to the aforementioned professional investors.

**Notification under Section 309B(1)(c) of the Securities and Futures Act, Chapter 289 of Singapore (the “SFA”)** — The Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Notes are prescribed capital markets products (as defined in the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

- |    |                                   |  |
|----|-----------------------------------|--|
| 1. | Issuer:                           | Korea Railroad Corporation<br><br>(Legal Entity Identifier:<br>988400HIXNKLSIY4ND32) |
| 2. | (i) Series Number:                | 5  |
|    | (ii) Tranche Number:              | 1  |
|    | (iii) Re-opening:                 | No   |
| 3. | Specified Currency or Currencies: | United States Dollars (“ <b>U.S.\$</b> ”)  |
| 4. | Aggregate Nominal Amount:         |  |
|    | (i) Series:                       | U.S.\$150,000,000  |
|    | (ii) Tranche:                     | U.S.\$150,000,000  |
| 5. | (i) Issue Price of Tranche:       | 100% of the Aggregate Nominal Amount   |



	(ii) Net Proceeds (after deducting a combined management and underwriting commission and expenses):	U.S.\$149,625,000
	(iii) Use of Proceeds:	As described in the Offering Circular
6.	(i) Specified Denominations:	U.S.\$200,000 and integral multiples of U.S.\$1,000 in excess thereof.
	(ii) Calculation Amount:	U.S.\$1,000
7.	(i) Issue Date:	November 29, 2019
	(ii) Interest Commencement Date:	November 29, 2019
8.	Maturity Date:	November 29, 2024
9.	Interest Basis:	3-month U.S.\$ LIBOR + 70 basis points (further particulars specified below)
10.	Redemption/Payment Basis:	Redemption at par
11.	Change of Interest Basis or Redemption/Payment Basis:	None
12.	Put (other than Condition 8(e))/Call (other than Condition 8(b)) Options:	Not Applicable
13.	(i) Status of the Notes:	Senior
	(ii) Date of Issuer's Board approval for the issuance of Notes obtained:	December 27, 2018
	(iii) Date of regulatory approval/consent for the issuance of Notes obtained:	November 12, 2019
14.	Listing	Singapore Exchange Securities Trading Limited ("SGX-ST") Taipei Exchange, Taiwan, ROC ("TPEX")
15.	Method of Distribution:	Syndicated

**PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE**

16.	Fixed Rate Note Provisions	Not Applicable
17.	Floating Rate Note Provisions:	Applicable
	(i) Specified Period(s)/Interest Payment Dates:	February 28 (or February 29 in a leap year), May 29, August 29 and November 29 in each year commencing on February 29, 2020 and ending on the Maturity Date, adjusted in accordance with the

		Modified Following Business Day Convention
(ii)	Business Day Convention:	Modified Following Business Day Convention
(iii)	Additional Business Centre(s):	New York City, London, Taipei and Seoul
(iv)	Manner in which the Rate of Interest and Interest Amount is to be determined:	Screen Rate Determination
(v)	Party responsible for calculating the Rate of Interest and Interest Amount (if not the Principal Paying Agent):	Not Applicable
(vi)	Screen Rate Determination:	
	- Reference Rate:	3-month U.S.\$ LIBOR
	- Interest Determination Date(s):	Second London business day prior to the start of each Interest Period
	- Relevant Screen Page:	The display page designated LIBOR01 on Reuters at 11:00 a.m. (London time) on the Interest Determination Date
(vii)	ISDA Determination:	Not Applicable
	Floating Rate Option:	Not Applicable
	Designated Maturity:	Not Applicable
	Reset Date:	Not Applicable
(viii)	Margin(s):	+ 0.70% per annum
(ix)	Minimum Rate of Interest:	0.00% per annum
(x)	Maximum Rate of Interest	Not Applicable
(xi)	Day Count Fraction:	Actual/360, adjusted
	Fall back provisions, rounding provisions and any other terms relating to the method of calculating interest on Floating Rate Notes, if different from those set out in the Conditions:	As modified by Appendix A of this Pricing Supplement
18.	Zero Coupon Note Provisions:	Not Applicable
19.	Dual Currency Interest Note Provisions:	Not Applicable

## PROVISIONS RELATING TO REDEMPTION

20.	Issuer Call (other than Condition 8(b)):	Not Applicable
21.	Investor Put (other than Condition 8(e)):	Not Applicable
22.	Final Redemption Amount of each Note:	U.S.\$1,000 per Calculation Amount
23.	Early Redemption Amount of each Note payable on redemption for taxation reasons or on event of default and/or the method of calculating the same (if required or if different from that set out in Condition 8(f)):	U.S.\$1,000 per Calculation Amount

#### **GENERAL PROVISIONS APPLICABLE TO THE NOTES**

24.	Form of Notes:	Registered Note:  Regulation S Global Note registered in the name of a nominee for a common depositary for Euroclear and Clearstream
25.	Additional Financial Center(s) or other special provisions relating to Payment Dates:	New York City, London, Taipei and Seoul
26.	Talons for future Coupons or Receipts to be attached to Definitive Bearer Notes (and dates on which such Talons mature):	Not Applicable
27.	Details relating to Partly Paid Notes: amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences of failure to pay, including any right of the Issuer to forfeit the Notes and interest due on late payment:	Not Applicable
28.	Details relating to Installment Notes:	
	(i) Installment Amount(s):	Not Applicable
	(ii) Installment Date(s):	Not Applicable
29.	Redenomination applicable:	Redenomination Not Applicable
30.	Other terms or special conditions:	As modified by Appendix A of this Pricing Supplement

## DISTRIBUTION

31.	(i)	If syndicated, names of Managers:	Crédit Agricole Corporate and Investment Bank, Taipei Branch <i>as Lead Manager</i>  E.SUN Commercial Bank, Ltd. KGI Securities Co. Ltd. Mega International Commercial Bank Co., Ltd. President Securities Corporation SinoPac Securities Corporation Taishin International Bank Co., Ltd. <i>as Co-Managers</i>
	(ii)	Stabilizing Manager:	Not Applicable
32.		If non-syndicated, name of relevant Dealer:	Not Applicable
33.		U.S. Selling Restrictions:	Regulation S Category 2
34.		Prohibition of Sales to EEA Retail Investors:	Not Applicable
35.		Additional selling restrictions:	ROC (see Appendix B)

## OPERATIONAL INFORMATION

36.	Any clearing system(s) other than Euroclear and Clearstream and the relevant identification number(s):	Not Applicable
37.	Delivery:	Delivery against Payment
38.	Additional Paying Agent(s) (if any):	Not Applicable

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ISIN:	XS2081570785
Common Code:	208157078

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## NOTICE TO INVESTORS

The Issuer is a government-controlled judicial entity established pursuant to The Korea Railroad Corporation Act of 2005, as amended, and is required under the Act on the Management of Public Agencies and regulations thereunder to publicly disclose its annual financial statements and management information, subject to certain limitations according to public or national security interest. However, as there is no obligation under Korean law for the Issuer to prepare such information in English, there is limited publicly available information about the Issuer in English.

## **LISTING APPLICATION**

This Pricing Supplement comprises the final terms required to list the issue of Notes described herein pursuant to the U.S.\$2,000,000,000 Medium Term Note Program of Korea Railroad Corporation.

## **TPEX LISTING**

Application will be made to the TPEX for the listing of, and permission to deal in, the Notes by way of debt issues to professional investors as defined under Paragraph 1, Article 2-1 of the Taipei Exchange Rules Governing Management of Foreign Currency Denominated International Bonds of the ROC only and such permission is expected to become effective on or about November 29, 2019.

TPEX is not responsible for the contents of this Pricing Supplement, the Offering Circular or any supplement or amendment thereto and no representation is made by TPEX as to the accuracy or completeness of this Pricing Supplement, the Offering Circular or any supplement or amendment thereto. TPEX expressly disclaims any and all liabilities for any losses arising from, or as a result of, the reliance on, all or part of the contents of this Pricing Supplement, the Offering Circular and/or any supplement or amendment thereto. Admission for listing and trading of the Notes on the TPEX is not to be taken as an indication of the merits of the Issuer or the Notes. No assurance can be given that such applications will be granted. If the Notes fail to or cease to be listed on the TPEX, certain investors may not invest in, or continue to hold or invest in, the Notes.

## **LISTING ON THE SGX-ST**

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

## APPENDIX A: TERMS AND CONDITIONS OF THE NOTES

*For purposes of the Notes offered hereby, the section “Terms and Conditions of the Notes” in the Offering Circular is modified as set forth below, and all references to “Terms and Conditions” and “Conditions” in the Offering Circular, this Pricing Supplement and the Notes shall be deemed to be to the Terms and Conditions and the Conditions as so modified. To the extent that the provisions set forth below are inconsistent with the provisions set forth under “Terms and Conditions of the Notes” in the Offering Circular, the provisions set forth below shall prevail.*

### Condition 6 – Interest

#### ***(b) Interest on Floating Rate Notes***

##### (ii) Rate of Interest

##### (B) Screen Rate Determination for Floating Rate Notes

- (2) If the Relevant Screen Page is not available (other than as a result of a Benchmark Transition Event) or, if in the case of Condition 6(b)(ii)(B)(1)(A) above, no such offered quotation appears or, in the case of Condition 6(b)(ii)(B)(1)(B) above, fewer than three such offered quotations appear, in each case as at the time specified in the preceding paragraph the Determination Agent shall request each of the Reference Banks (as defined below) to provide the Determination Agent with its offered quotation (expressed as a percentage rate per annum) for the Reference Rate at approximately 11:00 a.m. (London time, in the case of LIBOR, or Brussels time, in the case of EURIBOR or Hong Kong time, in the case of HIBOR) on the Interest Determination Date in question. If two or more of the Reference Banks provide the Determination Agent with such offered quotations, the Rate of Interest for such Interest Period shall be the arithmetic mean (rounded if necessary to the fifth decimal place with 0.000005 being rounded upwards) of such offered quotations plus or minus (as appropriate) the Margin (if any), all as determined by the Calculation Agent.

##### (vii) Effect of Benchmark Transition Event

##### (A) Benchmark Replacement

If the Issuer or its designee (as defined below) determines that a Benchmark Transition Event (as defined below) and its related Benchmark Replacement Date (as defined below) have occurred prior to the Reference Time (as defined below) in respect of any determination of the Benchmark (as defined below) on any date, the Benchmark Replacement (as defined below) will replace the then-current Benchmark for all purposes relating to the applicable Notes in respect of such determination on such date and all determinations on all subsequent dates.

##### (B) Benchmark Replacement Conforming Changes

In connection with the implementation of a Benchmark Replacement, the Issuer or its designee will have the right to make Benchmark Replacement Conforming Changes (as defined below) from time to time.

At the request of the Issuer, but subject to receipt by the Agents of a certificate signed by two duly authorized officers of the Issuer pursuant to Condition 6(b)(vii)(D) and at least five London banking days' prior thereof, the Agents shall (at the expense of the Issuer), without any requirement for the consent or approval of Noteholders, be obliged to concur with the Issuer in effecting any Benchmark Replacement Conforming Changes (including, inter alia, by amending or supplementing the Agency Agreement), provided that the Agents shall not be obliged so to concur if, in the opinion of any of the Agents, doing so would impose more onerous obligations upon it or expose it to any additional duties, responsibilities or liabilities or reduce or amend the protective provisions afforded to the Agents in these Conditions or the Agency Agreement (including, for the avoidance of doubt, any supplemental agency agreement) in any way.

In connection with any Benchmark Replacement Conforming Changes in accordance with this Condition 6(b)(vii)(B), the Issuer shall comply with the rules of any stock exchange on which the applicable Notes are for the time being listed or admitted to trading.

(C) Decisions and Determinations

Any determination, decision or election that may be made by the Issuer or its designee pursuant to this Condition 6(b)(vii), including any determination with respect to a tenor, rate or adjustment or of the occurrence or non-occurrence of an event, circumstance or date and any decision to take or refrain from taking any action or any selection, will be conclusive and binding absent manifest error, may be made in the Issuer's or its designee's sole discretion, and, notwithstanding anything to the contrary in these Conditions or the Agency Agreement, shall become effective with respect to the applicable Notes without consent from any other party. None of the Agents shall have any responsibility or liability whatsoever with respect to any such determination, decision or election.

(D) Notices, etc.

Any Benchmark Replacement (including any Benchmark Replacement Adjustment) and the specific terms of any Benchmark Replacement Conforming Changes determined under this Condition 6(b)(vii) will be notified promptly by the Issuer to the Principal Paying Agent and, in accordance with Condition 15 (Notices), the Noteholders. Such notice shall be irrevocable and shall specify the effective date of the Benchmark Replacement Conforming Changes, if any.

No later than notifying the Principal Paying Agent of the same, the Issuer shall deliver to the Agents a certificate signed by two duly authorized officers of the Issuer:

- (1) confirming (x) that a Benchmark Transition Event has occurred and (y) the Benchmark Replacement (including any Benchmark Replacement Adjustment) and the specific terms of any Benchmark Replacement Conforming Changes, in each case as determined in accordance with the provisions of this Condition 6(b)(vii); and
- (2) certifying that the Benchmark Replacement Conforming Changes are necessary to ensure the proper operation of the Benchmark Replacement.

The Agents shall be entitled to rely on such certificate conclusively (without liability to any person including the Noteholders) as sufficient evidence thereof.

(E) Survival of Original Reference Rate

Without prejudice to the obligations of the Issuer under Condition 6(b)(vii)(A), (B), (C) and (D), the Benchmark and the fallback provisions provided for in the Agency Agreement will continue to apply unless and until the Principal Paying Agent and the other Agents have been notified of the Benchmark Replacement (including any Benchmark Replacement Adjustment) and the specific terms of any Benchmark Replacement Conforming Changes, in accordance with Condition 6(b)(vii)(D).

(F) Certain Defined Terms

As used in this Condition 6(b)(vii):

“**Benchmark**” means, initially, LIBOR (if LIBOR is specified as the Reference Rate in the applicable Pricing Supplement); provided that if a Benchmark Transition Event and its related Benchmark Replacement Date have occurred with respect to LIBOR or the then-current Benchmark, then “**Benchmark**” means the applicable Benchmark Replacement.

“**Benchmark Replacement**” means the Interpolated Benchmark; provided that if the Issuer or its designee cannot determine the Interpolated Benchmark as of the Benchmark Replacement Date, then “**Benchmark Replacement**” means the first alternative set forth in the order below that can be determined by the Issuer or its designee as of the Benchmark Replacement Date:

- (1) the sum of: (x) Term SOFR and (y) the Benchmark Replacement Adjustment;
- (2) the sum of: (x) Compounded SOFR and (y) the Benchmark Replacement Adjustment;
- (3) the sum of: (x) the alternate rate of interest that has been selected or recommended by the Relevant Governmental Body as the replacement for the then-current Benchmark for the applicable Corresponding Tenor and (y) the Benchmark Replacement Adjustment;
- (4) the sum of: (x) the ISDA Fallback Rate and (y) the Benchmark Replacement Adjustment;
- (5) the sum of: (x) the alternate rate of interest that has been selected by the Issuer or its designee as the replacement for the then-current Benchmark for the applicable Corresponding Tenor giving due consideration to any industry-accepted rate of interest as a replacement for the then-current Benchmark for U.S. dollar- denominated floating rate notes at such time and (y) the Benchmark Replacement Adjustment.

“**Benchmark Replacement Adjustment**” means the first alternative set forth in the order below that can be determined by the Issuer or its designee as of the Benchmark Replacement Date:

- (1) the spread adjustment, or method for calculating or determining such spread adjustment, (which may be a positive or negative value or zero) that has been selected or recommended by the Relevant Governmental Body for the applicable Unadjusted Benchmark Replacement;



- (2) if the applicable Unadjusted Benchmark Replacement is equivalent to the ISDA Fallback Rate, then the ISDA Fallback Adjustment;
- (3) the spread adjustment (which may be a positive or negative value or zero) that has been selected by the Issuer or its designee giving due consideration to any industry-accepted spread adjustment, or method for calculating or determining such spread adjustment, for the replacement of the then-current Benchmark with the applicable Unadjusted Benchmark Replacement for U.S. dollar-denominated floating rate notes at such time.

**“Benchmark Replacement Conforming Changes”** means, with respect to any Benchmark Replacement, any technical, administrative or operational changes (including changes to the definition of “Interest Period,” timing and frequency of determining rates and making payments of interest, changes to the definition of “Corresponding Tenor” solely when such tenor is longer than the Interest Period and other administrative matters) with respect to these Conditions, the Agency Agreement or otherwise that the Issuer or its designee decides may be appropriate to reflect the adoption of such Benchmark Replacement in a manner substantially consistent with market practice (or, if the Issuer or its designee decides that adoption of any portion of such market practice is not administratively feasible or if the Issuer or its designee determines that no market practice for use of the Benchmark Replacement exists, in such other manner as the Issuer or its designee determines is reasonably necessary).

**“Benchmark Replacement Date”** means the earliest to occur of the following events with respect to the then-current Benchmark:

- (1) in the case of clause (1) or (2) of the definition of “Benchmark Transition Event,” the later of (x) the date of the public statement or publication of information referenced therein and (y) the date on which the administrator of the Benchmark permanently or indefinitely ceases to provide the Benchmark; or
- (2) in the case of clause (3) of the definition of “Benchmark Transition Event,” the date of the public statement or publication of information referenced therein.

For the avoidance of doubt, if the event giving rise to the Benchmark Replacement Date occurs on the same day as, but earlier than, the Reference Time in respect of any determination, the Benchmark Replacement Date will be deemed to have occurred prior to the Reference Time for such determination.

**“Benchmark Transition Event”** means the occurrence of one or more of the following events with respect to the then-current Benchmark:

- (1) a public statement or publication of information by or on behalf of the administrator of the Benchmark announcing that such administrator has ceased or will cease to provide the Benchmark, permanently or indefinitely, provided that, at the time of such statement or publication, there is no successor administrator that will continue to provide the Benchmark;

- (2) a public statement or publication of information by the regulatory supervisor for the administrator of the Benchmark, the central bank for the currency of the Benchmark, an insolvency official with jurisdiction over the administrator for the Benchmark, a resolution authority with jurisdiction over the administrator for the Benchmark or a court or an entity with similar insolvency or resolution authority over the administrator for the Benchmark, which states that the administrator of the Benchmark has ceased or will cease to provide the Benchmark permanently or indefinitely, provided that, at the time of such statement or publication, there is no successor administrator that will continue to provide the Benchmark; or
- (3) a public statement or publication of information by the regulatory supervisor for the administrator of the Benchmark announcing that the Benchmark is no longer representative.

**“Compounded SOFR”** means the compounded average of SOFRs for the applicable Corresponding Tenor, with the rate, or methodology for this rate, and conventions for this rate (which will be compounded in arrears with a lookback and/or suspension period as a mechanism to determine the interest amount payable prior to the end of each Interest Period) being established by the Issuer or its designee in accordance with:

- (1) the rate, or methodology for this rate, and conventions for this rate selected or recommended by the Relevant Governmental Body for determining compounded SOFR; provided that:
- (2) if, and to the extent that, the issuer or its designee determines that Compounded SOFR cannot be determined in accordance with clause (1) above, then the rate, or methodology for this rate, and conventions for this rate that have been selected by the issuer or its designee giving due consideration to any industry-accepted market practice for U.S. dollar-denominated floating rate notes at such time.

Notwithstanding the foregoing, Compounded SOFR will include a describe lookback and/or suspension period as a mechanism to determine the interest amount payable prior to the end of each Interest Period.

**“Corresponding Tenor”** with respect to a Benchmark Replacement means a tenor (including overnight) having approximately the same length (disregarding business day adjustment) as the applicable tenor for the then-current Benchmark.

**“designee”** means a designee as selected and separately appointed by the Issuer in writing.

**“Federal Reserve Bank of New York’s Website”** means the website of the Federal Reserve Bank of New York at <http://www.newyorkfed.org>, or any successor source.

**“Interpolated Benchmark”** with respect to the Benchmark means the rate determined for the Corresponding Tenor by interpolating on a linear basis between: (x) the Benchmark for the longest period (for which the Benchmark is available) that is shorter than the Corresponding Tenor and (y) the Benchmark for the shortest period (for which the Benchmark is available) that is longer than the Corresponding Tenor.

**“ISDA Definitions”** means the 2006 ISDA Definitions published by the International Swaps and Derivatives Association, Inc. or any successor thereto, as amended or supplemented from time to time, or any successor definitional booklet for interest rate derivatives published from time to time.

**“ISDA Fallback Adjustment”** means the spread adjustment, (which may be a positive or negative value or zero) that would apply for derivatives transactions referencing the ISDA Definitions to be determined upon the occurrence of an index cessation event with respect to the Benchmark for the applicable tenor.

**“ISDA Fallback Rate”** means the rate that would apply for derivatives transactions referencing the ISDA Definitions to be effective upon the occurrence of an index cessation date with respect to the Benchmark for the applicable tenor excluding the applicable ISDA Fallback Adjustment.

**“Reference Time”** with respect to any determination of the Benchmark means (x) if the Benchmark is LIBOR, 11:00 a.m. (London time) on the day that is two London banking days preceding the date of such determination, and (y) if the Benchmark is not LIBOR, the time determined by the Issuer or its designee in accordance with the Benchmark Replacement Conforming Changes.

**“Relevant Governmental Body”** means the Federal Reserve Board and/or the Federal Reserve Bank of New York, or a committee officially endorsed or convened by the Federal Reserve Board and/or the Federal Reserve Bank of New York or any successor thereto.

**“SOFR”** with respect to any day means the secured overnight financing rate published for such day by the Federal Reserve Bank of New York, as the administrator of the benchmark, (or a successor administrator) on the Federal Reserve Bank of New York’s Website.

**“Term SOFR”** means the forward-looking term rate for the applicable Corresponding Tenor based on SOFR that has been selected or recommended by the Relevant Governmental Body.

**“Unadjusted Benchmark Replacement”** means the Benchmark Replacement excluding the Benchmark Replacement Adjustment.

(G) Other

Notwithstanding any other provision of this Condition 6(b)(vii), the Calculation Agent is not obliged to concur with the Issuer or its designee in respect of any changes or amendments as contemplated under this Condition 6(b)(vii) which, in the sole opinion of the Calculation Agent, would have the effect of (x) exposing the Calculation Agent to any liability against which it has not been indemnified and/or secured and/or prefunded to its satisfaction or (y) increasing the obligations or duties, or decreasing the rights or protections, of the Calculation Agent in the Agency Agreement and/or these Conditions.

Notwithstanding any other provision of this Condition 6(b)(vii), if in the opinion of the Calculation Agent there is any uncertainty between two or more alternative courses of action in making any determination or calculation under this Condition 6(b)(vii), the Calculation Agent shall promptly notify the Issuer thereof and the Issuer or its designee shall direct the Calculation Agent in writing as to which alternative course of action to adopt. If the Calculation Agent is not promptly provided with such direction, or is otherwise unable to make such calculation or determination for any reason, it shall notify the Issuer thereof and the Calculation Agent shall be under no obligation to make such calculation or determination and shall not incur any liability for not doing so.

## APPENDIX B: AMENDMENTS TO THE OFFERING CIRCULAR

*This section provides information that supplements or replaces certain information about the Issuer or the Program under the headings corresponding to the headings below in the Offering Circular. Capitalized terms used in this section or elsewhere in this Pricing Supplement have the meanings given to them in the Offering Circular. If the information in this section differs from the information in the Offering Circular, you should rely on the information in this section.*

### SUMMARY

#### Recent Developments

##### *Safety and Capital Improvement Projects*

On December 8, 2018, a KTX train bound for Seoul derailed from the tracks shortly after leaving Gangneung Station, injuring 15 passengers and a KTX employee. The derailment accident followed a number of train malfunctions on rails operated by the Issuer in November 2018, including the collision of a KTX train into an excavator in Seoul Station and the power failure of a KTX train in Osong Station.

In the wake of such series of accidents, on December 11, 2018, Mr. Young-sik Oh resigned from his post as President and Chief Executive Officer (“CEO”). On March 27, 2019, Mr. Byeong-seok Son was appointed as the new CEO. As an expert in the rail industry, Mr. Son previously served as Vice Minister of Land, Infrastructure and Transport and Head of the Planning and Coordination Office of the Ministry of Land, Infrastructure and Transport. Since the appointment of Mr. Son, the Issuer has taken various measures to improve the safety and stability of its train operations. In September 2019, the Issuer announced that it would invest approximately Won 8.7 trillion in safety and capital improvement projects over the span of five years in response to recommendations provided by the Board of Audit and Inspection of Korea (“BAI”) following its safety audit of the Issuer, which also resulted in a fine of Won 600 million.

The Issuer aims to replace aging carriages, maintain and improve facilities and strengthen safety management with the goal of preventing accidents, such as the collision of a train and railroad maintenance workers near Miryang station in October 2019, which resulted in a death of one worker and injury of two others.

##### *Labor Relations*

In October 2019, the Issuer’s labor unions engaged in a 72-hour partial strike, which was the first strike by the Issuer’s labor union in three years, after a series of negotiations between the labor unions and the Issuer were unsuccessful in resolving issues related to pay, benefits and working conditions. While the labor unions have threatened a general strike if their demands are not met, the Issuer is continuing to negotiate with the labor unions to avoid any further strikes and service disruptions.

##### *Results of Operations*

*Six months ended June 30, 2019 compared to six months ended June 30, 2018*

The Issuer’s reviewed consolidated interim financial statements as of June 30, 2019 and for the six months ended June 30, 2019 and 2018 (“**2019 1H Financial Statements**”) are in Korean and publicly available on the All Public Information In-One website of the Ministry of Economy and Finance. The Issuer does not prepare its interim financial statements in English.

The Issuer recorded an operating profit in the six months ended June 30, 2019 compared to an operating loss in the six months ended June 30, 2018 primarily due to an increase in revenue derived from an increase in passenger ridership. The Issuer's net loss decreased in the six months ended June 30, 2019 compared to the six months ended June 30, 2018 primarily due to an increase in finance income.

The summary of the Issuer's operating results in the preceding paragraph is for information purposes only, and investors should rely on the 2019 1H Financial Statements and the related notes and review report thereto in understanding the Issuer's financial condition and results of operation as of June 30, 2019 and for the six months ended June 30, 2019 and 2018. The 2019 1H Financial Statements are not incorporated into, and do not form a part of, the Pricing Supplement.

#### *2018 compared to 2017*

The Issuer's English language restated audited consolidated annual financial statements as of and for the years ended December 31, 2018 and 2017 ("**2018 Financial Statements**") are included elsewhere in the Pricing Supplement. As described in Note 52 of the notes to the 2018 Financial Statements, the Issuer restated its consolidated financial statements as of and for the year ended December 31, 2018 to correct the accounting treatment of deferred tax pursuant following an audit by BAI.

The Issuer's operating loss decreased in 2018 compared to 2017 primarily due to an increase in revenue derived from an increase in passenger ridership. The Issuer's net loss decreased in 2018 compared to 2017.

## MANAGEMENT

### Board of Directors

The names, titles, and outside occupations, if any, of the Issuer's Standing Directors and Non-Standing Directors, and the respective dates on which they took office, are set forth below.

<b>Name</b>	<b>Title/Position</b>	<b>Other Activities, If Any</b>	<b>Position Held Since</b>
Son, Byeong-seok	Standing Director, President and CEO	N/A	March 27, 2019
Kang, Sung-soo	Standing Director and Statutory Auditor	N/A	March 27, 2019
Jeong, Wang-guk	Standing Director and Vice President	N/A	June 5, 2019
Yang, Woon-hak	Standing Director and Director of Passenger Business Headquarter	N/A	September 9, 2019
Jung, Hyun-woo	Standing Director and Director of Metropolitan Railroad Headquarter	N/A	September 9, 2019
Cho, Dae-sig	Standing Director and Director of Engineering Headquarter	N/A	September 9, 2019
Kim, Jung-sun	Non-Standing Director	President of Neo Cross Structure Engineering, Co. Ltd. Director of technology division at the Cross Structural Consultant Co., Ltd. Member of Architecture Committee and Safety Management Advisory Committee of Seoul Member of Central Architecture Engineering Audit Committee at the MOLIT	December 10, 2018
Kim, Jung-geun	Non-Standing Director	N/A	May 23, 2018
Lee, Jong-kuk	Non-Standing Director	N/A	May 23, 2018
Oh, Keon-ho	Non-Standing Director	N/A	May 23, 2018
Lee, Choong-nam	Non-Standing Director	N/A	May 23, 2018
Park, Gong-woo	Non-Standing Director	Managing Partner of the Law Office Siwoo	December 10, 2018
Kim, Hyun-min	Non-Standing Director	Accountant at Anse Accounting Firm	December 10, 2018
Kang, Ju-eon	Non-Standing Director	N/A	February 11, 2019

### *Standing Directors*

*Son, Byeong-seok* has been a Standing Director, CEO and President since March 27, 2019. Mr. Son received a Bachelor's degree and a Master's degree in Architecture from Seoul National University. He previously served as Vice Minister for Land and Infrastructure, Head of the Planning and Coordination Office and Head of the Railway Bureau at the MOLIT, among other positions in the

MOLIT.

*Jeong, Wang-guk* has been a Standing Director and Vice President since June 5, 2019. Mr. Jeong received a Bachelor's degree in Railroad Management from Korea National Railroad College, a Bachelor's degree in Public Administration in Korea National Open University, a Master's degree in Business Administration from Chungnam National University and a Ph.D. degree in Rail Systems from Woosong University. He previously served as director of Management Innovation Office, director of Management Coordination Department, director of Audit and Inspection Office, director of Jeonnam Office and head of Secretary Department.

*Yang, Woon-hak* has been a Standing Director and Director of Passenger Transport Headquarter since September 9, 2019. Mr. Yang received a Bachelor's degree in Business Administration from Korea National Railroad College, a Bachelor's Degree in Public Administration in Korea National Open University and a Master's degree in Business Administration from Woosong University. He previously served as director of Research Department, director of Seoul Office, director of Daejeon Chungnam Office, director of Jeonbuk Office and director of Management Innovation Office.

*Jung, Hyun-woo* has been a Standing Director and Director of Metropolitan Railroad Headquarter since September 9, 2019. Mr. Jung received a Bachelor's degree in Business Administration from National Institute for Lifelong Education and a Master's degree in Rolling Stock Engineering from Seoul National University of Science and Technology. He previously served as director of Busan Rail Car Maintenance Department and director of Rolling Stock Engineering Department, among other positions.

*Cho, Dae-sig* has been a Standing Director and Director of Engineering Headquarter since September 9, 2019. Mr. Cho received a Bachelor's degree in Public Administration from Korea National Open University and a Master's degree in Business Administration from Daejeon University. He previously served as director of Eastern Metropolitan Office, director of Western Metropolitan Office, director of Chungbuk Office and director of Transport and Control Office, among other positions.

### ***Non-Standing Directors***

*Kim, Jung-sun* has been a Non-Standing Director since December 10, 2018. Ms. Kim received a Bachelor's degree and a Master's degree in Architecture from Yonsei University. She serves as the president of Neo Cross Structure Engineering, Co. Ltd., director of technology division at the Cross Structural Consultant Co., Ltd., a member of Architecture Committee and Safety Management Advisory Committee of Seoul, and a member of Central Architecture Engineering Audit Committee at the MOLIT.

*Kim, Jung-geun* has been a Non-Standing Director since May 23, 2018. Mr. Kim has previously served as special labor adviser to President Moon Jae-in, chairman of World Labor Movement History Initiative and director of Korean Confederation of Trade Unions.

*Lee, Jong-kuk* has been a Non-Standing Director since May 23, 2018. Mr. Lee received a Bachelor's degree in Electronic Engineering from Pukyong National University, a Master's degree in Business Administration from Dong-a University, another Master's degree in Information and Communication Engineering from Korea Aerospace University and a Ph.D. degree in Business Administration from Seoul National University of Science and Technology. He has previously served as deputy head of Korea Agency for Infrastructure Technology Advancement and head of the Busan Regional Office of Aviation of the MOLIT, among other positions in the MOLIT.

*Oh, Keon-ho* has been a Non-Standing Director since May 23, 2018. Mr. Oh received a Bachelor's degree, a Master's degree and a Ph.D. degree in Sociology from Seoul National



University. He has previously served as research director of Global Political Economy Institute, research director of Public Policy Institute for People and expert member of the Democratic Labor Party.

*Lee, Choong-nam* has been a Non-Standing Director since May 23, 2018. Mr. Lee received a Bachelor's degree in Korean Linguistics and Literature from Hanyang University. He has previously served as chairman of the special committee in real estate policy for the 19th presidential election and CEO of New Enertech.

*Park, Gong-woo* has been a Non-Standing Director since December 10, 2018. Mr. Park received a Bachelor's degree in Law from Yonsei University. He is currently the Managing Partner of the Law Office Siwoo. He previously served as the legal adviser of Gyeonggi Provincial Office of Education, standing auditor of Korea SMEs and Startups Agency and advisory member of the Presidential Committee for Balanced National Development.

*Kim, Hyun-min* has been a Non-Standing Director since December 10, 2018. Ms. Kim received a Bachelor's degree in Business Administration from Hanyang University. She is a certified accountant at Anse Accounting Firm. She served previously as Management Consultant at Hyundai AutoEver and at PwC Consulting and as a certified accountant at E&Y Han Young.

*Kang, Ju-eon* has been a Non-Standing Director since February 11, 2019. Ms. Kang received a Bachelor's degree in Media Arts and Science from Korea National Open University and a Master's degree in Political Science from Sungkonghoe University. She has previously served as researcher for the Communication Consulting and Clinic, Co., Ltd.

#### ***Statutory Auditor***

*Kang, Sung-soo* has been a Standing Director and Statutory Auditor since March 27, 2019. Mr. Kang received a Bachelor's degree in Public Administration from Jeonbuk National University. He has previously served as manager of the Social Welfare Audit Bureau, manager of the Special Investigations Bureau, manager of Financial Management and Economy Audit Bureau and manager of Audit Requests Investigation Bureau at the Board of Audit and Inspection.

## **TAXATION**

### **Republic of China**

*The following summary of certain taxation provisions under ROC law is based on current law and practice and assumes that the Notes will be issued, offered, sold and re-sold, directly or indirectly, to professional investors as defined under Paragraph 1, Article 2-1 of the Taipei Exchange Rules Governing Management of Foreign Currency Denominated International Bonds of the ROC only. It does not purport to be comprehensive and does not constitute legal or tax advice. Investors (particularly those subject to special tax rules, such as banks, dealers, insurance companies and tax-exempt entities) should consult with their own tax advisers regarding the tax consequences of an investment in the Notes.*

#### ***Interest on the Notes***

As the Issuer of the Notes is not an ROC statutory tax withholder, there is no ROC withholding tax on the interest or deemed interest to be paid by the Issuer on the Notes.

Payments of any interest or deemed interest under the Notes to a ROC individual holder are not subject to ROC income tax as such payments received by him/her are not considered to be ROC sourced income. However, such holder must include the interest or deemed interest in calculating his/her basic income for the purpose of calculating his/her alternative minimum tax (“AMT”), unless the sum of the interest or deemed interest and other non-ROC sourced income received by such holder and the person(s) who is (are) required to jointly file the tax return in a calendar year is below 1 million New Taiwan Dollars (“NT\$”). If the amount of the AMT exceeds the annual income tax calculated pursuant to the ROC Income Basic Tax Act (also known as the AMT Act), the excess becomes such holder's AMT payable.

ROC corporate holders must include any interest or deemed interest receivable under the Notes as part of their taxable income and pay income tax at a flat rate of 20% (unless the total taxable income for a fiscal year is under NT\$500,000), as they are subject to income tax on their worldwide income on an accrual basis. The AMT is not applicable.

#### ***Sale of the Notes***

In general, the sale of corporate bonds or financial bonds is subject to a 0.1% securities transaction tax (“STT”) on the transaction price. However, Article 2-1 of the Securities Transaction Tax Act prescribes that STT will cease to be levied on the sale of corporate bonds and financial bonds from January 1, 2010 to December 31, 2026. Therefore, the sale of the Notes will be exempt from STT if the sale is conducted on or before December 31, 2026. Starting from January 1, 2027, any sale of the Notes will be subject to STT at 0.1% of the transaction price, unless otherwise provided by the tax laws that may be in force at that time.

Capital gains generated from the sale of Notes are exempt from income tax. Accordingly, ROC individual and corporate holders are not subject to income tax on any capital gains generated from the sale of the Notes. In addition, ROC individual holders are not subject to AMT on any capital gains generated from the sale of the Notes. However, ROC corporate holders should include the capital gains in calculating their basic income for the purpose of calculating their AMT. If the amount of the AMT exceeds the annual income tax calculated pursuant to the ROC Income Basic Tax Act (also known as the AMT Act), the excess becomes the ROC corporate holders' AMT payable. Capital losses, if any, incurred by such holders could be carried over five years to offset against capital gains of the same category of income for the purposes of calculating their AMT.

Non-ROC corporate holders with a fixed place of business (e.g., a branch) or a business agent in the ROC are not subject to income tax on any capital gains generated from the sale of the Notes.

However, their fixed place of business or business agent should include any such capital gains in calculating their basic income for the purpose of calculating AMT.

As to non-ROC corporate holders without a fixed place of business and a business agent in the ROC, they are not subject to income tax or AMT on any capital gains generated from the sale of the Notes.

## **BOOK-ENTRY CLEARANCE SYSTEMS**

### **Book-entry Systems**

#### ***ROC Trading and Settlement***

The Issuer has not entered into any settlement agreement with Taiwan Depository & Clearing Corporation (“**TDCC**”) and has no intention to do so.

In the future, if the Issuer enters into a settlement agreement with TDCC, an investor, if it has a securities book-entry account with a Taiwan securities broker and a foreign currency deposit account with a Taiwanese bank, may settle the Notes through the account of TDCC with Euroclear or Clearstream if it applies to TDCC (by filing in a prescribed form) to transfer the Notes in its own account with Euroclear or Clearstream to such TDCC account with Euroclear or Clearstream for trading in the domestic market or vice versa for trading in overseas markets. For settlement through TDCC, TDCC will allocate the respective Notes position to the securities book-entry account designated by such investor in the ROC. The Notes will be traded and settled pursuant to the applicable rules and operating procedures of TDCC and the TPEx as domestic bonds. For such investors who hold their interest in the Notes through an account opened and held by TDCC with Euroclear or Clearstream, distributions of principal and/or interest for the Notes to such holders may be made by payment services banks whose systems are connected to TDCC to the foreign currency deposit accounts of the holders. Such payment is expected to be made on the second Taiwanese business day following TDCC’s receipt of such payment (due to time difference, the payment is expected to be received by TDCC one Taiwanese business day after the distribution date). However, when the holders actually receive such distributions may vary depending upon the daily operations of the Taiwanese banks with which the holder has the foreign currency deposit account.

## SUBSCRIPTION AND SALE AND TRANSFER AND SELLING RESTRICTIONS

### Selling Restrictions

#### *European Economic Area*

If the Pricing Supplement in respect of any Notes specifies “Prohibition of Sales to EEA Retail Investors” as “Not Applicable”, in relation to each Member State, each Dealer has represented and agreed, and each further Dealer appointed under the Program will be required to represent and agree, that it has not made and will not make an offer of Notes which are the subject of an offering contemplated by this Offering Circular as completed by the Pricing Supplement in relation thereto to the public in that Member State, except that it may make an offer of Notes to the public in that Member State:

- (a) if the Pricing Supplement in relation to the Notes specifies that an offer of those Notes may be made other than pursuant to Article 1(4) of the EU Prospectus Regulation ( Regulation (EU) 2017/1129, the “**Prospectus Regulation**”) in that Member State (a “**Non-exempt Offer**”), following the date of publication of a prospectus in relation to such Notes which has been approved by the competent authority in that Member State or, where appropriate, approved in another Member State and notified to the competent authority in that Member State, **provided that** any such prospectus has subsequently been completed by the Pricing Supplement contemplating such Non-exempt Offer, in accordance with the Prospectus Regulation, in the period beginning and ending on the dates specified in such prospectus or Pricing Supplement, as applicable and the Issuer has consented in writing to its use for the purpose of that Non-exempt Offer;
- (b) at any time to any legal entity which is a qualified investor as defined in the Prospectus Regulation;
- (c) at any time to fewer than 150, natural or legal persons (other than qualified investors as defined in the Prospectus Regulation) as permitted under the Prospectus Regulation, subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or
- (d) at any time in any other circumstances falling within Article 1(4) of the Prospectus Regulation,

**provided that** no such offer of Notes referred to in (b) to (d) above shall require the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Regulation or supplement a prospectus pursuant to Article 23 of the Prospectus Regulation.

#### *Republic of China*

The Notes have not been, and shall not be, offered, sold or resold, directly or indirectly, to investors other than “professional investors” as defined under Paragraph 1, Article 2-1 of the Taipei Exchange Rules Governing Management of Foreign Currency Denominated International Bonds of ROC, which currently include:

- (a) a “professional institutional investor” as defined under Paragraph 2, Article 4 of the Financial Consumer Protection Act of the ROC, which currently includes: (i) overseas or domestic banks, securities firms, futures firms and insurance companies (excluding insurance agencies, insurance brokers and insurance surveyors), the foregoing as further defined in more detail in Paragraph 3, Article 2 of the Financial Supervisory Commission Organization Act, (ii) overseas or domestic fund management companies, government investment institutions, government funds, pension funds, mutual funds, unit trusts, and funds managed by financial service enterprises pursuant to the ROC Securities Investment Trust and Consulting Act, the ROC Future Trading Act or the ROC Trust Enterprise Act or investment assets mandated and delivered by or transferred for trust by financial consumers, and (iii) other institutions recognized by the Financial Supervisory Commission of the ROC;
- (b) a legal entity or fund having applied in writing to a securities firm for the status of a professional investor that meets all of the following three criteria: (i) its total assets exceed NT\$50,000,000 according to its most recent CPA-audited or reviewed financial report, provided that the financial report of a non-ROC offshore legal entity is not required to be audited or reviewed by the CPA, (ii) the person authorized by the investor to handle trades has sufficient professional knowledge and trading experience in bonds, and (iii) it fully understands that the securities firm is exempted from certain responsibilities towards professional investors in connection with bond trading activities and agrees to sign up as a professional investor; and
- (c) a natural person who has applied in writing to a securities firm for the status of professional investor and who meets all of the following three criteria: (i)(x) he/she has provided a proof of financial capacity of at least NT\$30,000,000, or, (y) he/she has made a single trade, the transaction amount of which is higher than NT\$3,000,000, and his/her total assets and investments booked at and made through such securities firm are higher than NT\$15,000,000 and has provided a statement certifying that the value of his/her total assets exceeds NT\$30,000,000, (ii) he/she has sufficient professional knowledge and trading experience in bonds, and (iii) he/she fully understands that the securities firm is exempted from certain responsibilities toward professional investors in connection with bond trading activities and agrees to sign up as a professional investor.

Purchasers of the Notes are not permitted to sell or otherwise dispose of the Notes except by transfer to the aforementioned professional investors.

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Audited Annual Consolidated Financial Statements as of and for the years ended December 31, 2018 and 2017

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- Consolidated Statements of Changes in Equity
- Consolidated Statements of Cash Flows
- Notes to the Consolidated Financial Statements

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**KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES**

**Consolidated Financial Statements**

**December 31, 2018 and 2017**

**(With Independent Auditors' Report Thereon)**

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# **Independent Auditors' Report**

Based on a report originally issued in Korean

To the Shareholder and Board of Directors of  
Korea Railroad Corporation

## ***Opinion***

We have audited the consolidated financial statements of Korea Railroad Corporation and its subsidiaries ("the Group"), which comprise the consolidated statements of financial position as of December 31, 2018 and 2017, the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with Korean Government-owned and Quasi-government Accounting Regulations and Standards.

## ***Basis for Opinion***

We conducted our audits in accordance with Korean Standards on Auditing (KSAs). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Republic of Korea, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## ***Emphasis of Matter***

We draw attention to Note 52 to the consolidated financial statements, which states that the consolidated financial statements as of and for the year ended December 31, 2018 have been restated. As a result, income tax benefit decreased from ₩ 624,789 million to ₩230,527 million, and deferred tax liabilities increased from ₩ 19,802 million to ₩414,064 million as of and for the year ended December 31, 2018. Our opinion is not modified in respect of this matter.

### ***Other Matter***

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.

The accompanying consolidated financial statements have been restated by the Company as disclosed in Note 52 to the consolidated financial statements and we have reissued this audit report on the restated consolidated financial statements. Therefore, our audit report dated March 4, 2018 is no longer valid and can no longer be used in conjunction with the Company's 2018 consolidated financial statements.

### ***Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements***

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with Korean Government-owned and Quasi-government Accounting Regulations, 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.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

### ***Auditors' Responsibilities for the Audit of the Consolidated Financial Statements***

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with KSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with KSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used in the preparation of the consolidated financial statements and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

*KPMG Samjong Accounting Corp.*

Seoul, Korea

March 4, 2019, except as to Note 52, which is as of July 23, 2019.

This report is effective as of March 4, 2019, except as to Note 52, which is as of July 23, 2019, 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.

# KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

## Consolidated Statements of Financial Position

As of December 31, 2018 and 2017

<i>(In thousands of won)</i>	Notes	2018 (Restated)	2017
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	7,32,45 ₩	647,271,140	481,767,204
Short-term financial instruments	15,44,45	103,748,659	15,203,275
Short-term loans	14,44,45	1,503,543	386,635
Trade receivables and other receivables	10,44,45	492,463,551	885,995,302
Inventories	16,30	286,880,401	247,765,203
Prepaid income taxes		1,618,576	879,212
Current non-financial assets	17,30	14,780,353	42,654,612
Non-current assets held-for-sale	41	78,458,476	38,825,375
		<u>1,626,724,699</u>	<u>1,713,476,818</u>
<b>Non-current assets</b>			
Long-term financial instruments	15,44,45	18,755	18,755
Other comprehensive income - fair value measurement financial assets	12,44,45	43,338,117	-
Non-current available-for-sale financial assets	13,44,45	-	42,220,585
Long-term loans, net	14,44,45	38,686,285	40,092,731
Non-current derivative instrument assets	9,44,45	3,863,614	7,700,483
Long-term trade receivables and other receivables	10,44,45	33,681,333	234,940,830
Property, trains and equipment, net	19,27,30	19,786,912,033	17,357,949,704
Investment property	20,30	367,740,499	277,551,178
Goodwill	22	3,732,906	3,732,906
Intangibles assets, net	23	52,870,666	61,219,503
Investment in associates	18	128,266,085	116,619,255
Deferred tax assets	40	24,746,706	15,700,193
Non-current non-financial assets	17	6,242,433	7,120,110
		<u>20,490,099,432</u>	<u>18,164,866,233</u>
<b>Total assets</b>	₩	<u>22,116,824,131</u>	<u>19,878,343,051</u>

See accompanying notes to the consolidated financial statements.

# KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

## Consolidated Statements of Financial Position, Continued

As of December 31, 2018 and 2017

<i>(In thousands of won)</i>	Notes	2018 (Restated)	2017
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade payables and other payables	24,44,45 ₩	587,011,871	746,568,828
Short-term borrowings	25,44,45	6,781,519	7,999,991
Current portion of long-term borrowings, net	25	30,200,000	55,000,000
Current portion of bonds, net	25	1,681,591,793	1,371,162,536
Current derivative instrument liabilities	9,44,45	22,674,001	24,208,168
Current tax liabilities	40	15,732,998	621,677
Current non-financial liabilities	31	1,073,178,628	259,106,732
Current provisions	29	438,660,504	389,822,573
		<u>3,855,831,314</u>	<u>2,854,490,505</u>
<b>Non-current liabilities</b>			
Long-term trade payables and other payables	24,44,45	44,608,972	39,357,277
Long-term borrowings, net	25,44,45	255,800,000	60,821,938
Bonds, net	25,44,45	9,197,381,413	10,315,531,406
Non-current derivative instrument liabilities	9,44,45	45,894,032	53,827,313
Other non-current financial liabilities	26,44,45	176,087,942	147,500,000
Non-current non-financial liabilities	21,31	17,121,461	13,882,153
Employee benefits	28	979,012,289	863,568,660
Deferred tax liabilities	40	414,064,185	23,131,331
Provisions	29	567,408,560	508,649,364
		<u>11,697,378,854</u>	<u>12,026,269,442</u>
<b>Total liabilities</b>		<u>15,553,210,168</u>	<u>14,880,759,947</u>
<b>Equity</b>			
Share capital	1,32	10,316,843,939	10,246,337,939
Accumulated deficit	33	(9,347,887,346)	(9,227,880,231)
Other equity components	34	5,433,507,491	3,839,421,074
<b>Equity attributable to owner of the Company</b>		<u>6,402,464,084</u>	<u>4,857,878,782</u>
<b>Non-controlling interests</b>		<u>161,149,879</u>	<u>139,704,322</u>
<b>Total equity</b>		<u>6,563,613,963</u>	<u>4,997,583,104</u>
<b>Total liabilities and equity</b>	₩	<u>22,116,824,131</u>	<u>19,878,343,051</u>

See accompanying notes to the consolidated financial statements.

# KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

## Consolidated Statements of Comprehensive Income

For the years ended December 31, 2018 and 2017

<i>(In thousands of won)</i>	Notes	2018 (Restated)	2017
Revenues	6,21,35,43 ₩	6,326,844,747	5,786,708,745
Cost of sales	21,42,43	6,010,137,322	5,917,719,010
<b>Gross profit (loss)</b>		<u>316,707,425</u>	<u>(131,010,265)</u>
Selling, general and administrative expense	36,42	350,611,770	338,901,980
<b>Operating loss</b>	6	<u>(33,904,345)</u>	<u>(469,912,245)</u>
Other revenue	37	23,252,607	14,637,170
Other expenses	37	70,892,612	90,122,587
Other income (loss), net	37	114,037,004	(140,271,290)
Finance income	38,44	64,499,324	132,410,462
Finance expense	38,44	452,984,175	528,461,403
Gains on valuation of investments in associates	18	22,546,735	10,196,185
Losses on valuation of investments in associates	18	(2,060,006)	(91,349,643)
<b>Loss before income taxes</b>		<u>(335,505,468)</u>	<u>(1,162,873,351)</u>
Income tax benefit	40	230,527,226	307,345,371
<b>Loss for the year</b>	₩	<u>(104,978,242)</u>	<u>(855,527,980)</u>
Defined benefit plan actuarial loss, net of tax	₩	(39,695,368)	(13,354,386)
Gains on valuation of equity instruments at FVOCI		209,042	-
Asset revaluation gain, net of tax		1,678,545,123	953,487,906
Unrealized net change in the effective portion of changes in the fair value of cash flow hedges, net of tax		(38,103,260)	3,773,920
Unrealized net change in the fair value of available-for-sale financial assets		-	(101,687)
Changes in equity of equity method investments		(298,998)	1,480,040
<b>Other comprehensive income for the year, net of tax</b>		<u>1,600,656,539</u>	<u>945,285,793</u>
<b>Total comprehensive income for the year</b>	₩	<u>1,495,678,297</u>	<u>89,757,813</u>

See accompanying notes to the consolidated financial statements.



**KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES**

## Consolidated Statements of Comprehensive Income, Continued

For the years ended December 31, 2018 and 2017

<i>(In thousands of won)</i>	<u>Notes</u>	<u>2018</u> <u>(Restated)</u>	<u>2017</u>
<b>Income (loss) attributable to:</b>			
Owner of the Company	₩	(126,737,571)	(874,442,087)
Non-controlling interests		<u>21,759,329</u>	<u>18,914,107</u>
<b>Income (loss) for the year</b>	₩	<u>(104,978,242)</u>	<u>(855,527,980)</u>
<b>Total comprehensive income attributable to:</b>			
Owner of the Company	₩	1,473,534,465	71,598,942
Non-controlling interests		<u>22,143,832</u>	<u>18,158,871</u>
<b>Total comprehensive income for the year</b>	₩	<u>1,495,678,297</u>	<u>89,757,813</u>

See accompanying notes to the consolidated financial statements.

# KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

## Consolidated Statements of Changes in Equity

For the years ended December 31, 2018 and 2017

<i>(In thousands of won)</i>	Common stock	Accumulated deficit	Other equity components	Equity attributable to owners of the Company	Non-controlling interests	Total Equity
<b>Balance at Jan. 1, 2017</b>	₩ 10,103,893,478	(8,387,695,695)	2,930,482,691	4,646,680,474	122,103,136	4,768,783,610
<b>Total comprehensive</b>						
<b>income (loss) for the year:</b>						
Loss for the year	-	(874,442,087)	-	(874,442,087)	18,914,107	(855,527,980)
Other comprehensive income (loss)						
Comprehensive income (loss)						
that is not subsequently						
reclassified to income (loss)						
-Defined benefit plan	-	(12,599,150)	-	(12,599,150)	(755,236)	(13,354,386)
actuarial gains, net of tax						
-Asset revaluation gain, net	-	-	953,487,906	953,487,906	-	953,487,906
of tax						
-Reclassification of asset	-	49,670,073	(49,670,073)	-	-	-
revaluation gain						
Comprehensive income (loss)						
that is subsequently reclassified						
to income (loss)						
-Unrealized change in the						
effective portion of						
changes in the fair value	-	-	3,773,920	3,773,920	-	3,773,920
of cash flow hedges,						
net of tax						
-Unrealized change in the						
fair value of	-	-	(101,687)	(101,687)	-	(101,687)
available-for-sale financial						
assets, net of tax						
-Change in equity of equity	-	-	1,480,040	1,480,040	-	1,480,040
method investments,						
net of tax						
<b>Total comprehensive</b>						
<b>income (loss) for the year</b>	-	(837,371,164)	908,970,106	71,598,942	18,158,871	89,757,813
<b>Transactions with owners of</b>						
<b>the Group recognized</b>						
<b>directly, in equity</b>						
Issuance of common stock	142,306,955	-	-	142,306,955	-	142,306,955
Dividends to owner of	-	-	-	-	(56,161)	(56,161)
the Company						
<b>Total transaction with owner of</b>	142,306,955	-	-	142,306,955	(56,161)	142,250,794
<b>the Company</b>						
<b>Others</b>	137,506	(2,813,372)	(31,723)	(2,707,589)	(501,524)	(3,209,113)
<b>Balance at Dec. 31, 2017</b>	₩ 10,246,337,939	(9,227,880,231)	3,839,421,074	4,857,878,782	139,704,322	4,997,583,104

See accompanying notes to the consolidated financial statements.

# KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

## Consolidated Statements of Changes in Equity, Continued

For the years ended December 31, 2018 and 2017

<i>(In thousands of won)</i>	Common stock	Accumulated deficit	Other equity components	Equity attributable to owners of the Company	Non-controlling interests	Total Equity
<b>Balance at Jan. 1, 2018</b>	₩ 10,246,337,939	(9,227,880,231)	3,839,421,074	4,857,878,782	139,704,322	4,997,583,104
Adjustment on initial application of K-IFRS 1109, net of tax	-	25,672,275	(23,921,000)	1,751,275	-	1,751,275
Adjustment on initial application of K-IFRS 1115, net of tax	-	(531,279)	-	(531,279)	(764,524)	(1,295,803)
<b>Restated balance at January 1, 2018</b>	10,246,337,939	(9,202,739,235)	3,815,500,074	4,859,098,778	138,939,798	4,998,038,576
<b>Total comprehensive income for the year:</b>						
Income for the year	-	(126,737,572)	-	(126,737,572)	21,759,329	(104,978,243)
Other comprehensive income (loss)						
Comprehensive income (loss) that is not subsequently reclassified to income (loss)						
-Defined benefit plan actuarial gains, net of tax	-	(40,079,870)	-	(40,079,870)	384,503	(39,695,367)
-Gains on valuation of equity instruments at FVOCI, net of tax	-	-	209,042	209,042	-	209,042
-Asset revaluation gain, net of tax	-	-	1,678,545,123	1,678,545,123	-	1,678,545,123
-Reclassification of asset revaluation gain	-	18,728,065	(18,728,065)	-	-	-
Comprehensive income (loss) that is subsequently reclassified to income (loss)						
-Unrealized change in the effective portion of changes in the fair value of cash flow hedges, net of tax	-	-	(38,103,260)	(38,103,260)	-	(38,103,260)
-Change in equity of equity method investments, net of tax	-	3,616,425	(3,915,423)	(298,998)	-	(298,998)
<b>Total comprehensive income for the year</b>	-	(144,472,952)	1,618,007,417	1,473,534,465	22,143,832	1,495,678,297
<b>Transactions with owners of the Group, recognized directly in equity</b>						
Issuance of common stock	70,506,000	-	-	70,506,000	-	70,506,000
Dividends to owner of the Company	-	-	-	-	(13,778)	(13,778)
<b>Total transaction with owner of the Company</b>	70,506,000	-	-	70,506,000	(13,778)	70,492,222
<b>Others</b>	-	(675,159)	-	(675,159)	80,027	(595,132)
<b>Balance at Dec. 31, 2018 (Restated)</b>	₩ 10,316,843,939	(9,347,887,346)	5,433,507,491	6,402,464,084	161,149,879	6,563,613,963

See accompanying notes to the consolidated financial statements.

# KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

## Consolidated Statements of Cash Flows

For the years ended December 31, 2018 and 2017

(In thousands of won)

	2018 (Restated)	2017
<b>Cash flows from operating activities</b>		
Loss for the year	₩ (104,978,242)	(855,527,980)
<b>Adjustments for:</b>		
Income tax benefit	(230,527,226)	(307,345,371)
Bad debt expenses	5,863,265	1,491,697
Other bad debt expenses	45,929	97,935
Losses on disposal of intangible assets	1	-
Losses on revaluation of land	-	52,929,609
Depreciation	532,210,074	523,200,724
Depreciation of investment property	4,470,957	2,152,184
Amortization of intangible assets	13,955,472	12,502,026
Losses on sale of property, trains and equipment	24,266,713	1,799,053
Impairment losses on property, trains and equipment	6,546,580	7,084,339
Losses(gain) on valuation of investments in associates	(20,486,730)	80,469,513
Impairment losses on non-current assets	-	300,000
Losses on disposal of investment property	-	699,039
Losses on disposal of non-current assets held-for-sale	2,723,454	10,250,926
Retirement benefits	185,969,012	183,894,475
Increase in provisions for pending litigations	19,625	96,976
Losses of provision for other accounts	22,242,523	51,101,582
Gains on disposal of available-for-sale financial assets	-	(14,102)
Losses on disposal of available-for-sale financial assets	-	43,250
Impairment losses on available-for-sale financial assets	-	300,000
Losses on redemption of bonds	616,208	-
Gains on disposal of financial assets at FVPL	(172,123)	-
Losses on disposal of financial assets at FVPL	4,731	-
Losses on valuation of derivative instruments	13,836,000	94,563,470
Gains on valuation of held-for-sale financial assets	-	(238,233)
Losses on settlement of derivative instruments	-	23,100,000
Interest expenses	404,378,691	392,321,139
Foreign currency translation losses	33,941,901	4,082,907
Other losses	11,406,127	-
Reversal of other allowance for doubtful accounts	(15,698)	(57)
Gains on sale of property, trains and equipment	(290,373)	(656,767)

See accompanying notes to the consolidated financial statements.

# KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

## Consolidated Statements of Cash Flows, Continued

For the years ended December 31, 2018 and 2017

(In thousands of won)

		2018 (Restated)	2017
Gains on disposal of non-current assets held for sale	₩	(6,290,358)	(27,229,511)
Reversal of provision for restoration		(5,222,584)	(8,174,445)
Allowance for provisions for restoration		14,394,660	5,079,004
Provisions for pending litigations		(8,402,580)	(3,575,422)
Gains on assets contributed		(2,719,935)	(1,870,194)
Foreign currency translation gains		(13,860,229)	(94,636,791)
Gains on valuation of derivative instruments		(33,881,590)	(3,953,800)
Interest income		(15,961,806)	(9,868,429)
Dividend income		(433,265)	(839,806)
Gains on revaluation of land		-	(10,866,885)
Other income		(8,568)	-
Changes:			
- Inventories		(41,010,840)	(978,879)
- Trade receivables		(49,556,728)	(51,233,610)
- Other accounts receivable		140,610,679	(177,610,749)
- Accrued income		4,206,376	431,393
- Prepayment		6,882,240	71,650,219
- Prepaid expenses		4,584,977	651,797
- Current tax assets		-	34,520
- Other current assets		11,718,131	(1,211,950)
- Other current financial instruments		(11,500,000)	-
- Long-term prepaid expenses		724,775	1,974,039
- Employee benefits		(108,656,445)	(73,233,802)
- Invested asset for post-employment benefit contra account		-	(5,081,807)
- Short-term regular wage provision		(167,052,880)	167,052,880
- Regular wage provision		20,344,702	313,490,863
- Provisions for other current losses		421,203	-
- Provisions for repairing defects		(99,298)	(14,359)
- Provision for construction losses		-	(88,272)

See accompanying notes to the consolidated financial statements.

# KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

## Consolidated Statements of Cash Flows, Continued

For the years ended December 31, 2018 and 2017

(In thousands of won)

	2018 (Restated)	2017
- Long-term unearned revenues	₩ (4,544,912)	(4,891,335)
- Trade payables	(3,849,379)	39,514,422
- Other accounts payable	(26,748,867)	(65,828,917)
- Advances on construction contracts	251,935	(757,370)
- Current value added tax payables	2,454,034	(52,857)
- Collateral for value added tax payable	-	6,740,207
- Guarantee deposit withholdings	310,670	61,586
- Guarantee deposit rent	180,095	(232,284)
- Withholding	773,569,699	(21,894,731)
- Deposit for tourism	(84,612)	73,596
- Advances received	5,791,579	54,218,655
- Accrued expenses	34,051,312	42,162,738
- Unearned revenues	18,742,018	22,124,700
- Employee provisions	72,831,247	10,366,328
- Payments of income taxes	535,925	(900,854)
- Deferred tax assets	(1,544,535)	(431,921)
<b>Cash generated from operating activities</b>	<b>₩ 1,517,203,717</b>	<b>448,816,228</b>
Income taxes refunded	₩ (3,230,948)	(2,270,043)
Other	(34,859,188)	62,266,201
<b>Net cash provided by operating activities</b>	<b>₩ 1,479,113,581</b>	<b>508,777,867</b>

See accompanying notes to the consolidated financial statements.

# KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

## Consolidated Statements of Cash Flows, Continued

For the years ended December 31, 2018 and 2017

(In thousands of won)

	2018 (Restated)	2017
<b>Cash flows from investing activities</b>		
Proceeds from sales of short-term financial instruments ₩	580,000,000	43,238,233
Proceeds from available-for-sale financial instruments	-	(41,818)
Decrease in long-term deposits	10,726,151	10,869,922
Decrease in leasehold deposits	936,308	3,128,604
Increase in guarantee rent deposit	40,000	-
Proceeds from sale of non-current assets held for sale	32,901,696	160,265,927
Proceeds from sale of property, trains and equipment	5,575,832	1,235,201
Disposal of short-term financial instruments	33,604,616	3,938,374
Collection of short-term loans	10,459	-
Collection of long-term other receivables	-	2,049,933
Disposal of long-term investment	-	65
Collection of long-term deposits provided	1,082,460	2,103,270
Interest received	8,249,137	6,657,136
Dividends received	7,825,889	14,916,444
Government grants received	1,484,986	-
Acquisition of property, trains and equipment	(327,960,570)	(634,117,852)
Acquisition of intangible assets	(5,457,133)	(9,640,213)
Acquisition of available-for-sale financial instruments	(3,701,984)	(5,193,000)
Increase in long-term loans	(6,285,138)	(7,912,886)
Increase in long-term deposits	(5,587,958)	(4,092,245)
Increase in short-term financial instruments	(110,500,000)	(6,000,000)
Increase in short-term loans	(1,150,000)	(29,476)
Increase in short-term deposits	(2,049,017)	(245,338)
Acquisition of financial assets for trading purpose	(580,000,000)	(40,000,000)
Other	(355,690)	(4,367,753)
<b>Net cash used in investing activities</b> ₩	<u>(360,609,956)</u>	<u>(463,237,472)</u>

See accompanying notes to the consolidated financial statements.

# KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

## Consolidated Statements of Cash Flows, Continued

For the years ended December 31, 2018 and 2017

(In thousands of won)

	2018 (Restated)	2017
<b>Cash flows from financial activities</b>		
Proceeds from issuance of share capital	₩ 70,506,000	142,306,955
Proceeds from borrowings	287,340,213	392,638,190
Settlements of currency swap transactions	-	43,730,431
Government grants received	292,000	675,000
Issuance of debt securities	734,530,598	2,721,573,821
Increase in long-term borrowings	225,000,000	-
Receipt of rental deposits	14,374,716	15,118,536
Interest paid	(377,931,244)	(376,457,731)
Repayment of borrowings	(318,558,685)	(2,789,636,761)
Redemption of bonds	(1,572,800,658)	-
Settlement of currency swap transactions	(14,894,550)	(20,880,431)
Redemption of current portion of long-term liabilities	(25,000,000)	(1,300,000)
Decrease in rental deposits received	(9,496,346)	(8,345,252)
Dividends paid	(13,778)	(56,161)
<b>Net cash provided by (used in) financing activities</b>	<b>(986,651,734)</b>	<b>119,366,597</b>
<b>Net decrease in cash and cash equivalents</b>	<b>131,851,891</b>	<b>164,906,992</b>
Effect of exchange rate fluctuations on cash held	-	(38,456)
Cash and cash equivalents at January 1	715,043,917	550,175,381
Cash and cash equivalents at December 31	846,895,808	715,043,917
Government grants	(64,595,031)	(63,512,514)
Fund for consignment business from governments	(135,029,637)	(169,764,199)
<b>Cash and cash equivalents at end of year</b>	<b>₩ 647,271,140</b>	<b>481,767,204</b>

See accompanying notes to the consolidated financial statements.



## KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

### 1. GENERAL INFORMATION:

#### (1) Description of the controlling company

Korea Railroad Corporation (the "Company") was incorporated on January 1, 2005, to engage in passenger and railroad transportation services under the Korea Railroad Act. As of December 31, 2018, the Company's paid-in capital amounted to ₩10,321,491 million, and the Company is wholly owned by the Government of the Republic of Korea. The consolidated financial statements were authorized for issue by the Board of Directors on February 28, 2019. In addition, the Group restated the consolidated financial statements as described in Note 52 and those restated consolidated financial statement were reported to and approved by shareholders on July 18, 2019.

The main businesses of the Company are as follows:

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

# KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

### 1. GENERAL INFORMATION, Continued:

#### (2) Consolidated subsidiaries

1) Consolidated subsidiaries as of December 31, 2018 and 2017, are detailed as follows:

Company	Location	Reporting date	Ownership		Industry
			2018	2017	
KORAIL Retail Co., Ltd.	Republic of Korea	Dec. 31	100.00%	100.00%	Retail
KORAIL Networks Co., Ltd.	Republic of Korea	Dec. 31	98.98%	98.98%	Service industry
KORAIL Logis Co., Ltd.	Republic of Korea	Dec. 31	97.23%	97.23%	Railroad cargo business
KORAIL Tourism Development Co., Ltd.	Republic of Korea	Dec. 31	60.80%	60.80%	Service industry
KORAIL Tech Co., Ltd.	Republic of Korea	Dec. 31	97.98%	97.98%	Railway track construction
SR Co., Ltd.	Republic of Korea	Dec. 31	41.00%	41.00%	Railroad transportation
Korean Insurance Brokerage Co., Ltd.	Republic of Korea	Dec. 31	98.98%	98.98%	Insurance brokerage business

2) The financial information of subsidiaries as of and for the years ended December 31, 2018 and 2017 is summarized as follows:

<i>(In thousands of won)</i>		2018			
Company		Total assets	Total liabilities	Total revenue	Total net income(loss)
KORAIL Retail Co., Ltd.	₩	311,106,301	148,217,134	298,332,776	11,767,526
KORAIL Networks Co., Ltd.		42,607,212	19,740,389	91,688,849	4,361,864
KORAIL Logis Co., Ltd.		15,309,573	14,256,728	54,987,021	257,454
KORAIL Tourism Development Co., Ltd.		18,472,009	10,351,731	55,071,987	(609,988)
KORAIL Tech Co., Ltd.		33,820,830	14,135,157	78,084,342	3,279,477
SR Co., Ltd.		545,345,413	279,043,070	640,729,198	37,085,904
Korean Insurance Brokerage Co., Ltd.		1,600,935	272,055	1,104,523	333,577

# KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

### 1. GENERAL INFORMATION, Continued:

(2) Consolidated subsidiaries, continued

2) The financial information of subsidiaries as of and for the years ended December 31, 2018 and 2017, is summarized as follows, continued:

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

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

i) Proportion held by non-controlling interests as of December 31, 2018 and 2017, are as follows:

Company	2018	2017	Location
SR Co., Ltd.	59.00%	59.00%	Republic of Korea

ii) Attributable to non-controlling interests for the year ended December 31, 2018 is as follows:

<i>(In thousands of won)</i>		Profit attributable to non-controlling interests	Accumulated non-controlling interests	Location
Company				
SR Co., Ltd.	₩	18,947,641	15,343,521	Republic of Korea

## KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

#### 1. GENERAL INFORMATION, Continued:

(2) Consolidated subsidiaries, continued

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

iii) Financial information of subsidiaries whose non-controlling interests are significant to the Group as of and for the year ended December 31, 2018 is summarized as follows:

- Statements of Financial Position and Comprehensive Income

*(In thousands of won)*

Company		Current assets	Non-current assets	Current liability	Non-current liability	Revenue	Income for the year	Comprehensive Income
SR Co., Ltd.	₩	229,821,915	315,523,498	78,265,118	200,777,952	640,729,198	37,085,904	37,762,293

- Statements of Cash flows

*(In thousands of won)*

Company		Cash flows from operation activities	Cash flows from investing activities	Cash flows from financing activities	Net decrease in cash and cash equivalents
SR Co., Ltd.	₩	72,736,285	(86,718,189)	(3,312,600)	(17,294,504)

## KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

#### 2. BASIS OF PREPARATION:

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

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

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

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

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

The proceeds received for the consignment management services entrusted by the government or local governments shall be recognised as business revenues in response to costs incurred at the time of execution.

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

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

(2) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis, except for the following material items in the statement of financial position:

- Derivative financial instruments are measured at fair value
- Financial instruments at fair value through profit or loss are measured at fair value
- Liabilities for defined benefit plans are recognized at the net of the total present value of defined benefit obligations less the fair value of plan assets
- Land that is periodically remeasured at fair value

## KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

#### 2. BASIS OF PREPARATION, Continued:

##### (3) Functional and presentation currency

The financial statements of the parent and each subsidiary are prepared in functional currency of the respective operation. These consolidated financial statements are presented in Korean won, which is the Parent Company's functional currency and the currency of the primary economic environment in which the Group operates.

##### (4) Use of estimates and judgment

The preparation of the consolidated financial statements in conformity with K-IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period prospectively.

##### (i) Uncertainty in assumptions and estimates

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are included in the following notes :

- Note 28 Remeasurement of defined benefit obligations: key actuarial assumptions;
- Notes 29 and 48 Recognition and measurement of provisions and contingencies: key assumptions about likelihood and magnitude of an outflow of resources; and
- Note 40 Recognition of deferred tax assets: availability of future taxable profit against which carryforward tax losses can be used;

## KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

#### 2. BASIS OF PREPARATION, Continued:

(4) Use of estimates and judgment, continued

(ii) Measurement of fair values

A number of the Group's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities. The Group has an established control framework with respect to the measurement of fair values. This includes a valuation team that has overall responsibility for overseeing all significant fair value measurements, including Level 3 fair values, and reports directly to the CFO.

The valuation team regularly reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or pricing services, is used to measure fair values, then the valuation team assesses the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of K-IFRS, including the level in the fair value hierarchy in which such valuations should be classified.

Significant valuation issues are reported to the Group's Audit Committee.

When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.

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

If the inputs used to measure the fair value of an asset or a liability fall into different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. The Group recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Further information about the assumptions made in measuring fair values is included in following notes:

- Note 45 Financial risk management

## KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

#### 3. CHANGES IN ACCOUNTING POLICIES:

Except for the changes below, the Group has consistently applied accounting policies set out in note 3 to application of January 1, 2018.

The consolidation recognizing the cumulative effect of applying the new standard at the beginning of the year of initial application, with no restatement of comparative periods, with a choice of practical expedients.

##### (1) K-IFRS 1115 'Revenue from Contracts with Customers'

K-IFRS 1115 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaced K-IFRS 1018 'Revenue', K-IFRS 1011 'Construction Contracts', K-IFRS 2031 'Revenue: Barter Transactions Involving Advertising Service', K-IFRS 2113 'Customer Loyalty Programmes', K-IFRS 2115 'Agreements for the Construction of Real Estate' and K-IFRS 2118 'Transfers of Assets from customers'.

Under K-IFRS 1115, revenue is recognised when the customer obtains control of the goods or services. Whether the control transfers at a point in time or over a period of time requires judgement.

By applying K-IFRS 1115 retrospectively without applying the practical expedient, the cumulative effect of initial application was recognised at the date of initial application (January 1, 2018). Accordingly, each item in the consolidated financial statements affected in 2017 by applying this Standard compared to K-IFRS 1011, 1018 and the related Interpretation that was effective before the modification.

The summarized the effect of transition to K-IFRS 1115 on retained earnings, net of tax, at January 1, 2018 is following :

*(In thousands of won)*

		January 1, 2018
Accumulated deficit		
Identification of performance obligations	₩	(1,295,803)
Amount recognized in accumulated deficit	₩	(1,295,803)



## KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

### 3. CHANGES IN ACCOUNTING POLICIES, Continued:

(1) K-IFRS 1115 'Revenue from Contracts with Customers', continued

If the Group's promise to transfer goods or services to a customer can be identified separately from other promises in the contract, the Group shall report them as separate performance obligations and determine the timing and transaction price of the services separately. The Group identified the customer's loyalty program in transportation as a separate performance obligation.

The impact of adopting K-IFRS 1115 on assets and liabilities are as follows:

- Account for customer loyalty programs

In certain high-speed passenger transport sections, the Group operates a customer loyalty program that provides discounts on future rides by granting fare discounts and promotion coupons to customers according to customer rating. This loyalty program provide significant discount exclude other customers. Therefore, it is a separate performance obligation to provide discounts to VIPs, special and exclusive customers.

As of January 1, 2018, ₩1,170 million of contract liabilities were recognised for the royalty programs of certain of the Group's high-speed passenger transportation business units.

## KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

#### 3. CHANGES IN ACCOUNTING POLICIES, Continued:

(1) K-IFRS 1115 'Revenue from Contracts with Customers', continued

The effect of applying K-IFRS 1115 to the consolidated statement of financial position as of December 31, 2018 and to the consolidated statement of comprehensive income for the year then ended are as follows :

(i) The effect of applying K-IFRS 1115 to the consolidated statement of financial position as of December 31, 2018 is as follows :

	December 31, 2018		
	(Restated)		
<i>(In thousands of won)</i>	As reported	Adjustments	Amount without adoption of K-IFRS 1115
Liabilities			
Non-current liabilities			
Long-term advances from customers ₩	16,622,926	2,130,706	14,492,220
Equity			
Accumulated deficit	(9,347,887,346)	(2,130,706)	(9,345,756,640)

## KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

### 3. CHANGES IN ACCOUNTING POLICIES, Continued:

(1) K-IFRS 1115 'Revenue from Contracts with Customers', continued

(ii) The effect of applying K-IFRS 1115 to the consolidated statement of comprehensive income for the year ended December 31, 2018 is as follows :

<i>(In thousands of won)</i>	December 31, 2018 (Restated)		
	As reported	Adjustments	Amount without adoption of K-IFRS 1115
Revenue	₩ 6,326,844,747	(421,203)	6,327,265,950
Cost of sales	6,010,137,323	-	6,010,137,323
Gross profit	316,707,424	(421,203)	317,128,627
Operating loss	(33,904,345)	(421,203)	(33,483,142)
Loss before income taxes	(335,505,468)	(421,203)	(335,084,265)
Income for the year	(104,978,242)	(421,203)	(104,557,039)
Total comprehensive income for the year	1,495,678,297	(421,203)	1,496,099,500

The effect on consolidated statement of cash flow for the year ended of December 31, 2018 is immaterial.

# KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

### 3. CHANGES IN ACCOUNTING POLICIES, Continued:

(2) K- IFRS 1109 'Financial Instruments'

K-IFRS 1109 specifies the recognition and measurement of certain contracts to buy or sell financial assets, financial liabilities and non-financial items. This standard replaces K-IFRS 1039 'Financial Instruments: Recognition and Measurement'.

As a effect of adopting K-IFRS 1109, the Group has applied the amendment to K-IFRS 1001 'Presentation of Financial Statements', which requires the separate presentation of impairment of financial assets in the statement of comprehensive income. Previously, impairment losses on trade receivables and other financial assets are recognized in cost of sales and selling, general and administrative expense.

Consequently, in accordance with the revised K-IFRS 1107, the Group disclosed impairment losses on trade receivables and other financial assets as a replacement for receivables and impairment losses on contract assets and other financial assets, however the Group did not apply to comparative information.

The following table summarises the effect of the opening balance of reserves and retained earnings, net of tax in accordance with K-IFRS 1109.

(In thousands of won)

		Retained earnings	Adjustments Accumulated other comprehensive income	Net assets
Reclassification				
Substitution of the accumulated impairment losses on FVOCI - equity instrument	₩	23,921,000	(23,921,000)	-
Tax effect		-	-	-
Reclassification, net of tax	₩	23,921,000	(23,921,000)	-
Recognition of expected credit losses				
Recognition of expected credit losses on financial assets	₩	1,751,277	-	1,751,277
Tax effect		-	-	-
Recognition of expected credit losses, net of tax	₩	1,751,277	-	1,751,277

## KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

### 3. CHANGES IN ACCOUNTING POLICIES, Continued:

(2) K- IFRS 1109 'Financial Instruments', continued

(i) Classification and Measurement of Financial Assets and Financial Liabilities

Under K-IFRS 1109, a financial asset is classified as measured at three types of categories: amortised cost; fair value through other comprehensive income ("FVOCI"); or fair value through statement of profit or loss ("FVTPL"). The classification of financial assets under K-IFRS 1109 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. K-IFRS 1109 eliminates the previous K-IFRS 1039 categories for financial assets of held to maturity, loans and receivables and available for sale. Derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

K-IFRS 1109 largely retains the existing requirements in K-IFRS 1039 for the classification and measurement of financial liabilities.

The adoption of K-IFRS 1109 has not had a significant effect on the Group's accounting policies related to financial liabilities and derivative financial instruments (for derivatives that are used as hedging instruments).

# KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

### 3. CHANGES IN ACCOUNTING POLICIES, Continued:

(2) K-IFRS 1109 'Financial Instruments', continued

(i) Classification and Measurement of Financial Assets and Financial Liabilities, continued

The effect of adjusting the carrying amount of a financial asset in accordance with K-IFRS 1039 to the carrying amount in accordance with K-IFRS 1109 as January 1, 2018 is as follows:

(In thousands of won)

		Classification under K-IFRS 1039	Reclassification	Remeasurement	Classification under K-IFRS 1109
Amortized cost					
Cash and cash equivalents					
Loan and receivable(*)	₩	474,623,369	-	-	474,623,369
Account receivables and other receivables					
Loan and receivable		1,176,637,528	(1,176,637,528)	-	-
Financial assets measured at amortised cost		-	1,176,637,528	-	1,176,637,528
Subtotal		1,176,637,528	-	-	1,176,637,528
Amortized cost total	₩	1,651,260,897	-	-	1,651,260,897
Fair value through other comprehensive income					
Equity instruments					
Available for Sale Financial Assets	₩	42,220,585	(42,220,585)	-	-
FVPL – equity instruments		-	18,694,667	-	18,694,667
FVOCI – equity instruments		-	23,525,918	-	23,525,918
Subtotal		42,220,585	-	-	42,220,585
Equity instruments total		42,220,585	-	-	42,220,585
Total	₩	1,693,481,482	-	-	1,693,481,482

(\*) Book value other than cash on hand.

## KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

### 3. CHANGES IN ACCOUNTING POLICIES, Continued:

(2) K- IFRS 1109 'Financial Instruments', continued

(ii) Impairment of financial assets

K-IFRS 1109 replaces the 'incurred loss' model in K-IFRS 1039 with an 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortized cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments. Under K-IFRS 1109, credit losses are recognized earlier than under K-IFRS 1039.

The Group has determined that the application of K-IFRS 1109's impairment requirements at January 1, 2018 results in an additional impairment allowance as follows.

<i>(In thousands of won)</i>		January 1, 2018
Impairment losses under K-IFRS 1039 as previously reported	₩	(15,678,587)
Adjustments at January 1, 2018		
- Trade receivables and other receivables		1,751,277
- Other financial assets measured at amortised cost		-
Allowance for Impairment losses under K-IFRS 1109 at January 1, 2018	₩	<u>(13,927,310)</u>

(iii) Hedge accounting

The Group has elected to adopt the new general hedge accounting model in K-IFRS 1109 which requires the Group to ensure that hedge accounting relationships are aligned with its risk management objectives and strategy and to apply a more qualitative and forward-looking approach to assessing hedge effectiveness.

The Group uses forward foreign exchange contracts to hedge the variability in cash flows arising from changes in foreign exchange rates relating to foreign currency borrowings.

Under K-IFRS 1039, for all cash flow hedges, the amounts accumulated in the cash flow hedge reserve were reclassified to profit or loss as a reclassification adjustment in the same period as the hedged expected cash flows affected profit or loss. However, under K-IFRS 1109, for cash flow hedges of foreign currency risk associated with forecast inventory purchases, the amounts accumulated in the cash flow hedge reserve are instead included directly in the initial cost of the inventory item when it is recognized. The same approaches also apply under K-IFRS 1109 to the amounts accumulated in hedging reserve.

## KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

#### 3. CHANGES IN ACCOUNTING POLICIES, Continued:

(2) K- IFRS 1109 'Financial Instruments', continued

(iv) Transition

Changes in accounting policies resulting from the adoption of K-IFRS 1109 have been applied retrospectively, except as described below.

The Group has taken an exemption not to restate comparative information for prior periods with respect to classification and measurement (including impairment) requirements. Therefore, comparative periods have been restated only for retrospective application of the cost of hedging approach for forward points. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of K-IFRS 1109 are recognized in retained earnings and reserves as at January 1, 2018. Accordingly, the information presented for 2017 does not generally reflect the requirements of K-IFRS 1109 but rather those of K-IFRS 1039.

- The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application.

- √ The determination of the business model within which a financial asset is held.
- √ The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.
- √ The designation of certain investments in equity instruments not held for trading as at FVOCI.

If an investment in a debt security had low credit risk at the date of initial application of K-IFRS 1109, then the Group has assumed that the credit risk on the asset had not increased significantly since its initial recognition.

Changes to hedge accounting policies have been applied prospectively except for the cost of hedging approach for forward points, which has been applied retrospectively to hedging relationships that existed on or were designated after January 1, 2018.



## KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

#### 4. SIGNIFICANT ACCOUNTING POLICIES:

The significant accounting policies applied by the Group in preparation of its consolidated financial statements are included below. The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements except for the changes in accounting policies as explained in note 3.

##### (1) Basis of consolidation

##### (i) Business combinations

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

The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested for impairment annually and whenever any symptom implicating impairment appears. Any gain on a bargain purchase is recognized in profit or loss immediately. Transaction costs are expenses as incurred, except if related to the issue of debt or equity securities. The costs to issue debt or equity securities are recognized in accordance with K-IFRS 1032, 'Financial Instruments: Presentation' and K-IFRS 1039, 'Financial Instruments: Recognition and Measurement.'

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

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

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

## KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

### 4. SIGNIFICANT ACCOUNTING POLICIES, Continued:

(1) Basis of consolidation, continued

(ii) Non-controlling interests (NCIs)

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

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

(iii) Subsidiaries

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

(iv) Loss of control

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

## KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

#### 4. SIGNIFICANT ACCOUNTING POLICIES, Continued:

(1) Basis of consolidation, continued

(v) Interests in equity-accounted investees

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

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

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

(vi) Transactions eliminated on consolidation

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

(vii) Acquisitions from entities under common control

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

(2) Cash and cash equivalents

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

## KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

#### 4. SIGNIFICANT ACCOUNTING POLICIES, Continued:

##### (3) Inventories

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

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

##### (4) Non-derivative financial assets

###### 1) Recognition and initial measurement

Trade receivables and issued debt securities are recognised for the first time at issue. Other financial instruments and financial liabilities are recognised only when the Group becomes a party to the instrument.

A financial asset (unless it is a trade receivable without a significant financing component that is initially measured at the transaction price) is initially measured at fair value plus, for an item not at FVTPL. Transaction costs that are directly attributable to its acquisition.

## KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

#### 4. SIGNIFICANT ACCOUNTING POLICIES, Continued:

(4) Non-derivative financial assets, continued

2) Classification and subsequent measurement(from January 1, 2018)

Upon initial recognition, non-derivative financial assets are measured at amortized cost; FVOCI - debt investment; FVOCI - equity investment; or FVTPL.

Financial assets are not reclassified after initial recognition unless the Group changes its business model for managing the financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period since the change in the business model.

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortized cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

## KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

#### **4. SIGNIFICANT ACCOUNTING POLICIES, Continued:**

(4) Non-derivative financial assets, continued

2) Classification and subsequent measurement, continued

(i) Financial assets: business model

The Group assesses the objective of the business model held in the portfolio of financial assets that properly reflects how the business is managed and how information is provided to the management. Assessment takes into account the following:

- the accounting policies and objectives specified for the portfolio and the actual operation of these policies. This includes management strategies that focus on obtaining contractual interest revenue, maintaining a specific interest rate level, matching the performance of the liability to procure the financial asset with the asset's performance, and leasing or realizing expected cash flows through the sale of the asset.
- Evaluating the performance of financial assets held in the business model and reporting their assessment to key management personnel
- How to manage risks that affect the performance of a business model (and financial assets held in the business model)
- How to compensate management (for example, based on the fair value of the asset being managed or on the contractual cash flows received)
- Expected frequency, amount, timing, reason and future sales of financial assets in prior periods

For this purpose, transferring a financial asset to a third party in a transaction that does not meet the derecognition requirements is not considered a sale.

A portfolio of financial assets that meets the definition of trading or whose portfolio performance is valued at fair value is measured at fair value through profit or loss.

## KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

#### 4. SIGNIFICANT ACCOUNTING POLICIES, Continued:

(4) Non-derivative financial assets, continued

2) Classification and subsequent measurement, continued

(ii) Financial assets: an assessment of whether contractual cash flows are solely principal and interest; The principal is defined as the fair value of the financial asset at initial recognition. Interest consists of a profit as well as consideration for the time value of money, consideration for credit risk associated with principal balances in a given period, and other basic loan risks and costs.

When assessing whether the contractual cash flows are solely payments of principal and interest, the consolidation entity considers the terms and conditions of the instrument. If a financial asset contains contractual terms that change the timing or amount of the contractual cash flows, the entity shall determine whether the contractual cash flows that may arise over the life of the instrument are solely payments of principal and interest.

When evaluating this, the Group considers the following:

- Conditional circumstances that change the amount or timing of cash flows
- Clause for adjusting the contractual par interest rate, including variable interest rate characteristics
- prepayment characteristics and extension characteristics
- Terms and conditions that limit the Group's claim to cash flows arising from a particular asset (e.g., non-recourse features)

If the prepayment amount represents interest on the principal outstanding and the remaining principal outstanding in substance and contains reasonable additional compensation for early termination of the contract, the early repayment feature is consistent with the terms under which the principal and interest are paid on a specified date.

In addition, for financial assets acquired with significant discount or premium on the contractual par amount, the entity determines that the prepayment feature actually represents the contractual par value and the contractual interest accrued (but may include reasonable additional remuneration for early termination of the contract) and that the prepayment feature meets this condition if the fair value of the feature is insignificant at initial recognition of the financial asset.

## KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

#### 4. SIGNIFICANT ACCOUNTING POLICIES, Continued:

(4) Non-derivative financial assets, continued

2) Classification and subsequent measurement, continued

(iii) Financial assets: subsequent measurements and gains and losses;

	Contents
Financial assets at FVTPL	These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognized in profit or loss. See below for derivatives designated as hedging instruments.
Financial assets at amortized cost	These assets are subsequently measured at amortized cost using the effective interest method. The amortized cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.
Debt investments at FVOCI	These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognized in profit or loss. Other net gains and losses are recognized in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.
Equity investments at FVOCI	These assets are subsequently measured at fair value. Dividends are recognized as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognized in OCI and are never reclassified to profit or loss.



## KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

### 4. SIGNIFICANT ACCOUNTING POLICIES, Continued:

(4) Non-derivative financial assets, continued

#### 3) De-recognition

The Group derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred.

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

#### 4) Offsetting

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

## KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

#### 4. SIGNIFICANT ACCOUNTING POLICIES, Continued:

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

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

##### (i) Hedge accounting

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

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

##### - Fair value hedge

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

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

##### - Cash flow hedge

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

## KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

#### 4. SIGNIFICANT ACCOUNTING POLICIES, Continued:

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

(i) Hedge accounting, continued

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

(ii) Other derivative financial instruments

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

## KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

### 4. SIGNIFICANT ACCOUNTING POLICIES, Continued:

(6) Impairment of financial assets(from January 1, 2018)

The Group recognize a loss allowance for expected credit losses for the following assets:

- Financial assets measured at amortised cost
- Debt investments at FVOCI
- Contract assets as defined in K-IFRS 1115

The Group measures the loss allowance at an amount equal to lifetime expected credit losses, except for the following financial assets measured at 12-month expected credit losses:

- Debt securities determined to have low credit risk at the end of the reporting period
- Other debt securities that have not experienced significant increases in credit risk which is risk of default occurring over expected life of a financial asset since initial recognition, and the loss allowance for bank deposit accounts and contract assets are always measured at an amount equal to lifetime expected credit losses.

The loss allowance for trade receivables and contract assets is always measured at an amount equal to lifetime expected credit losses.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and estimating expected credit losses, the Group considers information that is available, reasonable and supported without undue cost or effort. This includes qualitative and quantitative information and analysis based on the Group's past experience and known credit ratings, including forward-looking information.

#### 1) Measurement of expected credit losses

Expected credit losses are probability-weighted estimates of credit losses. Credit losses are measured at the present value of all cash shortfalls which is the difference between all contractual cash flows payable under the contract and all contractual cash flows expected to be received. Expected credit losses are discounted at the effective interest rate of the financial asset.

## KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

### 4. SIGNIFICANT ACCOUNTING POLICIES, Continued:

(6) Impairment of financial assets, continued

#### 2) Credit-impaired financial assets

At the end of each reporting period, the Group assesses whether the credit of the financial assets measured at amortised cost and debt securities measured at fair value through other comprehensive income is impaired. In the event of one or more events that adversely affect the estimated future cash flows of a financial asset, the financial asset is credit-impaired.

Evidence of impaired credit for financial assets includes the following observable information:

- Significant financial difficulties of the issuer or borrower;
- Breach of contract, such as default or delinquency over 90 days;
- Inevitable relief of the original debt conditions for economic or contractual reasons related to the borrower's financial difficulties;
- The likelihood of a borrower's bankruptcy or other financial restructuring increases; or
- Expiration of an active market for a financial asset due to financial difficulties

#### 3) Presentation of credit loss allowance in statement of financial position

The loss allowance for financial assets measured at amortised cost is deducted from the carrying amount of those assets.

For debt investment measured at FVOCI, the loss allowance is included in profit or loss and recognised in other comprehensive income.

## KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

#### 4. SIGNIFICANT ACCOUNTING POLICIES, Continued:

##### (7) Property, plant and equipment

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

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

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

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

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

## KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

### 4. SIGNIFICANT ACCOUNTING POLICIES, Continued:

(7) Property, plant and equipment, continued

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

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

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

## KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

#### 4. SIGNIFICANT ACCOUNTING POLICIES, Continued:

##### (8) Intangible assets

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

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

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

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

##### (i) Service concession arrangements

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



## KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

#### 4. SIGNIFICANT ACCOUNTING POLICIES, Continued:

##### (8) Intangible assets, continued

###### (ii) Subsequent expenditures

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

##### (9) Government grants

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

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

##### (10) Investment property

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

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

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

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

## KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

#### 4. SIGNIFICANT ACCOUNTING POLICIES, Continued:

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

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

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

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

## KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

#### 4. SIGNIFICANT ACCOUNTING POLICIES, Continued:

##### (12) Leases

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

##### (i) Finance leases

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

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

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

##### (ii) Operating leases

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

## KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

### 4. SIGNIFICANT ACCOUNTING POLICIES, Continued:

#### (13) Construction work in progress

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

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

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

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

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

The Group recognizes an impairment loss for any initial or subsequent write-down of an asset (or disposal group) to fair value, less costs to sell, and a gain for any subsequent increase in fair value, less costs to sell, up to the cumulative impairment loss previously recognized in accordance with K-IFRS 1036 Impairment of Assets.

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

## KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

#### 4. SIGNIFICANT ACCOUNTING POLICIES, Continued:

##### (15) Borrowing Costs

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

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

##### (16) Non-derivative financial liabilities

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

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

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

## KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

#### 4. SIGNIFICANT ACCOUNTING POLICIES, Continued:

##### (16) Non-derivative financial liabilities, continued

###### (ii) Other financial liabilities

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

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

##### (17) Employee benefits

###### (i) Retirement benefits: defined contribution plans

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

###### (ii) Retirement benefits: defined benefit plans

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

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

## KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

#### 4. SIGNIFICANT ACCOUNTING POLICIES, Continued:

(17) Employee benefits, continued

(ii) Retirement benefits: defined benefit plans, continued

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

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

(18) Provision

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

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

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

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

## KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

#### 4. SIGNIFICANT ACCOUNTING POLICIES, Continued:

##### (18) Provision, continued

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

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

##### (19) Foreign currency transactions

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

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

##### (20) Equity capital

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

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



## KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

### 4. SIGNIFICANT ACCOUNTING POLICIES, Continued:

(21) Revenue from contracts with customers

The Group has initially adopted K-IFRS 1115 as of January 1, 2018, and the effect of initial application is explained in note 3 (1).

The Group recognises revenue in accordance with the following five-step revenue recognition model, from the beginning of the contract with the customer, through the time at which control is transferred to the customer or over the period over which control is transferred to the customer.

#### 1) Identification of contracts

The Group identifies by contract an agreement that creates enforceable rights and obligations between the customers, and further reviews subsequent steps, such as the identification of performance obligations, to determine whether revenue is recognised or not, and recognizes it as a liability if it has not been identified by the contract but has received a payment from the customer.

#### 2) Identification of performance obligations

A performance obligation refers to a promise to transfer to a customer a set of distinct goods or services that are 'concluded' or 'substantially identical and transfer to the customer' in a contract with the customer. The Group identifies performance obligations by reviewing the goods or services promised in the contract with the customer at contract inception.

#### 3) Determine the transaction price

The transaction price is determined by considering variable consideration, significant financing factors, non-cash consideration, and the consideration paid to the customer, which the entity expects to be entitled to receive in return for transferring the promised goods or services to the customer. The Group rationally estimates the possibility of a return based on past experience rates and reflects it in the variable consideration, and determines that there is no significant financing component since the period between when the performance obligation is transferred and when the customer pays for it is less than 12 months.

#### 4) Allocation of transaction price

The Group allocates the transaction price on the basis of the stand-alone selling price to the various performance obligations identified in a single contract. If there is no stand-alone selling price for each performance obligation, the standalone selling price is appropriately estimated by considering the market assessment adjustment approach, etc.

## KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

#### 4. SIGNIFICANT ACCOUNTING POLICIES, Continued:

(21) Revenue from contracts with customers, continued

##### 5) Revenue Recognition

The Group determines whether it recognises revenue when it satisfies performance obligations relating to the contract at contract inception or over the period over which it satisfies the performance obligations. If the customer simultaneously benefits and consumes the benefits of the Group's performance of the obligation, if the customer controls the asset in proportion to the creation or increase in value of the asset by performing the obligation, or if the Group itself has no alternative use but an enforceable right to payment for performance completed to date, the entity recognises revenue over the duration of the performance obligation.

##### i) Service

Revenues from services is recognised over the period over which the performance obligation is satisfied, as the customer simultaneously receives and consumes the benefits as the Group performs its obligations. Progress is determined based on the degree of performance. Revenues from the transportation business are recognized at the time of service completion, and the amount of money that has been issued but has not been completed is recognized as advance payment.

##### ii) Sales of goods

Sales of goods are recognized as revenue at the time that control of the asset is transferred to the customer. The timing of transfer of control to the customer depends on the individual terms of the contract. It is usually transferred when the product arrives at the buyer's warehouse.

If more than one product or service is sold through a single contract, each product and service considered as a separate unit are separately recognised and the consideration received is allocated according to the fair value of each product of service.

## KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

#### 4. SIGNIFICANT ACCOUNTING POLICIES, Continued:

(21) Revenue from contracts with customers, continued

5) Revenue Recognition, continued

(iii) Customer loyalty programs

For customer loyalty programs, the fair value of the consideration received or receivable with respect to the initial sale is allocated between the award credits ("Mileage") and the revenue. The Group provides mileage to customers when tickets are sold. The amounts allocated to the Mileage are estimated based on the fair value of the train ticket to be provided for the mileage points expected to be redeemed. The fair value of the train tickets is estimated taking into account the expected redemption rate and the timing of such expected redemptions. Such amount is deferred and revenue is recognized only when the Mileages are redeemed and the Group has fulfilled its obligations to provide it according to the train ticket. Revenue recognition is measured based on the percentage of the mileage points redeemed in exchange for a ticket to the total mileage points expected to be redeemed.

(iv) Construction contracts

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

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

(v) Rental income

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

## KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

#### 4. SIGNIFICANT ACCOUNTING POLICIES, Continued:

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

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

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

##### (23) Income taxes

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

##### (i) Current tax

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

## KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

#### 4. SIGNIFICANT ACCOUNTING POLICIES, Continued:

(23) Income taxes, continued

(ii) Deferred tax

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

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

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

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

## KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

#### 4. SIGNIFICANT ACCOUNTING POLICIES, Continued:

(24) Standards issued but not yet effective

New standards and amendments issued but effective for annual periods beginning after January 1, 2018 are as follow; however, the Group has not early adopted them in preparing these consolidated financial statements.

##### K-IFRS 1116 Leases

K-IFRS 1116 replaces existing leases guidance, including K-IFRS 1017 Leases and K-IFRS 2104 Determining whether an Arrangement Contains a Lease.

The standard is effective for annual periods beginning on or after January 1, 2019. Early adoption is permitted for entities applying K-IFRS 1115 Revenue from Contracts with Customers.

K-IFRS 1116 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items.

Lessor accounting remains similar to the current standard - i.e. lessors continue to classify leases as finance or operating leases.

The Group has completed an initial assessment of the potential impact on its consolidated financial statements but has not yet completed its detailed assessment. The actual impact of applying K-IFRS 1116 on the financial statements in the period of initial application will depend on future economic conditions, including the Group's borrowing rate at January 1, 2019, the composition of the Group's lease portfolio at that date, the Group's latest assessment of whether it will exercise any lease renewal options and the extent to which the Group chooses to use practical expedients and recognition exemptions.

## KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

#### 4. SIGNIFICANT ACCOUNTING POLICIES, Continued:

(24) Standards issued but not yet effective, continued

In addition, the nature of expenses related to those leases will now change because K-IFRS 1116 replaces the straight-line operating lease expense with a depreciation charge for right-of-use assets and interest expense on lease liabilities.

Management believes the impact of the amendments listed below on the Group's consolidated financial statements is not significant

- K-IFRS 2123 Uncertainty over Income Tax Treatments
- K-IFRS 1109 Financial Instruments Prepayment Features with Negative Compensation (Amendments to K-IFRS 1109)
- K-IFRS 1028 Investments in Associates and Joint Ventures - Long-term Interests in Associates and Joint Ventures (Amendments to K-IFRS 1028)
- K-IFRS 1019 Employee Benefits - Plan Amendments, Curtailment or Settlement (Amendments to K-IFRS 1019)
- Annual Improvements to IFRSs 2015-2017 Cycle
- Amendments to The Conceptual Framework for Financial Reporting
- K-IFRS 1117 Insurance Contracts

## KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

### 5. FINANCIAL RISK MANAGEMENT:

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

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

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

#### (1) Risk management activities

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

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

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



## KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

#### **5. FINANCIAL RISK MANAGEMENT, Continued:**

##### (2) Credit risk

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

##### (i) Trade and other receivables

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

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

#### **Comparative information based on K-IFRS 1039**

Aging analysis of trade receivable and other receivable that are overdue, but not impaired as of December 31, 2017 are described in the note 10.

#### **Assessment for expected credit losses**

The Group applies the practical simplified method of using a provision setting table to measure expected credit losses depend of judgement of this method consistent with measurement principle of expected credit losses required from K-IFRS 1109.

The default rate is calculated using the 'Roll Rate' model based on the likelihood that trade receivable will be delinquent. 'Roll Rate' was calculated separately for each business unit exposure based on common credit risk characteristics such as region, duration of customer relationship and type of product purchased.

## KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

#### 5. FINANCIAL RISK MANAGEMENT, Continued:

##### (2) Credit risk, continued

###### (ii) Guarantees

The Group can only provide financial guarantees based on the Board of Directors' resolution. At December 31, 2018, no guarantees were outstanding.

###### (iii) Investments

The Group deposits its cash and cash equivalents and short-term financial instruments in Kookmin Bank and others, and limits its exposure to credit risk by only transacting with financial institutions with high credit ratings. The Group indirectly participates in the development and operation of the surrounding area of Yongsan station and owns associated companies' equity. Although the Group is exposed to credit risk as the market value of the associated companies that operate the private capital railway station fluctuates depending on the location and surrounding conditions, the Group manages the investment assets by reviewing the fluctuation of net assets of investees on a regular basis and recognizes impairment loss when recoverability of investment assets is no longer probable.

##### (3) Liquidity risk

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

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

## KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

### 5. FINANCIAL RISK MANAGEMENT, Continued:

#### (4) Market risk

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

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

##### (i) Currency risk

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

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

##### (ii) Interest rate risk

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

##### (iii) Other market price risk

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

## KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

#### 5. FINANCIAL RISK MANAGEMENT, Continued:

##### (5) Capital management

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

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

The Group's capital management strategy is consistent with prior period and the credit rating is maintained AAA at the end of 2018.

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

<i>(In thousands of won, except equity ratio)</i>	<u>Dec. 31, 2018</u>		<u>Dec. 31, 2017</u>
	(Restated)		
Bond issued	₩	10,691,874,140	11,500,323,620
Equity capital and reserves		6,563,613,963	4,894,024,662
Net debt-to-adjusted equity ratio		162.90%	234.99%

## KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

### 6. OPERATING BUSINESS UNITS:

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

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

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

# KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

### 6. OPERATING BUSINESS UNITS, Continued:

(2) The Group's business units' information on revenue and profit for the years ended December 31, 2018 and 2017 is as follows:

<i>(In thousands of won)</i>		2018			
Company		Total revenue	Inter-unit revenue	External revenue	Operating profit (loss) Depreciation and amortization expenses
Korea Railroad Corporation	₩	5,554,504,325	282,237,490	5,272,266,835	(98,721,943) 521,284,089
KORAIL Retail Co., Ltd.		298,332,776	1,304,514	297,028,262	12,685,700 7,418,621
KORAIL Networks Co., Ltd.		91,688,849	43,366,880	48,321,969	2,426,221 1,961,010
KORAIL Logis Co., Ltd.		54,987,021	9,402,616	45,584,405	589,176 436,532
KORAIL Tourism Development Co., Ltd.		55,071,987	37,039,260	18,032,727	(1,276,192) 515,730
KORAIL Tech Co., Ltd.		78,084,342	74,230,530	3,853,812	4,056,426 343,776
SR Co., Ltd.		640,729,198	76,981	640,652,217	45,586,303 18,676,745
Korean Insurance Brokerage Co., Ltd.		1,104,523	-	1,104,523	411,603 -
	₩	<u>6,774,503,021</u>	<u>447,658,271</u>	<u>6,326,844,750</u>	<u>(34,242,706)</u> <u>550,636,503</u>
<i>(In thousands of won)</i>		2017			
Company		Total revenue	Inter-unit revenue	External revenue	Operating profit(loss) Depreciation and amortization expenses
Korea Railroad Corporation	₩	5,057,247,075	253,190,637	4,804,056,438	(528,298,835) 508,716,376
KORAIL Retail Co., Ltd.		283,795,655	4,138,807	279,656,848	10,289,582 7,088,152
KORAIL Networks Co., Ltd.		84,614,409	38,111,209	46,503,200	3,463,999 1,589,991
KORAIL Logis Co., Ltd.		52,600,520	8,505,969	44,094,551	492,328 434,122
KORAIL Tourism Development Co., Ltd.		55,876,255	33,153,076	22,723,179	454,655 519,253
KORAIL Tech Co., Ltd.		36,647,180	28,106,819	8,540,361	1,224,156 244,798
SR Co., Ltd.		580,109,562	110,891	579,998,671	41,935,031 19,262,195
Korean Insurance Brokerage Co., Ltd.		1,135,497	-	1,135,497	465,552 -
	₩	<u>6,152,026,153</u>	<u>365,317,408</u>	<u>5,786,708,745</u>	<u>(469,973,532)</u> <u>537,854,887</u>

# KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

### 6. OPERATING BUSINESS UNITS, Continued:

(3) Assets and liabilities of the Group's business units as of December 31, 2018 and 2017, are as follows:

<i>(In thousands of won)</i>		2018 (Restated)			
Company		Total assets	Investment in associates	Acquisition of non-current assets	Total liabilities
Korea Railroad Corporation	₩	21,400,752,858	283,150,181	310,904,084	14,971,620,074
KORAIL Retail Co., Ltd.		311,106,301	16,863,608	14,214,133	148,217,134
KORAIL Networks Co., Ltd.		42,607,212	1,178,649	1,994,399	19,740,389
KORAIL Logis Co., Ltd.		15,309,573	-	146,207	14,256,728
KORAIL Tourism Development Co., Ltd.		18,472,009	-	1,176,735	10,351,731
KORAIL Tech Co., Ltd.		33,820,830	-	1,438,851	14,135,157
SR Co., Ltd.		545,345,413	-	5,592,311	279,043,070
Korean Insurance Brokerage Co., Ltd.		1,600,935	-	-	272,055
	₩	<u>22,369,015,131</u>	<u>301,192,438</u>	<u>335,466,720</u>	<u>15,457,636,338</u>

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

## KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

#### 6. OPERATING BUSINESS UNITS, Continued:

(4) External revenues by geographical regions for the years ended December 31, 2018 and 2017, and non-current assets by geographical regions as of December 31, 2018 and 2017, are summarized as follows:

<i>(In thousands of won)</i>	External revenue		Non-current assets	
	2018	2017	Dec. 31, 2018	Dec. 31, 2017
Domestic	₩ 6,319,381,804	5,779,717,570	20,490,099,432	18,164,866,233
Overseas	7,462,943	6,991,175	-	-
	₩ <u>6,326,844,747</u>	<u>5,786,708,745</u>	<u>20,490,099,432</u>	<u>18,164,866,233</u>

#### 7. CASH AND CASH EQUIVALENTS:

Cash and cash equivalents in the consolidated statement of cash flow include cash and cash equivalents as of December 31, 2018 and 2017 are summarized as follows:

<i>(In thousands of won)</i>	Dec. 31, 2018	Dec. 31, 2017
Cash and cash equivalents	₩ 846,895,807	715,043,917
Government subsidies	(64,595,031)	(63,512,514)
Funds for consignment business from government	<u>(135,029,637)</u>	<u>(169,764,199)</u>
	₩ <u>647,271,139</u>	<u>481,767,204</u>



# KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

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

Cash and cash equivalents that are restricted in use and financial assets that are held as collateral for liabilities or contingencies as of December 31, 2018 and 2017, are summarized as follows:

<i>(In thousands of won)</i>	Type	Dec. 31, 2018	Dec. 31, 2017
Cash and cash equivalents	Railroad membership deposits	₩ 9,081,691	9,025,146
Cash and cash equivalents	Cash on demand deposits	-	270,233
Long-term financial instruments	Pledged assets	18,754	18,754
		<u>₩ 9,100,445</u>	<u>9,314,133</u>

### 9. DERIVATIVES:

(1) Derivative instruments outstanding as of December 31, 2018 and 2017, are as follows:

<i>(In thousands of won)</i>	Dec. 31, 2018		Dec. 31, 2017	
	Current	Non-current	Current	Non-current
<u>Derivative instrument assets:</u>				
Currency swap	₩ -	3,863,614	-	7,700,483
<u>Derivative instrument liabilities:</u>				
Currency swap	₩ 22,674,001	41,794,648	24,208,168	53,827,313
Interest rate swap	-	4,099,384	-	-
Total	₩ 22,674,001	45,894,032	24,208,168	53,827,313

# KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

### 9. DERIVATIVES, Continued:

(2) Details of currency swap outstanding as of December 31, 2018 are summarized as follows:

*(In thousands of won, CHF, USD, AUD, HKD, SEK, CAD, EUR, SGD)*

Financial institutions	Contract term		Selling price	Purchasing price	Selling interest rate	purchasing interest rate	Contractual exchange rate	Valuation amount
Standard Chartered Korea	2013.12.02~ 2019.12.02	CHF	134,895,000	115,000,000	3.64%	CHF1.51%(At 2019 1.52%)	1,173.00	₩(4,751,086)
BNP	2013.12.02~ 2019.12.02	CHF	117,300,000	100,000,000	3.64%	CHF1.51%(At 2019 1.52%)	1,173.00	₩(4,175,876)
SG	2013.12.02~ 2019.12.02	CHF	117,300,000	100,000,000	3.64%	CHF1.51%(At 2019 1.52%)	1,173.00	₩(4,351,355)
HSBC	2016.12.20~ 2019.06.20	USD	233,400,000	200,000,000	1.81%	3M Libor+0.70%	1,167.00	₩(9,395,684)
NOMURA	2017.04.26~ 2030.04.26	AUD	42,708,500	50,000,000	2.23%	AUD 4.11%	854.17	₩(2,991,507)
NOMURA	2017.05.25~ 2023.05.25	HKD	134,180,490	921,000,000	2.17%	HKD 2.60%	145.69	₩(7,831,428)
NOMURA	2017.05.26~ 2032.05.26	SEK	38,199,000	300,000,000	2.40%	SEK 2.31%	127.33	₩(2,119,737)
Export-Import Bank of Korea	2017.06.07~ 2037.06.07	CAD	91,746,600	110,000,000	2.40%	CAD 3.07%	834.06	₩(9,273,715)
NOMURA	2017.06.09~ 2037.06.09	EUR	62,829,000	50,000,000	2.37%	EUR 1.89%	1,256.58	₩(1,795,553)
DBS	2017.11.29~ 2020.11.29	SGD	112,840,000	140,000,000	2.17%	SGD 1.73%	806.00	₩(471,365)
Industrial Bank of Korea	2018.06.07~ 2023.06.07	HKD	87,128,480	631,000,000	2.23%	HKD 3.375%	138.08	₩3,863,614
BNP	2018.07.12~ 2023.07.12	CHF	112,833,000	100,000,000	2.05%	CHF 0.20%	1,128.33	₩(1,506,938)
BNP	2018.10.02~ 2033.10.02	EUR	144,454,200	110,000,000	2.36%	EUR 1.72%	1,313.22	₩(8,272,168)
Hana Bank	2018.10.25~ 2038.10.25	EUR	130,480,000	100,000,000	2.33%	EUR 1.88%	1,304.80	₩(7,532,237)
			<u>1,560,294,270</u>	<u>3,027,000,000</u>				<u>(60,605,035)</u>

# KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

### 9. DERIVATIVES, Continued:

(3) Details of interest rate swap outstanding as of December 31, 2018 are summarized as follows:

(In thousands of won)							
Type	Financial institutions	Contract term		Contract price	Selling interest rate	purchasing interest rate	Valuation amount
Cash flow hedge	Hana Bank	2018.03.19.~ 2023.03.17.	₩	200,000,000	2.63%	91-day CD+0.33%	(4,099,384)

(4) Derivative transaction gain (loss) for the years ended December 31, 2018 and 2017 are as follows:

		Gain and losses from valuation		Gain and losses from transactions		Other comprehensive Income	
<i>(In thousands of won)</i>		2018	2017	2018	2017	2018	2017
Currency swap	₩	20,045,590	(90,609,670)	-	(23,100,000)	(34,003,877)	3,773,920
Interest swap		-	-	-	-	(4,099,383)	-
	₩	<u>20,045,590</u>	<u>(90,609,670)</u>	<u>-</u>	<u>(23,100,000)</u>	<u>(38,103,260)</u>	<u>3,773,920</u>

# KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

### 10. TRADE RECEIVABLES AND OTHER RECEIVABLES:

(1) Trade receivables and accounts receivable as of December 31, 2018 and 2017 are as follows:

		Dec. 31, 2018			
<i>(In thousands of won)</i>		Receivables	Allowance for impairment	Present value of discount	Carrying amounts
<u>Current assets:</u>					
Trade receivables	₩	431,724,578	(17,782,963)	-	413,941,615
Other receivables		79,754,714	(1,232,778)	-	78,521,936
Subtotal		511,479,292	(19,015,741)	-	492,463,551
<u>Non-current assets:</u>					
Other receivables		34,171,244	-	(489,910)	33,681,334
	₩	545,650,536	(19,015,741)	(489,910)	526,144,885
		Dec. 31, 2017			
<i>(In thousands of won)</i>		Receivables	Allowance for impairment	Present value of discount	Carrying amounts
<u>Current assets:</u>					
Trade receivables	₩	376,899,689	(13,508,560)	-	363,391,129
Other receivables		524,774,199	(2,170,026)	-	522,604,173
Subtotal		901,673,888	(15,678,586)	-	885,995,302
<u>Non-current assets:</u>					
Other receivables		235,325,081	-	(384,251)	234,940,830
	₩	1,136,998,969	(15,678,586)	(384,251)	1,120,936,132

# KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

### 10. TRADE RECEIVABLES AND OTHER RECEIVABLES, Continued:

(2) Other receivables as of December 31, 2018 and 2017 are detailed as follows:

		Dec. 31, 2018			
(In thousands of won)		Receivables	Allowance for impairment	Present value of discount	Carrying amounts
<u>Current assets:</u>					
Other receivables	₩	79,631,801	(1,232,778)	-	78,399,023
Accrued revenue		122,913	-	-	122,913
Subtotal		79,754,714	(1,232,778)	-	78,521,936
<u>Non-current assets:</u>					
Deposits provided		34,171,244	-	(489,910)	33,681,334
	₩	113,925,958	(1,232,778)	(489,910)	112,203,270
		Dec. 31, 2017			
(In thousands of won)		Receivables	Allowance for impairment	Present value of discount	Carrying amounts
<u>Current assets:</u>					
Other receivables	₩	524,678,294	(2,170,026)	-	522,508,268
Accrued revenue		95,905	-	-	95,905
Subtotal		524,774,199	(2,170,026)	-	522,604,173
<u>Non-current assets:</u>					
Other receivables		201,087,739	-	-	201,087,739
Deposits provided		34,237,342	-	(384,251)	33,853,091
Subtotal		235,325,081	-	(384,251)	234,940,830
	₩	760,099,280	(2,170,026)	(384,251)	757,545,003

# KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

### 10. TRADE RECEIVABLES AND OTHER RECEIVABLES, Continued:

(3) Aging analysis of trade receivables and other receivables as of December 31, 2018 and 2017 is detailed as follows:

<i>(In thousands of won)</i>		Trade receivables	
		Dec. 31, 2018	Dec. 31, 2017
Current and not impaired	₩	317,867,577	270,442,816
Overdue, but not impaired		105,003,357	94,754,737
Current reviewed for impairment		8,853,644	11,702,136
- Under 90 days		3,683,112	4,461,671
- 90 days–120 days		352,339	450,169
- 120 days or more		4,818,193	6,790,296
Subtotal		431,724,578	376,899,689
Allowance for impairment		(17,782,963)	(13,508,560)
	₩	413,941,615	363,391,129
<i>(In thousands of won)</i>		Other receivables	
		Dec. 31, 2018	Dec. 31, 2017
Current and not impaired	₩	108,367,837	751,361,842
Overdue, but not impaired		3,506,766	6,892,012
Current reviewed for impairment		2,051,355	1,845,426
- Under 90 days		199,637	181,069
- 90 days–120 days		2,447	16,601
- 120 days or more		1,849,271	1,647,756
Subtotal		113,925,958	760,099,280
Allowance for impairment		(1,232,778)	(2,170,026)
Present value discounts		(489,910)	(384,251)
	₩	112,203,270	757,545,003

# KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

### 10. TRADE RECEIVABLES AND OTHER RECEIVABLES, Continued:

(4) Changes in allowance for impairment of trade receivables and other receivables during the years ended December 31, 2018 and 2017 are as follows:

<i>(In thousands of won)</i>		2018		2017	
		Trade receivables	Other receivables	Trade receivables	Other receivables
Beginning balance	₩	13,508,560	2,170,026	18,422,734	8,286,831
Effect of initially applying K-IFRS 1109		(1,079,416)	(671,860)	-	-
Adjusted beginning balance		12,429,144	1,498,166	18,422,734	8,286,831
Impairment loss recognized		5,863,265	45,929	1,491,697	97,935
Write-offs		(509,446)	(295,619)	(6,405,871)	(6,214,683)
Reversal of allowance		-	(15,698)	-	(57)
Ending balance	₩	<u>17,782,963</u>	<u>1,232,778</u>	<u>13,508,560</u>	<u>2,170,026</u>

### 11. CONTRACT ASSETS AND CONTRACT LIABILITIES:

(1) Contract assets and Contract liabilities as of December 31, 2018 and 2017 are as follows:

<i>(In thousands of won)</i>		Dec. 31, 2018	Dec. 31, 2017
Contract assets			
- Receivables from unbilled construction contracts	₩	337,002	162,224
Contract liabilities			
- Customer loyalty programmes		65,884,425	42,126,390
- Advances from construction contracts		<u>266,380</u>	<u>14,899</u>
Total	₩	<u>66,150,805</u>	<u>42,141,289</u>

# KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

### 11. CONTRACT ASSETS AND CONTRACT LIABILITIES, Continued:

(2) Contract liabilities on customer loyalty programmes as of December 31, 2018 and 2017 are detailed as follows:

<i>(In thousands of won)</i>		Dec. 31, 2018	Dec. 31, 2017
Current liabilities			
Short-term income received in advance			
-Customer loyalty programmes	₩	2,130,706	-
Non-current liabilities			
Long-term income received in advance			
-Customer loyalty programmes		63,753,719	42,126,390
Total	₩	65,884,425	42,126,390

(3) Changes in contract liabilities on customer loyalty programmes during the years ended December 31, 2018 and 2017 are as follows:

<i>(In thousands of won)</i>		2018	2017
Beginning balance	₩	42,126,390	11,973,140
Increase		74,940,738	68,458,740
Revenue recognized		(51,182,703)	(38,305,490)
Ending balance	₩	65,884,425	42,126,390



## KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

#### 12. FAIR VALUE MEASUREMENT FINANCIAL ASSETS:

(1) Changes of FVOCI for the year ended December 31, 2018 is as follow:

<i>(In thousands of won)</i>		Beginning Balance	Reclassification on K-IFRS 1109	Acquisition	Valuation	Other	Ending Balance
Listed securities	₩	-	11,990	-	5,959	-	17,949
Unlisted securities		-	23,513,928	15,043	(2,757,803)	22,549,000	43,320,168
	₩	-	23,525,918	15,043	(2,751,844)	22,549,000	43,338,117

(2) Changes of FVPL for the year ended December 31, 2018 is as follow:

<i>(In thousands of won)</i>		Beginning Balance	Reclassification on K-IFRS 1109	Acquisition	Other	Ending Balance
Listed securities	₩	-	-	-	-	-
Unlisted securities		-	18,694,667	3,686,941	(22,381,608)	-
	₩	-	18,694,667	3,686,941	(22,381,608)	-

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

The Group reclassified available-for-sale financial assets as of December 31, 2017 as fair value measurement financial assets for applying K-IFRS 1109. Available-for-sale financial assets as of December 31, 2018 and 2017 are summarized as follows:

<i>(In thousands of won)</i>		Dec. 31, 2018		Dec. 31, 2017	
		Current	Non-current	Current	Non-current
Equity instruments:	₩				
Marketable securities		-	-	-	11,990
Non-marketable securities		-	-	-	42,208,595
	₩	-	-	-	42,220,585

# KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

### 14. LOANS:

Loans as of December 31, 2018 and 2017 are summarized as follows:

(In thousands of won)	Dec 31, 2018		
	Face value	Present value discounts	Carrying amount
₩			
Tuition loans(*1)	44,264,654	(5,357,405)	38,907,249
Other(*2)	1,282,579	-	1,282,579
₩	45,547,233	(5,357,405)	40,189,828

(\*1) Regarding student loans, the amount of ₩227,141 thousand(₩6,177 thousand Present value discounts), which is due within one year, is reclassified to short-term loans.

(\*2) The Group recognizes the lending of funds for normalization of Changdong History Co., Ltd. and Shinchon Historical Management Co., Ltd., and four major insurance payments made on behalf of employees laid off as other loans.

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

(\*1) Regarding student loans, the amount of ₩394,468 thousand(₩7,833 thousand Present value discounts), which is due within one year, is reclassified to short-term loans.

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

## KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

#### 15. FINANCIAL INSTRUMENTS:

Financial instruments as of December 31, 2018 and 2017 are as follows:

<i>(In thousands of won)</i>	Dec. 31, 2018		Dec. 31, 2017	
	Current	Non-current	Current	Non-current
Periodical installment savings ₩	92,248,659	18,755	14,250,000	18,755
others	11,500,000	-	953,275	-
	₩ 103,748,659	18,755	15,203,275	18,755

# KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

### 16. INVENTORIES:

Inventories as of December 31, 2018 and 2017 are as follows:

		Dec. 31, 2018			
<i>(In thousands of won)</i>		Acquisition costs	Government grants	Provision for loss on valuation	Carrying amount
Raw materials	₩	394,790	-	-	394,790
Merchandises		8,926,687	-	-	8,926,687
Work in progress		5,527,269	-	-	5,527,269
Supplies		315,319,531	(66,365,093)	(457,605)	248,496,833
Inventory in transit		23,534,824	-	-	23,534,824
	₩	<u>353,703,101</u>	<u>(66,365,093)</u>	<u>(457,605)</u>	<u>286,880,403</u>

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

# KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

### 17. NON-FINANCIAL ASSETS:

(1) Non-financial assets as of December 31, 2018 and 2017 are as follows:

<i>(In thousands of won)</i>	Dec 31, 2018		Dec 31, 2017	
	Current	Non-current	Current	Non-current
Prepayment	₩ 6,725,537	-	26,258,074	-
Government grants	(4,001,055)	-	(6,584,210)	-
Allowance for bad debts	(46,672)	-	(116,821)	-
Prepaid expenses	7,505,979	6,170,784	6,782,874	7,044,524
Other non-financial assets	4,596,564	71,648	16,314,694	75,586
	₩ 14,780,353	6,242,432	42,654,611	7,120,110

(2) Other non-financial assets as of December 31, 2018 and 2017 are as follows:

<i>(In thousands of won)</i>	Dec 31, 2018		Dec 31, 2017	
	Current	Non-current	Current	Non-current
Deposits	₩ 2,181,411	23,344	14,894,732	23,344
Non-financial assets-others	2,415,154	48,304	1,419,962	52,242
	₩ 4,596,565	71,648	16,314,694	75,586

# KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

### 18. INVESTMENTS IN ASSOCIATES:

(1) Investments in associates as of December 31, 2018 and 2017 are detailed as follows:

(In thousands of won)	Primary business	Location	Dec. 31, 2018		
			Owner-ship(%)	Acquisition cost	Carrying amounts
Uiwang ICD Co., Ltd.	Construction and operation of container depot	Republic of Korea	25.00	₩ 1,765,000	1,724,681
Dream Hub Project	Developing, trading and leasing of real estate	Republic of Korea	25.00	250,000,000	-
Financial Investment Co., Ltd.		Republic of Korea			
YongSan Station Around Development Co., Ltd.	Asset management	Republic of Korea	29.90	897,000	1,507,032
Sinchon Station Building Co., Ltd.	Development and operation of privatized station's sphere of influence	Republic of Korea	33.33	1,700,000	4,444,094
Lotte Station Building Co., Ltd.	Development and operation of privatized station's sphere of influence	Republic of Korea	31.67	84,338,340	66,351,682
Bupyeong Department Store Co., Ltd.	Development and operation of privatized station's sphere of influence	Republic of Korea	25.00	682,300	2,502,852
Changdong Station Building Co., Ltd.	Development and operation of privatized station's sphere of influence	Republic of Korea	31.67	1,520,000	-
Anyang Station Building Co., Ltd.	Development and operation of privatized station's sphere of influence	Republic of Korea	26.08	699,962	2,899,192
Dongincheon Shopping Center Co., Ltd.	Development and operation of privatized station's sphere of influence	Republic of Korea	21.28	798,000	-
Bucheon Station Building Co., Ltd.	Development and operation of privatized station's sphere of influence	Republic of Korea	25.00	6,833,050	5,221,865
Hanwha Station Development Co., Ltd.	Development and operation of privatized station's sphere of influence	Republic of Korea	32.04	12,953,517	41,327,765
Noryangjin Station Building Co., Ltd.	Development and operation of privatized station's sphere of influence	Republic of Korea	27.00	540,000	-
Shinsegae Uijeongbu Station Building Co., Ltd.	Development and operation of privatized station's sphere of influence	Republic of Korea	27.55	1,102,000	-
Seongbuk Station Building Co., Ltd.	Development and operation of privatized station's sphere of influence	Republic of Korea	30.00	600,000	-
Ansan Central Station Building Co., Ltd.	Development and operation of privatized station's sphere of influence	Republic of Korea	25.00	500,000	-
Bitplex Co., Ltd.	Development and operation of privatized station's sphere of influence	Republic of Korea	23.78	4,862,340	2,286,922
				₩ 369,791,509	128,266,085

# KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

### 18. INVESTMENTS IN ASSOCIATES, Continued:

(1) Associates as of December 31, 2018 and 2017 are detailed as follows, continued:

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

# KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

### 18. INVESTMENTS IN ASSOCIATES, Continued:

(2) Financial information of significant associates as of December 31, 2018 and 2017 is as follows:

(In thousands of won)		Lotte Station Building Co., Ltd.		Hanwha Station Development Co., Ltd.	
		2018	2017	2018	2017
Current Assets	₩	103,305,853	146,630,232	18,041,054	10,294,971
Non-current assets		201,817,520	208,557,838	387,050,374	405,551,965
Current liabilities		89,823,605	161,170,656	70,058,554	75,046,664
Non-current liabilities		5,768,074	9,518,783	206,056,777	221,658,052
Revenue		182,556,761	196,512,660	221,282,160	63,322,149
Profit for the year		44,077,456	(287,498,842)	11,027,786	155,110
Total comprehensive profit for the year		38,200,200	(282,828,423)	11,027,786	72,754
Dividend received		5,700,000	7,720,411	314,826	2,098,822

(3) Details of adjustments made for book value of associates as of December 31, 2018 are as follows:

(In thousands of won)		Net assets	Percentage of ownership	Share of interests in net assets	Book value
Uiwang ID Co., Ltd	₩	6,898,725	25.00%	1,724,681	1,724,681
YongSan Station Around Development Co., Ltd.		5,040,241	29.90%	1,507,032	1,507,032
Lotte Station Building Co., Ltd.		209,531,695	31.67%	66,351,682	66,351,682
Bupyeong Department Store Co., Ltd.		10,011,150	25.00%	2,502,852	2,502,852
Anyang Station Building Co., Ltd.		11,118,666	26.08%	2,899,192	2,899,192
Bucheon Station Building Co., Ltd.		20,887,460	25.00%	5,221,865	5,221,865
Hanwha Station Development Co., Ltd.		128,976,097	32.04%	41,327,765	41,327,765
Ansan Central Station Building Co., Ltd.		(443,538)	25.00%	-	-
Bit Plex Co., Ltd.		9,616,996	23.78%	2,286,922	2,286,922
Sinchon Station Building Co., Ltd.		13,332,282	33.33%	4,444,094	4,444,094
	₩	<u>414,969,774</u>		<u>128,266,085</u>	<u>128,266,085</u>



# KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

### 18. INVESTMENTS IN ASSOCIATES, Continued:

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

<i>(In thousands of won)</i>		Individually non-significant associates and joint ventures
Book value	₩	20,586,638
Profit attributable to associates and joint ventures:		
Profit from continuing operations		12,487,710
Other comprehensive income		127,624
Profit attributable to associates and joint ventures	₩	12,615,334

(5) Changes in investments in associates for the years ended December 31, 2018 and 2017 are as follows:

		2018					
<i>(In thousands of won)</i>		Book value as of Jan. 1, 2018	Dividend	Share of profits	Change in equity method investments	Other increase (decrease)	Book value as of Dec. 31, 2018
Uiwang ID Co., Ltd.	₩	1,877,209	-	(130,650)	-	(21,878)	1,724,681
YongSan Station Around Development Co., Ltd.		-	-	1,507,032	-	-	1,507,032
Lotte Station Building Co., Ltd.		58,424,544	(5,700,000)	13,957,862	(3,947,329)	3,616,605	66,351,682
Bupyeong Department Store Co., Ltd.		1,725,605	-	822,941	31,906	(77,600)	2,502,852
Anyang Station Building Co., Ltd.		3,020,844	(26,075)	(8,786)	-	(86,791)	2,899,192
Bucheon Station Building Co., Ltd.		5,996,960	(2,500,000)	1,724,702	-	203	5,221,865
Hanwha Station Development Co., Ltd.		38,176,691	(314,825)	3,533,638	-	(67,739)	41,327,765
Ansan Central Station Building Co., Ltd.		-	-	-	-	-	-
Bit Plex Co., Ltd.		1,702,011	-	585,130	-	(219)	2,286,922
Sinchon Station Building Co., Ltd.		5,695,391	-	(1,505,140)	-	253,843	4,444,094
	₩	116,619,255	(8,540,900)	20,486,729	(3,915,423)	3,616,424	128,266,085

# KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

### 18. INVESTMENTS IN ASSOCIATES, Continued:

(5) Changes in investments in associates for the years ended December 31, 2018 and 2017 are as follows, continued:

(In thousands of won)	2017					
	Book value as of Jan. 1, 2017	Dividend	Share of profits	Change in equity method investments	Other increase (decrease)	Book value as of Dec. 31, 2017
Uiwang ID Co., Ltd. ₩	1,871,137	-	11,519	-	(5,447)	1,877,209
Lotte Station Building Co., Ltd.	156,915,079	(7,720,411)	(91,041,310)	1,478,966	(1,207,780)	58,424,544
Bupyeong Department Store Co., Ltd.	1,325,625	-	400,295	1,073	(1,388)	1,725,605
Anyang Station Building Co., Ltd.	2,852,826	(26,075)	245,974	-	(51,881)	3,020,844
Bucheon Station Building Co., Ltd.	6,701,267	(2,500,000)	1,797,684	-	(1,991)	5,996,960
Hanwha Station Development Co., Ltd.	40,252,220	(2,098,822)	49,702	-	(26,409)	38,176,691
Ansan Central Station Building Co., Ltd.	14,723	-	(14,723)	-	-	-
Bit Plex Co., Ltd.	-	-	1,702,011	-	-	1,702,011
Sinchon Station Building Co., Ltd.	-	-	5,695,391	-	-	5,695,391
₩	209,932,877	(12,345,308)	(81,153,457)	1,480,039	(1,294,896)	116,619,255

(6) Details of unrecognized equity losses for the year ended December 31, 2018 and accumulated unrecognized equity losses due to discontinuance of equity method application are as follows:

(In thousands of won)	Unrecognized equity losses for the year ended	Unrecognized equity losses Accumulated
Kwangwoon Univ. Building Co., Ltd. ₩	(148,628)	(2,903,518)
Shinsegae Uijeongbu Station Building Co., Ltd.	(76,774)	(4,407,299)
Ansan Central Station Building Co., Ltd.	(32,996)	(610,884)

# KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

### 19. PROPERTY, TRAINS AND EQUIPMENT:

(1) Details of property, trains and equipment as of December 31, 2018 and 2017 are as follows:

<i>(In thousands of won)</i>	Dec 31, 2018				
	Acquisition cost	Government grants	Accumulated depreciation	Accumulated impairment losses	Book value
Land(*)	₩ 12,556,409,173	(6,598,459)	-	-	12,549,810,714
Buildings(*)	2,009,681,792	(99,640,028)	(496,956,284)	-	1,413,085,480
Structures	311,052,954	(9,274,570)	(123,173,404)	(652,134)	177,952,846
Machinery	1,211,519,285	(60,887,462)	(785,193,540)	-	365,438,283
Servers	8,065,137	-	(3,520,758)	-	4,544,379
Trains	8,292,405,449	(314,456,090)	(3,052,502,581)	-	4,925,446,778
Vehicles	60,511,102	(98)	(41,346,847)	-	19,164,157
Furniture and fixtures	15,923,347	(47,914)	(12,223,145)	-	3,652,288
Tools	139,018,138	(215,399)	(104,334,216)	-	34,468,523
Construction in progress	274,201,479	(11,590,093)	-	-	262,611,386
Financial lease assets	1,717,071	-	(1,717,064)	-	7
Other tangible assets	32,766,843	-	(2,029,651)	-	30,737,192
	₩ 24,913,271,770	(502,710,113)	(4,622,997,490)	(652,134)	19,786,912,033

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

# KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

### 19. PROPERTY, TRAINS AND EQUIPMENT, Continued:

(1) Details of property, trains and equipment as of December 31, 2018 and 2017 are as follows, continued:

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

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

# KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

### 19. PROPERTY, TRAINS AND EQUIPMENT, Continued:

(2) Changes in property, trains and equipment for the years ended December 31, 2018 and 2017 are as follows:

		Dec 31, 2018				
(In thousands of won)	Book value	Acquisitions	Disposals	Depreciation	Other(*)	Book value
	as of Jan. 1, 2018					as of Dec. 31, 2018
Land	₩ 9,842,338,263	9,412,664	(11,797,751)	-	2,709,857,538	12,549,810,714
Buildings(*)	1,431,147,342	28,018,795	(8,864,181)	(44,807,288)	7,590,812	1,413,085,480
Structures	178,724,036	12,113,152	(3,683,744)	(11,070,879)	1,870,281	177,952,846
Machinery	373,799,316	52,017,964	(486,338)	(57,792,104)	(2,100,555)	365,438,283
Servers	5,974,601	160,664	-	(1,590,886)	-	4,544,379
Trains	5,283,258,239	40,715,724	(4,778,290)	(399,886,596)	6,137,701	4,925,446,778
Vehicles	17,949,339	6,620,947	(271,610)	(3,942,791)	(1,191,728)	19,164,157
Furniture and fixtures	3,352,319	1,784,549	(387,059)	(1,459,343)	361,822	3,652,288
Tools	33,933,985	13,225,679	(31,176)	(10,906,647)	(1,753,318)	34,468,523
Construction in progress	156,940,402	161,070,455	(11,629)	-	(55,387,842)	262,611,386
Financial lease assets	7	-	-	-	-	7
Other tangible assets	30,531,856	942,555	(11,073)	(753,540)	27,394	30,737,192
	<u>₩ 17,357,949,705</u>	<u>326,083,148</u>	<u>(30,322,851)</u>	<u>(532,210,074)</u>	<u>2,665,412,105</u>	<u>19,786,912,033</u>

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

# KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

### 19. PROPERTY, TRAINS AND EQUIPMENT, Continued:

(2) Changes in property, trains and equipment for the years ended December 31, 2018 and 2017 are as follows, continued:

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

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

## KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

#### 19. PROPERTY, TRAINS AND EQUIPMENT, Continued:

(3) Accounting policy for subsequent measurement

The Group measured the fair value of the land using assistance from Samchang Appraisal & Realty Advisor, the independent and publicly authorized appraisal institutions. The fair value is measured based on actual market price, taking into account differences arising from specific assets' characteristics, location and condition of the market, and the date of revaluation is December 31, 2018.

Details of accumulated gain on revaluation of assets recognized in other comprehensive income for the years ended December 31, 2018 and 2017 are as follows:

<i>(In thousands of won)</i>		2018	2017
Beginning balance	₩	3,970,624,190	3,066,838,081
Gain on revaluation of the land		2,315,244,296	1,271,285,484
Tax effect		(636,699,173)	(317,829,302)
Reclassification of gain on revaluation of assets to retained earnings		(18,728,065)	(49,670,073)
Ending balance	₩	<u>5,630,441,248</u>	<u>3,970,624,190</u>

# KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

### 20. INVESTMENT PROPERTY:

(1) Investment property as of December 31, 2018 and 2017 is as follows:

		Dec. 31, 2018			Book value
		Acquisition cost	Government grants	Accumulated depreciation	
<i>(In thousands won)</i>					
Land	₩	193,373,653	-	-	193,373,653
Buildings and structure		213,793,801	(1,845,194)	(37,581,761)	174,366,846
	₩	<u>407,167,454</u>	<u>(1,845,194)</u>	<u>(37,581,761)</u>	<u>367,740,499</u>
		Dec. 31, 2017			
		Acquisition cost	Government grants	Accumulated depreciation	Book value
<i>(In thousands won)</i>					
Land	₩	151,064,716	-	-	151,064,716
Buildings and structure		157,444,828	(379,289)	(30,579,077)	126,486,462
	₩	<u>308,509,544</u>	<u>(379,289)</u>	<u>(30,579,077)</u>	<u>277,551,178</u>



# KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

### 20. INVESTMENT PROPERTY, Continued:

(2) Changes in investment property for the years ended December 31, 2018 and 2017 are as follows:

		2018						
(In thousands of won)		Book value as of Jan. 1, 2018	Acquisition	Disposals	Depreciation	Government grants	Other(*)	Book value as of Dec. 31, 2018
Land	₩	151,064,716	6,877,586	(133,697)	-	-	35,565,048	193,373,653
Buildings and Structures		126,486,462	9,133,945	(50,311)	(4,470,957)	(1,500,610)	44,768,317	174,366,846
	₩	277,551,178	16,011,531	(184,008)	(4,470,957)	(1,500,610)	80,333,365	367,740,499

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

		2017					
(In thousands of won)		Book value as of Jan. 1, 2017	Disposals	Depreciation	Government grants	Other(*)	Book value as of Dec. 31, 2017
Land	₩	65,544,373	(85,950)	-	-	85,606,293	151,064,716
Buildings and Structures		101,707,516	(613,089)	(2,152,184)	1,661,511	25,882,708	126,486,462
	₩	<u>167,251,889</u>	<u>(699,039)</u>	<u>(2,152,184)</u>	<u>1,661,511</u>	<u>111,489,001</u>	<u>277,551,178</u>

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

# KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

### 20. INVESTMENT PROPERTY, Continued:

(3) Income and expense from investment property for the years ended December 31, 2018 and 2017 are as follows:

<i>(In thousands of won)</i>		2018	2017
Rental income	₩	64,255,167	58,482,376
Operating expenses		(4,470,957)	(2,152,184)
	₩	<u>59,784,210</u>	<u>56,330,192</u>

(4) The fair value of investment property as of December 31, 2018 and 2017, are as follows:

<i>(In thousands of won)</i>		2018		2017	
		Book value	Fair value	Book value	Fair value
Land	₩	193,373,653	193,373,653	151,064,716	151,064,716
Buildings and structure		174,366,846	174,366,846	126,486,462	126,486,462
	₩	<u>367,740,499</u>	<u>367,740,499</u>	<u>277,551,178</u>	<u>277,551,178</u>

The fair value of investment property (land) as of December 31, 2018, was determined based on the appraisal performed by the independent appraisal institution, Nara Appraisal Co., Ltd., on December 31, 2017. As a member of Korea Appraisal Association, Nara Appraisal Co., Ltd. has extensive experience and qualification in connection with the appraisal of real estates in the area. The appraisal was performed in accordance with international standards and the appraisal value was measured based on the market price of similar real estates.

# KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

### 21. CONSTRUCTION CONTRACTS:

(1) During the year ended December 31, 2018, changes in outstanding balance of construction contracts are as follows:

<i>(In thousands of won)</i>		Contract price outstanding as of Jan. 1, 2018	Increase	Current construction revenue	Contract price outstanding as of Dec. 31, 2018
Domestic civil engineering works	₩	3,527,041	33,327,917	(7,357,241)	29,497,717

Revenue from new construction contracts increased by ₩34,150,741 thousand (₩4,435,679 thousand in 2017) and revenue from changes in construction contracts decreased by ₩374,872 thousand (₩92,220 thousand in 2017).

(2) Details of profit or loss related to the construction contract recognized during the years ended December 31, 2018 and 2017 are as follows:

		2018		
<i>(In thousands of won)</i>		Accumulated revenue of construction	Accumulated cost of construction	Accumulated profit or loss of construction
Domestic civil engineering works	₩	10,249,357	9,112,144	1,137,213

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

(3) Receivables from unbilled construction contracts is ₩337,002 thousand, and advances from construction contracts is ₩266,380 thousand at December 31, 2018.

**KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES**

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

**22. GOODWILL:**

(1) Goodwill as of December 31, 2018 and 2017 is as follows:

<i>(In thousands of won)</i>		Dec. 31, 2018	Dec. 31, 2017
Acquisition costs	₩	4,095,870	4,095,870
Book value		3,732,906	3,732,906

(2) There is no change in goodwill during the periods presented.

**23. INTANGIBLE ASSETS:**

(1) Intangible assets as of December 31, 2018 and 2017 are as follows:

<i>(In thousands of won)</i>		Dec. 31, 2018		
		Acquisition cost	Accumulated amortization	Book value
Industrial property rights	₩	426,026	(231,552)	194,474
Development costs		69,559,345	(52,273,961)	17,285,384
Computer software		73,416,392	(62,623,340)	10,793,052
Service operating rights on donated assets		264,590	-	264,590
Other intangible assets		22,604,926	-	22,604,926
Developing intangible assets		1,728,240	-	1,728,240
	₩	<u>167,999,519</u>	<u>(115,128,853)</u>	<u>52,870,666</u>

# KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

### 23. INTANGIBLE ASSETS, Continued:

(1) Intangible assets as of December 31, 2018 and 2017 are as follows, continued:

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

(2) Changes in intangible assets for the years ended December 31, 2018 and 2017 are as follows:

(In thousands of won)		2018					
		Industrial property rights	Development costs	Computer software	Service operating rights on donated assets	Other intangible assets	Developing intangible assets
Beginning balance	₩	224,536	22,849,827	16,334,394	297,663	21,396,363	116,720
Increase		4,745	942,789	1,007,608	-	2,061,125	1,728,240
Disposal		-	-	(1)	-	(1)	-
Amortization		(34,807)	(6,507,232)	(6,527,799)	(33,073)	(852,561)	-
Other		-	-	(21,150)	-	-	(116,720)
Ending balance	₩	<u>194,474</u>	<u>17,285,384</u>	<u>10,793,052</u>	<u>264,590</u>	<u>22,604,926</u>	<u>1,728,240</u>

# KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

### 23. INTANGIBLE ASSETS, Continued:

(2) Changes in intangible assets for the years ended December 31, 2018 and 2017 are as follows, continued:

(In thousands of won)	2017						Total
	Industrial property rights	Development costs	Computer software	Service operating rights on donated assets	Other intangible assets	Developing intangible assets	
₩							
Beginning balance	247,506	15,464,242	21,131,144	330,735	20,156,498	12,489,528	69,819,653
Increase	7,499	4,508,657	1,075,669	-	2,246,227	1,802,162	9,640,214
Amortization	(35,376)	(4,624,316)	(6,802,900)	(33,072)	(1,006,362)	-	(12,502,026)
Other	4,907	7,501,244	930,481	-	-	(14,174,970)	(5,738,338)
Ending balance	₩ 224,536	22,849,827	16,334,394	297,663	21,396,363	116,720	61,219,503

### 24. TRADE AND OTHER PAYABLES:

Details of trade and other payables as of December 31, 2018 and 2017 are as follows:

(In thousands of won)	Dec. 31, 2018		Dec. 31, 2017	
	Current	Non-current	Current	Non-current
Trade payables	₩ 247,166,641	-	248,591,590	-
Other payables	170,889,810	-	198,098,735	-
Accrued expense	168,955,420	-	299,878,503	-
Other	-	44,608,972	-	39,357,277
	₩ 587,011,871	44,608,972	746,568,828	39,357,277

# KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

### 25. FINANCIAL LIABILITIES:

(1) Financial liabilities as of December 31, 2018 and 2017 are as follows:

<i>(In thousands of won)</i>		Dec. 31, 2018	Dec. 31, 2017
<b><u>Current liabilities:</u></b>			
Short-term borrowings	₩	6,781,519	7,999,991
Current portion of long-term borrowings		30,200,000	55,000,000
Current bonds		1,682,529,300	1,372,390,750
Deduct: Bond issuance discount		(937,507)	(1,228,214)
Subtotal	₩	1,718,573,312	1,434,162,527
<b><u>Non-current liabilities:</u></b>			
Long-term borrowings	₩	255,800,000	61,000,000
Deduct: Present value discount		-	(178,062)
Bonds		9,199,344,840	10,317,932,870
Deduct: Bond issuance discount		(1,963,427)	(2,401,464)
Subtotal		9,453,181,413	10,376,353,344
	₩	11,171,754,725	11,810,515,871

(2) Short-term borrowings as of December 31, 2018 and 2017 are as follows:

<i>(In thousands of won)</i>		Type of borrowings	Interest rate	Dec 31, 2018	Dec 31, 2017
NH Bank	Working fund borrowing	2.61%	₩	-	1,700,000
NH Bank	Working fund borrowing	3.78%		1,500,000	-
NH Bank	Working fund borrowing	2.98%		1,500,000	-
Hana Bank	Working fund borrowing	4.64%		-	1,500,000
KB Bank	Working fund borrowing	3.50%		-	1,000,000
KB Bank	Working fund borrowing	3.50%		-	1,980,000
KB Bank	Working fund borrowing	3.78%		1,000,000	-
KB Bank	Working fund borrowing	3.97%		1,907,794	-
Woori Bank	Working fund borrowing	3.65%		-	900,000
Woori Bank	Working fund borrowing	3.65%		-	919,991
Woori Bank	Working fund borrowing	3.96%		873,725	-
			₩	6,781,519	7,999,991

# KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

### 25. FINANCIAL LIABILITIES, Continued:

(3) Long-term borrowings as of December 31, 2018 and 2017 are as follows:

<i>(In thousands of won)</i>	Type of borrowings	Interest rate	Maternity	Dec. 31, 2018
Ministry of Strategy and Finance	Public management fund financing	Variable(*)	2020 ₩	60,000,000
Korea workers' compensation and welfare Service	Financing on foundation of day care center in workplace	2.00%	2023	1,000,000
Hana Bank	Long-term loan	2.63%	2023	200,000,000
NH Bank	Facility fund debt	2.13%	2021	25,000,000
	Subtotal			286,000,000
	Less: reclassified to current borrowings			(30,200,000)
			₩	255,800,000

(\*) 3 years Treasury bonds interest-50bp

<i>(In thousands of won)</i>	Type of borrowings	Interest rate	Maternity	Dec. 31, 2017
Ministry of Strategy and Finance	Public management fund financing	Variable(*)	2020 ₩	90,000,000
Korea workers' compensation and welfare Service	Financing on foundation of day care center in workplace	2.00%	2023	1,000,000
NH Bank	Facility fund debt	2.13%	2018	25,000,000
	Subtotal			116,000,000
	Less: reclassified to current borrowings			(55,000,000)
			₩	61,000,000

(\*) 3 years Treasury bonds interest-50bp



# KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

### 25. FINANCIAL LIABILITIES, Continued:

(4) Bonds as of December 31, 2018 and 2017 are as follows:

(In CHF, USD, AUD, HKD, SEK, CAD, EUR, SGD and thousands of won)	Interest rate	Maturity	Dec. 31, 2018	
			Borrowings denominated in foreign currency	Borrowings denominated in won
Foreign public bond6	CHF 1.50%	2019-12-02	CHF 315,000,000	357,909,300
Foreign public bond11	USD LIBOR(3M)+0.70%	2019-06-20	USD 200,000,000	223,620,000
Foreign public bond12	AUD 4.11%	2032-04-26	AUD 50,000,000	39,390,500
Foreign public bond13	HKD 2.60%	2023-05-25	HKD 921,000,000	131,491,170
Foreign public bond14	SEK 2.31%	2032-05-26	SEK 300,000,000	37,374,000
Foreign public bond15	CAD 3.07%	2037-06-07	CAD 110,000,000	90,238,500
Foreign public bond16	EUR 1.89%	2037-06-09	EUR 50,000,000	63,958,000
Foreign public bond17	SGD 1.73%	2020-11-29	SGD 140,000,000	114,559,200
Foreign public bond18	HKD 3.375%	2023-06-07	HKD 631,000,000	90,087,870
Foreign public bond19	CHF 0.2%	2023-07-12	CHF 100,000,000	113,622,000
Foreign public bond20	EUR 1.72%	2033-10-02	EUR 110,000,000	140,707,600
Foreign public bond21	EUR 1.88%	2038-10-25	EUR 100,000,000	127,916,000
Korea Railroad Corporation48	5.25%	2019-04-15	-	103,000,000
Korea Railroad Corporation52	5.67%	2019-09-03	-	140,000,000
Korea Railroad Corporation53	5.67%	2019-09-17	-	120,000,000
Korea Railroad Corporation60	5.45%	2020-02-04	-	150,000,000
Korea Railroad Corporation61	5.43%	2020-02-17	-	190,000,000
Korea Railroad Corporation65	5.12%	2020-04-27	-	50,000,000
Korea Railroad Corporation67	5.24%	2020-05-13	-	160,000,000
Korea Railroad Corporation71	4.66%	2020-08-23	-	110,000,000
Korea Railroad Corporation76	5.03%	2021-02-17	-	150,000,000
Korea Railroad Corporation79	4.67%	2021-04-08	-	100,000,000
Korea Railroad Corporation82	4.27%	2026-08-08	-	120,000,000
Korea Railroad Corporation83	4.10%	2021-08-23	-	80,000,000
Korea Railroad Corporation84	4.06%	2026-09-06	-	100,000,000
Korea Railroad Corporation88	4.17%	2021-11-08	-	170,000,000
Korea Railroad Corporation89	4.00%	2022-02-24	-	130,000,000
Korea Railroad Corporation90	4.26%	2027-03-19	-	130,000,000
Korea Railroad Corporation92	4.09%	2027-04-23	-	200,000,000
Korea Railroad Corporation93	3.84%	2022-05-22	-	190,000,000
Korea Railroad Corporation95	3.12%	2019-07-26	-	90,000,000
Korea Railroad Corporation96	3.16%	2027-09-11	-	90,000,000
Korea Railroad Corporation98	3.06%	2022-10-09	-	130,000,000
Korea Railroad Corporation99	3.12%	2027-10-18	-	100,000,000
Korea Railroad Corporation102	3.20%	2023-02-07	-	100,000,000
Korea Railroad Corporation106	4.04%	2033-09-06	-	90,000,000
Korea Railroad Corporation107	3.62%	2023-09-26	-	100,000,000
Korea Railroad Corporation110	3.68%	2023-10-29	-	50,000,000
Korea Railroad Corporation114	3.89%	2024-01-15	-	110,000,000

# KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

### 25. FINANCIAL LIABILITIES, Continued:

(4) Bonds as of December 31, 2018 and 2017 are as follows, continued:

(In CHF, USD, AUD, HKD, SEK, CAD, EUR, SGD and thousands of won)	Interest rate	Maturity	Dec. 31, 2018	
			Borrowings denominated in foreign currency	Borrowings denominated in won
Korea Railroad Corporation115	3.57%	2019-01-15	-	16,000,000
Korea Railroad Corporation116	3.52%	2019-01-24	-	71,000,000
Korea Railroad Corporation118	3.81%	2034-02-17	-	40,000,000
Korea Railroad Corporation119	3.41%	2019-03-06	-	60,000,000
Korea Railroad Corporation121	3.82%	2029-03-12	-	60,000,000
Korea Railroad Corporation122	3.36%	2019-03-19	-	70,000,000
Korea Railroad Corporation123	3.70%	2024-03-19	-	40,000,000
Korea Railroad Corporation125	3.68%	2024-03-31	-	60,000,000
Korea Railroad Corporation126	3.40%	2019-04-04	-	130,000,000
Korea Railroad Corporation128	3.84%	2034-04-18	-	50,000,000
Korea Railroad Corporation129	3.39%	2019-04-23	-	184,000,000
Korea Railroad Corporation130	3.70%	2024-04-29	-	100,000,000
Korea Railroad Corporation132	3.62%	2024-05-14	-	70,000,000
Korea Railroad Corporation133	3.55%	2024-05-21	-	70,000,000
Korea Railroad Corporation135	3.52%	2024-06-10	-	150,000,000
Korea Railroad Corporation136	3.26%	2024-07-04	-	150,000,000
Korea Railroad Corporation137	3.25%	2029-07-24	-	150,000,000
Korea Railroad Corporation138	2.93%	2029-10-28	-	100,000,000
Korea Railroad Corporation139	2.86%	2026-11-12	-	220,000,000
Korea Railroad Corporation140	2.79%	2024-11-25	-	200,000,000
Korea Railroad Corporation141	2.07%	2036-03-08	-	200,000,000
Korea Railroad Corporation142	1.79%	2023-04-11	-	150,000,000
Korea Railroad Corporation143	1.98%	2036-04-26	-	110,000,000
Korea Railroad Corporation144	1.47%	2026-08-01	-	100,000,000
Korea Railroad Corporation145	1.57%	2036-08-09	-	70,000,000
Korea Railroad Corporation146	1.56%	2036-08-26	-	150,000,000
Korea Railroad Corporation147	1.64%	2021-10-27	-	60,000,000
Korea Railroad Corporation148	1.88%	2046-10-27	-	70,000,000
Korea Railroad Corporation149	1.94%	2046-11-03	-	40,000,000
Korea Railroad Corporation150	1.62%	2019-11-08	-	117,000,000
Korea Railroad Corporation151	2.39%	2046-11-23	-	130,000,000
Korea Railroad Corporation152	2.35%	2046-12-06	-	150,000,000
Korea Railroad Corporation153	2.14%	2021-12-12	-	70,000,000
Korea Railroad Corporation154	1.99%	2022-02-09	-	200,000,000
Korea Railroad Corporation155	2.40%	2047-03-03	-	70,000,000
Korea Railroad Corporation156	2.11%	2022-03-07	-	150,000,000
Korea Railroad Corporation157	2.40%	2047-03-21	-	140,000,000
Korea Railroad Corporation158	1.81%	2020-03-27	-	230,000,000
Korea Railroad Corporation159	2.49%	2047-04-12	-	150,000,000
Korea Railroad Corporation160	2.12%	2023-04-17	-	120,000,000

# KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

### 25. FINANCIAL LIABILITIES, Continued:

(4) Bonds as of December 31, 2018 and 2017 are as follows, continued:

(In CHF, USD, AUD, HKD, SEK, CAD, EUR, SGD and thousands of won)	Interest rate	Maturity	Dec. 31, 2018	
			Borrowings denominated in foreign currency	Borrowings denominated in won
Korea Railroad Corporation161	2.38%	2047-07-20	-	80,000,000
Korea Railroad Corporation162	2.37%	2037-07-24	-	130,000,000
Korea Railroad Corporation163	2.31%	2027-07-25	-	70,000,000
Korea Railroad Corporation164	2.44%	2037-08-08	-	150,000,000
Korea Railroad Corporation165	2.38%	2047-09-12	-	150,000,000
Korea Railroad Corporation166	2.37%	2037-09-19	-	50,000,000
Korea Railroad Corporation167	2.38%	2047-09-19	-	50,000,000
Korea Railroad Corporation168	2.59%	2047-10-30	-	40,000,000
Korea Railroad Corporation169	2.65%	2037-11-09	-	160,000,000
Korea Railroad Corporation170	2.58%	2022-11-23	-	150,000,000
Korea Railroad Corporation171	2.55%	2047-12-15	-	150,000,000
Korea Railroad Corporation172	2.87%	2048-03-09	-	120,000,000
Korea Railroad Corporation173	2.66%	2048-06-22	-	140,000,000
Bond issuance	Average of interest+2bp	2021-06-28	-	90,000,000
Bond issuance	Average of interest-3bp	2023-06-28	-	100,000,000
		KRW	-	9,351,000,000
		USD	200,000,000	223,620,000
		CHF	415,000,000	471,531,300
		SGD	140,000,000	114,559,200
Subtotal		AUD	50,000,000	39,390,500
		HKD	1,552,000,000	221,579,040
		SEK	300,000,000	37,374,000
		CAD	110,000,000	90,238,500
		EUR	260,000,000	332,581,600
		KRW	-	1,101,000,000
Deduct: reclassified to current borrowings		USD	200,000,000	223,620,000
		CHF	315,000,000	357,909,300
		Total		1,682,529,300
		KRW	-	8,250,000,000
		CHF	100,000,000	113,622,000
		SGD	140,000,000	114,559,200
		AUD	50,000,000	39,390,500
Total		HKD	1,552,000,000	221,579,040
		SEK	300,000,000	37,374,000
		CAD	110,000,000	90,238,500
		EUR	260,000,000	332,581,600
		KRW		9,199,344,840

# KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

### 25. FINANCIAL LIABILITIES, Continued:

(4) Bonds as of December 31, 2018 and 2017 are as follows, continued:

(In CHF, USD, AUD, HKD, SEK, CAD, EUR, SGD and thousands of won)	Interest rate	Maturity	Dec. 31, 2017	
			Borrowings denominated in foreign currency	Borrowings denominated in won
Foreign public bond4	CHF 1.00%	2018-11-16	CHF 300,000,000	328,416,000
Foreign public bond6	CHF 1.50%	2019-12-02	CHF 315,000,000	344,836,800
Foreign public bond8	SGD 1.76%	2018-09-04	SGD 65,000,000	52,040,950
Foreign public bond10	AUD BBSW(3M)+0.85%	2018-08-13	AUD 55,000,000	45,933,800
Foreign public bond11	USD LIBOR(3M)+0.70%	2019-06-20	USD 200,000,000	214,280,000
Foreign public bond12	AUD 4.11%	2032-04-26	AUD 50,000,000	41,758,000
Foreign public bond13	HKD 2.60%	2023-05-25	HKD 921,000,000	126,241,470
Foreign public bond14	SEK 2.31%	2032-05-26	SEK 300,000,000	38,970,000
Foreign public bond15	CAD 3.07%	2037-06-07	CAD 110,000,000	93,795,900
Foreign public bond16	EUR 1.89%	2037-06-09	EUR 50,000,000	63,962,500
Foreign public bond17	SGD 1.73%	2020-11-29	SGD 140,000,000	112,088,200
Korea Railroad Corporation48	5.25%	2019-04-15	-	103,000,000
Korea Railroad Corporation50	5.29%	2018-05-14	-	150,000,000
Korea Railroad Corporation52	5.67%	2019-09-03	-	140,000,000
Korea Railroad Corporation53	5.67%	2019-09-17	-	122,000,000
Korea Railroad Corporation58	5.69%	2018-10-29	-	117,000,000
Korea Railroad Corporation60	5.45%	2020-02-04	-	150,000,000
Korea Railroad Corporation61	5.43%	2020-02-17	-	190,000,000
Korea Railroad Corporation65	5.12%	2020-04-27	-	50,000,000
Korea Railroad Corporation67	5.24%	2020-05-13	-	160,000,000
Korea Railroad Corporation68	5.19%	2018-05-25	-	180,000,000
Korea Railroad Corporation71	4.66%	2020-08-23	-	110,000,000
Korea Railroad Corporation76	5.03%	2021-02-17	-	150,000,000
Korea Railroad Corporation78	4.40%	2018-03-17	-	40,000,000
Korea Railroad Corporation79	4.67%	2021-04-08	-	100,000,000
Korea Railroad Corporation82	4.27%	2026-08-08	-	120,000,000
Korea Railroad Corporation83	4.10%	2021-08-23	-	80,000,000
Korea Railroad Corporation84	4.06%	2026-09-06	-	100,000,000
Korea Railroad Corporation88	4.17%	2021-11-08	-	170,000,000
Korea Railroad Corporation89	4.00%	2022-02-24	-	130,000,000
Korea Railroad Corporation90	4.26%	2027-03-19	-	130,000,000
Korea Railroad Corporation92	4.09%	2027-04-23	-	200,000,000
Korea Railroad Corporation93	3.84%	2022-05-22	-	190,000,000
Korea Railroad Corporation95	3.12%	2019-07-26	-	110,000,000
Korea Railroad Corporation96	3.16%	2027-09-11	-	90,000,000
Korea Railroad Corporation98	3.06%	2022-10-09	-	130,000,000
Korea Railroad Corporation99	3.12%	2027-10-18	-	100,000,000
Korea Railroad Corporation102	3.20%	2023-02-07	-	100,000,000
Korea Railroad Corporation106	4.04%	2033-09-06	-	90,000,000

# KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

### 25. FINANCIAL LIABILITIES, Continued:

(4) Bonds as of December 31, 2018 and 2017 are as follows, continued:

(In CHF, USD, AUD, HKD, SEK, CAD, EUR, SGD and thousands of won)	Interest rate	Maturity	Dec. 31, 2017	
			Borrowings denominated in foreign currency	Borrowings denominated in won
Korea Railroad Corporation107	3.62%	2023-09-26	-	100,000,000
Korea Railroad Corporation110	3.68%	2023-10-29	-	50,000,000
Korea Railroad Corporation111	3.48%	2018-11-08	-	80,000,000
Korea Railroad Corporation114	3.89%	2024-01-15	-	110,000,000
Korea Railroad Corporation115	3.57%	2019-01-15	-	90,000,000
Korea Railroad Corporation116	3.52%	2019-01-24	-	121,000,000
Korea Railroad Corporation118	3.81%	2034-02-17	-	40,000,000
Korea Railroad Corporation119	3.41%	2019-03-06	-	70,000,000
Korea Railroad Corporation120	3.22%	2018-03-12	-	70,000,000
Korea Railroad Corporation121	3.82%	2029-03-12	-	60,000,000
Korea Railroad Corporation122	3.36%	2019-03-19	-	70,000,000
Korea Railroad Corporation123	3.70%	2024-03-19	-	40,000,000
Korea Railroad Corporation125	3.68%	2024-03-31	-	60,000,000
Korea Railroad Corporation126	3.40%	2019-04-04	-	130,000,000
Korea Railroad Corporation127	3.30%	2018-10-16	-	180,000,000
Korea Railroad Corporation128	3.84%	2034-04-18	-	50,000,000
Korea Railroad Corporation129	3.39%	2019-04-23	-	184,000,000
Korea Railroad Corporation130	3.70%	2024-04-29	-	100,000,000
Korea Railroad Corporation131	3.16%	2018-05-14	-	129,000,000
Korea Railroad Corporation132	3.62%	2024-05-14	-	70,000,000
Korea Railroad Corporation133	3.55%	2024-05-21	-	70,000,000
Korea Railroad Corporation135	3.52%	2024-06-10	-	150,000,000
Korea Railroad Corporation136	3.26%	2024-07-04	-	150,000,000
Korea Railroad Corporation137	3.25%	2029-07-24	-	150,000,000
Korea Railroad Corporation138	2.93%	2029-10-28	-	100,000,000
Korea Railroad Corporation139	2.86%	2026-11-12	-	220,000,000
Korea Railroad Corporation140	2.79%	2024-11-25	-	200,000,000
Korea Railroad Corporation141	2.07%	2036-03-08	-	200,000,000
Korea Railroad Corporation142	1.79%	2023-04-11	-	150,000,000
Korea Railroad Corporation143	1.98%	2036-04-26	-	110,000,000
Korea Railroad Corporation144	1.47%	2026-08-01	-	100,000,000
Korea Railroad Corporation145	1.57%	2036-08-09	-	70,000,000
Korea Railroad Corporation146	1.56%	2036-08-26	-	150,000,000
Korea Railroad Corporation147	1.64%	2021-10-27	-	60,000,000
Korea Railroad Corporation148	1.88%	2046-10-27	-	70,000,000
Korea Railroad Corporation149	1.94%	2046-11-03	-	40,000,000
Korea Railroad Corporation150	1.62%	2019-11-08	-	152,000,000
Korea Railroad Corporation151	2.39%	2046-11-23	-	130,000,000
Korea Railroad Corporation152	2.35%	2046-12-06	-	150,000,000
Korea Railroad Corporation153	2.14%	2021-12-12	-	70,000,000

# KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

### 25. FINANCIAL LIABILITIES, Continued:

(4) Bonds as of December 31, 2018 and 2017 are as follows, continued:

			Dec. 31, 2017	
(In CHF, USD, AUD, HKD, SEK, CAD, EUR, SGD and thousands of won)	Interest rate	Maturity	Borrowings	Borrowings
			denominated in foreign currency	denominated in won
Korea Railroad Corporation154	1.99%	2022-02-09	-	200,000,000
Korea Railroad Corporation155	2.40%	2047-03-03	-	70,000,000
Korea Railroad Corporation156	2.11%	2022-03-07	-	150,000,000
Korea Railroad Corporation157	2.40%	2047-03-21	-	140,000,000
Korea Railroad Corporation158	1.81%	2020-03-27	-	230,000,000
Korea Railroad Corporation159	2.49%	2047-04-12	-	150,000,000
Korea Railroad Corporation160	2.12%	2023-04-17	-	120,000,000
Korea Railroad Corporation161	2.38%	2047-07-20	-	80,000,000
Korea Railroad Corporation162	2.37%	2037-07-24	-	130,000,000
Korea Railroad Corporation163	2.31%	2027-07-25	-	70,000,000
Korea Railroad Corporation164	2.44%	2037-08-08	-	150,000,000
Korea Railroad Corporation165	2.38%	2047-09-12	-	150,000,000
Korea Railroad Corporation166	2.37%	2037-09-19	-	50,000,000
Korea Railroad Corporation167	2.38%	2047-09-19	-	50,000,000
Korea Railroad Corporation168	2.59%	2047-10-30	-	40,000,000
Korea Railroad Corporation169	2.65%	2037-11-09	-	160,000,000
Korea Railroad Corporation170	2.58%	2022-11-23	-	150,000,000
Korea Railroad Corporation171	2.55%	2047-12-15	-	150,000,000
Bond issuance	Average of interest+2bp	2021-06-28	-	90,000,000
Bond issuance	Average of interest-3bp	2023-06-28	-	100,000,000
Subtotal		KRW	-	10,228,000,000
		USD	200,000,000	214,280,000
		CHF	615,000,000	673,252,800
		SGD	205,000,000	164,129,150
		AUD	105,000,000	87,691,800
		HKD	921,000,000	126,241,470
		SEK	300,000,000	38,970,000
		CAD	110,000,000	93,795,900
		EUR	50,000,000	63,962,500
		KRW	-	946,000,000
Deduct: reclassified to current borrowings		USD	-	-
		CHF	300,000,000	328,416,000
		SGD	65,000,000	52,040,950
		AUD	55,000,000	45,933,800
		Total		1,372,390,750
Total		KRW	-	9,282,000,000
		USD	200,000,000	214,280,000
		CHF	315,000,000	344,836,800
		SGD	140,000,000	112,088,200
		AUD	50,000,000	41,758,000
		HKD	921,000,000	126,241,470
		SEK	300,000,000	38,970,000
		CAD	110,000,000	93,795,900
		EUR	50,000,000	63,962,500
		KRW		10,317,932,870

## KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

#### 26. OTHER FINANCIAL LIABILITIES:

Other Financial Liabilities as of December 31, 2018 and 2017 are as follows:

(In thousands of won)	Dec. 31, 2018		Dec. 31, 2017	
	Current	Non-current	Current	Non-current
Other financial liabilities(*) ₩	-	176,087,942	-	147,500,000

(\*) The Group may assume the obligation to purchase the non-controlling interest of its subsidiary company, SR Company, at an annual allowance of 5.6% by 2022, 2023 and 2024, respectively. The Group recognizes the present value of the amount that may be repaid as a financial liability.

#### 27. FINANCE LEASE LIABILITIES:

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

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

(In thousands of won)	Dec. 31, 2018		Dec. 31, 2017	
	Tools and equipment		Tools and equipment	
Acquisition cost ₩		1,717,071		1,717,071
Accumulated depreciation		(1,717,064)		(1,717,064)
Carrying amounts ₩		7		7

## KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

#### 28. EMPLOYEE BENEFITS:

##### (1) Defined contribution plan

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

Total expense included in the consolidated statement of comprehensive loss for the year ended December 31, 2018, amounting to ₩4,866,185 thousand (2017: ₩3,734,646 thousand), represents the contributions to the retirement benefit plan according to the ratio pursuant to retirement benefit plan.

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

<i>(In thousands of won)</i>		2018	2017
Cost of sales	₩	3,859,915	1,977,558
Selling, general and administrative expense		1,006,270	1,757,088
	₩	<u>4,866,185</u>	<u>3,734,646</u>

##### (2) Defined benefits retirement plan

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

The major actuarial calculation of the plan asset and the defined benefit retirement liabilities was performed by HMC INVESTMENT SECURITIES CO., LTD. whose report was dated December 31, 2018. Present value of defined benefit liabilities, current service costs and past service costs are calculated using the projected credit method.



# KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

### 28. EMPLOYEE BENEFITS, Continued:

(2) Defined benefits retirement plan, continued

(i) The component of defined benefit liabilities as of December 31, 2018 and 2017 is as follows:

<i>(In thousands of won)</i>		Dec. 31, 2018	Dec. 31, 2017
Present value of defined benefit obligations	₩	1,059,663,026	937,288,825
Fair value of plan assets		(80,650,738)	(73,720,165)
Recognized as defined benefit liabilities in the consolidated statement of financial position	₩	<u>979,012,288</u>	<u>863,568,660</u>

(ii) Changes in defined benefit liabilities for the years ended December 31, 2018 and 2017, are as follows:

<i>(In thousands of won)</i>		2018	2017
Beginning balance	₩	937,288,825	811,869,226
Current service costs		151,328,766	138,385,462
Interests		31,757,727	24,695,870
Actuarial gains or losses		39,385,083	11,644,548
Service costs related past periods		-	18,410,658
Benefit paid		(100,097,375)	(68,982,495)
Other		-	1,265,556
Ending balance	₩	<u>1,059,663,026</u>	<u>937,288,825</u>

(iii) Changes in plan assets for the years ended December 31, 2018 and 2017 are as follows:

<i>(In thousands of won)</i>		2018	2017
Beginning balance	₩	73,720,165	64,914,443
Expected return on plan assets		1,983,666	1,332,162
Actuarial gains or losses		(712,271)	(954,602)
Benefit paid by the plan		(6,800,958)	(5,565,820)
Contribution paid into the plan		12,460,136	13,507,376
Other		-	486,606
Ending balance	₩	<u>80,650,738</u>	<u>73,720,165</u>

# KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

### 28. EMPLOYEE BENEFITS, Continued:

(2) Defined benefits retirement plan, continued

(iv) Expense recognized in profit or loss

<i>(In thousands of won)</i>		2018	2017
Current service costs	₩	151,328,766	138,385,462
Interests		31,757,727	24,695,870
Expected return on plan assets		(1,983,666)	(1,332,162)
Gain due to calculation adjustment		-	18,410,658
	₩	<u>181,102,827</u>	<u>180,159,828</u>

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

<i>(In thousands of won)</i>		2018	2017
Cost of sales	₩	166,770,853	165,269,582
Selling, general and administrative expense		14,331,974	14,890,246
	₩	<u>181,102,827</u>	<u>180,159,828</u>

(v) Remeasurement factors recognized in other comprehensive income for the years ended December 31, 2018 and 2017 are as follows:

<i>(In thousands of won)</i>		2018	2017
Actuarial gain (loss)	₩	(39,385,083)	(11,644,548)
Interests of plan assets		(712,271)	(954,602)
		<u>(40,097,354)</u>	<u>(12,599,150)</u>
Tax effect		-	-
	₩	<u>(40,097,354)</u>	<u>(12,599,150)</u>

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

## KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

### 28. EMPLOYEE BENEFITS, Continued:

(2) Defined benefits retirement plan, continued

(vi) Plan assets details:

<i>(In thousands of won)</i>		Dec. 31, 2018	Dec. 31, 2017
Cash and cash equivalents	₩	80,650,738	73,720,165

(vii) Principal actuarial assumptions at the reporting date

	Dec. 31, 2018	Dec. 31, 2017
Discount rate (expected return on plan assets)	3.12%	3.62%
Future salary increases	3.67%	3.64%

As for the defined benefit liabilities and plan assets, the Group applied market yield of A-rated corporate bonds (Public offering, unsecured : AA0).

## KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

#### 29. PROVISIONS:

(1) Provisions as of December 31, 2018 and 2017 are as follows:

(In thousands of won)	2018		2017	
	Current	Non-current	Current	Non-current
Provision for employee benefits(*1) ₩	427,260,504	366,097,109	389,822,573	313,490,863
Warranty provision	-	258,830	-	358,128
Provision for pending litigations	-	201,954	-	8,584,909
Provisions for restoration(*2)	-	200,750,667	-	186,115,464
Provisions for others	11,400,000	100,000	-	100,000
	<u>₩ 438,660,504</u>	<u>567,408,560</u>	<u>389,822,573</u>	<u>508,649,364</u>

(\*1) The Group has recognized provisions for the provision of retroactive claims for the provision of work in the past period based on the assumption that the prescribed allowances are subject to normal wage recognition.

(\*2) As the Group is obligated to restore contamination of lands in use, the Group recognizes the future expenditure amount as provisions during construction every year. Above provisions for restoration include estimations on additional costs in the Group's restoration that resulted from the cancelation of development project for Yongsan Station area that took place in the year ended December 31, 2013.

# KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

### 29. PROVISIONS, Continued:

(2) Changes in provisions for the years ended December 31, 2018 and 2017 are as follows:

		2018					
(In thousands of won)		Beginning balance	Increase	Used	Reversal	Others	Ending balance
Provision for employee benefits	₩	703,313,437	506,365,668	(416,321,492)	-	-	793,357,613
Warranty provision		358,128	194,861	(294,159)	-	-	258,830
Provision for pending litigations		8,584,910	19,625	-	(8,402,580)	-	201,955
Provision for restoration		186,115,463	14,394,660	-	(5,222,584)	5,463,126	200,750,666
Provisions for others		100,000	11,400,000	-	-	-	11,500,000
	₩	<u>898,471,938</u>	<u>532,374,814</u>	<u>(416,615,651)</u>	<u>(13,625,164)</u>	<u>5,463,126</u>	<u>1,006,069,063</u>

		2017						
(In thousands of won)		Beginning balance	Increase	Used	Reversal	Reclassification to current portion	Others	Ending balance
Provision for employee benefits	₩	206,980,388	536,260,557	(206,980,388)	-	167,052,880	-	703,313,437
Warranty provision		372,487	185,749	(200,108)	-	-	-	358,128
Provision for pending litigations		12,063,355	96,976	-	(3,575,421)	-	-	8,584,910
Provision for restoration		183,347,064	5,079,004	-	(8,174,445)	-	5,863,840	186,115,463
Provisions for others		88,272	-	(88,272)	-	-	100,000	100,000
	₩	<u>402,851,566</u>	<u>541,622,286</u>	<u>(207,268,768)</u>	<u>(11,749,866)</u>	<u>167,052,880</u>	<u>5,963,840</u>	<u>898,471,938</u>

## KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

#### 30. GOVERNMENT GRANTS:

(1) Accounting treatment for government grants

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

(2) Government grants as of December 31, 2018 and 2017 are as follows:

<i>(In thousands of won)</i>	Dec. 31, 2018	Dec. 31, 2017
Cash and cash equivalents ₩	(64,595,031)	(63,512,513)
Supplies	(66,365,093)	(65,160,755)
Prepayment	(4,001,055)	(6,584,210)
Land	(6,598,459)	(6,598,459)
Buildings	(99,640,028)	(103,574,407)
Structures	(9,274,570)	(9,553,995)
Machinery	(60,887,462)	(72,849,761)
Trains	(314,456,090)	(339,673,654)
Vehicles	(98)	(98)
Tools	(215,399)	(1,360)
Fixtures	(47,914)	(8,626)
Construction in progress	(11,590,093)	(11,688,993)
Investment property (buildings)	(1,845,194)	(379,289)
₩	<u>(639,516,486)</u>	<u>(679,586,120)</u>

# KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

### 30. GOVERNMENT GRANTS, Continued:

(3) Changes in government grants for the years ended December 31, 2018 and 2017 are as follows:

	2018							Book value as of Dec. 31, 2018
	Book value (in thousands of won) as of Jan. 1, 2018	Receipt	Acquisition of assets	Offsetting with depreciation cost	Disposal	Recognized as revenue	Other(*)	
Cash and cash equivalents ₩	(63,512,513)	(331,435,992)	-	-	-	330,715,242	(361,768)	(64,595,031)
Supplies	(65,160,755)	(305,460,597)	-	-	-	-	304,256,259	(66,365,093)
Prepayment	(6,584,210)	(73,927,559)	-	-	-	-	76,510,714	(4,001,055)
Land	(6,598,459)	-	-	-	-	-	-	(6,598,459)
Buildings	(103,574,407)	-	-	2,533,531	11,743	-	1,389,105	(99,640,028)
Structures	(9,553,995)	(218,181)	-	497,606	-	-	-	(9,274,570)
Machinery	(72,849,761)	-	-	11,961,860	439	-	-	(60,887,462)
Trains	(339,673,654)	-	-	25,213,779	3,785	-	-	(314,456,090)
Vehicles	(98)	-	-	-	-	-	-	(98)
Tools	(1,360)	(218,219)	-	4,180	-	-	-	(215,399)
Fixture	(8,626)	(43,725)	-	4,437	-	-	-	(47,914)
Construction in progress	(11,688,993)	-	-	-	98,900	-	-	(11,590,093)
Investment property (buildings)	(379,289)	-	-	34,705	-	-	(1,500,610)	(1,845,194)
₩	<u>(679,586,120)</u>	<u>(711,304,273)</u>	<u>-</u>	<u>40,250,098</u>	<u>114,867</u>	<u>330,715,242</u>	<u>380,293,700</u>	<u>(639,516,486)</u>

(\*) Other increase and decrease is based on the account replacement caused by the acquisition of each asset item.

# KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

### 30. GOVERNMENT GRANTS, Continued:

(3) Changes in government grants for the year ended as of December 31, 2018 and 2017 are as follows, continued:

		2017							
		Book value (In thousands of won) as of Jan. 1, 2017	Receipt	Acquisition of assets	Offsetting with depreciation cost	Disposal	Recognized as revenue	Other(*)	Book value as of Dec. 31, 2017
Cash and cash equivalents	₩	(68,713,017)	(299,717,042)	1,507,751	-	-	301,157,793	2,252,002	(63,512,513)
Supplies		(56,344,234)	(245,064,225)	-	-	-	-	236,247,704	(65,160,755)
Prepayment		(5,140,300)	(83,096,688)	-	-	-	-	81,652,778	(6,584,210)
Land		(6,598,459)	-	-	-	-	-	-	(6,598,459)
Buildings		(104,178,832)	(316,156)	-	2,538,040	5,558	-	(1,623,017)	(103,574,407)
Structures		(8,417,758)	(1,650,741)	-	440,148	74,356	-	-	(9,553,995)
Machinery		(85,801,076)	-	-	12,950,389	926	-	-	(72,849,761)
Trains		(365,064,401)	-	-	25,249,515	141,232	-	-	(339,673,654)
Vehicles		(256,598)	-	-	-	256,500	-	-	(98)
Tools		(36,543)	-	-	35,043	140	-	-	(1,360)
Fixture		(2,209)	(8,150)	-	1,733	-	-	-	(8,626)
Construction in progress		(12,284,510)	(1,294,203)	-	-	1,889,720	-	-	(11,688,993)
Investment property (buildings)		(2,068,923)	-	-	28,124	32,470	-	1,629,040	(379,289)
	₩	(714,906,860)	(631,147,205)	1,507,751	41,242,992	2,400,902	301,157,793	320,158,507	(679,586,120)

(\*) Other increase and decrease is based on the account replacement caused by the acquisition of each asset item.

(4) Revenues from government grants for the years ended December 31, 2018 and 2017 are as follows:

<i>(In thousands of won)</i>	2018	2017
Revenues from government grants ₩	330,715,242	301,157,793
Others	40,250,098	41,242,992
₩	370,965,340	342,400,785



# KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

### 31. OTHER NON-FINANCIAL LIABILITIES:

Non-financial liabilities as of December 31, 2018 and 2017 are as follows:

(In thousands of won)	Dec. 31, 2018		Dec. 31, 2017	
	Current	Non-current	Current	Non-current
Advance payments	₩ 99,903,658	232,156	94,112,714	321,686
Unearned revenues	83,122,105	16,622,925	66,944,194	13,545,567
Withholding	842,543,990	-	66,584,463	-
Advances from construction contracts	-	266,380	-	14,899
Other	47,608,875	-	31,465,361	-
	₩ 1,073,178,628	17,121,461	259,106,732	13,882,152

### 32. SHARE CAPITAL:

(1) Share capital as of December 31, 2018 and 2017 is as follows:

(In thousands of won)	Dec. 31, 2018		Dec. 31, 2017	
Subscription certificate(*)	₩	10,321,490,991		10,250,984,991
Discount stock issuance		(4,647,052)		(4,647,052)
Contributed capital	₩	10,316,843,939		10,246,337,939

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

(2) Changes in subscription certificate issued for the years ended December 31, 2018 and 2017 are as follows:

(In thousands of won)	2018		2017	
Beginnings balance	₩	10,250,984,991		10,108,884,991
Issue of equity		70,506,000		142,100,000
Ending balance	₩	10,321,490,991		10,250,984,991

# KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

### 32. SHARE CAPITAL, Continued:

(3) Discount on subscription certificate issued as of December 31, 2018 and 2017 is as follows:

<i>(In thousands of won)</i>		Dec. 31, 2018	Dec. 31, 2017
Beginnings balance	₩	(4,647,052)	(4,991,513)
Issue of equity		-	206,955
Other		-	137,506
Ending balance	₩	(4,647,052)	(4,647,052)

### 33. ACCUMULATED DEFICIT:

(1) Accumulated deficit as of December 31, 2018 and 2017 is as follows:

<i>(In thousands of won)</i>		Dec. 31, 2018 (Restated)	Dec. 31, 2017
Accumulated deficit	₩	(9,432,964,308)	(9,299,539,129)

(2) Changes in accumulated deficit for the years ended December 31, 2018 and 2017 are as follows:

<i>(In thousands of won)</i>		2018 (Restated)	2017
Beginning balance	₩	(9,299,539,129)	(8,476,086,927)
Effect of initially applying K-IFRS 1109, 1115		25,672,277	-
Income (loss) for the year		(139,315,537)	(862,285,961)
Gain (loss) on remeasurement factors		(38,509,983)	(10,836,314)
Reclassification of gain on revaluation of assets to retained earnings		18,728,064	49,670,073
Ending balance	₩	(9,432,964,308)	(9,299,539,129)

# KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

### 33. ACCUMULATED DEFICIT, Continued:

(3) Changes in gain (loss) on remeasurement factors of defined benefit plan for the years ended December 31, 2018 and 2017 are as follows:

<i>(In thousands of won)</i>		2018	2017
Beginning balance	₩	112,306,050	123,142,365
Changes		(38,509,982)	(10,836,315)
Ending balance	₩	73,796,068	112,306,050

(4) Details of statement of disposition of accumulated deficit for the years ended December 31, 2018 and 2017, are as follows:

Date of disposition for 2018: March 31, 2019

Date of disposition for 2017: March 31, 2018

<i>(In thousands of won)</i>		2018 (Restated)	2017
Undisposed accumulated deficit:			
Balance at beginning of year	₩	(9,299,539,129)	(8,476,086,927)
Income (loss) for the year		(139,315,537)	(862,285,961)
Gain on remeasurement factors of defined benefit plan		(38,509,983)	(10,836,314)
Reclassification of gain on revaluation of assets to retained earnings		18,728,064	49,670,073
Adjustment on initial application of K-IFRS 1109, 1115		25,672,277	-
Balance at end of year before disposition		(9,432,964,308)	(9,299,539,129)
Appropriation of disposition of accumulated deficit		-	-
Undisposed accumulated deficit to be carried over to subsequent year	₩	(9,432,964,308)	(9,299,539,129)

# KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

### 34. OTHER EQUITY COMPONENTS:

(1) As of December 31, 2018 and 2017, other equity components are as follows:

<i>(In thousands of won)</i>		Dec. 31, 2018	Dec. 31, 2017
Other accumulated comprehensive income	₩	5,577,635,942	3,983,549,525
Other additional paid-up capital		(144,128,451)	(144,128,451)
	₩	<u>5,433,507,491</u>	<u>3,839,421,074</u>

(2) Other accumulated comprehensive income or loss for the years ended December 31, 2018 and 2017 is detailed as follows:

<i>(In thousands of won)</i>		2018	2017
Gain on Valuation of equity instruments at FVOCI	₩	(14,366,174)	-
Gain on valuation of available-for-sale securities		-	9,345,783
Change in equity of equity method investment		(3,154,842)	760,581
Gain (loss) on valuation of derivatives		(35,284,289)	2,818,971
Gain on reassessment of assets		<u>5,630,441,248</u>	<u>3,970,624,190</u>
	₩	<u>5,577,635,943</u>	<u>3,983,549,525</u>

# KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

### 35. REVENUE:

Details of revenues for the years ended December 31, 2018 and 2017 are summarized as follows:

(In thousands of won)	2018		2017	
	Domestic	Overseas	Domestic	Overseas
<u>Revenue from goods sold:</u>				
Revenue from entrusted multiple business ₩	298,815,132	2,590,353	295,662,685	3,458,491
<u>Revenue from services rendered:</u>				
Transportation business				
Normal passenger transportation	545,878,666	-	471,141,488	-
Express passenger transportation	2,501,956,570	-	2,377,786,202	-
Long-distance passenger transportation	945,711,900	-	886,133,678	-
Freight and other transportation	330,015,130	-	334,119,339	-
Compensation for Public Service Obligation	323,832,000	-	296,222,000	-
	4,647,394,266	-	4,365,402,707	-
Revenue from entrusted multiple business	196,610,930	4,872,590	174,543,786	3,532,685
Subtotal	4,844,005,196	4,872,590	4,539,946,493	3,532,685
<u>Revenue from entrusted business:</u>				
Normal entrusted business	39,201,379	-	58,195,554	-
Government entrusted business	1,130,002,856	-	878,021,883	-
Subtotal	1,169,204,235	-	936,217,437	-
<u>Construction-related revenue:</u>				
Revenue from entrusted multiple business	7,357,241	-	7,890,954	-
₩	6,319,381,804	7,462,943	5,779,717,569	6,991,176

## KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

#### 36. SELLING, GENERAL AND ADMINISTRATIVE EXPENSE:

(1) Details of selling, general and administrative expense for the years ended December 31, 2018 and 2017 are as follows:

<i>(In thousands of won)</i>		2018	2017
Salaries and wages	₩	173,337,836	164,614,996
Retirement benefits		15,338,244	16,647,334
Other employee benefits		17,855,368	18,318,642
Insurance		3,068,165	2,664,251
Depreciation		28,900,627	28,124,473
Amortization		11,767,960	10,419,839
Bad debts expenses		5,863,265	1,491,697
Professional service fees		31,666,516	37,910,690
Advertising		6,825,469	5,940,322
Training		7,180,552	5,662,388
Vehicles		203,702	214,317
Printing		777,912	766,495
Business development expenses		635,253	565,588
Rent		4,136,483	4,272,817
Communications		2,067,444	2,109,139
Transportation costs		3,407	9,942
Taxes and dues		12,028,286	9,590,282
Supplies		2,337,459	2,209,047
Utilities		4,222,277	5,432,436
Maintenance		9,123,514	8,908,399
Research		1,147,602	642,588
Travel		2,325,576	2,234,058
Uniform		182,762	201,594
Analysis		1,275,572	718,142
Annual fees		387,888	508,210
Selling expenses		849,095	918,753
Others		7,103,536	7,805,541
	₩	<u>350,611,770</u>	<u>338,901,980</u>

**KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES**

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

**36. SELLING, GENERAL AND ADMINISTRATIVE EXPENSE, Continued:**

(2) Details of other selling, general and administrative expense for the years ended December 31, 2018 and 2017 are as follows:

<i>(In thousands of won)</i>		2018	2017
Conference expenses	₩	835,044	843,042
Cooperation expense		282,989	246,620
Prize expense		1,074,200	897,377
Other severance indemnities		898,034	2,155,404
Other expense		4,013,269	3,663,098
	₩	<u>7,103,536</u>	<u>7,805,541</u>

**37. OTHER REVENUES, OTHER EXPENSES AND OTHER INCOME:**

(1) Details of other revenues for the years ended December 31, 2018 and 2017 are as follows:

<i>(In thousands of won)</i>		2018	2017
Reversal of other provisions	₩	13,625,164	11,749,866
Government grants		6,883,242	1,010,944
Reversal of bad debts expenses		15,698	57
Gains from assets contributed		2,719,935	1,870,194
Others		8,568	6,109
	₩	<u>23,252,607</u>	<u>14,637,170</u>

(2) Details of other expenses for the years ended December 31, 2018 and 2017 are as follows:

<i>(In thousands of won)</i>		2018	2017
Increase in provisions	₩	36,656,809	56,277,562
Other bad debts expenses		45,929	97,935
Donations		31,918,699	30,903,854
Depreciation on assets not in use		2,271,175	2,843,236
	₩	<u>70,892,612</u>	<u>90,122,587</u>

# KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

### 37. OTHER REVENUES, OTHER EXPENSES AND OTHER INCOME, Continued:

(3) Details of other income (loss) for the years ended December 31, 2018 and 2017 are as follows:

<i>(In thousands of won)</i>		2018	2017
Gains on sale of property, trains and equipment	₩	290,373	656,767
Gains on disposal of non-current assets held-for-sale		6,290,358	27,229,511
Gains on foreign currency transaction (related to operating activities)		559,786	424,736
Gains on foreign currency translation (related to operating activities)		18,992	73,321
Other income		214,128,450	37,101,529
Losses on sale of property, trains and equipment		(24,266,713)	(1,799,053)
Losses on sale of investment property		-	(32,470)
Losses on disposal of other non-current assets		(2,723,454)	(10,250,926)
Losses on valuation of land		-	(52,929,609)
Impairment losses on property, trains and equipment		(6,546,580)	(7,084,339)
Impairment losses on intangibles assets		(1)	-
Impairment losses on investment property		-	(699,039)
Impairment losses on other non-current assets		-	(300,000)
Losses on foreign currency transaction (related to operating activities)		(24,857)	(514,470)
Losses on foreign currency translation (related to operating activities)		(923,304)	(38,456)
Other costs		(72,766,047)	(132,108,793)
	₩	<u>114,037,003</u>	<u>(140,271,291)</u>

(3-1) Details of other gains for the years ended December 31, 2018 and 2017 are as follows:

<i>(In thousands of won)</i>		2018	2017
Gains on disposal of inventories	₩	10,701,654	4,977,886
Miscellaneous gains		202,420,375	21,256,758
Gains on valuation of land		-	10,866,885
Gains on prior period error corrections		1,006,421	-
	₩	<u>214,128,450</u>	<u>37,101,529</u>



**KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES**

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

**37. OTHER REVENUES, OTHER EXPENSES AND OTHER INCOME, Continued:**

(3-2) Details of other costs for the years ended December 31, 2018 and 2017 are as follows:

<i>(In thousands of won)</i>		2018	2017
Losses from inventory obsolescence	₩	380,989	149,567
Losses on prior period error corrections		-	482,049
Other charge fee		4,479,902	2,749,422
Miscellaneous losses		67,905,156	128,760,223
	₩	<u>72,766,047</u>	<u>132,141,261</u>

**38. FINANCE INCOME:**

(1) Details of finance income for the years ended December 31, 2018 and 2017 are as follows:

<i>(In thousands of won)</i>		2018	2017
Interest income	₩	15,961,806	9,868,429
Dividend income		433,265	839,806
Gains on settlement of derivative instruments		-	14,102
Gains on sale of financial assets at FVPL		172,123	-
Gains on valuation of derivative instruments		33,881,590	3,953,800
Gain from foreign currency translation		13,841,237	94,563,470
Gain from foreign currency transactions		209,303	23,170,855
	₩	<u>64,499,324</u>	<u>132,410,462</u>

**KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES**

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

**38. FINANCE INCOME, Continued:**

(2) Details of interest income by related assets for the years ended December 31, 2018 and 2017 are as follows:

<i>(In thousands of won)</i>		2018	2017
Cash and cash equivalents	₩	8,712,355	4,607,812
Loans and receivables		3,355,713	3,071,002
Short-term financial instruments		3,831,454	2,139,355
Long-term financial instruments		-	188
Other financial assets		62,283	50,072
	₩	<u>15,961,805</u>	<u>9,868,429</u>

**39. FINANCE COSTS:**

(1) Details of finance cost for the years ended December 31, 2018 and 2017 are as follows:

<i>(In thousands of won)</i>		2018	2017
Interest expenses	₩	404,378,691	392,321,139
Losses on sale of financial assets at FVPL		4,731	-
Losses on disposal of available-for-sale financial assets		-	43,250
Losses on valuation of derivative instruments		13,836,000	94,563,470
Losses on settlement of derivative instruments		-	23,100,000
Losses from early extinguishment of debt		616,208	14,316,654
Losses on foreign currency translation		33,917,044	4,044,451
Losses on foreign currency transaction		231,500	72,437
	₩	<u>452,984,174</u>	<u>528,461,401</u>

# KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

### 39. FINANCE COSTS, Continued:

(2) Details of interest cost by related assets for the years ended December 31, 2018 and 2017 are as follows:

<i>(In thousands of won)</i>		2018	2017
Accounts payables and other payables	₩	5,818,818	5,863,839
Short-term borrowings		401,647	4,601,562
Long-term borrowings		5,011,417	1,565,267
Bonds		354,373,416	366,440,405
Derivative liabilities		13,502,035	15,747,208
Other financial liabilities		28,587,942	-
Subtotal		407,695,275	394,218,281
Less: Capitalization of borrowing costs		(3,316,584)	(1,897,142)
	₩	404,378,691	392,321,139

Weighted-average capitalization interest rate for borrowings for the years ended December 31, 2018 and 2017 are 3.08% and 3.21%, respectively.

### 40. INCOME TAXES RELATED TO CONTINUING OPERATION:

(1) The component of income tax benefit for the years ended December 31, 2018 and 2017 is as follows:

<i>(In thousands of won)</i>		2018 (Restated)	2017
<u>Current tax expense:</u>			
Current tax	₩	21,058,371	10,705,020
<u>Adjustment for prior periods:</u>			
Origination and reversal of temporary differences		(12,376,240)	(221,477)
Income tax recognized in other comprehensive income		(633,471,937)	(317,828,914)
Unrecognized deferred tax assets		394,262,580	-
Income tax benefit	₩	(230,527,226)	(307,345,371)

# KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

### 40. INCOME TAXES RELATED TO CONTINUING OPERATION, Continued:

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

<i>(In thousands of won)</i>		2018 (Restated)	2017
Loss before income tax benefit	₩	(335,505,468)	(1,162,873,351)
Tax rate		25.00%	25.00%
Income tax benefit using the Company's statutory tax rate		(92,264,004)	(290,718,338)
Adjustments:			
Tax effect of non-taxable income		(1,504,458,984)	(912,229,461)
Tax effect of non-deductible expenses		1,608,699,810	1,207,273,705
Tax credit		(144,577)	(141,240)
Current adjustments for prior periods		(186)	(17,264)
Recognition of previously unrecognized deferred tax assets		(633,471,937)	(317,828,914)
Unrecognized deferred tax assets and others (see Note 40 (5))		391,112,652)	6,316,141
Income tax benefit		(230,527,226)	(307,345,371)
Average effective tax rate		-	-

(3) Deferred income tax recognized directly in other comprehensive income for the years ended December 31, 2018 and 2017 is as follows:

<i>(In thousands of won)</i>		2018	2017
Gains (losses) on valuation of available-for-sale securities	₩	-	388
Gains (losses) on remeasurement factors of defined benefit plan		260,785	-
Gains (losses) on valuation of equity instruments at FVOCI		2,960,858	-
Gains (losses) on revaluation of assets		(636,693,580)	(317,829,302)
	₩	(633,471,937)	(317,828,914)

# KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

### 40. INCOME TAXES RELATED TO CONTINUING OPERATION, Continued:

(4) Changes in deferred income tax assets (liabilities) during the years ended December 31, 2018 and 2017, are detailed as follows:

(In thousands of won)		2018 (Restated)		
		Beginning balance	Profit or loss	Other comprehensive income
<u>The Company:</u>				
Deferred income tax assets	₩	-	-	-
Deferred income tax liabilities		-	(394,262,580)	-
				394,262,580
<u>Subsidiary:</u>				
Deferred income tax assets		15,700,193	8,780,127	266,386
Deferred income tax liabilities		23,131,331	3,329,726	-
				19,801,605
<u>The Group:</u>				
Deferred income tax assets		15,700,193	8,780,127	266,386
Deferred income tax liabilities		23,131,331	(390,932,854)	-
				414,064,185

(In thousands of won)		2017		
		Beginning balance	Profit or loss	Other comprehensive income
<u>The Company:</u>				
Deferred income tax assets	₩	-	-	-
Deferred income tax liabilities		-	-	-
<u>Subsidiary:</u>				
Deferred income tax assets		17,800,091	(2,100,286)	388
Deferred income tax liabilities		21,252,523	(1,878,808)	-
				15,700,193
<u>The Group:</u>				
Deferred income tax assets		17,800,091	(2,100,286)	388
Deferred income tax liabilities		21,252,523	(1,878,808)	-
				15,700,193

## KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

#### 40. INCOME TAXES RELATED TO CONTINUING OPERATION, Continued:

(5) Temporary differences to be deducted that are not recognized as deferred income tax assets as of December 31, 2018 and 2017 are as follows:

<i>(In thousands of won)</i>		Dec. 31, 2018 (Restated)	Dec. 31, 2017
Temporary differences to be deducted	₩	1,587,548,125	8,144,081,895
Tax credit		7,585,701	8,015,689

The Group did not recognise deferred tax assets amounted to ₩ 6,640,748 thousand as of December 31, 2018, due to the uncertainty that the deductible temporary difference related to the investment in the associate would realize in the foreseeable future.

The Group did not recognise deferred tax assets amounted to ₩ 394,262,580 thousand and ₩ 7,585,701 thousand respectively, as of December 31, 2018 and 2017, due to the uncertainty whether it is probable that future taxable income will be available against which the unused losses and unused tax credits can be utilized.

In addition, the Group did not recognise the deferred tax assets amounted to ₩ 35,672,406 thousand as of December 31, 2018, due to the uncertainty whether it is probable that future taxable income will be available.

## KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

#### 41. ASSETS HELD FOR SALE:

Details of assets and liabilities held for sale as of December 31, 2018 and 2017 are detailed as follows:

<i>(In thousands of won)</i>		Dec. 31, 2018	Dec. 31, 2017
Held for sale: land (*1)	₩	23,215,457	38,793,945
Held for sale: buildings and structures (*1)		416,695	31,430
Held for sale: Trains (*2)		54,826,323	-
Disposal groups classified as held for sale	₩	<u>78,458,475</u>	<u>38,825,375</u>

(\*1) During 2018, assets of land and buildings of the Group were classified as held for sale through the approval of the overall asset management. The process for sale is under progress including negotiation on compensation for loss of public lands. Assets are expected to be sold within a year from the end of reporting period.

(\*2) During 2018, assets of Trains of the Group were classified as held for sale. The process for sale is under progress including negotiation on capital reduction to the government. Assets are expected to be sold within a year from the end of reporting period.

# KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

### 42. NATURE OF EXPENSES:

Details of nature of expenses for the years ended December 31, 2018 and 2017 are as follows:

(In thousands of won)	2018			
	Changes in inventories	Selling, general and administrative expense	Cost of sales	Total
Goods	₩ 131,853,376	-	-	131,853,376
Manufactured goods	93,531	-	-	93,531
Salaries	-	173,337,835	2,100,694,947	2,274,032,782
Retirement benefits	-	15,338,244	170,630,768	185,969,012
Employee benefits	-	17,855,288	227,773,466	245,628,754
Insurance	-	3,068,165	6,287,958	9,356,123
Depreciation	-	28,900,627	505,509,229	534,409,856
Amortization	-	11,767,960	2,187,512	13,955,472
Bad debts expenses	-	5,863,265	-	5,863,265
Commissions	-	31,666,516	373,181,413	404,847,929
Advertising	-	6,825,469	49,204	6,874,673
Education and training	-	7,180,552	617,849	7,798,401
Vehicle maintenance	-	203,702	510,494,052	510,697,754
Printing	-	777,912	1,078,269	1,856,181
Project initiatives	-	635,253	164,605	799,858
Rental	-	4,136,483	1,196,126,675	1,200,263,158
Communication	-	2,067,444	2,711,508	4,778,952
Transportation	-	3,407	6,304	9,711
Taxes and dues	-	12,028,286	24,699,361	36,727,647
Supplies	-	2,337,459	16,973,468	19,310,927
Utilities	-	4,222,277	83,830,285	88,052,562
Maintenance	-	9,123,514	589,060,652	598,184,166
Ordinary development expenses	-	1,147,603	2,113,100	3,260,703
Business trip and transportation expenses	-	2,325,576	20,986,292	23,311,868
Uniforms	-	182,762	8,124,678	8,307,440
Research and analysis	-	1,275,572	285,434	1,561,006
Annual fees	-	387,888	111,166	499,054
Sales promotion	-	-	797,116	797,116
Sales commissions	-	849,095	9,335	858,430
Others	-	7,103,616	33,685,770	40,789,386
₩	131,946,907	350,611,770	5,878,190,416	6,360,749,093



# KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

### 42. NATURE OF EXPENSES, Continued:

Details of nature of expenses for the years ended December 31, 2018 and 2017 are as follows, continued:

		2017			
(In thousands of won)		Changes in inventories	Selling, general and administrative expense	Cost of sales	Total
Goods	₩	132,804,735	-	-	132,804,735
Manufactured goods		483,097	-	-	483,097
Salaries		-	164,614,996	2,192,670,426	2,357,285,422
Retirement benefits		-	16,647,334	167,247,140	183,894,474
Employee benefits		-	18,318,642	246,160,406	264,479,048
Insurance		-	2,664,251	6,426,537	9,090,788
Depreciation		-	28,124,473	494,385,198	522,509,671
Amortization		-	10,419,839	2,082,187	12,502,026
Bad debts expenses		-	1,491,697	-	1,491,697
Commissions		-	37,910,690	351,680,871	389,591,561
Advertising		-	5,940,322	51,241	5,991,563
Education and training		-	5,662,388	828,586	6,490,974
Vehicle maintenance		-	214,317	466,587,901	466,802,218
Printing		-	766,495	1,160,347	1,926,842
Project initiatives		-	565,588	135,977	701,565
Rental		-	4,272,817	1,105,595,179	1,109,867,996
Communication		-	2,109,139	2,248,690	4,357,829
Transportation		-	9,942	5,905	15,847
Taxes and dues		-	9,590,282	18,526,885	28,117,167
Supplies		-	2,209,047	16,855,984	19,065,031
Utilities		-	5,432,436	71,008,490	76,440,926
Maintenance		-	8,908,399	576,638,189	585,546,588
Ordinary development expenses		-	642,588	2,398,940	3,041,528
Business trip and transportation expenses		-	2,234,058	20,245,245	22,479,303
Uniforms		-	201,594	13,378,762	13,580,356
Research and analysis		-	718,142	577,818	1,295,960
Annual fees		-	508,210	122,377	630,587
Sales promotion		-	-	749,000	749,000
Sales commissions		-	918,753	16,585	935,338
Others		2,038,199	7,805,541	24,608,113	34,451,853
	₩	135,326,031	338,901,980	5,782,392,979	6,256,620,990

# KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

### 43. ENTRUSTED BUSINESS:

(1) Revenues and expenses for the government entrusted business reported in the consolidated financial statements as of December 31, 2018 and 2017 are as follows:

(In thousands of won)	Dec. 31, 2018		Dec. 31, 2017	
	Revenue	Expense	Revenue	Expense
Government	₩ 1,130,002,856	1,025,778,611	878,021,883	838,819,065
Local government	39,201,379	17,520,820	58,195,555	36,991,002
	₩ 1,169,204,235	1,043,299,431	936,217,438	875,810,067

(2) Changes in the deferred revenue from the trusted business for the years ended December 31, 2018 and 2017 are as follows:

(In thousands of won)		2018					
		Jan. 1, 2018	Received	Executed	Returned	Others	Dec. 31, 2018
Cash and cash equivalents	Government	₩ 161,896,688	309,330,960	(270,481,490)	(42,955,481)	(27,611,198)	130,179,479
Other receivables(*)	Government	(196,214,640)	777,706,441	(776,384,900)	(165,025)	131,143,126	(63,914,998)
Cash and cash equivalents	Local government	7,867,511	50,385,481	(32,637,949)	(26,364,159)	5,599,274	4,850,158
		₩ (26,450,441)	1,137,422,882	(1,079,504,339)	(69,484,665)	109,131,202	71,114,639

(\*) The expenses related to maintenance contracts with the government have been changed from adjust accounts after receipt of payment to the method of receipt after adjust accounts.

# KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

### 43. ENTRUSTED BUSINESS, Continued:

(2) Changes in the deferred revenue from the trusted business for the years ended December 31, 2018 and 2017 are as follows, continued:

(In thousands of won)		2017					
		Jan. 1, 2017	Received	Executed	Returned	Others	Dec. 31, 2017
Cash and cash equivalents	Government	₩ 73,928,076	324,693,924	(237,945,990)	(49,004,912)	50,225,590	161,896,688
Other receivables(*)	Government	-	692,013,961	(709,825,765)	(37,428,825)	(140,974,011)	(196,214,640)
Cash and cash equivalents	Local government	33,441,702	53,696,126	(50,922,027)	(31,036,061)	2,687,771	7,867,511
		₩ 107,369,778	1,070,404,011	(998,693,782)	(117,469,798)	(88,060,650)	(26,450,441)

(\*) The expenses related to maintenance contracts with the government have been changed from adjust accounts after receipt of payment to the method of receipt after adjust accounts.

# KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

### 44. CATEGORIES OF FINANCIAL INSTRUMENTS:

(1) Categories of financial instruments as of December 31, 2018 and 2017 are as follows:

(In thousands of won)	Dec. 31, 2018			
	Loans and receivables	Available-for-sale financial assets	Derivative instruments for hedging	Total
<u>Current assets:</u>				
Cash and cash equivalents ₩	-	647,271,139	-	647,271,139
Short-term loans	-	1,503,543	-	1,503,543
Short-term financial instruments	-	103,748,659	-	103,748,659
Accounts receivables and other receivables	-	492,463,551	-	492,463,551
Subtotal	-	1,244,986,892	-	1,244,986,892
<u>Non-current assets:</u>				
Equity instruments at FVOCI	43,338,117	-	-	43,338,117
Long-term loans	-	38,686,285	-	38,686,285
Long-term financial instruments	-	18,755	-	18,755
Derivative instrument assets	-	-	3,863,614	3,863,614
Accounts receivables and other receivables	-	33,681,333	-	33,681,333
Subtotal	43,338,117	72,386,373	3,863,614	119,588,104
₩	43,338,117	1,317,373,265	3,863,614	1,364,574,996

# KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

### 44. CATEGORIES OF FINANCIAL INSTRUMENTS, Continued:

(1) Categories of financial instruments as of December 31, 2018 and 2017 are as follows, continued:

(In thousands of won)	Dec. 31, 2017			
	Loans and receivables	Available-for-sale financial assets	Derivative instruments for hedging	Total
<u>Current assets:</u>				
Cash and cash equivalents ₩	481,767,204	-	-	481,767,204
Short-term loans	386,635	-	-	386,635
Short-term financial instruments	15,203,275	-	-	15,203,275
Accounts receivables and other receivables	885,995,302	-	-	885,995,302
Subtotal	1,383,352,416	-	-	1,383,352,416
<u>Non-current assets:</u>				
Available-for-sale financial assets	-	42,220,585	-	42,220,585
Long-term loans	40,092,731	-	-	40,092,731
Long-term financial instruments	18,755	-	-	18,755
Derivative instrument assets	-	-	7,700,483	7,700,483
Accounts receivables and other receivables	234,940,830	-	-	234,940,830
Subtotal	275,052,316	42,220,585	7,700,483	324,973,384
₩	1,658,404,732	42,220,585	7,700,483	1,708,325,800

# KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

### 44. CATEGORIES OF FINANCIAL INSTRUMENTS, Continued:

(2) Categories of financial liabilities as of December 31, 2018 and 2017 are as follows:

(In thousands of won)	Dec. 31, 2018		
	Financial liabilities measured at amortized costs	Derivative instruments for hedging	Total
₩			
<u>Current liabilities:</u>			
Accounts payables and other payables	587,011,871	-	587,011,871
Short-term borrowings	6,781,519	-	6,781,519
Current portion of long-term borrowings	30,200,000	-	30,200,000
Current bonds	1,681,591,793	-	1,681,591,793
Derivative instrument liabilities	-	22,674,001	22,674,001
Subtotal	2,305,585,183	22,674,001	2,328,259,184
<u>Non-current liabilities:</u>			
Account payables and other payables	44,608,972	-	44,608,972
Long-term borrowings	255,800,000	-	255,800,000
Bonds	9,197,381,413	-	9,197,381,413
Derivative instrument liabilities	-	45,894,032	45,894,032
Other financial liabilities	176,087,942	-	176,087,942
Subtotal	9,673,878,327	45,894,032	9,719,772,359
₩	11,979,463,510	68,568,033	12,048,031,543

# KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

### 44. CATEGORIES OF FINANCIAL INSTRUMENTS, Continued:

(2) Categories of financial liabilities as of December 31, 2018 and 2017, are as follows, continued:

(In thousands of won)	Dec. 31, 2017		
	Financial liabilities measured at amortized costs	Derivative instruments for hedging	Total
₩			
<u>Current liabilities:</u>			
Accounts payables and other payables	746,568,828	-	746,568,828
Short-term borrowings	7,999,991	-	7,999,991
Current portion of long-term borrowings	55,000,000	-	55,000,000
Current bonds	1,371,162,536	-	1,371,162,536
Derivative instrument liabilities	-	24,208,168	24,208,168
Subtotal	2,180,731,355	24,208,168	2,204,939,523
<u>Non-current liabilities:</u>			
Account payables and other payables	39,357,277	-	39,357,277
Long-term borrowings	60,821,938	-	60,821,938
Bonds	10,315,531,406	-	10,315,531,406
Derivative instrument liabilities	-	53,827,313	53,827,313
Other financial liabilities	147,500,000	-	147,500,000
Subtotal	10,563,210,621	53,827,313	10,617,037,934
₩	12,743,941,976	78,035,481	12,821,977,457

# KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

### 44. CATEGORIES OF FINANCIAL INSTRUMENTS, Continued:

(3) Gain and loss of financial instruments by categories for the years ended December 31, 2018 and 2017 are as follows:

<i>(In thousands of won)</i>	2018	2017
<u>Cash and cash equivalents:</u>		
Interest income	₩ 7,675,875	4,369,902
<u>Financial assets at FVPL</u>		
Gain on disposal of financial assets at FVPL	172,123	-
Loss on disposal of financial assets at FVPL	(4,731)	-
<u>Loans and receivables:</u>		
Interest income	8,285,931	5,498,527
<u>Financial assets at FVOCI</u>		
Dividends income	433,265	-
Comprehensive income or loss recognized for the year	(25,150,641)	-
<u>Available-for-sale financial assets:</u>		
Dividends income	-	839,806
Gains (losses) on disposal of available for sale financial assets	-	(29,148)
financial expense, net	-	(101,687)
Comprehensive income or loss recognized for the year	-	(101,687)
<u>Derivative instrument assets for hedging:</u>		
Gains on valuation of derivative financial instruments financial income	33,881,590	3,953,800
Losses on valuation of derivative financial instruments financial expense	(13,836,000)	(94,563,470)
Losses on transaction of derivative financial instruments financial expense	-	(23,100,000)
Comprehensive income or loss recognized in the reporting period	(38,103,260)	3,773,920
<u>Financial liabilities measured at amortized costs:</u>		
Gain on foreign currency transaction related to borrowings	209,303	23,170,855
Gain on foreign currency translation related to borrowings	13,841,238	94,563,470
Interest expense	(404,378,691)	(392,321,139)
Loss on Redemption of Finance debt	(616,208)	(14,316,655)
Losses foreign currency transactions	(231,500)	(72,438)
Losses on foreign exchange translations financial expense	(33,917,044)	(4,044,451)
	₩ (451,738,750)	(392,378,708)



# KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

### 45. FINANCIAL RISK MANAGEMENT:

#### (1) Credit risk

As of December 31, 2018 and 2017, the Group's maximum exposure to credit risk is as follows:

<i>(In thousands of won)</i>		Dec. 31, 2018	Dec. 31, 2017
Loans	₩	40,189,828	40,479,367
Long- and short-term financial instruments		103,767,413	15,222,030
Derivative instrument assets		3,863,614	7,700,483
Trade receivables and other receivables		526,144,884	1,120,936,132
Cash and cash equivalents		647,271,140	481,767,204
	₩	<u>1,321,236,879</u>	<u>1,666,105,216</u>

#### (2) Liquidity risk

As of December 31, 2018, contractual maturity of financial liabilities is summarized as follows:

<i>(In thousands of won)</i>		Dec. 31, 2018					
	Carrying amount	Contractual flow	6 month or less	6-12 months	1-2 years	2-5 years	More than 5 years
Borrowings	₩ 292,781,519	318,007,884	27,901,850	21,116,485	36,251,741	232,737,808	-
Bonds	10,878,973,206	13,637,959,723	1,019,548,702	982,026,216	1,257,817,759	3,226,763,450	7,151,803,596
Trade payables and other payables	631,620,843	631,620,843	587,011,871	-	44,608,972	-	-
Derivative financial liabilities	68,568,033	68,568,032	9,395,684	13,278,317	471,364	13,437,750	31,984,917
	<u>₩11,871,943,601</u>	<u>14,656,156,482</u>	<u>1,643,858,107</u>	<u>1,016,421,018</u>	<u>1,339,149,836</u>	<u>3,472,939,008</u>	<u>7,183,788,513</u>

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

# KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

### 45. FINANCIAL RISK MANAGEMENT, Continued:

(2) Liquidity risk, continued

As of December 31, 2017, contractual maturity of financial liabilities is summarized as follows:

(in thousands of won)	Dec. 31, 2017						
	Carrying amount	Contractual flow	6 month or less	6-12 months	1-2 years	2-5 years	More than 5 years
Borrowings	₩ 123,821,929	126,493,860	22,119,212	42,455,350	30,840,384	30,876,418	202,496
Bonds	11,686,693,942	14,464,959,432	748,557,787	986,213,739	2,152,787,102	3,298,170,887	7,279,229,917
Trade payables and other payables	785,926,105	785,926,105	746,568,828	-	39,357,277	-	-
Derivative financial liabilities	78,035,481	78,035,481	-	24,208,168	43,473,438	1,902,357	8,451,518
	<u>₩ 12,674,477,457</u>	<u>15,455,414,878</u>	<u>1,517,245,827</u>	<u>1,052,877,257</u>	<u>2,266,458,201</u>	<u>3,330,949,662</u>	<u>7,287,883,931</u>

# KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

### 45. FINANCIAL RISK MANAGEMENT, Continued:

#### (2) Liquidity risk, continued

The following table indicates the periods in which the cash flows associated with cash flow hedges are expected to occur as of December 31, 2018 and 2017.

(In thousands of won)		Dec. 31, 2018						
		Book value	Contractual cash flow	6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years
<u>Currency swap</u>								
Assets	₩	3,863,614	3,863,614	-	-	-	3,863,614	-
Liabilities		(64,468,650)	(64,468,650)	(9,395,684)	(13,278,317)	(471,365)	(9,338,367)	(31,984,917)
	₩	(60,605,036)	(60,605,036)	(9,395,684)	(13,278,317)	(471,365)	(5,474,753)	(31,984,917)
<u>Interest rate swap</u>								
Liabilities	₩	4,099,384	4,099,384	-	-	-	4,099,384	-
(In thousands of won)		Dec. 31, 2017						
		Book value	Contractual cash flow	6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years
<u>Currency swap</u>								
Assets	₩	7,700,483	7,700,483	-	-	-	-	7,700,483
Liabilities		(78,035,481)	(78,035,481)	-	(24,208,168)	(43,473,438)	(1,902,357)	(8,451,518)
	₩	(70,334,998)	(70,334,998)	-	(24,208,168)	(43,473,438)	(1,902,357)	(751,035)

# KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

### 45. FINANCIAL RISK MANAGEMENT, Continued:

#### (3) Currency risk

##### (i) Exposure to currency risk

As of December 31, 2018 and 2017, monetary assets and liabilities denominated in currencies other than functional currency are detailed as follows:

(In thousands of won)	Dec. 31, 2018				
	USD	CHF	EUR	SGD	Others

#### Assets denominated in foreign currency:

Cash and cash equivalents	₩	52,444	-	41,695	1	20,969
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#### Liabilities denominated in foreign currency:

Bonds	₩	223,620,000	471,531,300	332,581,600	114,559,200	388,582,040
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(In thousands of won)	Dec. 31, 2017				
	USD	CHF	EUR	SGD	Others

#### Assets denominated in foreign currency:

Cash and cash equivalents	₩	93,304	-	38,777	1	124,617
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#### Liabilities denominated in foreign currency:

Bonds	₩	214,280,000	673,252,800	63,962,500	164,129,150	346,699,170
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## KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

#### 45. FINANCIAL RISK MANAGEMENT, Continued:

(3) Currency risk, continued

(i) Exposure to currency risk, continued

Foreign exchange rate applied as of December 31, 2018 and 2017 is as follows:

<i>(In won)</i>		Dec. 31, 2018	Dec. 31, 2017
USD	₩	1,118.10	1,071.40
CHF		1,136.22	1,094.72
EUR		1,279.16	1,279.25
SGD		818.28	800.63
AUD		787.81	835.16
CNY		162.76	163.65
HKD		142.77	137.07
SEK		124.58	129.90
CAD		820.35	852.69
JPY		10.13	9.49

(ii) Sensitivity analysis of changes in exchange rate

A strengthening of the won, as indicated below, against the USD, CHF, EUR, SGD, AUD, JPY and CNY at December 31, 2018, would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis is based on foreign currency exchange rate variances that the Group considered to be reasonably possible at the reporting date. The analysis assumes that all other variables, in particular interest rates, remain constant and ignores any impact of forecasted sales and purchases. The analysis is performed on the same basis for 2018, albeit that the reasonably possible foreign exchange rate variances are different, as indicated below.

<i>(In thousands of won)</i>		10% increase	10% decrease
Net profit or loss before income taxes	₩	(153,075,903)	153,075,903

As the Group manages the risks through currency swaps to eliminate the currency risk of foreign currency liabilities, net exposure to foreign exchange risk is insignificant. However, as with the sensitivity analysis above, foreign currency deposits and foreign currency denominated bonds are exposed to foreign exchange risk.

# KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

### 45. FINANCIAL RISK MANAGEMENT, Continued:

#### (4) Interest rate risk

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

<i>(In thousands of won)</i>	Interest rate	Dec. 31, 2018	Dec. 31, 2017
Public fund management capital	Government bonds-three year interest rate – 0.5%	₩ 60,000,000	90,000,000

#### (ii) Cash flow sensitivity analysis of fixed-rate financial instruments

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

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

Changes of 100BP in interest rates as of December 31, 2018, would result in increase or decrease in equity and profit or loss. The analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2018. Changes in equity and profit or loss are detailed as follows:

<i>(In thousands of won)</i>		Profit of loss		Equity	
		100BP Increase	100BP Decrease	100BP Increase	100BP Decrease
As of December 31, 2018 – borrowings	₩	(600,000)	600,000	(600,000)	600,000
As of December 31, 2017 – borrowings		(900,000)	900,000	(900,000)	900,000

# KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

### 45. FINANCIAL RISK MANAGEMENT, Continued:

(5) Fair value measurement

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

(In thousands of won)	2018		2017	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Assets carried at fair value:</u>				
Available-for sale financial assets	₩ -	-	41,350,008	41,350,008
Equity instruments at FVOCI	42,217,540	42,217,540	-	-
Currency swap(hedging)	3,863,614	3,863,614	7,700,483	7,700,483
Subtotal	46,081,154	46,081,154	49,050,491	49,050,491
<u>Assets carried at amortized cost(*):</u>				
Available-for sale financial assets	-	-	870,577	870,577
Equity instruments at FVOCI	1,120,577	1,120,577	-	-
Loans and other receivables	566,334,712	566,334,712	1,161,415,498	1,161,415,498
Long/short-term financial instrument	103,767,414	103,767,414	15,222,030	15,222,030
Cash and cash equivalents	647,271,140	647,271,140	481,767,204	481,767,204
Subtotal	1,318,493,843	1,318,493,843	1,659,275,309	1,659,275,309
	₩ 1,364,574,997	1,364,574,997	1,708,325,800	1,708,325,800
<u>Liabilities carried at fair value:</u>				
Currency swap(hedging)	₩ 68,568,033	68,568,033	78,035,481	78,035,481
<u>Liabilities carried at amortized cost(*):</u>				
Borrowings	292,781,519	292,781,519	123,821,929	123,821,929
Trade payables and other payables	631,620,843	631,620,843	785,926,105	785,926,105
Bonds	10,878,973,206	10,878,973,206	11,686,693,942	11,686,693,942
Subtotal	11,803,375,568	11,803,375,568	12,596,441,976	12,596,441,976
	₩ 11,871,943,601	11,871,943,601	12,674,477,457	12,674,477,457

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

## KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

#### 45. FINANCIAL RISK MANAGEMENT, Continued:

(5) Fair value measurement, continued

(ii) Interest rate used to determine the fair value

At the end of reporting period, interest rate used to determine the expected cash flow was determined by adding interest rate of government bonds and credit spread. As of December 31, 2018 and 2017, interest rates applied are detailed as follows:

	Dec. 31, 2018	Dec. 31, 2017
Derivative instruments	1.81%~3.64%	1.81%~3.64%
Financial assets at FVOCI	5.97%~7.34%	-
Available-for-sale financial assets	-	5.99%~6.74%

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

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



# KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

### 45. FINANCIAL RISK MANAGEMENT, Continued:

(5) Fair value measurement, continued

As of December 31, 2018, details of fair value, carrying amount and secured assets are as follows:

<i>(In thousands of won)</i>		Level 1	Level 2	Level 3	Total
<u>Financial assets:</u>					
Available-for-sale financial assets(*1)	₩	17,949	-	43,320,168	43,338,117
Derivative instruments assets(*2)		-	3,863,614	-	3,863,614
	₩	<u>17,949</u>	<u>3,863,614</u>	<u>43,320,168</u>	<u>47,201,731</u>
<u>Financial liabilities:</u>					
Derivative instruments liabilities(*2)	₩	-	68,569,293	-	68,569,293
	₩	<u>-</u>	<u>68,569,293</u>	<u>-</u>	<u>68,569,293</u>

(\*1) Equity instruments at FVOCI are not quoted in an active market and measured at valuation amount evaluated by an independent valuation agency.

(\*2) Derivative assets and liabilities are measured at fair value in accordance with terms of contract with financial institutions.

The following table shows changes in financial instruments of Level 3 (fair value) for the years ended December 31, 2018 and 2017:

<i>(In thousands of won)</i>		2018	2017
Beginning balance	₩	-	22,402,670
Acquisition		-	-
Introduction effect of the enactment standard		42,208,595	-
Acquisition		3,701,984	-
Other comprehensive income		-	240,681
Evaluation		(2,757,803)	-
Others		167,392	-
Ending balance	₩	<u>43,320,168</u>	<u>22,643,351</u>

## KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

#### 46. RELATED PARTIES:

(1) As of December 31, 2018, the controlling company that prepares the consolidated financial statements is Korea Railroad Corporation, and the related parties of the Group are detailed as follows:

	Name of Related Parties
Controlling party (Parent company)	Government of Korea
Subsidiaries	KORAIL Retail Co., Ltd., KORAIL Networks Co., Ltd., KORAIL Tech Co., Ltd., KORAIL Logis Co., Ltd., KORAIL Tourism Development Co., Ltd., SR Co., Ltd. and Korean Insurance Brokerage Co., Ltd. Hanwha Station Development Co., Ltd., Noryangjin Station Building Co., Ltd., Uiwang ICD Co., Ltd., Lotte Station Building Co., Ltd., Bucheon Station Building Co., Ltd., Bupyeong Department Store Co., Ltd., Shinsegae Uijeongbu Station Building Co., Ltd., Sinchon Station Building Co., Ltd. , Anyang Station Building Co., Ltd., Dongincheon Shopping Center Co., Ltd., Bitplex Co., Ltd. , Changdong Station Building Co., Ltd., Dream Hub Project Financial Investment Co., Ltd., Kwangwoon Univ. Building Co., Ltd., Ansan Central Station Building Co., Ltd. and Yongsan Station Around Development Co., Ltd.
Related companies	

# KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

### 46. RELATED PARTIES, Continued:

(2) Significant transactions that occurred in the normal course of business with related companies for the years ended December 31, 2018 and 2017 are as follows:

<i>(In thousands of won)</i>		Revenue		Costs	
	Name	2018	2017	2018	2017
Related companies	Bitplex Co., Ltd.	₩ 114,609	-	22,196	21,344
	Lotte Station Building Co., Ltd.	5,154,170	6,112,176	205,536	154,150
	Bucheon Station Building Co., Ltd.	2,508,289	2,507,188	502,646	464,526
	Bupyeong Department Store Co., Ltd.	1	-	189,785	174,570
	Kwangwoon Univ. Station Building Co., Ltd.	18,825	2,513	-	-
	Shinsegae Uijeongbu Station Building Co., Ltd.	14,179	14,179	55,545	141,854
	Dream Hub Project Financial Investment Co., Ltd.	1,127,615	-	-	-
	Anyang Station Building Co., Ltd.	25,386	25,521	163,156	138,569
	Uiwang ICD Co., Ltd.	9,150,676	8,519,215	-	-
	Hanwha Station Development Co., Ltd.	454,499	2,116,514	185,103	245,565
		₩ 18,568,249	19,297,306	1,323,967	1,340,578

# KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

### 46. RELATED PARTIES, Continued:

(3) Account balances with related companies as of December 31, 2018 and 2017 are as follows:

(In thousands of won)

	Name	Receivable		Payables	
		Dec. 31, 2018	Dec. 31, 2017	Dec. 31, 2018	Dec. 31, 2017
Related companies	Dream Hub Project Financial Investment Co., Ltd.	₩ -	-	-	65,268,912
	Lotte Station Building Co., Ltd.	1,385	5,945	582,847	580,473
	Bucheon Station Building Co., Ltd.	1,251	-	40,465	43,579
	Bupyeong Department Store Co., Ltd.	156	-	15,438	13,881
	Bitplex Co., Ltd.	-	-	-	1,471
	Kwangwoon Univ. Station Building Co., Ltd	-	6,589	-	120
	Ansan Central Station Building Co., Ltd.	4,025	4,025	-	-
	Anyang Station Building Co., Ltd.	-	-	13,420	21,421
	Yongsan Development Co., Ltd.	360,529	360,529	-	-
	Uiwang ICD Co., Ltd.	305	1,018,817	828,821	761,553
	Shinsegae Uijeongbu Station Building Co., Ltd	-	-	-	11,973
	Hanwha Station Development Co., Ltd.	5,126	5,126	-	11,999
		₩ <u>372,777</u>	<u>1,401,031</u>	<u>1,480,991</u>	<u>66,715,382</u>

## KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

#### 46. RELATED PARTIES, Continued:

(4) During the years ended December 31, 2018 and 2017, compensation to management is detailed as follows:

<i>(In thousands of won)</i>		2018	2017
Short-term employees benefits	₩	606,158	527,320
Accrual for retirement and severance benefits		45,604	30,758
	₩	<u>651,762</u>	<u>558,078</u>

(5) Short-term and long-term loans of the consolidation entity as of the end of the current term and the prior term are all loans to employees, as described in note 14.

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

Major non-cash investing transactions and non-cash financing transactions not included in the statement of cash flows for the current term and the prior term are as follows:

<i>(In thousands of won)</i>		2018	2017
Reclassification of construction in progress to buildings	₩	238,459,834	464,513,224
Reclassification of current portion of long-term borrowings		30,200,000	30,000,000
Reclassification of current portion of bonds		1,682,529,300	1,372,390,750
Reclassification of other receivables to property, trains and equipment		303,131,492	-
Reclassification of long-term non-trade receivables to property, trains and equipment		201,087,739	2,049,028
Reclassification of prepayment to property, trains and equipment		177,791	601,491
Other account payables of property, trains and equipment acquisition amount		859,700	64,091

## KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

#### 48. COMMITMENTS AND CONTINGENCIES:

(1) Details of contingent liabilities as of December 31, 2018 and 2017 are as follows:

<i>(In thousands of won)</i>		<u>2018(*1)</u>	<u>2017(*2)</u>
Pending litigations	₩	155,183,330	232,948,892

(\*1) The Group is a defendant for 93 litigations, such as claims for payment of goods.

(\*2) The Group was a defendant for 88 litigations, such as claims for payment of goods.

(2) Details of contingent assets as of December 31, 2018 and 2017, are as follows:

<i>(In thousands of won)</i>		<u>2018(*1)</u>	<u>2017(*2)</u>
Pending litigations(*1)	₩	690,485,966	1,238,237,487

(\*1) The Group is a Petitioner for 51 litigations, such as claims for strike.

(\*2) The Group was a Petitioner for 88 litigations, such as claims for strike.

# KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

### 48. COMMITMENTS AND CONTINGENCIES, Continued:

#### (3) Pledged assets and guarantees

(i) Assets pledged as collateral for the Group's borrowings as of December 31, 2018 are summarized as follows:

<i>(In thousands of won)</i>	Type of borrowings	Lender	Carrying amount	Guaranteed amount
Buildings	Guarantee money	Seoul Election Commission	₩ 2,809,014	100,000
	Guarantee money	Hyundai Card Inc.		550,234
	Guarantee money	Hyundai Commercial Inc.		110,273
	Guarantee money	Kookmin Bank		180,000
	Guarantee money	Samsung Life Service Inc.		1,099,269
	Guarantee money	Samsung Life Service Inc.		370,962
	Guarantee money	Samsung Fire&Marine Insurance Financial Service Co., Ltd.		102,258
Land and buildings	Guarantee money	KB Claims Survey & Adjusting Co., Ltd.	137,131,253	366,423
	Guarantee money	KakaoBank of Korea Co., Ltd.		1,090,827
	Guarantee money	Hyundai Capital Services, Inc.		253,541
	Guarantee money	Heungkuk Life Insurance Co., Ltd.		412,899
	Guarantee money	KB Kookmin Card Co., Ltd.		162,184
	Guarantee money	Korea workers' compensation and welfare Service		215,020
Long-term financial instruments	Guarantee money	Seoul Guarantee Insurance Co., Ltd.(SGL)	18,754	18,754
			₩ 139,959,021	5,032,644

# KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

### 48. COMMITMENTS AND CONTINGENCIES, Continued:

(3) Pledged assets and guarantees, continued

(ii) Collaterals and guarantees provided by third parties on behalf of the Group as of December 31, 2018 are as follows:

<i>(In thousands of won, USD, EUR, JPY)</i>	Type of guarantees		Amount
Seoul Guarantee Insurance Co., Ltd.(SGI)	Contract performance guarantee	KRW	6,359,694
Seoul Guarantee Insurance Co., Ltd.(SGI)	Contract performance guarantee	KRW	1,313,590
Seoul Guarantee Insurance Co., Ltd.(SGI)	Permission	KRW	691,051
Seoul Guarantee Insurance Co., Ltd.(SGI)	Deposition	KRW	2,225,965
Seoul Guarantee Insurance Co., Ltd.(SGI)	Franchise business	KRW	555,000
Hana Bank	Import L/C issue	USD	60,279,954
Hana Bank	Import L/C deposit	USD	2,232
Kookmin Bank	Payment guarantee in foreign currency	EUR	27,089,170
Kookmin Bank	Payment guarantee in foreign currency	USD	3,260,629
Kookmin Bank	Payment guarantee in foreign currency	JPY	35,825,800
Woori Bank	Payment guarantee in foreign currency	USD	436,736
Woori Bank	Limit loan arrangement	KRW	5,000,000
Woori Bank	Other	USD	699,077
NH Bank	Working capital loan	KRW	55,000,000
Export-Import Bank of Korea	Business performance guarantee	KRW	1,750,000
Korea Speciality Contractor Financial Cooperative (KSCFC)	Contract guarantee	KRW	5,187,795
Korea Speciality Contractor Financial Cooperative (KSCFC)	Construction warranties	KRW	1,450,478
Korea Speciality Contractor Financial Cooperative (KSCFC)	Warranty insurance	KRW	640,000
Korea Speciality Contractor Financial Cooperative (KSCFC)	Other insurance	KRW	512,000
Korea Speciality Contractor Financial Cooperative (KSCFC)	Limit loan arrangement	KRW	163,172
Electric Contractors' Financial Cooperative(ECFC)	Bidding guarantee insurance	KRW	1,280,000



# KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

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

(1) Transactions with the Government and other public institutions for the years ended December 31, 2018 and 2017 are as follows.

(In thousands of won)		Revenue		Costs	
		2018	2017	2018	2017
Ministries	₩	469,830,240	357,865,464	50,429,472	30,429,824
Local governments		75,858,643	106,924,917	48,869,762	42,216,153
Public companies		4,537,172	7,251,173	384,343,956	377,853,107
Semipublic institutions		1,076,295,260	877,949,121	932,688,630	785,666,975
Other public institution		1,047,639,184	841,116,771	133,426,892	79,415,251
	₩	<u>2,674,160,499</u>	<u>2,191,107,446</u>	<u>1,549,758,712</u>	<u>1,315,581,310</u>

(2) Account balances with government and other public institutions as of December 31, 2018 and 2017 are as follows.

(In thousands of won)		Receivable		Payable	
		Dec. 31, 2018	Dec. 31, 2017	Dec. 31, 2018	Dec. 31, 2017
Ministries	₩	1,970,006	2,809,352	89,337	436,880
Local governments		6,069,252	6,116,299	1,455,370	161,604
Public companies		532,525	3,148,640	36,575	118,932
Semipublic institutions		89,278,956	202,408	21,391,478	4,387,889
Other public institution		51,720,240	21,885,640	27,291,978	14,936,380
	₩	<u>149,570,979</u>	<u>34,162,339</u>	<u>50,264,738</u>	<u>20,041,685</u>

(3) Government grants and receivables for entrusted business with the Government and other public institutions as of December 31, 2018 and 2017 are as follows.

(In thousands of won)		Government grants		receivables for entrusted business	
		Dec. 31, 2018	Dec. 31, 2017	Dec. 31, 2018	Dec. 31, 2017
Ministries	₩	64,400,373	63,322,374	130,179,479	161,896,688
Local governments		-	-	4,850,158	7,867,511
	₩	<u>64,400,373</u>	<u>63,322,374</u>	<u>135,029,637</u>	<u>169,764,199</u>

## KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

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

##### (1) Summary

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

##### (2) The progress of the project

In 2013, the Group notified the business cancellation to DHPFI and the members of Dream Hub Consortium. The Company claimed ₩ 240,000 million to Seoul Guarantee Insurance Company based on the business agreement and the land purchase contract. As a result of the dismissal of the business, the Company inspected the recovery of the land ownership and settlement of debts and liabilities and recognized a loss on dismissal of the business amounted to ₩ 4,662 billion in 2013.

In 2013, the Group returned the payment of ₩ 2,416,700 million and regained the ownership on part of the land disposed to DHPFI (138,908.4 m<sup>2</sup>, 38.97% of total area), which had been placed into a trust according to the real estate collateral trust agreement with Daehan Real Estate Trust Ltd. (the "Trust Company") in relation to the outstanding balance that DHPFI borrowed in order to purchase land in Yongsan from the Group. The Group also regained the land equivalent to the amount of the special buyback registration that expired during the year ended December 31, 2017 (1,288.3 m<sup>2</sup>, 0.36% of total area). In addition, the Group won a lawsuit of claim for land ownership transfer registration (ownership of the part of land entrusted to Daehan Real Estate Trust Co., Ltd. by DHPFI for financing purposes) against Daehan Real Estate Trust Co., Ltd. in 2017, the Group restored ownership of the part of land (Land area 875.8m<sup>2</sup>, 0.25%).

In 2018, the Group won a lawsuit of a claim for transfer of ownership of the land and restored ownership of the remaining land (215,419.3m<sup>2</sup>, 60.43% of total area). As a result, the Group restored ownership of the all of land (Land area 356,491.8m<sup>2</sup>).

##### (3) Expectation of business

In related with the land near Yongsan Station, the Group is in the process of filing a cancellation case (approximately ₩ 701.6 billion) for corporate tax imposed on transfer of ownership as of the end of 2018 (In the process of the third trial). The Group is preparing a plan for the use of the land that are restored ownership for 100% of total area.

# KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

### 51. SEPARATE INFORMATION FOR BUSINESS DEPARTMENTS:

(1) The Group defines business departments as follows:

- 1) Passenger transport business : KTX, ITX-Saemaoul, Saemaoul, Moogoonghwa, Nuri and trains for commuters
- 2) Metro business : Passenger transport business for Seoul metro area and ITX-Chungchoon
- 3) Freight business : Freight and storage for industrial materials such as coal, cement
- 4) Other multiple business : Development of station area and overseas business
- 5) Yongsan : Development of Yongsan station area (Cancellation on April 2013)
- 6) Entrusted business : Maintenance of properties for trains, etc.
- 7) Others
- 8) Airport train : Acquired stock of Incheon International Airport Railroad (stock sold in 2015)

(2) Details of financial information of business departments as of and for the years ended December 31, 2018 and 2017 are as follows:

		2018 (Restated)				
<i>(In thousands of won)</i>		Assets	Liabilities	Revenue	Operating income (loss)	Net income (loss)
Passenger	₩	10,743,232,400	9,944,333,999	2,795,898,665	196,395,149	47,311,240
Metro		3,989,851,417	771,174,312	1,146,619,997	(21,782,367)	(9,585,452)
Freight		2,419,571,239	4,877,677,962	398,018,270	(266,378,987)	(380,249,616)
Other multiple		2,050,396,915	278,340,995	53,721,981	41,814,776	36,769,135
Yongsan		5,536,129,301	2,537,379,214	-	(1,088,015)	204,349,799
Entrusted		731,840,696	987,053,286	1,157,387,989	(46,774,286)	(47,561,993)
Others		5,595,879	3,916,971	2,857,422	(908,214)	(407,301)
Airport train		452,391,675	-	-	-	10,058,653
Transactions between departments		(4,528,256,664)	(4,528,256,664)	-	-	-
Subsidiaries		968,262,270	486,016,263	1,219,998,695	64,479,237	56,475,812
Internal transactions		(252,190,998)	95,573,830	(447,658,273)	338,361	(22,138,518)
	₩	<u>22,116,824,130</u>	<u>15,453,210,168</u>	<u>6,326,844,746</u>	<u>(33,904,346)</u>	<u>(104,978,241)</u>

# KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

### 51. SEPARATE ACCOUNTING FOR BUSINESS DEPARTMENTS, Continued:

(2) Details of financial information of business departments as of and for the years ended December 31, 2018 and 2017 are as follows, continued:

(In thousands of won)		2017				
		Assets	Liabilities	Revenue	Operating income (loss)	Net income (loss)
Passenger	₩	10,092,332,822	9,320,372,507	2,618,164,197	81,990,532	(38,905,363)
Metro		3,951,307,548	774,515,885	1,063,152,042	(142,765,492)	(102,063,558)
Freight		2,419,096,886	4,491,570,657	402,411,695	(315,528,602)	(477,724,620)
Other multiple		2,031,224,874	272,207,639	52,112,555	21,314,040	43,628,639
Yongsan		3,008,512,311	1,992,678,024	-	(1,073,292)	(82,623,058)
Entrusted		663,096,797	863,898,549	918,551,631	(171,040,976)	(211,962,878)
Others		4,885,588	3,521,928	2,854,956	(1,195,044)	(1,162,867)
Airport train		442,333,022	-	-	-	8,527,744
Transactions between departments		(3,393,814,719)	(3,393,814,719)	-	-	-
Subsidiaries		886,923,837	448,762,003	1,094,779,078	58,325,303	49,722,723
Internal transactions		(227,555,915)	107,047,474	(365,317,409)	61,286	(42,964,742)
	₩	<u>19,878,343,051</u>	<u>14,880,759,947</u>	<u>5,786,708,745</u>	<u>(469,912,245)</u>	<u>(855,527,980)</u>

# KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

### 52. CORRECTION OF ERROR

The Group has restated the consolidated financial statements as of and for the year ended December 31, 2018 due to correction of error on accounting treatment for deferred tax. The main impacts on the consolidated financial statements are as follows:

#### (1) Consolidated statement of financial position

<i>(In thousands of won)</i>		Dec. 31, 2018		
		(Restated)		
		Before restatement	Restatement	Restated
Deferred tax liabilities		19,801,605	394,262,580	414,064,185
Non-current liabilities	₩	11,303,116,274	394,262,580	11,697,378,854
Total liabilities		15,158,947,588	394,262,580	15,553,210,168
Total equity		6,957,876,543	(394,262,580)	6,563,613,963
Total liabilities and equity		22,116,824,131	-	22,116,824,131

#### (2) Consolidated statement of comprehensive income

<i>(In thousands of won)</i>		2018		
		(Restated)		
		Before restatement	Restatement	Restated
Income tax benefit	₩	624,789,806	(394,262,580)	230,527,226
Income (loss) for the year		289,284,338	(394,262,580)	(104,978,242)
Total comprehensive income for the year		1,889,940,877	(394,262,580)	1,495,678,297

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## OFFERING CIRCULAR



### Korea Railroad Corporation

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

### U.S.\$2,000,000,000 Medium Term Note Program

Under this U.S.\$2,000,000,000 Medium Term Note Program (the “**Program**”), Korea Railroad Corporation (the “**Issuer**”) may from time to time issue notes in bearer and/or registered form (respectively, “**Bearer Notes**” and “**Registered Notes**”, and together, the “**Notes**”) denominated in any currency agreed between the Issuer and the relevant Dealer (as defined below).

The maximum aggregate nominal amount of all Notes from time to time outstanding under the Program will not exceed U.S.\$2,000,000,000 (or its equivalent in other currencies calculated as described herein), subject to increase as described herein.

The Notes may be issued on a continuing basis to one or more of the Dealers specified under “*Summary of the Program*” and any additional Dealer appointed under the Program from time to time, which appointment may be for a specific issue or on an ongoing basis (each a “**Dealer**”, and together, the “**Dealers**”). References in this Offering Circular to the “**relevant Dealer**” shall, in the case of an issue of Notes being (or intended to be) subscribed by more than one Dealer, be to all Dealers agreeing to subscribe for such Notes.

Approval in-principle has been received from the Singapore Exchange Securities Trading Limited (the “**Singapore Stock Exchange**”) in connection with the Program and application will be made for the listing and quotation of Notes that may be issued pursuant to the Program and which are agreed, at or prior to the time of issue thereof, to be so listed on the Singapore Stock Exchange. Such permission will be granted when such Notes have been admitted for listing and quotation on the Singapore Stock Exchange. The Singapore Stock Exchange assumes no responsibility for the correctness of any of the statements made, opinions expressed or reports contained herein. Approval in-principle from, admission to the Official List of, and listing and quotation of any Notes on, the Singapore Stock Exchange are not to be taken as an indication of the merits of the Issuer, the Program or the Notes.

Notice of the aggregate nominal amount of Notes, interest (if any) payable in respect of Notes, the issue price of Notes and any other terms and conditions not contained herein which are applicable to each Tranche of Notes will be set out in a pricing supplement (the “**Pricing Supplement**”) a copy of which, with respect to Notes to be listed on the Singapore Stock Exchange, will be submitted to the Singapore Stock Exchange before the date of listing of the Notes of such Tranche.

The Program provides that Notes may be listed on such other or further stock exchange(s) as may be agreed between the Issuer and the relevant Dealer. The Issuer may also issue unlisted Notes.

**See “Investment Considerations” for a discussion of certain factors to be considered in connection with an investment in 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**”), or with any securities regulatory authority of any state or other jurisdiction of the United States, and may not be offered or sold in the United States (as defined in Regulation S under the Securities Act) except pursuant to an exemption from the registration requirements of the Securities Act. Bearer Notes are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or to, or for the account or benefit of, U.S. persons (as defined in the U.S. Internal Revenue Code of 1986, as amended, and regulations thereunder). For a description of these and other restrictions on transfer, see “*Subscription and Sale and Transfer and Selling Restrictions*.” See “*Form of the Notes*” for a description of the manner in which Notes will be issued.

The Issuer may agree with any Dealer that Notes may be issued in a form not contemplated by the Terms and Conditions of the Notes herein, in which event a supplementary Offering Circular, if appropriate, will be published which will describe the effect of the agreement reached in relation to such Notes.

*Arranger and Sole Dealer*

**BNP PARIBAS**

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The date of this Offering Circular is August 28, 2018.



The Issuer, having made all reasonable inquiries, accepts responsibility for this Offering Circular, and confirms that this Offering Circular contains all information which is material in the context of the Program, that the information contained in this Offering Circular is true and accurate in all material respects and is not misleading, that the opinions and intentions expressed in this Offering Circular are honestly held and that there are no other facts the omission of which would make any of such information or the expression of any such opinions or intentions misleading in any material respect. The Issuer accepts responsibility accordingly.

This Offering Circular is to be read in conjunction with all documents which are deemed to be incorporated herein by reference (see “*Documents Incorporated by Reference*” below). This Offering Circular shall be read and construed on the basis that such documents are incorporated and form part of this Offering Circular.

No representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Dealers as to the authenticity, origin, validity, accuracy or completeness of the information contained or incorporated by reference in this Offering Circular or any supplement hereto or any other information provided by or purported to be provided by the Issuer in connection with the Program. No Dealer accepts any liability in relation to the information contained or incorporated by reference in this Offering Circular or any other information provided by the Issuer in connection with the Program. Each Dealer and its affiliates accordingly disclaim all and any liability whether arising in tort or contract or otherwise which it might otherwise have in respect of this Offering Circular or any such information.

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

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

Neither the delivery of this Offering Circular nor the offering, sale or delivery of any Notes shall in any circumstances imply that the information contained herein concerning the Issuer is correct at any time subsequent to the date hereof or that any other information supplied in connection with the Program is correct as of any time subsequent to the date indicated in the document containing the same. The Dealers expressly do not undertake to review the financial condition or affairs of the Issuer during the life of the Program or to advise any investor in the Notes of any information coming to their attention. Investors should review, *inter alia*, the most recently published financial statements of the Issuer when deciding whether or not to purchase any Notes.

The Notes in bearer form are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to U.S. persons, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code and the regulations promulgated thereunder.

This Offering Circular does not constitute an offer to sell or the solicitation of an offer to buy any Notes in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Offering Circular and the offer or sale of Notes may be restricted by law in certain jurisdictions. The Issuer and the Dealers do not represent that this document may be lawfully distributed, or that any Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer or the Dealers which would permit a public offering of any Notes or distribution of this document in any jurisdiction where action for that purpose is required. Accordingly, no Notes may be offered or sold, directly or indirectly, and neither this Offering Circular nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations and the Dealers have represented that all offers and sales by them will be made on the same terms. Persons into

whose possession this Offering Circular or any Notes come must inform themselves about, and observe, any such restrictions on the distribution of this Offering Circular and the offering and sale of Notes. In particular, there are restrictions on the distribution of this Offering Circular and the offer or sale of Notes in the United States, the European Economic Area (including the United Kingdom), Japan, Korea, Hong Kong, Singapore and Switzerland. For a description of these and certain further restrictions on offers and sales of the Notes and distribution of this Offering Circular, see “*Subscription and Sale and Transfer and Selling Restrictions*” below.

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

None of the Dealers or the Issuer makes any representation to any investor in the Notes regarding the legality of its investment under any applicable laws. Any investor in the Notes should be able to bear the economic risk of an investment in the Notes for an indefinite period of time.

**Notification under Section 309B(1)(c) of the Securities and Futures Act, Chapter 289 of Singapore (the “SFA”)** – Unless otherwise stated in the Pricing Supplement in respect of any Notes, the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA) that the Notes to be issued under the Program shall be prescribed capital markets products (as defined in the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

#### **NOTICE TO PERSONS IN THE UNITED KINGDOM**

This communication is only being distributed to and is only directed at (i) persons who are outside the United Kingdom or (ii) investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the “**Order**”) or (iii) high net worth entities, and other persons to whom it may lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order (all such persons together being referred to as “**relevant persons**”). Any Notes will only be available to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such Notes will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely on this document or any of its contents.

#### **KOREAN SELLING RESTRICTIONS**

The Notes have not been and will not be registered under the Financial Investment Services and Capital Markets Act of Korea (the “**FSCMA**”). 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 Law of Korea and its Enforcement Decree), 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.

#### **IMPORTANT — EEA RETAIL INVESTORS**

If the Pricing Supplement in respect of any Notes includes a legend entitled “Prohibition of Sales to EEA Retail Investors,” the Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (“**EEA**”). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (“**MiFID II**”); (ii) a customer within the meaning of Directive 2002/92/EC, 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. Consequently, no key information document required by Regulation (EU) No 1286/2014 (the “**PRIIPs Regulation**”) for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

## FORWARD LOOKING STATEMENTS

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

## CERTAIN DEFINED TERMS AND CONVENTIONS

Unless otherwise specified or the context otherwise requires, in this Offering Circular:

- All references to the “**Issuer**” herein are references to Korea Railroad Corporation. All references to “**we**,” “**our**,” or “**us**” herein are references to the Issuer or to the Issuer and its subsidiaries, as the context requires.
- References to “**Korea**” are to the Republic of Korea. References to “**U.S.**” or the “**United States**” are to the United States of America. References to “**PRC**” or “**China**” are to the People’s Republic of China. References to the “**Government**” are to the government of Korea, those to the “**MOLIT**” refer to the Ministry of Land, Infrastructure and Transport of Korea and those to the “**MOEF**” refer to the Ministry of Economy and Finance of Korea.
- All references in this Offering Circular to “**Won**” and “**₩**” refer to the currency of Korea, those to “**U.S. dollars**,” “**US\$**” and “**U.S.\$**” are to United States dollars, those to “**Japanese Yen**” are to the currency of Japan, those to “**S\$**” are to the currency of Singapore, those to “**Sterling**” and “**£**” are to the currency of the United Kingdom, those to “**Chinese Renminbi**” and “**Renminbi**” are to the currency of China and those to “**Euro**” and “**€**” are to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty establishing the European Community, as amended.

## PRESENTATION OF FINANCIAL INFORMATION

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

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

For convenience only, certain Won amounts have been translated into U.S. dollars. Unless otherwise specified, all such conversions were made at the market average exchange rate announced by Seoul Money Brokerage Services, Ltd. in Seoul between Won and the U.S. dollars (the "**Market Average Exchange Rate**"). Where applicable, the translations of Won into U.S. dollars as of December 31, 2017 have been made at the Market Average Exchange Rate in effect as of December 31, 2017, which was ₩1,071.4 to U.S.\$1.00. 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. The Market Average Exchange Rate on August 27, 2018 was ₩1,121.8 to U.S.\$1.00. See "*Exchange Rates*."

Any discrepancies in any table between totals and the sums of the amounts listed are due to rounding.

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**In connection with the issue of any Tranche of Notes, the Dealer or Dealers (if any) named as the Stabilizing Manager(s) (or persons acting on behalf of any Stabilizing Manager(s)) in the applicable Pricing Supplement may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilizing Manager(s) (or persons acting on behalf of a Stabilizing Manager) will undertake stabilization action. Such stabilizing, if commenced, may be discontinued at any time and, if begun, must be brought to an end after a limited period. Any stabilization action or over-allotment must be conducted by the relevant Stabilization Manager(s) (or persons acting on behalf of any Stabilization Manager(s)) in accordance with all applicable laws and rules.**

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## DOCUMENTS INCORPORATED BY REFERENCE

The following documents shall be deemed to be incorporated in, and to form part of, this Offering Circular:

- (a) the publicly available audited consolidated annual financial statements and the publicly available unaudited consolidated interim financial statements (if any) of the Issuer for the most recent financial period; and
- (b) all supplements or amendments to this Offering Circular circulated by the Issuer from time to time,

save that any statement contained herein or in a document which is deemed to be incorporated by reference herein shall be deemed to be modified or superseded for the purpose of this Offering Circular to the extent that a statement contained in any such subsequent document which is deemed to be incorporated by reference herein modifies or supersedes such earlier statement (whether expressly, by implication or otherwise).

The Issuer will provide, without charge, to each person to whom a copy of this Offering Circular has been delivered, upon the written request of such person, a copy of any or all of the documents deemed to be incorporated herein by reference unless such documents have been modified or superseded as specified above. Written requests for such documents should be directed to the Issuer at its registered office set out at the end of this Offering Circular. In addition, such documents will be available for inspection, free of charge at the specified office of The Bank of New York Mellon, London Branch (the “**Issuing and Paying Agent**”).

The Issuer will, in connection with the listing of the Notes on the Singapore Stock Exchange, so long as the rules of the Singapore Stock Exchange so require, in the event of any material change which is not reflected in this Offering Circular, prepare a further supplement to this Offering Circular or publish a new Offering Circular for use in connection with any subsequent issue of the Notes to be listed on the Singapore Stock Exchange.

If the terms of the Program are modified or amended in a manner which would make this Offering Circular, as supplemented, materially inaccurate or misleading, a new Offering Circular will be prepared.

## GENERAL DESCRIPTION OF THE PROGRAM

Under the Program, the Issuer may from time to time issue Notes denominated in any currency and with any maturity, subject as set out herein. A summary of the terms and conditions of the Program and the Notes appears below. The applicable terms of any Notes will be agreed between the Issuer and the relevant Dealer prior to the issue of the Notes and will be set out in the Terms and Conditions of the Notes endorsed on, or incorporated by reference into, the Notes, as modified and supplemented by the applicable Pricing Supplement attached to, or endorsed on, such Notes, as more fully described under “*Form of the Notes*” below.

This Offering Circular and any supplement will only be valid for the offering of Notes in an aggregate nominal amount of Notes which, when added to the aggregate nominal amount then outstanding of all Notes previously or simultaneously issued under the Program, does not exceed U.S.\$2,000,000,000 or its equivalent in other currencies. For the purpose of calculating the U.S. dollar equivalent of the aggregate nominal amount of Notes issued under the Program from time to time:

- (a) the U.S. dollar equivalent of Notes denominated in another Specified Currency (as specified in the applicable Pricing Supplement in relation to the Notes, described under “*Form of the Notes*” below) shall be determined, at the discretion of the Issuer, either as of the date on which agreement is reached for the issue of Notes or on the preceding day on which commercial banks and foreign exchange markets are open for business in London, in each case on the basis of the spot rate for the sale of the U.S. dollar against the purchase of such Specified Currency in the London foreign exchange market quoted by any leading international bank selected by the Issuer on the relevant day of calculation;
- (b) the U.S. dollar equivalent of Dual Currency Notes and Partly Paid Notes (each as specified in the applicable Pricing Supplement in relation to the Notes, described under “*Form of the Notes*” below) shall be calculated in the manner specified above by reference to the original nominal amount on issue of such Notes (in the case of Partly Paid Notes regardless of the subscription price paid); and
- (c) the U.S. dollar equivalent of Zero Coupon Notes (as specified in the applicable Pricing Supplement in relation to the Notes, described under “*Form of the Notes*” below) and other Notes issued at a discount or premium shall be calculated in the manner specified above by reference to the net proceeds received by the Issuer for the relevant issue.



## SUMMARY

### The Issuer

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

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

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

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

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

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

Our organization includes six business headquarters consisting of Safety Innovation, Passenger Business, Logistics Business, Metropolitan Railroad, Business Development and Engineering, and 12 regional headquarters (covering major metropolitan regions). Our conventional and high-speed railway, commonly referred to as “**KTX**”, rail networks comprise a total of 96 lines throughout Korea (and 15 lines linking Korea’s most populated metropolitan areas) and our metropolitan rail transit network comprises 12 main lines connecting Seoul and the greater metropolitan area. Our consolidated subsidiary SR Co., Ltd. (“**SR**”) operates a separate high-speed line from Suseo that joins the two KTX lines connecting Seoul and Busan and Seoul and Mokpo. Our passenger railroad networks extend over the total operating distance of 3,857.3 kilometers, which include the operating distance of 596.3 kilometers for our KTX railroad network. As of December 31, 2017, we had 697 stations servicing our KTX, conventional, metropolitan and freight transportation operation. As of the same date, we had 531 passenger stations, of which 41 were KTX rail stations. We also owned 37 train signaling stations, seven train signal centers and two train depots. In addition, as of December 31, 2017, we owned a total of 16,840 railroad vehicles, including 1,530 KTX locomotives, 280 diesel locomotives, 920 ordinary passenger cars, 2,622 electric railroad vehicles, 10,865 freight cars and 15 other car types.



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

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

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

## **Relationship with the Government**

### ***Government Ownership and Control***

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

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

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

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

### ***Government Support***

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

- contribution by the Government of all of our operating assets as investments-in-kind;
- contribution by the Government of 100% of our authorized capital;
- guarantees in respect of our repayment obligations on bonds issued by us;
- special financial assistance, including subsidizing our operating costs, extending loans and underwriting our bonds, for the purpose of fostering our long-term business normalization;
- financial and administrative support in relation to the development of property and land adjacent or in proximity to railroad stations; and
- lease of Government-owned property to us or permit to use or to gain profit from such property without any consideration, or allowing us to construct buildings and any other facilities on Government-owned properties.

For further details, see “*Relationship with the Government*”.

## SUMMARY OF THE PROGRAM

The following summary does not purport to be complete and is taken from, and is qualified in its entirety by, the remainder of this Offering Circular and, in relation to the terms and conditions of any particular Tranche of Notes, the applicable Pricing Supplement. Words and expressions defined in “*Form of the Notes*” and “*Terms and Conditions of the Notes*” below shall have the same meanings in this summary.

<b>Issuer:</b> .....	Korea Railroad Corporation (Legal Entity Identifier: 988400HIXNKLSIY4ND32)
<b>Description:</b> .....	Medium Term Note Program
<b>Arranger:</b> .....	BNP Paribas
<b>Dealers:</b> .....	BNP Paribas and any other Dealers appointed in accordance with the Program Agreement.
<b>Certain Restrictions:</b> .....	Each issue of Notes denominated in a currency in respect of which particular laws, guidelines, regulations, restrictions or reporting requirements apply will only be issued in circumstances which comply with such laws, guidelines, regulations, restrictions or reporting requirements from time to time (see “ <i>Subscription and Sale and Transfer and Selling Restrictions</i> ”).
<b>Issuing and Paying Agent and Calculation Agent:</b> .....	The Bank of New York Mellon, London Branch
<b>DTC Paying Agent, DTC Transfer Agent and DTC Registrar:</b> .....	The Bank of New York Mellon
<b>ICSD Paying Agent (in respect of Notes held through Euroclear and Clearstream):</b> .....	The Bank of New York Mellon, London Branch
<b>ICSD Transfer Agent and Registrar (in respect of Notes held through Euroclear and Clearstream):</b> .....	The Bank of New York Mellon SA/NA, Luxembourg Branch
<b>CMU Lodging and Paying Agent, CMU Transfer Agent and CMU Registrar:</b> .....	The Bank of New York Mellon, Hong Kong Branch
<b>Size:</b> .....	Up to U.S.\$2,000,000,000 (or its equivalent in other currencies calculated as described under “ <i>General Description of the Program</i> ”) outstanding at any time. The Issuer may increase the amount of the Program in accordance with the terms of the Program Agreement.
<b>Distribution:</b> .....	Notes may be distributed by way of private or public placement and in each case on a syndicated or non-syndicated basis.
<b>Currencies:</b> .....	Subject to any applicable legal or regulatory restrictions, any currency agreed between the Issuer and the relevant Dealer.
<b>Maturities:</b> .....	Such maturities as may be agreed between the Issuer and the relevant Dealer and as indicated in the applicable Pricing Supplement, subject to such minimum or maximum maturities as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the Issuer or the relevant Specified Currency.

<b>Issue Price:</b> .....	Notes may be issued on a fully-paid or a partly-paid basis and at an issue price which is at par or at a discount to, or premium over, par.
<b>Form of Notes:</b> .....	The Notes will be issued in bearer or registered form as described in “ <i>Form of the Notes</i> .” Registered Notes will not be exchangeable for Bearer Notes and vice versa.
<b>Fixed Rate Notes:</b> .....	Fixed interest will be payable on such date or dates as may be agreed between the Issuer and the relevant Dealer (as indicated in the applicable Pricing Supplement) and on redemption and will be calculated on the basis of such Day Count Fraction as may be agreed between the Issuer and the relevant Dealer.
<b>Floating Rate Notes:</b> .....	<p>Floating Rate Notes will bear interest at a rate determined either:</p> <ul style="list-style-type: none"> <li>(i) on the same basis as the floating rate under a notional interest-rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2006 ISDA Definitions (as published by the International Swaps and Derivatives Association, Inc., and as amended and updated as at the Issue Date of the first Tranche of the Notes of the relevant Series); or</li> <li>(ii) on the basis of a reference rate appearing on the agreed screen page of a commercial quotation service; or</li> <li>(iii) on such other basis as may be agreed between the Issuer and the relevant Dealer,</li> </ul> <p>as indicated in the applicable Pricing Supplement.</p> <p>The Margin (if any) relating to such floating rate will be agreed between the Issuer and the relevant Dealer for each series of Floating Rate Notes.</p>
<b>Other provisions in relation to</b>	
<b>Floating Rate Notes:</b> .....	Floating Rate Notes may also have a maximum interest rate, a minimum interest rate or both. Interest on Floating Rate Notes in respect of each Interest Period, as selected prior to issue by the Issuer and the relevant Dealer, will be payable on such Interest Payment Dates specified in, or determined pursuant to, the applicable Pricing Supplement and will be calculated on the basis of the relevant Day Count Fraction, as may be agreed between the Issuer and the relevant Dealer.
<b>Dual Currency Notes:</b> .....	Payments (whether in respect of principal or interest and whether at maturity or otherwise) in respect of Dual Currency Notes will be made in such currencies and based on such rates of exchange, as the Issuer and the relevant Dealer may agree (as indicated in the applicable Pricing Supplement).
<b>Zero Coupon Notes:</b> .....	Zero Coupon Notes will be offered and sold at a discount to their nominal amount and will not bear interest other than in the case of late payment.
<b>Redemption:</b> .....	The applicable Pricing Supplement will indicate either that the relevant Notes cannot be redeemed prior to their stated maturity (other than in specified installments (see below), if applicable, or for taxation reasons or following an Event of Default) or that such Notes will be redeemable at the option of the Issuer upon giving not less

than 30 nor more than 60 days' irrevocable notice (or such other notice period (if any) as is indicated in the applicable Pricing Supplement) to the Noteholders, and/or at the option of the Noteholders, upon giving not less than 30 nor more than 45 days' irrevocable notice (or such other notice period (if any) as is indicated in the applicable Pricing Supplement) to the Issuer, on a date or dates specified prior to such stated maturity and at a price or prices and on such terms as are indicated in the applicable Pricing Supplement.

The applicable Pricing Supplement may provide that Notes may be repayable in two or more installments of such amounts and on such dates as are indicated in the applicable Pricing Supplement.

**Change of Control Redemption:** . . . . . The Notes will be redeemable at the option of the Noteholders, in all or in part, upon the occurrence of a Change of Control at 100% of their principal amount, together with accrued and unpaid interest, if any, to but excluding the Change of Control Put Date (as defined herein). See "*Terms and Conditions of the Notes — Redemption and Purchase — Change of Control Redemption*".

**Denomination of Notes:** . . . . . Notes will be issued in such denominations as may be agreed between the Issuer and the relevant Dealer and as indicated in the applicable Pricing Supplement save that the minimum denomination of each Note will be such as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the relevant Specified Currency. Unless otherwise stated in the applicable Pricing Supplement, the minimum denomination of each Definitive IAI Registered Note (as defined under "*Form of the Notes*") will be US\$500,000 or its approximate equivalent in other Specified Currencies.

**Redenomination:** . . . . . The applicable Pricing Supplement may provide that certain Notes may be redenominated in Euro. The relevant provisions applicable to any such redenomination are contained in Condition 5.

**Taxation:** . . . . . All payments in respect of the Notes will be made without deduction for or on account of withholding taxes imposed by any Tax Jurisdiction (as defined in Condition 9), subject as provided in Condition 9. In the event that any such deduction is made, the Issuer will, save in certain limited circumstances provided in Condition 9, be required to pay additional amounts to cover the amounts so deducted.

**Negative Pledge:** . . . . . The terms of the Notes will contain a negative pledge provision as further described in Condition 4.

**Cross Acceleration:** . . . . . The terms of the Notes will contain a cross acceleration provision as further described in Condition 11.

**Status of the Notes:** . . . . . The Notes and any relative Receipts and Coupons will constitute direct, unconditional, unsubordinated and (subject to Condition 4) unsecured obligations of the Issuer which will rank *pari passu* among themselves and will rank at least *pari passu* with all other present and future unsecured (subject to Condition 4) and unsubordinated obligations of the Issuer, save for such as may be preferred by mandatory provisions of applicable law.

- Listing:** ..... Approval in-principle has been received from the Singapore Stock Exchange in connection with the Program and application will be made for the listing and quotation of Notes that may be issued pursuant to the Program and which are agreed, at or prior to the time of issue thereof, to be so listed on the Singapore Stock Exchange. Such permission will be granted when such Notes have been admitted for listing and quotation on the Singapore Stock Exchange. The Singapore Stock Exchange assumes no responsibility for the correctness of any of the statements made, opinions expressed or reports contained herein. Approval in—principle from, admission to the Official List of, and listing and quotation of any Notes on, the Singapore Stock Exchange are not to be taken as an indication of the merits of the Issuer, the Program or the Notes. For so long as any Notes are listed on the Singapore Stock Exchange and the rules of the Singapore Stock Exchange so require, such Notes, if traded on the Singapore Stock Exchange, will be traded in a minimum board lot size of S\$200,000 (or its equivalent in foreign currencies). Notes may also be listed on such other or further stock exchange(s) as may be agreed between the Issuer and the relevant Dealer in relation to each Series. The Pricing Supplement relating to each Tranche of Notes will state whether or not and, if so, on which stock exchange(s) the Notes are to be listed. Notes not listed on a stock exchange may also be issued.
- Governing Law:** ..... The Notes, the Program Agreement and the Agency Agreement will be governed by, and construed in accordance with, New York law.
- Selling Restrictions:** ..... There are selling restrictions in relation to the United States, the EEA (including the United Kingdom), Japan, Hong Kong, Singapore, Switzerland, Korea and such other restrictions as may be required in connection with the offering and sale of a particular Tranche of Notes. See “*Subscription and Sale and Transfer and Selling Restrictions*”.

## FORM OF THE NOTES

*This section includes provisions applicable to Rule 144A Global Notes and Definitive IAI Registered Notes in case the Program and the related offering circular are amended to permit such notes to be issued under the Program. The Notes offered or sold pursuant to this offering circular may be offered and sold only outside the United States in reliance on Regulation S under the U.S. Securities Act of 1933, as amended.*

Certain capitalized terms used herein are defined in the “*Terms and Conditions of the Notes*”. Any reference herein to Euroclear (as defined below) and/or Clearstream (as defined below) and/or DTC (as defined below) shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system in the applicable Pricing Supplement.

The Notes of each Series will be in either bearer form, with or without interest coupons attached, or registered form, without interest coupons attached. Bearer Notes will be issued outside the United States in reliance on Regulation S under the Securities Act (“**Regulation S**”) and Registered Notes will be issued both outside the United States in reliance on the exemption from registration provided by Regulation S and within the United States in reliance on Rule 144A or another available exemption from the registration requirements of the Securities Act. Bearer Notes will also be subject to U.S. tax restrictions described below.

### **Bearer Notes**

Each Tranche of Bearer Notes will be initially issued in the form of either a temporary global note (a “**Temporary Global Note**”) or a permanent global note (a “**Permanent Global Note**”) as indicated in the applicable Pricing Supplement, which, in either case, will be delivered on or prior to the original issue date of the Tranche to either (i) a common depositary (the “**Common Depositary**”) for Euroclear Bank S.A./N.V. (“**Euroclear**”) and Clearstream Banking, *société anonyme* (“**Clearstream**”) or (ii) a sub-custodian for the Hong Kong Monetary Authority (“**HKMA**”) as operator of the Central Moneymarkets Unit Service (the “**CMU Service**”). Whilst any Bearer Note is represented by a Temporary Global Note, payments of principal, interest (if any) and any other amount payable in respect of the Notes due prior to the Exchange Date (as defined below) will be made against presentation of the Temporary Global Note only to the extent that certification (in a form to be provided) to the effect that the beneficial owners of interests in such Bearer Note are not U.S. persons or persons who have purchased for resale to any U.S. person, as required by U.S. Treasury regulations, has been received by Euroclear and/or Clearstream and/or The Bank of New York Mellon, Hong Kong Branch (the “**CMU Lodging and Paying Agent**”) and (in the case of a Temporary Global Note delivered to the Common Depositary for Euroclear and Clearstream) Euroclear and/or Clearstream, as applicable, has given a like certification (based on the certifications it has received) to the Issuing and Paying Agent.

On and after the date (the “**Exchange Date**”) which is 40 days after a Temporary Global Note is issued, interests in such Temporary Global Note will be exchangeable (free of charge) upon a request as described therein either for (i) interests in a Permanent Global Note of the same Series or (ii) for definitive Bearer Notes of the same Series with, where applicable, receipts, interest coupons and talons attached (as indicated in the applicable Pricing Supplement and subject, in the case of definitive Bearer Notes, to such notice period as is specified in the applicable Pricing Supplement), in each case against certification of beneficial ownership as described above unless such certification has already been given, provided that purchasers in the United States and certain U.S. persons will not be able to receive definitive Bearer Notes. The CMU Service may require that any such exchange for a Permanent Global Note is made in whole and not in part and in such event, no such exchange will be effected until all relevant account holders (as set out in a CMU Instrument Position Report (as defined in the rules of the CMU Service) or any other relevant notification supplied to the CMU Lodging and Paying Agent by the CMU Service) have so certified. The holder of a Temporary Global Note will not be entitled to collect any payment of interest, principal or other amount due on or after the Exchange Date unless, upon due certification, exchange of the Temporary Global Note for an interest in a Permanent Global Note or for definitive Bearer Notes is improperly withheld or refused.

Payments of principal, interest (if any) or any other amounts on a Permanent Global Note (if not held through the CMU Service) will be made through Euroclear and/or Clearstream against presentation or surrender (as the case may be) of the Permanent Global Note without any requirement for certification.

In respect of a Bearer Global Note held through the CMU Service, any payments of principal, interest (if any) or any other amounts shall be made to the person(s) for whose account(s) interests in the relevant Bearer Global Note are credited (as set out in a CMU Instrument Position Report or any other relevant notification supplied to the CMU Lodging and Paying Agent by the CMU Service) and save in the case of final payment, no presentation of the relevant Bearer Global Note shall be required for such purpose.



The applicable Pricing Supplement will specify that a Permanent Global Note will be exchangeable (free of charge), in whole but not in part, for definitive Notes with, where applicable, receipts, interest coupons and talons attached upon the occurrence of an Exchange Event. For these purposes, “**Exchange Event**” means that (i) an Event of Default (as defined in Condition 11) has occurred and is continuing, (ii) the Issuer has been notified that Euroclear and/or Clearstream have been or, in the case of Notes held through the CMU Service, the CMU Service has been, closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and no alternative clearing system is available or (iii) the Issuer has or will become obliged to pay additional amounts as provided for or referred to in Condition 9 which would not be required were the Notes represented by the Permanent Global Note in definitive form (provided that, in certain circumstances where the Notes are held through Euroclear and/or Clearstream, and/or the CMU Service, such adverse tax consequences are as a result of a change in, or amendment to, the laws or regulation (taxation or otherwise) in, or of, Korea). The Issuer will promptly give notice to Noteholders and the relevant agents in accordance with Condition 15 if an Exchange Event occurs. In the event of the occurrence of an Exchange Event, in the case of Notes held by a Common Depositary for Euroclear and/or Clearstream, Euroclear and/or Clearstream (acting on the instructions of any holder of an interest in such Permanent Global Note) and/or, in the case of Notes held through the CMU Service, the relevant account holders therein, may give notice to the Issuing and Paying Agent or, as the case may be, the CMU Lodging and Paying Agent, requesting exchange and, in the event of the occurrence of an Exchange Event as described in (iii) above, the Issuer may also give notice to the Issuing and Paying Agent or, as the case may be, the CMU Lodging and Paying Agent, requesting exchange. Any such exchange shall occur not later than 45 days after the date of receipt of the first relevant notice by the Issuing and Paying Agent or, as the case may be, the CMU Lodging and Paying Agent.

The following legend will appear on all Bearer Notes which have an original maturity of more than 365 days and on all receipts and interest coupons relating to such Notes:

“ANY U.S. PERSON WHO HOLDS THIS OBLIGATION WILL BE SUBJECT TO LIMITATIONS UNDER THE UNITED STATES INCOME TAX LAWS, INCLUDING THE LIMITATIONS PROVIDED IN SECTIONS 165(j) AND 1287(a) OF THE INTERNAL REVENUE CODE.”

The sections referred to provide that U.S. holders, with certain exceptions, will not be entitled to deduct any loss on Bearer Notes, receipts or interest coupons and will not be entitled to capital gains treatment of any gain on any sale, disposition, redemption or payment of principal in respect of such Notes, receipts or interest coupons.

Notes which are represented by a Bearer Global Note will only be transferable in accordance with the rules and procedures for the time being of Euroclear or Clearstream, or the CMU Service, as the case may be.

### **Registered Notes**

The Registered Notes of each Tranche offered and sold in reliance on Regulation S, which will be sold outside the United States, will initially be represented by a global note in registered form (a “**Regulation S Global Note**”). To the extent Category 2 is applicable at the time of the offering pursuant to Rule 903 under Regulation S, prior to expiry of the distribution compliance period (as defined in Regulation S) applicable to each Tranche of Notes, beneficial interests in a Regulation S Global Note may not be offered or sold to, or for the account or benefit of, a U.S. person save as otherwise provided in Condition 2 and may not be held otherwise than through Euroclear or Clearstream or the CMU Service and such Regulation S Global Note will bear a legend regarding such restrictions on transfer.

The Registered Notes of each Tranche may only be offered and sold in the United States or to U.S. persons in private transactions (i) to “qualified institutional buyers” within the meaning of Rule 144A under the Securities Act (“**QIBs**”) or (ii) to “accredited investors” (as defined in Rule 501(a)(1), (2), (3) or (7) under the Securities Act that are institutions (“**Institutional Accredited Investors**”) who agree to purchase the Notes for their own account and not with a view to the distribution thereof. The Registered Notes of each Tranche sold to QIBs will be represented by a restricted permanent global note in registered form (a “**Restricted Global Note**”) and, together with a Regulation S Global Note, the “**Registered Global Notes**”).

Registered Global Notes will be deposited with either (i) a custodian for, and registered in the name of a nominee of, the Depositary Trust Company (“**DTC**”) for the accounts of Euroclear and Clearstream, (ii) a common depositary for, and registered in the name of a common nominee of, Euroclear and Clearstream or (iii) a

sub-custodian for the HKMA as operator of the CMU Service, in each case, as specified in the applicable Pricing Supplement. Persons holding beneficial interests in Registered Global Notes will be entitled or required, as the case may be, under the circumstances described below, to receive physical delivery of definitive Notes in fully registered form.

The Registered Notes of each Tranche sold to Institutional Accredited Investors will be in definitive form, registered in the name of the holder thereof (“**Definitive IAI Registered Notes**”). Unless otherwise set forth in the applicable Pricing Supplement, Definitive IAI Registered Notes will be issued only in minimum denominations of U.S.\$500,000 and integral multiples of U.S.\$1,000 in excess thereof (or the approximate equivalents in the applicable Specified Currency). Definitive IAI Registered Notes will be subject to the restrictions on transfer set forth therein and will bear the restrictive legend described under “*Subscription and Sale and Transfer and Selling Restrictions*.” Institutional Accredited Investors that hold Definitive IAI Registered Notes may not hold such Notes through DTC, Euroclear, Clearstream or the CMU Service, but transferees acquiring the Notes in transactions exempt from Securities Act registration pursuant to Regulation S or Rule 144 under the Securities Act (if available) may elect to do so upon satisfaction of the requirements applicable to such transfer as described under “*Subscription and Sale and Transfer and Selling Restrictions*.” The Restricted Global Note and the Definitive IAI Registered Notes will be subject to certain restrictions on transfer set forth therein and will bear a legend regarding such restrictions.

Payments of principal, interest and any other amount in respect of the Registered Global Notes will, in the absence of provision to the contrary, be made to the person shown on the Register (as defined in Condition 1) as the registered holder of the Registered Global Notes. None of the Issuer, any Paying Agent or the Registrar will have any responsibility or liability for any aspect of the records relating to or payments or deliveries made on account of beneficial ownership interests in the Registered Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

Payments of principal, interest or any other amount in respect of the Registered Notes in definitive form will, in the absence of provision to the contrary, be made to the persons shown on the Register on the relevant Record Date (as defined in Condition 7(a)) immediately preceding the due date for payment in the manner provided in that Condition.

Interests in a Registered Global Note will be exchangeable (free of charge), in whole but not in part, for definitive Registered Notes without receipts, interest coupons or talons attached only upon the occurrence of an Exchange Event. For these purposes, “**Exchange Event**” means that (i) an Event of Default has occurred and is continuing, (ii) in the case of Notes registered in the name of a nominee for DTC, either DTC has notified the Issuer that it is unwilling or unable to continue to act as depository for the Notes and no alternative clearing system is available or DTC has ceased to constitute a clearing agency registered under the Exchange Act, (iii) in the case of Notes registered in the name of a nominee for a common depository for Euroclear and Clearstream, the Issuer has been notified that both Euroclear and Clearstream have and, in the case of Notes held through the CMU Service, the Issuer has been notified that the CMU Service has, been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and, in any such case, no successor clearing system is available or (iv) the Issuer has or will become subject to adverse tax consequences which would not be suffered were the Notes represented by the Registered Global Note in definitive form. The Issuer will promptly give notice to Noteholders and the relevant agents in accordance with Condition 15 if an Exchange Event occurs. In the event of the occurrence of an Exchange Event, (i) in the case of Notes registered in the name of a nominee for DTC or a nominee for a Common Depository for Euroclear and/or Clearstream, DTC, Euroclear and/or Clearstream (acting on the instructions of any holder of an interest in such Registered Global Note) and/or (ii) in the case of Notes held through the CMU Service, the relevant account holders therein, may give notice to the Registrar, or as the case may be, the CMU Lodging and Paying Agent requesting exchange and, in the event of the occurrence of an Exchange Event as described in (iv) above, the Issuer may also give notice to the Registrar or, as the case may be, the CMU Lodging and Paying Agent requesting exchange. Any such exchange shall occur not later than 10 days after the date of receipt of the first relevant notice by the Registrar or, as the case may be, the CMU Lodging and Paying Agent.

### **Transfer of Interests**

Interests in a Registered Global Note may, subject to compliance with all applicable restrictions, be transferred to a person who wishes to hold such interest in another Registered Global Note or in the form of a Definitive IAI Registered Note and Definitive IAI Registered Notes may, subject to compliance with all



applicable restrictions, be transferred to a person who wishes to hold such Notes in the form of an interest in a Registered Global Note. No beneficial owner of an interest in a Registered Global Note will be able to transfer such interest, except in accordance with the applicable procedures of DTC, Euroclear and Clearstream and the CMU Service, in each case to the extent applicable. Registered Notes are also subject to the restrictions on transfer set forth therein and will bear a legend regarding such restrictions, see “*Subscription and Sale and Transfer and Selling Restrictions.*”

## **CMU Notes**

Unless otherwise specified in the applicable Pricing Supplement, CMU Notes will initially be issued in registered form and represented by a global certificate registered in the name of HKMA, in its capacity as operator of the CMU Service. Certain special provisions apply to such CMU Notes. See “*Book-Entry Clearance Systems — CMU Notes.*”

## **General**

Pursuant to the Agency Agreement (as defined under “*Terms and Conditions of the Notes*”), the Issuing and Paying Agent or the CMU Lodging and Paying Agent, as the case may be, shall arrange that, where a further Tranche of Notes is issued which is intended to form a single Series with an existing Tranche of Notes, the Notes of such further Tranche shall be assigned a common code and ISIN and, where applicable, a CUSIP and CINS number and/or CMU instrument number which are different from the common code, ISIN, CUSIP, CINS and CMU instrument number assigned to Notes of any other Tranche of the same Series until at least the expiry of the distribution compliance period applicable to the Notes of such Tranche.

For so long as any of the Notes is represented by a Global Note held on behalf of Euroclear, Clearstream and/or the CMU Service, each person (other than Euroclear, Clearstream or the CMU Service) who is for the time being shown in the records of Euroclear, Clearstream or the CMU Service as the holder of a particular nominal amount of such Notes (in which regard any certificate or other document issued by Euroclear, Clearstream and/or the CMU Service as to the nominal amount of such Notes standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be treated by the Issuer and its agents as the holder of such nominal amount of such Notes for all purposes other than with respect to the payment of principal or interest on such nominal amount of such Notes, for which purpose the bearer of the relevant Bearer Global Note or the registered holder of the relevant Registered Global Note shall be treated by the Issuer and its agents as the holder of such nominal amount of such Notes in accordance with and subject to the terms of the relevant Global Note, and the expressions “**Noteholder**” and “**holder of Notes**” and related expressions shall be construed accordingly. Notwithstanding the above, if a Note is held through the CMU Service, any payment that is made in respect of such Note shall be made at the direction of the bearer or the registered holder to the person(s) for whose account(s) interests in such Note are credited as being held through the CMU Service in accordance with the CMU Rules at the relevant time as notified to the CMU Lodging and Paying Agent by the CMU Service in a relevant CMU Instrument Position Report or any other relevant notification by the CMU Service (which notification, in either case, shall be conclusive evidence of the records of the CMU Service as to the identity of any accountholder and the principal amount of any Note credited to its account, save in the case of manifest error) and such payments shall discharge the obligation of the Issuer in respect of that payment under such Note.

So long as DTC or its nominee is the registered owner or holder of a Registered Global Note, DTC or such nominee, as the case may be, will be considered the sole owner or holder of the Notes represented by such Registered Global Note for all purposes under the Agency Agreement and such Notes except to the extent that in accordance with DTC’s published rules and procedures any ownership rights may be exercised by its participants or beneficial owners through participants.

Any reference herein to Euroclear and/or Clearstream and/or DTC and/or the CMU Service shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in the applicable Pricing Supplement.

A Note may be accelerated by the holder thereof in certain circumstances described in Condition 11. In such circumstances, where any Note is still represented by a Global Note and the Global Note (or any part thereof) has become due and repayable in accordance with the Terms and Conditions of such Notes and payment in full of the amount due has not been made in accordance with the provisions of the Global Note then holders of interests in such Global Note credited to their accounts with Euroclear and/or Clearstream and/or DTC and/or the CMU

Service, as the case may be, will become entitled to proceed directly against the Issuer on the basis of statements of account provided by Euroclear, Clearstream, DTC and the CMU Service on and subject to the terms of the Agency Agreement. In addition, holders of interests in such Global Note credited to their accounts with DTC may require DTC to deliver Definitive Notes in registered form in exchange for their interest in such Global Note in accordance with DTC's standard operating procedures.

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

## Form of Pricing Supplement

**[IMPORTANT — PROHIBITION OF SALES TO EEA RETAIL INVESTORS —** The Notes are not intended to be offered, sold or otherwise made available to, and should not be offered, sold or otherwise made available to, any retail investor in the European Economic Area (the “**EEA**”). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (“**MiFID II**”); (ii) a customer within the meaning of Directive 2002/92/EC, 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. Consequently, no key information document required by Regulation (EU) No 1286/2014 (the “**PRIIPs Regulation**”) for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes of such Tranche or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.]

**[MiFID II PRODUCT GOVERNANCE/TARGET MARKET —** Solely for the purposes of [the/each] manufacturer’s product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is eligible counterparties and professional clients only, each as defined in Directive 2014/65/EU (as amended, “**MiFID II**”); and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Notes (a “**distributor**”) should take into consideration the manufacturer[’s/s’] target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturer[’s/s’] target market assessment) and determining appropriate distribution channels.]

**[Notification under Section 309B(1)(c) of the Securities and Futures Act, Chapter 289 of Singapore (the “SFA”)] —** the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA) that the Notes are [prescribed capital markets products [OR] capital markets products other than prescribed capital markets products] (as defined in the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore) and [Excluded Investment Products [OR] Specified Investment Products] (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).]

Set out below is the form of Pricing Supplement which will be completed for each Tranche of Notes issued under the Program.

**[Date]**

# KOREA RAILROAD CORPORATION

**Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes]**

**Issued Pursuant to the U.S.\$2,000,000,000 Medium Term Note Program**

This document constitutes the Pricing Supplement relating to the issue of Notes described herein. Terms used herein shall be deemed to be defined as such for the purposes of the Terms and Conditions of the Notes set forth in the Offering Circular dated August 28, 2018 as amended or supplemented from time to time (the “**Offering Circular**”). This Pricing Supplement contains the final terms of the Notes and must be read in conjunction with the Offering Circular. Full information on the Issuer and the offer of the Notes is only available on the basis of this Pricing Supplement and the Offering Circular.

The Notes have not been registered with the Financial Services Commission of Korea under the Financial Investment Services and Capital Markets Act of Korea. Accordingly, the Notes may not be offered, delivered, or sold directly or indirectly in Korea or to any resident of Korea (as defined in the Foreign Exchange Transaction Law of Korea and the regulations thereunder) or to others for re-offering or resale directly or indirectly in Korea or to any resident of Korea except as otherwise permitted under applicable Korean laws and regulations.

*[The following alternative language applies if the first tranche of an issue which is being increased was issued under an Offering Circular with an earlier date.]*

Terms used herein shall be deemed to be defined as such for the purposes of the Terms and Conditions of the Notes (the “**Conditions**”) set forth in the Offering Circular dated [original date]. This Pricing Supplement

contains the final terms of the Notes and must be read in conjunction with the Offering Circular dated August 28, 2018, save in respect of the Conditions which are extracted from the Offering Circular dated [original date] and are attached hereto. Full information on the Issuer and the offer of the Notes is only available on the basis of this Pricing Supplement and such Offering Circulars.]

*[Include whichever of the following apply or specify items as “not applicable” (N/A). Note that the numbering should remain as set out below, even if “Not Applicable” is indicated for individual paragraphs or sub-paragraphs. Italics denote directions for completing the Pricing Supplement.]*

*[If the Notes have a maturity of less than one year from the date of their issue, the minimum denomination may need to be £100,000 or its equivalent in any other currency.]*

1. Issuer: Korea Railroad Corporation (Legal Entity Identifier: 988400HIXNKLSIY4ND32)
2. (i) Series Number: [ ]  
(ii) Tranche Number: [ ]  
*(If re-opening fungible with an existing Series, details of that Series, including the date on which the Notes become fungible)*  
(iii) Re-opening: [Yes/No] *(Specify terms of initial or eventual fungibility)*
3. Specified Currency or Currencies: [ ]
4. Aggregate Nominal Amount:  
(i) Tranche: [ ]  
(ii) Series: [ ]
5. [(i)] Issue Price of Tranche: [ ] per cent. of the Aggregate Nominal Amount [plus accrued interest from [insert date] *(in the case of fungible re-opening issues only, if applicable).*  
[(ii)] Net Proceeds: [ ]  
*(Required only for listed issues)]*  
[(iii)] Use of Proceeds: [ ]
6. (i) Specified Denominations: [ ]  
*(in the case of Registered Notes, this means the minimum integral amount in which transfers can be made)* *(N.B. Following the entry into force of the amendments made by Directive 2010/73/EU to the Prospectus Directive (Directive 2003/71/EC) (the “2010 PD Amending Directive”) on December 31, 2010, Notes to be admitted to trading on a regulated market within the European Economic Area must have a minimum denomination of €100,000 (or equivalent) in order to benefit from Transparency Directive exemptions in respect of wholesale securities. Similarly, Notes must have a minimum denomination of €100,000 (or equivalent) in order to benefit from the wholesale exemption set out in Article 3.2(d) of the Prospectus Directive in that Member State.)*  
*(N.B. Where Bearer Notes with multiple denominations above U.S.\$200,000 or equivalent are being used, the following sample wording should be followed:*  
*“U.S.\$200,000 and integral multiples of U.S.\$1,000 in excess thereof up to and including U.S.\$399,000. No Notes in definitive form will be issued with a denomination above U.S.\$399,000.”)*  
*(N.B. If an issue of Notes is (i) NOT admitted to trading on a European Economic Area exchange; and (ii) only offered in the European Economic Area in circumstances where a*

*prospectus is not required to be published under the Prospectus Directive, the €100,000 minimum denomination is not required.)*

- (ii) Calculation Amount: [ ]
- (If there is only one Specified Denomination, insert the Specified Denomination. If there is more than one Specified Denomination, insert the highest common factor. Note: There must be a common factor in the case of two or more Specified Denominations.)*
7. (i) Issue Date: [ ]
- (ii) Interest Commencement Date: [specify/Issue Date/Not Applicable] (N.B. An Interest Commencement Date will not be relevant for certain Notes, for example Zero Coupon Notes.)
8. Maturity Date: [Fixed rate — specify date/Floating rate — Interest Payment Date falling in or nearest to [specify month and year]]
9. Interest Basis: [[ ] per cent. Fixed Rate]
- [LIBOR/EURIBOR/HIBOR] +/- [ ] per cent. Floating Rate]
- [Zero Coupon]
- [Dual Currency Interest]
- [specify other]
- (further particulars specified below)
10. Redemption/Payment Basis: [Redemption at par]
- [Dual Currency Redemption] [Partly Paid]
- [Installment]
- [specify other]
11. Change of Interest Basis or Redemption/Payment Basis: [Specify details of any provision for change of Notes into another Interest Basis or Redemption/Payment Basis]
12. Put/Call Options: [Investor Put]
- [Issuer Call]
- [(further particulars specified below)]
13. (i) Status of the Notes: Senior
- (ii) Date of [Board] approval for issuance of Notes obtained: [ ]/[None required]
- (N.B. Only relevant where Board (or similar) authorization is required for the particular tranche of Notes.)*
- (iii) Date of regulatory approval/consent for issuance of Notes obtained: [ ]/[None required]
- (N.B. Only relevant where Board (or similar) authorization is required for the particular tranche of Notes)*
14. Listing: [Singapore Exchange Securities Trading Limited/specify other/None]
- (N.B. Consider disclosure requirements under the EU Prospectus Directive applicable to securities admitted to an EU regulated market.)*
15. Method of distribution: [Syndicated/Non-syndicated]

## PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

16. Fixed Rate Note Provisions: [Applicable/Not Applicable]  
*(If not applicable, delete the remaining sub-paragraphs of this paragraph.)*
- (i) Rate[(s)] of Interest: [ ] per cent. per annum [payable [annually/ semi-annually/ quarterly/monthly] in arrear]  
*(If payable other than annually, consider amending Condition 6.)*
- (ii) Interest Payment Date(s): [[ ] in each year up to and including the Maturity Date]/ [specify other]  
*(N.B. This will need to be amended in the case of long or short coupons.)*
- (iii) Fixed Coupon Amount(s): [[ ] per Calculation Amount]/[As per Condition 6(a)(II)]  
*(Applicable to Notes in definitive form)*
- (iv) Broken Amount(s): [[ ] per Calculation Amount, payable on the Interest Payment Date falling [in/on] [ ]]/[As per Condition 6(a)(II)]  
*(Applicable to Notes in definitive form)*
- (v) Day Count Fraction: [30/360 or Actual/Actual (ICMA) or specify other]/[Not applicable] *(Applicable if Condition 6(a)(I) is specified as being applicable in paragraph 16(viii).)*
- (vi) Determination Date(s): [ ] in each year  
*[Insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon. N.B.: This will need to be amended in the case of regular interest payment dates which are not of equal duration. N.B. Only relevant where Day Count Fraction is Actual/Actual (ICMA).]*
- (vii) Business Day Convention: [Following Business Day Convention] [Other]
- (viii) Other terms relating to the method of calculating interest for Fixed Rate Notes: [Condition 6(a)(I) applies/Condition 6(a)(II) applies. The Issuing and Paying Agent will act as the Calculation Agent/ None/Give details]
17. Floating Rate Note Provisions: [Applicable/Not Applicable]  
*(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
- (i) Specified Period(s)/Interest Payment Dates: [ ]
- (ii) Business Day Convention: [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/ Preceding Business Day Convention/[specify other]]
- (iii) Additional Business Center(s): [ ] (Insert New York City for U.S. dollar denominated Notes to be held through DTC and for non-U.S. dollar denominated Notes where exchange into U.S. dollars is contemplated for DTC participants holding through Euroclear and Clearstream)
- (iv) Manner in which the Rate of Interest and Interest Amount is to be determined: [Screen Rate Determination/ISDA Determination/specify other]
- (v) Party responsible for calculating the Rate of Interest and Interest Amount (if not the Issuing and Paying Agent): [ ]





19. Dual Currency Note Provisions: [Applicable/Not Applicable]  
*(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
- (i) Rate of Exchange/method of calculating Rate of Exchange: [give details]
  - (ii) Party, if any, responsible for calculating the principal and/or interest payable (if not the Issuing and Paying Agent): [ ]
  - (iii) Provisions applicable where calculation by reference to Rate of Exchange impossible or impracticable: [need to include a description of market disruption or settlement disruption events and adjustment provisions]
  - (iv) Person at whose option Specified Currency(ies) is/are payable: [ ]

## PROVISIONS RELATING TO REDEMPTION

20. Issuer Call: [Applicable/Not Applicable]  
*(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
- (i) Optional Redemption Date(s): [ ]
  - (ii) Optional Redemption Amount of each Note and method, if any, of calculation of such amount(s): [[ ] per Calculation Amount/specify other/see Appendix]
  - (iii) If redeemable in part:
    - (a) Minimum Redemption Amount: [ ]
    - (b) Maximum Redemption Amount: [ ]
  - (iv) Notice period (if other than as set out in the Conditions): [ ]
- (N.B. If setting notice periods which are different to those provided in the Conditions, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Issuing and Paying Agent.)*
21. Investor Put: [Applicable/Not Applicable]  
*(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
- (i) Optional Redemption Date(s): [ ]
  - (ii) Optional Redemption Amount of each Note and method, if any, of calculation of such amount(s): [[ ] per Calculation Amount/specify other/see Appendix]
  - (iii) Notice period (if other than as set out in the Conditions): [ ]
- (N.B. If setting notice periods which are different to those provided in the Conditions, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Issuing and Paying Agent.)*



22. Final Redemption Amount of each Note: [[ ] per Calculation Amount/specify other/see Appendix]
23. Early Redemption Amount of each Note payable on redemption for taxation reasons or on event of default and/or the method of calculating the same (if required or if different from that set out in Condition 7(e)): [[ ] per Calculation Amount/specify other/see Appendix]

#### GENERAL PROVISIONS APPLICABLE TO THE NOTES

24. Form of Notes: [Bearer Notes:  
  
[Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Bearer Notes only upon an Exchange Event]  
  
[Temporary Global Note exchangeable for Definitive Bearer Notes on and after the Exchange Date]  
  
[Permanent Global Note exchangeable for Definitive Bearer Notes only upon an Exchange Event]]  
  
[Registered Notes:  
  
Regulation S Global Note (U.S.\$[ ] nominal amount) registered in the name of a nominee for [DTC/a common depositary for Euroclear and Clearstream[/held through the CMU Service]]/ Restricted Global Note (U.S.\$[ ] nominal amount) registered in the name of a nominee for [DTC/a common depositary for Euroclear and Clearstream[/held through the CMU Service]]/Definitive IAI Registered Notes (specify nominal amounts)]  
  
(Ensure that this is consistent with the language in the “Form of the Notes” section in the Offering Circular and the Notes themselves)
25. Additional Financial Center(s) or other special provisions relating to Payment Dates: [Not Applicable/give details]  
(Note that this item relates to the place of payment and not Interest Period end dates to which item 17(iii) relates; insert New York City for U.S. dollar denominated Notes to be held through DTC.)
26. Talons for future Coupons or Receipts to be attached to Definitive Bearer Notes (and dates on which such Talons mature): [Yes/No. If yes, give details]
27. Details relating to Partly Paid Notes: amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences of failure to pay, including any right of the Issuer to forfeit the Notes and interest due on late payment: [Not Applicable/give details]  
(N.B. New forms of Global Note(s) may be required for Partly Paid issues.)
28. Details relating to Installment Notes:
- (i) Installment Amount(s): [Not Applicable/give details]
- (ii) Installment Date(s): [Not Applicable/give details]
29. Redenomination applicable: Redenomination [not] applicable  
(If Redenomination is applicable, specify the applicable Day Count Fraction and any provisions necessary to deal with floating rate interest calculation (including alternative reference rates))
30. Other terms or special conditions: [Not Applicable/give details]

## DISTRIBUTION

31. (i) If syndicated, names of Managers: [Not Applicable/*give names*]  
(ii) Stabilizing Manager (if any): [Not Applicable/*give name*]
32. If non-syndicated, name of relevant Dealer: [ ]
33. U.S. Selling Restrictions: [Reg. S Category 1/2]; [TEFRA D/TEFRA C/TEFRA not applicable]
34. Prohibition of Sales to EEA Retail Investors: [Applicable/Not Applicable]
35. Additional selling restrictions: [Not Applicable/*give details*]

## OPERATIONAL INFORMATION

36. Any clearing system(s) other than Euroclear and Clearstream and the relevant identification number(s): [[CMU Service]/Not Applicable/*give name(s) and number(s)*]
37. Delivery: Delivery [against/free of] payment
38. In the case of Registered Notes, specify the location of the office of the Registrar if other than New York:] [Not Applicable/[Luxembourg]/Hong Kong]
39. Additional Paying Agent(s) (if any): [ ]

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ISIN: [ ]

Common Code: [ ]

*(insert here any other relevant codes such as CUSIP, CINS codes [and a CMU instrument number])*

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*[If a private banking rebate is paid, include the following: “We have agreed with the [Dealers/Managers] that we will pay a commission to certain private banks in connection with the distribution of the Notes to their clients. This commission will be based on the principal amount of the Notes so distributed, and may be deducted from the purchase price for the Notes payable by such private banks upon settlement.”]*

## NOTICE TO INVESTORS

The Issuer is a government-controlled judicial entity established pursuant to The Korea Railroad Corporation Act of 2005, as amended, and is required under the Act on the Management of Public Agencies and regulations thereunder to publicly disclose its annual financial statements and management information, subject to certain limitations according to public or national security interest. However, as there is no obligation under Korean law for the Issuer to prepare such information in English, there is limited publicly available information about the Issuer in English.

## [LISTING APPLICATION

This Pricing Supplement comprises the final terms required to list the issue of Notes described herein pursuant to the U.S.\$2,000,000,000 Medium Term Note Program of Korea Railroad Corporation.]

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

## RESPONSIBILITY

The Issuer accepts responsibility for the information contained in this Pricing Supplement. Signed on behalf of the Issuer:

By: \_\_\_\_\_  
*Duly authorized*

If the relevant Pricing Supplement relating to a Tranche of Notes specifies any modification to the Terms and Conditions of the Notes as described herein, it is envisaged that, to the extent that such modification relates only to Conditions 1, 2, 6, 7, 8 (except Condition 8(b)), 12, 13, 14, 15 (insofar as such Notes are not listed or admitted to trade on any stock exchange) or 17, they will not necessitate the preparation of a supplementary Offering Circular. If the Terms and Conditions of the Notes of any Series are to be modified in any other respect, a supplementary Offering Circular or a further Offering Circular describing the modification will be prepared, if appropriate.

## TERMS AND CONDITIONS OF THE NOTES

*The following are the Terms and Conditions of the Notes to be issued by the Issuer which will be incorporated by reference into each global Note and each definitive Note, in the latter case only if permitted by the relevant stock exchange (if any) and agreed by the Issuer and the relevant Dealer at the time of issue but if not so permitted and agreed, such definitive Note will have endorsed thereon or attached thereto such Terms and Conditions. The applicable Pricing Supplement in relation to any Tranche of Notes may specify other terms and conditions which shall to the extent so specified or to the extent inconsistent with the following Terms and Conditions, replace or modify the following Terms and Conditions for the purpose of such Notes. The applicable Pricing Supplement (or the relevant provisions thereof) will be endorsed upon, or attached to, each Temporary Global Note, Permanent Global Note, Regulation S Global Note, Restricted Global Note and definitive Note. Reference should be made to “Form of the Notes” above for a description of the content of Pricing Supplements which will specify which of such terms are to apply in relation to the relevant Notes.*

This Note is one of a Series (as defined below) of Notes issued by Korea Railroad Corporation (the “**Issuer**”).

References herein to the “**Notes**” shall be references to the Notes of this Series and shall mean;

- (i) in relation to any Notes represented by a global Note (a “**Global Note**”), units of the lowest Specified Denomination in the Specified Currency;
- (ii) definitive Notes in bearer form (“**Bearer Notes**”) issued in exchange (or part exchange) for a Global Note;
- (iii) any Global Note;
- (iv) in relation to any Notes represented by definitive Notes in registered form (“**Definitive Registered Notes**”), units of the lowest Specified Denomination in the Specified Currency; and
- (v) any Definitive Registered Notes.

The Notes, the Receipts (as defined below) and the Coupons (as defined below) have the benefit of the Agency Agreement dated August 28, 2018 (as amended, restated or supplemented, the “**Agency Agreement**”) and made between, the Issuer, The Bank of New York Mellon, London Branch, as issuing and paying agent (the “**Issuing and Paying Agent**,” which expression shall include any successor issuing and paying agent) and calculation agent (the “**Calculation Agent**”), The Bank of New York Mellon SA/NV, Luxembourg Branch, as registrar with respect to Notes held through Euroclear and Clearstream, The Bank of New York Mellon, as registrar with respect to Notes held through DTC, The Bank of New York Mellon, Hong Kong Branch, as registrar with respect to Notes held through CMU (the relevant “**Registrar**,” which expression shall include any successor registrar) and The Bank of New York Mellon SA/NV, Luxembourg Branch, as the transfer agent with respect to Notes held through Euroclear and Clearstream, The Bank of New York Mellon, as transfer agent with respect to Notes held through DTC, The Bank of New York Mellon, Hong Kong Branch, as transfer agent with respect to Notes held through CMU (the relevant “**Transfer Agents**,” which expression shall include any successor or any additional transfer agents appointed in accordance with the Agency Agreement), The Bank of New York Mellon, as DTC paying agent (the “**DTC Paying Agent**,” which expression shall include any successor or any additional DTC paying agent appointed from time to time), The Bank of New York Mellon, Hong Kong Branch, as CMU lodging and paying agent (the “**CMU Lodging and Paying Agent**,” which expression shall include any successor or any additional CMU lodging and paying agents appointed from time to time) (together with the Issuing and Paying Agent and the DTC Paying Agent, the “**Paying Agents**,” which expression shall, unless the context otherwise requires, include any successor or any additional paying agents appointed in accordance with the Agency Agreement). For purposes of these Terms and Conditions, all references to the Issuing and Paying Agent and the Registrar shall, with respect to a Series of Notes to be held in the CMU Service (as defined below), be deemed to be a reference to the CMU Lodging and Paying Agent and all such references shall be construed accordingly.

Interest bearing definitive Bearer Notes (unless otherwise indicated in the applicable Pricing Supplement) have interest coupons (“**Coupons**”) and, if indicated in the applicable Pricing Supplement, talons for further Coupons (“**Talons**”) attached on issue. Any reference herein to Coupons or coupons shall, unless the context otherwise requires, be deemed to include a reference to Talons or talons. Definitive Bearer Notes repayable in installments have receipts (“**Receipts**”) for the payment of the installments of principal (other than the final installment) attached on issue. Definitive Registered Notes do not have Receipts or Coupons attached on issue.

The Pricing Supplement for this Note (or the relevant provisions thereof) is attached to or endorsed on this Note and supplements these Terms and Conditions and may specify other terms and conditions which shall, to the

extent so specified or to the extent inconsistent with these Terms and Conditions, replace or modify these Terms and Conditions for the purposes of this Note. References to the “**applicable Pricing Supplement**” are to the Pricing Supplement (or the relevant provisions thereof) attached to or endorsed on this Note.

Any reference to “**Noteholders**” shall mean (in the case of Bearer Notes) the holders of the Notes and (in the case of Registered Notes) the persons in whose name the Notes are registered, and shall, in relation to any Notes represented by a Global Note, be construed as provided below. Any reference herein to “**Receiptholders**” shall mean the holders of the Receipts and any reference herein to “**Couponholders**” shall mean the holders of any Coupons, and shall, unless the context otherwise requires, include the holders of any Talons.

As used herein, “**Tranche**” means Notes which are identical in all respects (including as to listing) and “**Series**” means a Tranche of Notes together with any further Tranche or Tranches of Notes which are (i) expressed to be consolidated and form a single series and (ii) identical in all respects (including as to listing) except for their respective Issue Dates, Interest Commencement Dates and/or Issue Prices.

Copies of the Agency Agreement and the Pricing Supplement applicable to this Note are available for inspection during normal business hours at the specified office of the Paying Agents save that, if this Note is an unlisted Note of any Series, the applicable Pricing Supplement will only be available to a Noteholder holding one or more unlisted Notes of that Series and such Noteholder must produce evidence satisfactory to the relevant Paying Agent as to its holding of Notes and as to identity. The Noteholders, the Receiptholders and the Couponholders are deemed to have notice of, and are entitled to the benefit of, all the provisions of the Agency Agreement and the applicable Pricing Supplement which are applicable to them.

Words and expressions defined in the Agency Agreement or used in the applicable Pricing Supplement shall have the same meanings where used in these Terms and Conditions unless the context otherwise requires or unless otherwise stated and provided that, in the event of inconsistency between the Agency Agreement and the applicable Pricing Supplement or these Terms and Conditions and the applicable Pricing Supplement, the applicable Pricing Supplement will prevail.

## **1. Form, Denomination and Title**

The Notes may be in bearer form or in registered form and, in the case of definitive Notes, will be serially numbered, in the Specified Currency and the Specified Denomination(s). Save as provided in Condition 2 (*Exchange and Transfers of Registered Notes*), Notes of one Specified Denomination may not be exchanged for Notes of another Specified Denomination and Bearer Notes may not be exchanged for Registered Notes and vice versa.

This Note may be a Fixed Rate Note, a Floating Rate Note, a Zero Coupon Note, an Installment Note, a Dual Currency Note or a Partly Paid Note or a combination of any of the foregoing, depending upon the Interest/Payment Basis shown in the applicable Pricing Supplement.

Each Tranche of Bearer Notes will be initially represented by a temporary global Note without Receipts, Coupons or Talons attached (each, a “**Temporary Global Note**”) which will be delivered to a common depository for Euroclear Bank SA/NV (“**Euroclear**”) and Clearstream Banking S.A. (“**Clearstream**”) and/or a sub-custodian for the Central Moneymarkets Unit Service (the “**CMU Service**”) operated by the Hong Kong Monetary Authority (the “**HKMA**”). On or after the date which is 40 days after the Issue Date beneficial interests in a Temporary Global Note will be exchangeable upon a request as described therein either for interests in a permanent global Note without Receipts, Coupons or Talons (each, a “**Permanent Global Note**”) or for definitive Bearer Notes (as indicated in the applicable Pricing Supplement and subject, in the case of definitive Bearer Notes, to such notice period as is specified in the applicable Pricing Supplement), in each case against certification to the effect that the beneficial owner of interests in such Temporary Global Note is not a U.S. person or a person who has purchased for resale to any U.S. person, as required by U.S. Treasury regulations. The applicable Pricing Supplement will specify that a Permanent Global Note will be exchangeable (free of charge), in whole but not in part, for definitive Notes with, where applicable, receipts, interest coupons and talons attached upon the occurrence of an Exchange Event. For these purposes, “**Exchange Event**” means that (i) an Event of Default (as defined in Condition 11 (*Events of Default*)) has occurred and is continuing, (ii) the Issuer has been notified that Euroclear and/or Clearstream have been or, in the case of Notes held through the CMU Service, the CMU Service has been, closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and no alternative clearing system is available or (iii) the Issuer has or will become obliged to pay

additional amounts as provided for or referred to in Condition 9 (*Taxation*) which would not be required were the Notes represented by the Permanent Global Note in definitive form (provided that, in certain circumstances where the Notes are held through Euroclear and/or Clearstream and/or the CMU Service, such adverse tax consequences are as a result of a change in, or amendment to, the laws or regulation (taxation or otherwise) in, or of, the Republic of Korea (“**Korea**”)). The Issuer will promptly give notice to Noteholders in accordance with Condition 15 (*Notices*) if an Exchange Event occurs. In the event of the occurrence of an Exchange Event, (x) in the case of Notes held by a Common Depository for Euroclear and/or Clearstream, Euroclear and/or Clearstream (acting on the instructions of any holder of an interest in such Permanent Global Note) and/or (y) in the case of Notes held through the CMU Service, the relevant accountholders therein, may give notice to the Issuing and Paying Agent or, as the case may be, the CMU Lodging and Paying Agent, requesting exchange and, in the event of the occurrence of an Exchange Event as described in (iii) above, the Issuer will also give notice to the Issuing and Paying Agent, or the CMU Lodging and Paying Agent, as the case may be, requesting exchange. Any such exchange following an Exchange Event shall occur not later than 45 days after the date of receipt of the first relevant notice by the Issuing and Paying Agent or the CMU Lodging and Paying Agent, as the case may be.

Bearer Notes in definitive form are issued with Coupons and (if applicable) Receipts and Talons attached, unless they are Zero Coupon Notes in which case references to Coupons and Couponholders in these Terms and Conditions are not applicable.

Unless otherwise provided with respect to a particular series of Registered Notes, Registered Notes of each Tranche sold outside the United States in reliance on Regulation S (“**Regulation S**”) under the United States Securities Act of 1933, as amended, (the “**Securities Act**”) will, unless otherwise specified in the applicable Pricing Supplement, be represented by a permanent global Registered Note, without Receipts, Coupons or Talons attached, (each, a “**Regulation S Global Note**”), deposited with (i) a custodian for, and registered in the name of a nominee of, The Depository Trust Company (“**DTC**”) for the accounts of Euroclear and Clearstream, (ii) a common depository for, and registered in the name of a common nominee of, Euroclear and Clearstream, or (iii) a sub-custodian for the HKMA as operator of the CMU Service, as specified in the applicable Pricing Supplement. Definitive Registered Notes issued in exchange for Regulation S Global Notes or otherwise sold or transferred in reliance on Regulation S under the Securities Act, together with the Regulation S Global Notes, are referred to herein as “**Regulation S Notes**.” To the extent Category 2 is applicable at the time of the offering pursuant to Rule 903 under Regulation S, then with respect to all offers or sales of an unsold allotment or subscription and in any case prior to expiry of the period that ends 40 days after the later of the relevant Issue Date and completion of the distribution of each Tranche of Notes, as certified by the relevant Dealer, in the case of a non-syndicated issue, or by the Lead Manager, in the case of a syndicated issue (the “**Distribution Compliance Period**”), beneficial interests in a Regulation S Global Note may not be offered or sold to, or for the account or benefit of, a U.S. person (save as otherwise provided in Condition 2 (*Exchange and Transfers of Registered Notes*)). After expiry of such Distribution Compliance Period, beneficial interests in a Regulation S Note may be held through DTC directly by a participant in DTC or indirectly through a participant in DTC.

Registered Notes of each Tranche sold in private transactions in reliance upon Rule 144A under the Securities Act to qualified institutional buyers within the meaning of Rule 144A under the Securities Act (“**QIBs**”) will, unless otherwise specified in the applicable Pricing Supplement, be represented by a permanent global Registered Note, without Receipts, Coupons or Talons (each, a “**Restricted Global Note**” and, together with any Regulation S Global Note, the “**Registered Global Notes**”) deposited with a custodian for, and registered in the name of a nominee of, DTC. Notes in definitive form issued in exchange for Restricted Global Notes or otherwise sold or transferred in accordance with the requirements of Rule 144A under the Securities Act, together with the Restricted Global Notes, are referred to herein as “**Restricted Notes**.”

Registered Notes of each Tranche sold to accredited investors (as defined in Rule 501(a)(1), (2), (3) or (7) under the Securities Act) (“**Institutional Accredited Investors**”) pursuant to Section 4(a)(2) of the Securities Act or in a transaction otherwise exempt from registration under the Securities Act who agree to purchase the Notes for their own account and not with a view to the distribution thereof will be issued as Definitive Registered Notes only, registered in the name of the holder thereof and will not be represented by a global Note.

Definitive Registered Notes issued to Institutional Accredited Investors or in exchange for an interest in a Restricted Global Note and Restricted Global Notes shall bear a legend specifying certain restrictions on transfer (each, a “**Legend**”), such Notes being referred to herein as “**Legended Notes**.” Upon the transfer, exchange or replacement of Legended Notes, or upon specific request for removal of a Legend, the Registrar shall (save as provided in Condition 2(d) (*Transfers of interests in Legended Notes*)) deliver only Legended Notes or refuse to remove such Legend, as the case may be, unless there is delivered to the Issuer such satisfactory evidence as may



reasonably be required by the Issuer, which may include an opinion of U.S. counsel, that neither the Legend nor the restrictions on transfer set forth therein are required to ensure compliance with the provisions of the Securities Act and the Issuer shall notify the Registrar accordingly.

Subject as otherwise provided in Condition 2 (*Exchange and Transfers of Registered Notes*), Definitive Registered Notes may be exchanged or transferred in whole or in part in the Specified Denominations for one or more Definitive Registered Notes of like aggregate nominal amount.

Each Definitive Registered Note will be numbered serially with an identifying number which will be recorded in the register (the “**Register**”) which the Issuer shall procure to be kept by the Registrar.

Notes are issued in the Specified Denomination(s) set out in the applicable Pricing Supplement which, in the case of Registered Notes sold other than pursuant to Regulation S, shall be the Authorized Denomination (as defined below) and, in the case of Notes having a maturity of 183 days or less, the Specified Denomination shall be at least U.S.\$500,000 (or the equivalent in any other currency or currencies). Each Tranche of Notes is issued in a nominal amount that is a multiple of the applicable Specified Denominations.

“**Authorized Denomination**” means:

- (i) in the case of a Restricted Note, U.S.\$100,000 (or its equivalent in any other currency rounded upwards as specified in the relevant Pricing Supplement) and higher integral multiples of U.S.\$1,000, or the higher denomination or denominations specified in the applicable Pricing Supplement; and
- (ii) in the case of a Definitive Registered Note which is initially offered and sold to Institutional Accredited Investors pursuant to Section 4(a)(2) of the Securities Act, U.S.\$500,000 (or its equivalent in any other currency rounded upwards as specified in the applicable Pricing Supplement) and higher integral multiples of U.S.\$1,000 or the higher denomination or denominations specified in the applicable Pricing Supplement.

Any minimum Authorized Denomination required by any law or directive or regulatory authority in respect of the currency of issue of any Note shall be such as applied on or prior to the date of issue of such Note.

Subject as set out below, title to Bearer Notes, Receipts and Coupons will pass by delivery. Title to Registered Notes will pass upon registration of transfers in accordance with the provisions of the Agency Agreement. The Issuer, the Issuing and Paying Agent, any other Paying Agent, the Registrar, (if applicable) the CMU Lodging and Paying Agent (except as otherwise required by law) and any Transfer Agent may deem and treat the bearer of any Bearer Note, Receipt or Coupon and any person in whose name a Registered Note is registered as the absolute owner thereof (whether or not overdue and notwithstanding any notice of ownership or writing thereon or notice of any previous loss or theft thereof) for all purposes but, in the case of any Global Note, without prejudice to the provisions set out in the next paragraph.

For so long as any of the Bearer Notes is represented by a bearer Global Note held by a common depository on behalf of Euroclear and/or Clearstream and/or a sub-custodian for the CMU Service or for so long as DTC or its nominee is the registered holder of a Registered Global Note, each person (other than Euroclear, Clearstream, the CMU Service or DTC as applicable) who is for the time being shown in the records of Euroclear, Clearstream, the CMU Service or, as the case may be, DTC, as the holder of a particular nominal amount of such Notes (in which regard any certificate or other document issued by Euroclear, Clearstream, the CMU Service or, as the case may be, DTC, as to the nominal amount of such Notes standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be treated by the Issuer, any Paying Agent, the Registrar and any Transfer Agent as the holder of such nominal amount of such Notes for all purposes other than with respect to the payment of principal or interest on the Notes, for which purpose the bearer of the relevant Global Note shall be treated by the Issuer, any Paying Agent, the Registrar and any Transfer Agent as the holder of such Notes in accordance with and subject to the terms of the relevant Global Note (and the expressions “**Noteholder**” and “**holder of Notes**” and related expressions shall be construed accordingly). Notes which are represented by a Global Note will be transferable only in accordance with the rules and procedures for the time being of Euroclear, Clearstream, the CMU Service and DTC, as the case may be. Notwithstanding the above, if a Note (whether in global or definitive form) is held through the CMU Service, any payment that is made in respect of such Note shall be made at the direction of the bearer or the registered holder to the person(s) for whose account(s) interests in such Note are credited as being held through the CMU Service in accordance with the CMU Rules at the relevant time as notified to the CMU Lodging and Paying Agent by the CMU Service in a relevant CMU Instrument Position Report or any other relevant notification by the CMU

Service. Such notification shall be conclusive evidence of the records of the CMU Service as to the identity of any accountholder (the “**CMU Accountholders**”) and the principal amount of any Note credited to its account, save in the case of manifest error, and such payments shall discharge the obligation of the Issuer in respect of that payment under such Note.

For so long as DTC or its nominee is the registered owner or holder of a Registered Global Note, DTC or such nominee, as the case may be, will be considered the sole owner or holder of the Notes represented by such Registered Global Note for all purposes under the Agency Agreement and the Notes except to the extent that in accordance with DTC’s published rules and procedures any ownership rights may be exercised by its participants or beneficial owners through participants.

References to Euroclear, Clearstream, the CMU Service and/or DTC shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system approved by the Issuer and the Issuing and Paying Agent and specified in the applicable Pricing Supplement.

## **2. Exchange and Transfers of Registered Notes**

### **(a) Exchange of interests in Registered Global Notes for Definitive Registered Notes**

Interests in any Registered Global Note will be exchangeable for Definitive Registered Notes if (i) Euroclear and/or Clearstream, the CMU Service or DTC, as the case may be, notifies the Issuer that it is unwilling or unable to continue as depositary for such Registered Global Note, (ii) if applicable, DTC ceases to be a “**Clearing Agency**” registered under the U.S. Securities Exchange Act of 1934, as amended (the “**Exchange Act**”) or Euroclear, Clearstream, or the CMU Service, as the case may be, is closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or announces its intention permanently to cease business, and a successor depositary or alternative clearing system satisfactory to the Issuer and the Registrar and, in the case of CMU Notes, the CMU Lodging and Paying Agent is not available, or (iii) an Event of Default (as defined in Condition 11 (*Events of Default*)) has occurred and is continuing with respect to such Notes. Upon the occurrence of any of the events described in the preceding sentence, the Issuer will cause the appropriate Definitive Registered Notes to be delivered, provided that, notwithstanding the above, no Definitive Registered Notes will be issued until expiry of the applicable Distribution Compliance Period.

### **(b) Transfers of Registered Global Notes**

Transfers of a Registered Global Note registered in the name of a nominee or a sub-custodian for DTC, Euroclear, Clearstream or the CMU Service, as the case may be, shall be limited to transfers of such Registered Global Note, in whole but not in part, to another nominee or sub-custodian of DTC, Euroclear, Clearstream or the CMU Service, as the case may be, or to the nominee or sub-custodian of any successor thereto.

### **(c) Transfers of interests in Regulation S Notes**

Prior to expiry of the applicable Distribution Compliance Period, transfers by the holder of, or of a beneficial interest in, a Regulation S Note to a transferee in the United States will (unless otherwise specified in the applicable Pricing Supplement) only be made:

- (i) upon receipt by the Registrar of a written certification substantially in the form set out in the Agency Agreement, amended as appropriate (a “**Transfer Certificate**”), copies of which are available from the specified office of the Registrar or any Transfer Agent, from the transferor of the Note or beneficial interest therein to the effect that such transfer is being made:
  - (A) to a person whom the transferor reasonably believes is a QIB in a transaction meeting the requirements of Rule 144A; or
  - (B) to a person who is an Institutional Accredited Investor (as defined below), in which case the Transfer Certificate must be accompanied by a duly executed investment letter from the relevant transferee substantially in the form set out in the Agency Agreement (an “**IAI Investment Letter**”); or
- (ii) otherwise pursuant to the Securities Act or an exemption therefrom, subject to receipt by the Issuer of such satisfactory evidence as the Issuer may reasonably require, which may include an opinion of U.S. counsel, that such transfer is in compliance with any applicable federal securities laws of the United States or any applicable securities laws of any state of the United States,



and, in each case, in accordance with any applicable federal securities laws of the United States or any applicable securities laws of any state of the United States or any other jurisdiction.

In the case of (i) above, such transferee may take delivery through a Legended Note in global or definitive form and, in the case of (ii) above, such transferee may take delivery only through a Legended Note in definitive form. After expiry of the applicable Distribution Compliance Period (a) beneficial interests in Regulation S Notes may be held through DTC directly by a participant in DTC or indirectly through a participant in DTC and (b) such certification requirements will no longer apply to such transfers.

**(d) *Transfers of interests in Legended Notes***

Transfers of Legended Notes or beneficial interests therein may be made:

- (i) to a transferee who takes delivery of such interest through a Regulation S Note, upon receipt by the Registrar of a duly completed Transfer Certificate from the transferor to the effect that such transfer is being made in accordance with Regulation S and that, if such transfer is being made prior to expiry of the applicable Distribution Compliance Period, the interests in the Notes being transferred will be held immediately thereafter indirectly through Euroclear and/or Clearstream; or
- (ii) to a transferee who takes delivery of such interest through a Restricted Global Note if the transferee is a person whom the transferor reasonably believes is a QIB in a transaction meeting the requirements of Rule 144A; or
- (iii) to a transferee who takes delivery of such interest through a Legended Note:
  - (A) where the transferee is a person whom the transferor reasonably believes is a QIB in a transaction meeting the requirements of Rule 144A, without certification; or
  - (B) where the transferee is an Institutional Accredited Investor, subject to delivery to the Registrar of a Transfer Certificate from the transferor to the effect that such transfer is being made to an Institutional Accredited Investor, together with a duly executed investment letter from the relevant transferee substantially in the form set out in the Agency Agreement (an “**IAI Investment Letter**”); or
- (iv) otherwise pursuant to the Securities Act or an exemption therefrom, subject to receipt by the Issuer of such satisfactory evidence as the Issuer may reasonably require, which may include an opinion of U.S. counsel, that such transfer is in compliance with any applicable federal securities laws of the United States or any applicable securities laws of any state of the United States, and in each case, in accordance with any applicable federal securities laws of the United States or any applicable securities laws of any state of the United States or any other jurisdiction.

Notes transferred by Institutional Accredited Investors to QIBs pursuant to Rule 144A or outside the United States pursuant to Regulation S will be eligible to be held by such QIBs or non-U.S. investors through DTC, Euroclear, Clearstream, or the CMU Service, as appropriate, and the Registrar will arrange for any Notes which are the subject of such a transfer to be represented by the appropriate Registered Global Note, where applicable.

**(e) *Exchanges and transfers of Registered Notes generally***

Registered Notes may not be exchanged for Bearer Notes and vice versa.

Holders of Definitive Registered Notes, other than Institutional Accredited Investors, may exchange such Definitive Registered Notes for interests in a Registered Global Note of the same type at any time.

Transfers of beneficial interests in Registered Global Notes will be effected by DTC, Euroclear, Clearstream, or the CMU Service, as the case may be, and, in turn, by participants and, if appropriate, indirect participants in such clearing systems acting on behalf of beneficial transferors and transferees of such interests. A beneficial interest in a Registered Global Note will be transferable and exchangeable for Notes in definitive form or for a beneficial interest in another Registered Global Note only in accordance with the terms and conditions thereof and the rules and operating procedures for the time being of DTC, Euroclear, Clearstream, or the CMU Service, as the case may be (the “**Applicable Procedures**”) and as specified in the Pricing Supplement.

Upon the terms and subject to the conditions set forth in the Agency Agreement, a Definitive Registered Note may be transferred in whole or in part (in the Authorized Denominations set out in the applicable Pricing

Supplement) by the holder or holders surrendering the Definitive Registered Note for registration of the transfer of the Definitive Registered Note (or the relevant part of the Definitive Registered Note) at the specified office of the Registrar or any Transfer Agent, with the form of transfer thereon duly executed by the holder or holders thereof or his or their attorney or attorneys duly authorized in writing and upon the Registrar or, as the case may be, the relevant Transfer Agent, after due and careful enquiry, being satisfied with the documents of title and the identity of the person making the request and subject to such reasonable regulations as the Issuer and the Registrar or, as the case may be, the relevant Transfer Agent may prescribe, including any restrictions imposed by the Issuer on transfers of Definitive Registered Notes originally sold to a U.S. person. Subject as provided above, the Registrar or, as the case may be, the relevant Transfer Agent will, within three business days (being for this purpose a day on which banks are open for business in the city where the specified office of the Registrar or, as the case may be, the relevant Transfer Agent is located) of the request (or such longer period as may be required to comply with any applicable fiscal or other laws or regulations) authenticate and deliver, or procure the authentication and delivery of, at its specified office to the transferee or (at the risk of the transferee) send by mail to such address as the transferee may request, a new Definitive Registered Note of a like aggregate nominal amount to the Definitive Registered Note (or the relevant part of the Definitive Registered Note) transferred. In the case of the transfer of part only of a Definitive Registered Note, a new Definitive Registered Note in respect of the balance of the Definitive Registered Note not transferred will be so authenticated and delivered or (at the risk of the transferor) sent to the transferor.

Exchanges or transfers by a holder of a Definitive Registered Note for an interest in, or to a person who takes delivery of such Note through, a Registered Global Note will be made no later than 30 days after the receipt by the Registrar or, as the case may be, the relevant Transfer Agent of the Definitive Registered Note to be so exchanged or transferred and, if applicable, upon receipt by the Registrar of a written certification from the transferor.

**(f) *Registration of transfer upon partial redemption***

In the event of a partial redemption of Notes under Condition 8(c) (*Redemption at the Option of the Issuer*), the Issuer shall not be required:

- (a) to register the transfer of Registered Notes (or parts of Registered Notes) during the period beginning on the 15th day before the date of the partial redemption and ending on the date on which notice is given specifying the serial numbers of Notes called (in whole or in part) for redemption (both inclusive); or
- (b) to register the transfer of any Registered Note, or part of a Registered Note, called for partial redemption.

**(g) *Closed Periods***

No Noteholder may require the transfer of a Registered Note to be registered during the period of 15 days ending on the due date for any payment of principal or interest or payment on that Note.

**(h) *Costs of exchange or registration***

Registration of transfers will be effected without charge by or on behalf of the Issuer, the Registrar or the relevant Transfer Agent, but upon payment (or the giving of such indemnity as the Registrar or the relevant Transfer Agent may reasonably require) in respect of any tax or other governmental charges which may be imposed in relation to it provided that the Issuer shall not be responsible for any documentary stamp tax payable on the transfer of Notes effected in Korea unless the Issuer is the counterparty directly liable for that documentary stamp tax.

**3. *Status of the Notes***

The Notes and any relative Receipts and Coupons constitute direct, unconditional, unsubordinated and (subject to Condition 4(a) (*Limitation on Liens*)) unsecured obligations of the Issuer which rank *pari passu* among themselves and will rank at least *pari passu* with all other present and future unsecured (subject to Condition 4(a) (*Limitation on Liens*)) and unsubordinated obligations of the Issuer, save for such as may be preferred by mandatory provisions of applicable law.

#### 4. Certain Covenants

##### (a) *Limitation on Liens*

The Issuer will not itself, and will not permit any Restricted Subsidiary (as defined below) to, create, incur, issue or assume or guarantee any External Indebtedness (as defined below) secured by any mortgage, charge, pledge, encumbrance or other security interest (a “**Lien**”) on any Restricted Property (as defined below) without in any such case effectively providing that the Notes (together with, if the Issuer shall so determine, any other indebtedness of the Issuer or such Restricted Subsidiary then existing or thereafter created) are secured equally and ratably with or prior to such secured External Indebtedness unless, after giving effect thereto, the aggregate principal amount of all such secured External Indebtedness, plus Attributable Debt (as defined below) of the Issuer and its Restricted Subsidiaries in respect of sale and leaseback transactions as described under “*Limitation upon Sale and Leaseback Transactions*” below, in each case entered into after the date of the issuance of the Notes, would not exceed 10% of Consolidated Net Tangible Assets (as defined below).

The foregoing restriction will not apply to External Indebtedness secured by:

- (i) any Lien existing on any Restricted Property prior to the acquisition thereof by the Issuer or any of its Restricted Subsidiaries or arising after such acquisition pursuant to contractual commitments entered into prior to and not in contemplation of such acquisition;
- (ii) any Lien on any Restricted Property securing External Indebtedness incurred or assumed for the purpose of financing the purchase price thereof or the cost of construction, improvement or repair of all or any part thereof, provided that such Lien attaches to such Restricted Property concurrently with or within 12 months after the acquisition thereof or completion or construction, improvement or repair thereof;
- (iii) any Lien existing on any Restricted Property of any Restricted Subsidiary prior to the time such Restricted Subsidiary becomes a Subsidiary of the Issuer or arising after such time pursuant to contractual commitments entered into prior to and not in contemplation thereof;
- (iv) any Lien securing External Indebtedness owing to the Issuer or to a Restricted Subsidiary; or
- (v) any Lien arising out of the refinancing, extension, renewal or refunding of any External Indebtedness secured by any Lien permitted by any of the foregoing clauses or existing at the date of the issuance of the Notes, provided that such External Indebtedness is not increased and is not secured by any additional Restricted Property.

For the purposes of Conditions 4(a) (*Limitation on Liens*) and 4(b) (*Limitation upon Sale and Leaseback Transactions*), the giving of a guarantee which is secured by a Lien on a Restricted Property, and the creation of a Lien on a Restricted Property to secure External Indebtedness which existed prior to the creation of such Lien, shall be deemed to involve the creation of indebtedness in an amount equal to the principal amount guaranteed or secured by such Lien; but the amount of indebtedness secured by Liens on Restricted Properties shall be computed without cumulating the underlying indebtedness with any guarantee thereof or Lien securing the same.

For the avoidance of any doubt, the establishment of any receivables financing facility or arrangement pursuant to which a special purpose vehicle (including any special purpose trust) purchases or otherwise acquires accounts receivable of the Issuer shall not be deemed to be affected by Conditions 4(a) (*Limitation on Liens*) or 4(b) (*Limitation upon Sale and Leaseback Transactions*)

##### (b) *Limitation upon Sale and Leaseback Transactions*

The Issuer will not itself, and will not permit any Restricted Subsidiary to, enter into any arrangement, after the date of the issuance of the Notes, with any person providing for the leasing by the Issuer or any Restricted Subsidiary of any Restricted Property which has been or is to be sold or transferred to such person or to any other person to whom funds are advanced by such person on the security of such Restricted Property (a “**sale and leaseback transaction**”), unless (i) the Attributable Debt of the Issuer and its Restricted Subsidiaries in respect thereof and in respect of all other sale and leaseback transactions entered into after the date of the issuance of the Notes (other than transactions permitted by clause (ii) below) plus the aggregate principal amount of External Indebtedness secured by Liens on Restricted Property then outstanding (excluding any such External Indebtedness secured by Liens described in clause (i) through (v) under “*Limitation on Liens*” above) without equally and ratably securing the Notes, would not exceed 10% of Consolidated Net Tangible Assets or (ii) the Issuer or a Restricted Subsidiary within 12 months after such sale and leaseback transaction, applies to the

retirement of External Indebtedness, which is not subordinate to the Notes, of the Issuer or a Restricted Subsidiary an amount equal to the greater of (A) the net proceeds of the sale or transfer of the property or other assets which are the subject of such sale and leaseback transaction or (B) the fair market value of the Restricted Property so leased (in each case as determined by the Issuer).

The foregoing restriction shall not apply to any transaction (x) between the Issuer and a Restricted Subsidiary or between Restricted Subsidiaries or (y) involving a lease for a temporary period not exceeding three years by the end of which it is intended that the use of such Restricted Property by the lessee will be discontinued.

**(c) Consolidation, Merger and Sale of Assets**

The Issuer will not consolidate with, merge or amalgamate into or transfer its assets substantially as an entirety to any corporation or convey or transfer its properties and assets substantially to any person, except as provided herein. The Issuer, without the consent of any Noteholder, may consolidate with, or merge into, or sell, transfer, lease or convey its assets substantially as an entirety (each a “**transaction**”) to any corporation organized under the laws of Korea, provided that (i) any successor corporation expressly assumes the Issuer’s obligations under the Notes and the Agency Agreement, (ii) after giving effect to the transaction, no Event of Default and no event which, after notice or lapse of time or both, would become an Event of Default, shall have occurred and be continuing, (iii) if, as a result of any such transaction, properties or assets of the Issuer or a Restricted Subsidiary would become subject to a Lien which would not be permitted under these Terms and Conditions, the Issuer or such successor corporation, as the case may be, shall take such steps as shall be necessary effectively to secure the Notes (together with, if the Issuer shall so determine, any other indebtedness of the Issuer or such Subsidiary then existing or thereafter created which is not subordinate to the Notes) equally and ratably with (or prior to) all indebtedness secured thereby, and (iv) the Issuer has delivered to the Issuing and Paying Agent a certificate executed by a duly authorized officer of the Issuer and an opinion of counsel as to matters of law stating that such consolidation, merger, sale, transfer, lease or conveyance and, if a supplemental agreement is required in connection with such transaction, such supplemental agreement, comply with the Notes and that all conditions precedent herein provided for relating to such transaction have been complied with.

**(d) Certain Definitions**

In these Conditions, the following expressions have the following meanings:

“**Attributable Debt**” means, as to any lease, at the date of determination, the total net amount of rent required to be paid under such lease during the remaining term thereof including renewal terms at the option of the lessor (excluding amounts on account of maintenance and repairs, insurance, taxes, assessments, water rates and similar charges and contingent rents), discounted from their respective due dates at the rate of interest borne by the Notes, at the date of determination, compounded annually.

“**Consolidated Net Tangible Assets**” means the total amount of assets of the Issuer and its consolidated Subsidiaries, including investments in unconsolidated Subsidiaries, after deducting therefrom (a) all current liabilities (excluding any current liabilities constituting Long-term Debt by reason of their being renewable or extendible) and (b) all goodwill, trade names, trademarks, patents, unamortized debt discount and expense and other like intangible assets, all as set forth on the most recent audited annual balance sheet of the Issuer and its consolidated Subsidiaries and computed in accordance with International Financial Reporting Standards, as adopted by the Korean Accounting Standards Board.

“**External Indebtedness**” means any obligation for the payment or repayment of money borrowed which is denominated in a currency other than the currency of Korea and which has a final maturity of one year or more from its date of incurrence or issuance.

“**Long-term Debt**” means any note, bond, debenture or other similar evidence of indebtedness of money borrowed having a maturity of more than one year from the date such evidence of indebtedness was incurred or having a maturity of less than one year but by its terms being renewable or extendible, at the option of the borrower beyond one year from the date such evidence on indebtedness was incurred.

“**person**” means any individual, corporation, partnership, joint venture, association, joint stock company, trust, unincorporated organization or government or any agency or political subdivision thereof.

“**Restricted Property**” means any asset or property located in Korea, whether at the date of the issuance of the Notes owned or thereafter acquired, other than any such asset or property, or portion thereof, reasonably

determined by the Issuer's board of directors not to be of material importance to the total business conducted by the Issuer and its Subsidiaries as a whole.

**"Restricted Subsidiary"** means any Subsidiary that owns Restricted Property.

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

## **5. Redenomination**

### **(a) Redenomination**

Where redenomination is specified in the applicable Pricing Supplement as being applicable, the Issuer may, without the consent of the Noteholders, the Receiptholders and the Couponholders, on giving prior notice to the applicable Paying Agent, DTC, the CMU Lodging and Paying Agent (if applicable), Euroclear and Clearstream and at least 30 days' prior notice to the Noteholders in accordance with Condition 15 (*Notices*), elect that, with effect from the Redenomination Date specified in the notice, the Notes shall be redenominated in Euro.

The election will have effect as follows:

- (i) the Notes and the Receipts shall be deemed to be redenominated into Euro with a principal amount for each Note and Receipt equal to the principal amount of that Note or Receipt in the Specified Currency, converted into Euro at the Established Rate (as defined below), rounded to the nearest Euro 0.01 if the conversion results in an amount involving a fraction of Euro 0.01, provided that, if the Issuer determines that the then market practice in respect of the redenomination into Euro of internationally offered securities is different from the provisions specified above, such provisions shall be deemed to be amended so as to comply with such market practice and the Issuer shall promptly notify the Noteholders, the stock exchange (if any) on which the Notes may be listed and the applicable Paying Agent of such deemed amendments;
- (ii) save to the extent that an Exchange Notice has been given in accordance with paragraph (iv) below, the amount of interest due in respect of the Notes will be calculated by reference to the aggregate principal amount of Notes presented (or, as the case may be, in respect of which Coupons are presented) for payment by the relevant holder and the amount of such payment shall be rounded down to the nearest Euro 0.01;
- (iii) if definitive Notes are required to be issued after the Redenomination Date (as defined below), they shall be issued at the expense of the Issuer in the denominations of Euro 1,000, Euro 10,000, Euro 100,000 and (but only to the extent of any remaining amounts less than Euro 1,000 or such smaller denominations as stated in prior notice to the applicable Paying Agent) Euro 0.01 and such other denominations as the Issuer shall determine and notify to the Noteholders;
- (iv) if issued prior to the Redenomination Date, all unmatured Coupons denominated in the Specified Currency (whether or not attached to the Notes) will become void with effect from the date on which the Issuer gives notice (the "Exchange Notice") that replacement Euro-denominated Notes, Receipts and Coupons are available for exchange (provided that such securities are so available) and no payments will be made in respect of them. The payment obligations contained in any Notes and Receipts so issued will also become void on that date although those Notes and Receipts will continue to constitute valid exchange obligations of the Issuer. New Euro-denominated Notes, Receipts and Coupons will be issued in exchange for Notes, Receipts and Coupons denominated in the Specified Currency in such manner as the applicable Paying Agent may specify acting on the instruction of the Issuer and as shall be notified to the Noteholders in the Exchange Notice. No Exchange Notice may be given less than 15 days prior to any date for payment of principal or interest on the Notes;
- (v) after the Redenomination Date, all payments in respect of the Notes, the Receipts and the Coupons, other than payments of interest in respect of periods commencing before the Redenomination Date, will be made solely in Euro as though references in the Notes to the Specified Currency were to Euro. Payments will be made in Euro by credit or transfer to a Euro account (or any other account to which



Euro may be credited or transferred) specified by the payee or, at the option of the payee, by a Euro check;

- (vi) if the Notes are Fixed Rate Notes and interest for any period ending on or after the Redenomination Date is required to be calculated for a period ending other than on an Interest Payment Date (as specified in the applicable Pricing Supplement), it will be calculated by applying the Rate of Interest to each Specified Denomination, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention;
- (vii) if the Notes are Floating Rate Notes, the applicable Pricing Supplement will specify any relevant changes to the provisions relating to interest; and
- (viii) such other changes shall be made to this Condition as the Issuer may decide, after consultation with the applicable Paying Agent, and as may be specified in the notice, to conform it to conventions then applicable to instruments denominated in Euro.

## **(b) Definitions**

In these Conditions, the following expressions have the following meanings:

**“Established Rate”** means the rate for the conversion of the Specified Currency (including compliance with rules relating to rounding in accordance with applicable European Community regulations) into Euro established by the Council of the European Union pursuant to Article 123 of the Treaty;

**“Euro”** means the lawful currency of the Member States of the European Union that have adopted the single currency in accordance with the Treaty;

**“Redenomination Date”** means (in the case of interest bearing Notes) any date for payment of interest under the Notes or (in the case of Zero Coupon Notes) any date, in each case specified by the Issuer in the notice given to the Noteholders pursuant to paragraph (a) above and which falls on or after the date on which the country of the Specified Currency first participates in the third stage of European economic and monetary union; and

**“Treaty”** means the Treaty establishing the European Community (signed in Rome on March 25, 1957), as amended from time to time.

## **6. Interest**

### **(a) Interest on Fixed Rate Notes**

*(I) In the case of Fixed Rate Notes where Condition 6(a)(I) is specified as being applicable in the applicable Pricing Supplement, the following provisions will apply instead of Condition 6(a)(II):*

Each Fixed Rate Note bears interest on its nominal amount (or, if it is a Partly Paid Note, the amount paid up) from (and including) the Issue Date (or, if otherwise specified in the applicable Pricing Supplement, the Interest Commencement Date) at the rate(s) per annum equal to the Fixed Rate(s) of Interest payable in arrear on the Interest Payment Date(s) in each year and on the Maturity Date if that does not fall on an Interest Payment Date.

Except as provided in the applicable Pricing Supplement, the amount of interest payable on each Interest Payment Date in respect of the Fixed Interest Period ending on such date will amount to the Fixed Coupon Amount. Payments of interest on any Interest Payment Date will, if so specified in the applicable Pricing Supplement, amount to the Broken Amount so specified.

Where a Fixed Coupon Amount or Broken Amount is specified in the applicable Pricing Supplement, interest shall be calculated in respect of any period by applying the Rate of Interest to:

(A) in the case of Fixed Rate Notes which are represented by a Global Note, the aggregate outstanding nominal amount of the Fixed Rate Notes represented by such Global Note (or, if they are Partly Paid Notes, the aggregate amount paid up); or

(B) in the case of Fixed Rate Notes in definitive form, the Calculation Amount;

and, in each case, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention.

In these Conditions:

**“Day Count Fraction”** means, in respect of the calculation of an amount of interest in accordance with this Condition 6(a):

- (i) if **“Actual/Actual (ICMA)”** is specified in the applicable Pricing Supplement:
  - (a) in the case of Notes where the number of days in the relevant period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (the “Accrual Period”) is equal to or shorter than the Determination Period (as defined below) during which the Accrual Period ends, the number of days in such Accrual Period divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Dates (as specified in the applicable Pricing Supplement) that would occur in one calendar year; or
  - (b) in the case of Notes where the Accrual Period is longer than the Determination Period during which the Accrual Period ends, the sum of:
    - (1) the number of days in such Accrual Period falling in the Determination Period in which the Accrual Period begins divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates (as specified in the applicable Pricing Supplement) that would occur in one calendar year; and
    - (2) the number of days in such Accrual Period falling in the next Determination Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year.
- (ii) if **“30/360”** is specified in the applicable Pricing Supplement, the number of days in the period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (such number of days being calculated on the basis of a year of 360 days with twelve 30-day months) divided by 360.

In this Condition 6(a)(I):

**“Determination Period”** means each period from (and including) a Determination Date to but excluding the next Determination Date (including, where either the Interest Commencement Date or the final Interest Payment Date is not a Determination Date, the period commencing on the first Determination Date prior to, and ending on the first Determination Date falling after, such date);

**“Fixed Interest Period”** means the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date; and

**“sub-unit”** means, with respect to any currency other than Euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, with respect to Euro, means one cent.

*(II) In the case of Fixed Rate Notes where Condition 6(a)(II) is specified as being applicable in the applicable Pricing Supplement, the following provisions will apply instead of Condition 6(a)(I):*

Each Fixed Rate Note bears interest on its outstanding nominal amount (or, if it is a Partly Paid Note, the amount paid up) from (and including) the Interest Commencement Date at the rate(s) per annum (expressed as a percentage) equal to the Rate(s) of Interest. If any Interest Payment Date would otherwise fall on a day which is not a business day (as defined below), it shall be postponed to the next day which is a business day unless it would thereby fall into the next calendar month in which event it shall be brought forward to the immediately preceding day. Interest will be payable in arrear on the Interest Payment Date(s) in each year up to (and including) the Maturity Date.

Except as provided in the applicable Pricing Supplement, the amount of interest payable on each Interest Payment Date in respect of the Fixed Interest Period ending on such date will amount to the Fixed Coupon Amount. Payments of interest on any Interest Payment Date will, if so specified in the applicable Pricing Supplement, amount to the Broken Amount so specified.

Where an applicable Fixed Coupon Amount or Broken Amount is specified in the applicable Pricing Supplement, interest shall be calculated in respect of any period by applying the Rate of Interest to:

(A) in the case of Fixed Rate Notes which are represented by a Global Note, the aggregate outstanding nominal amount of the Fixed Rate Notes represented by such Global Note (or, if they are Partly Paid Notes, the aggregate amount paid up); or

(B) in the case of Fixed Rate Notes in definitive form, the Calculation Amount;

and, in each case, multiplying such sum by the actual number of days in the Fixed Interest Period concerned divided by 365, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of a Fixed Rate Note in definitive form is a multiple of the Calculation Amount, the amount of interest payable in respect of such Fixed Rate Note shall be the product of the amount (determined in the manner provided above) for the Calculation Amount and the amount by which the Calculation Amount is multiplied to reach the Specified Denomination, without any further rounding.

In this Condition 6(a)(II):

“**business day**” means a day (other than a Saturday, Sunday or public holiday) upon which commercial banks and foreign exchange markets are generally open for business and settlement of Renminbi payments in Hong Kong and are not authorized or obligated by law or executive order to be closed; and

“**Fixed Interest Period**” means the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date; and

“**sub-unit**” means, with respect to Renminbi, the lowest amount of such currency that is available as legal tender in the People’s Republic of China.

**(b) Interest on Floating Rate Notes**

**(i) Interest Payment Dates**

Each Floating Rate Note bears interest on its nominal amount (or, if it is a Partly Paid Note, the amount paid up) from (and including) the Interest Commencement Date and such interest will be payable in arrear on either:

- (A) the Interest Payment Date(s) (each an “Interest Payment Date”) in each year specified in the applicable Pricing Supplement; or
- (B) if no express Interest Payment Date(s) is/are specified in the applicable Pricing Supplement, each date (each an “Interest Payment Date”) which falls the number of months or other period specified as the Specified Period in the applicable Pricing Supplement after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

Such interest will be payable in respect of each Interest Period (which expression shall in these Terms and Conditions, mean the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date, each an “**Interest Period**”).

If a business day convention is specified in the applicable Pricing Supplement and (x) if there is no numerically corresponding day in the calendar month in which an Interest Payment Date should occur or (y) if any Interest Payment Date would otherwise fall on a day which is not a Business Day, then, if the business day convention specified is:

- (1) in any case where Specified Periods are specified in accordance with Condition 6(b)(i)(B) above, the Floating Rate Convention, such Interest Payment Date (i) in the case of (x) above, shall be the last day that is a Business Day in the relevant month and the provisions of (B) below of this subparagraph (1) shall apply mutatis mutandis or (ii) in the case of (y) above, shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event (A) such Interest Payment Date shall be brought forward to the immediately preceding Business Day and (B) each subsequent Interest Payment Date shall be the last Business Day in the month which falls the Specified Period after the preceding applicable Interest Payment Date occurred; or



- (2) the Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day; or
- (3) the Modified Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event such Interest Payment Date shall be brought forward to the immediately preceding Business Day; or
- (4) the Preceding Business Day Convention, such Interest Payment Date shall be brought forward to the immediately preceding Business Day.

In these Conditions, “**Business Day**” means a day which is both:

- (A) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in London and New York City and, in the case of an issue of Notes cleared through the CMU Service, Hong Kong, and any Additional Business Center specified in the applicable Pricing Supplement; and
- (B) either (1) in relation to any sum payable in a Specified Currency other than Euro and Renminbi, a day on which commercial banks and foreign exchange markets settle payments in the principal financial center of the country of the relevant Specified Currency (if other than London, New York City and Hong Kong, as applicable, and any Additional Business Center and which if the Specified Currency is Australian dollars or New Zealand dollars shall be Sydney or Auckland, respectively) or (2) in relation to any sum payable in Euro, a day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET2) System (the “**TARGET2 System**”) is open or (3) in relation to any sum payable in Renminbi, a day (other than a Saturday, Sunday or public holiday) on which commercial banks and foreign exchange markets are open for business and settle Renminbi payments in Hong Kong.

(ii) Rate of Interest

The Rate of Interest payable from time to time in respect of Floating Rate Notes will be determined in the manner specified in the applicable Pricing Supplement.

(A) ISDA Determination for Floating Rate Notes

Where ISDA Determination is specified in the applicable Pricing Supplement as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will be the relevant ISDA Rate plus or minus (as indicated in the applicable Pricing Supplement) the Margin (if any). For the purposes of this sub-paragraph (A), “**ISDA Rate**” for an Interest Period means a rate equal to the Floating Rate that would be determined by the Calculation Agent under an interest rate swap transaction under the terms of an agreement incorporating the 2006 ISDA Definitions as amended and updated as at the Issue Date of the first tranche of the Notes, published by the International Swaps and Derivatives Association, Inc. (the “**ISDA Definitions**”) and under which:

- (1) the Floating Rate Option is as specified in the applicable Pricing Supplement;
- (2) the Designated Maturity is a period specified in the applicable Pricing Supplement; and
- (3) the relevant Reset Date is either (i) if the applicable Floating Rate Option is based on the London inter-bank offered rate (“**LIBOR**”), the Euro-zone inter-bank offered rate (“**EURIBOR**”) or on the Hong Kong inter-bank offered rate (“**HIBOR**”) for a currency, the first day of that Interest Period or (ii) in any other case, as specified in the applicable Pricing Supplement.

For the purposes of this sub-paragraph (A) only, (i) “**Floating Rate**,” “**Calculation Agent**,” “**Floating Rate Option**,” “**Designated Maturity**” and “**Reset Date**” have the meanings given to those terms in the ISDA Definitions, (ii) the definition of “**Banking Day**” in the ISDA Definitions shall be amended to insert after the words “are open for” in the second line the word “general” and (iii) “**Euro-zone**” means the region comprised of Member States of the European Union that adopt or have adopted the single currency in accordance with the Treaty establishing the European Community, as amended by the Treaty on European Union.

When this sub-paragraph (A) applies, in respect of each relevant Interest Period the Calculation Agent will be deemed to have discharged its obligations under Condition 6(b)(iv) in respect of the determination of the Rate of Interest if it has determined the Rate of Interest in respect of such Interest Period in the manner provided in this sub-paragraph (A).

(B) Screen Rate Determination for Floating Rate Notes

- (1) Where Screen Rate Determination is specified in the applicable Pricing Supplement as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will, subject as provided below, be either:
  - (A) the offered quotation; or
  - (B) the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate which appears or appear, as the case may be, on the Relevant Screen Page as at 11:00 a.m. (London time, in the case of LIBOR, or Brussels time, in the case of EURIBOR or Hong Kong time, in the case of HIBOR) on the second business day before the beginning of each Interest Period (each an “**Interest Determination Date**”) in question plus or minus (as indicated in the applicable Pricing Supplement) the Margin (if any), all as determined by the Calculation Agent. If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Calculation Agent for the purpose of determining the arithmetic mean (rounded as provided above) of such offered quotations.
- (2) If the Relevant Screen Page is not available or, if in the case of Condition 6(b)(ii)(B)(1)(A) above, no such offered quotation appears or, in the case of Condition 6(b)(ii)(B)(1)(B) above, fewer than three such offered quotations appear, in each case as at the time specified in the preceding paragraph the Determination Agent shall request each of the Reference Banks (as defined below) to provide the Determination Agent with its offered quotation (expressed as a percentage rate per annum) for the Reference Rate at approximately 11:00 a.m. (London time, in the case of LIBOR, or Brussels time, in the case of EURIBOR or Hong Kong time, in the case of HIBOR) on the Interest Determination Date in question. If two or more of the Reference Banks provide the Determination Agent with such offered quotations, the Rate of Interest for such Interest Period shall be the arithmetic mean (rounded if necessary to the fifth decimal place with 0.000005 being rounded upwards) of such offered quotations plus or minus (as appropriate) the Margin (if any), all as determined by the Calculation Agent.
- (3) If on any Interest Determination Date one only or none of the Reference Banks provides the Determination Agent with such offered quotations as provided in the preceding paragraph, the Rate of Interest for the relevant Interest Period shall be the rate per annum which the Calculation Agent determines as being the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the rates, as communicated to (and at the request of) the Determination Agent by the Reference Banks or any two or more of them, at which such banks were offered, at approximately 11:00 a.m. (London time, in the case of LIBOR, or Brussels time, in the case of EURIBOR or Hong Kong time, in the case of HIBOR) on the relevant Interest Determination Date, deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate by leading banks in the London inter-bank market (if the Reference Rate is LIBOR) or the Euro-zone inter-bank market (if the Reference Rate is EURIBOR) or the Hong Kong inter-bank market (if the Reference Rate is HIBOR) plus or minus (as appropriate) the Margin (if any) or, if fewer than two of the Reference Banks provide the Determination Agent with such offered rates, the offered rate for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, or the arithmetic mean (rounded as provided above) of the offered rates for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, at which, at approximately 11:00 a.m. (London time, in the case of LIBOR, or Brussels time, in the case of EURIBOR, or Hong Kong time, in the case of HIBOR) on the relevant Interest Determination Date, any one or more banks (which bank or banks is or are in the opinion of the Issuer suitable for such purpose) informs the Determination Agent it is quoting to leading banks in the London inter-bank market (if the Reference Rate is LIBOR) or the Euro-zone inter-bank market (if the Reference Rate is EURIBOR) or the Hong Kong inter-bank market (if the Reference Rate is HIBOR) plus or minus (as appropriate) the Margin (if any), provided that, if the Rate of Interest cannot be determined in accordance with the foregoing provisions of this paragraph, the Rate of Interest shall be determined as at the last preceding Interest Determination Date (though substituting, where a different Margin is to be applied to the relevant Interest Period from that which applied to the last preceding Interest Period, the Margin relating to the relevant Interest Period, in place of the Margin relating to that last preceding Interest Period).

- (4) “**Reference Banks**” means, in the case of Condition 6(b)(ii)(B)(1)(A) above, those banks selected and appointed by the Issuer whose offered rates were used to determine such quotation when such quotation last appeared on the Relevant Screen Page and, in the case of Condition 6(b)(ii)(B)(1)(B) above, those banks whose offered quotations last appeared on the Relevant Screen Page when no fewer than three such offered quotations appeared.
- (5) If the Reference Rate from time to time in respect of Floating Rate Notes is specified in the applicable Pricing Supplement as being other than LIBOR, EURIBOR or HIBOR, the Rate of Interest in respect of such Notes will be determined as provided in the applicable Pricing Supplement.
- (6) For the purposes of this sub-paragraph (B) only, “**Determination Agent**” means an independent bank of international repute selected by and acting as an agent of the Issuer for the purposes of Condition 6(b)(ii) and notified to the Issuing and Paying Agent and Calculation Agent in writing.

(iii) Minimum and/or Maximum Interest Rate

If the applicable Pricing Supplement specifies a Minimum Interest Rate for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph (ii) above is less than such Minimum Interest Rate, the Rate of Interest for such Interest Period shall be such Minimum Interest Rate. If the applicable Pricing Supplement specifies a Maximum Interest Rate for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph (ii) above is greater than such Maximum Interest Rate, the Rate of Interest for such Interest Period shall be such Maximum Interest Rate.

(iv) Determination of Rate of Interest and Calculation of Interest Amounts

The Calculation Agent will at or as soon as practicable after each time at which the Rate of Interest is to be determined, determine the Rate of Interest for the relevant Interest Period.

The Calculation Agent will calculate the amount of interest (the “**Interest Amount**”) payable on the Floating Rate Notes in respect of each Specified Denomination for the relevant Interest Period. Each Interest Amount shall be calculated by applying the Rate of Interest to each Specified Denomination, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention.

“**Day Count Fraction**” means, in respect of the calculation of an amount of interest for any Interest Period:

- (1) if “**Actual/Actual (ISDA)**” or “**Actual/Actual**” is specified in the applicable Pricing Supplement, the actual number of days in the Interest Period divided by 365 (or, if any portion of that Interest Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Interest Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Interest Period falling in a non-leap year divided by 365);
- (2) if “**Actual/365 (Fixed)**” is specified in the applicable Pricing Supplement, the actual number of days in the Interest Period divided by 365;
- (3) if “**Actual/365 (Sterling)**” is specified in the applicable Pricing Supplement, the actual number of days in the Interest Period divided by 365 or, in the case of an Interest Payment Date falling in a leap year, 366;
- (4) if “**Actual/360**” is specified in the applicable Pricing Supplement, the actual number of days in the Interest Period divided by 360;
- (5) if “**30/360**”, “**360/360**” or “**Bond Basis**” is specified in the applicable Pricing Supplement, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“**Y<sub>1</sub>**” is the year, expressed as a number, in which the first day of the Interest Period falls;

“**Y<sub>2</sub>**” is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“M<sub>1</sub>” is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

“M<sub>2</sub>” is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“D<sub>1</sub>” is the first calendar day, expressed as a number, of the Interest Period, unless such number is 31, in which case D<sub>1</sub> will be 30; and

“D<sub>2</sub>” is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31 and D<sub>1</sub> is greater than 29, in which case D<sub>2</sub> will be 30;

- (6) if “**30E/360**” or “**Eurobond Basis**” is specified in the applicable Pricing Supplement, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“Y<sub>1</sub>” is the year, expressed as a number, in which the first day of the Interest Period falls;

“Y<sub>2</sub>” is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“M<sub>1</sub>” is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

“M<sub>2</sub>” is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“D<sub>1</sub>” is the first calendar day, expressed as a number, of the Interest Period, unless such number would be 31, in which case D<sub>1</sub> will be 30; and

“D<sub>2</sub>” is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31, in which case D<sub>2</sub> will be 30;

- (7) if “**30E/360 (ISDA)**” is specified in the applicable Pricing Supplement, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“Y<sub>1</sub>” is the year, expressed as a number, in which the first day of the Interest Period falls;

“Y<sub>2</sub>” is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“M<sub>1</sub>” is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

“M<sub>2</sub>” is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“D<sub>1</sub>” is the first calendar day, expressed as a number, of the Interest Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D<sub>1</sub> will be 30; and

“D<sub>2</sub>” is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case D<sub>2</sub> will be 30.

(v) Notification of Rate of Interest and Interest Amounts

The Calculation Agent will cause the Rate of Interest and each Interest Amount for each Interest Period and the relevant Interest Payment Date to be notified to the Issuer and notice thereof to be published in accordance with Condition 15 (*Notices*) as soon as possible after their determination but in no event later than the fourth Relevant Business Day thereafter. Each Interest Amount and Interest Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without notice in the event of an extension or shortening of the Interest Period. Any such amendment will be promptly notified to the Issuer and to the Noteholders in accordance with Condition 15 (*Notices*). For purposes of this paragraph, the expression “**Relevant Business Day**” means a day (other than a Saturday or Sunday) on which banks and foreign exchange markets are open for business in London or, if the specified currency is Renminbi, Hong Kong.

(vi) **Certificates to be Final**

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 6(b), whether by the Calculation Agent or the Determination Agent shall (in the absence of willful default or manifest error) be binding on the Issuer, the Issuing and Paying Agent, (in the case of determinations, calculations and/or quotations made or obtained by the Determination Agent) the Calculation Agent, the Registrar, the other Paying Agents and all Noteholders, Receiptholders and Couponholders and (in the absence as aforesaid) no liability of the Issuer, the Noteholders, the Receiptholders or the Couponholders shall attach to the relevant Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

(c) **Dual Currency Notes**

In the case of Dual Currency Notes, if the rate or amount of interest falls to be determined by reference to an exchange rate, the rate or amount of interest payable shall be determined in the manner specified in the applicable Pricing Supplement.

(d) **Partly Paid Notes**

In the case of Partly Paid Notes (other than Partly Paid Notes which are Zero Coupon Notes), interest will accrue as aforesaid on the paid-up nominal amount of such Notes and otherwise as specified in the applicable Pricing Supplement.

(e) **Accrual of Interest**

Each Note (or in the case of the redemption of part only of a Note, that part only of such Note) will cease to bear interest (if any) from the date for its redemption unless, upon due presentation thereof, payment of principal is improperly withheld or refused. In such event, interest will continue to accrue until whichever is the earlier of:

- (1) the date on which all amounts due in respect of such Note have been paid; and
- (2) the date on which the full amount of the moneys payable has been received by the Agent and notice to that effect has been given in accordance with Condition 15 (*Notices*).

**7. Payments**

(a) **Method of Payment**

Subject as provided below:

- (i) payments in a Specified Currency other than Euro will be made by credit or transfer to an account in the relevant Specified Currency (which, in the case of a payment in Japanese Yen to a non-resident of Japan, shall be a non-resident account) maintained by the payee with a bank in the principal financial center of the country of such Specified Currency (which, if the Specified Currency is Australian dollars, New Zealand dollars or Renminbi, shall be Sydney, Auckland or Hong Kong, respectively); and
- (ii) payments in Euro will be made by credit or transfer to a Euro account (or any other account to which Euro may be credited or transferred) specified by the payee.

Payments will be subject in all cases to (i) any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 9 (*Taxation*) and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986, as amended (the “**Code**”) or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, official interpretations thereof, or any law implementing an intergovernmental approach thereto (“**FATCA**”). References to “**Specified Currency**” will include any successor currency under applicable law.

(b) **Payments in respect of Definitive Bearer Notes**

Payments of principal in respect of definitive Bearer Notes will (subject as provided below) be made in the manner provided in paragraph (a) above only against surrender of definitive Bearer Notes, and payments of



interest in respect of definitive Bearer Notes will (subject as provided below) be made as aforesaid only against surrender of Coupons, in each case at the specified office of any Paying Agent outside the United States (which expression, as used herein, means the United States of America (including the States and the District of Columbia, its territories, its possessions and other areas subject to its jurisdiction)) and in each case payments will not be made by a transfer of funds to an account maintained by the payee in the United States or mailed to an address in the United States.

Notwithstanding the foregoing, if any amount of principal and/or interest in respect of any Bearer Notes is payable in U.S. dollars, such U.S. dollar payments of principal and/or interest in respect of the Bearer Notes will be made at the specified office of a Paying Agent in the United States if:

- (i) the Issuer has appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment in U.S. dollars at such specified offices outside the United States of the full amount of principal and interest on the Bearer Notes in the manner provided above when due;
- (ii) payment of the full amount of such principal and interest at all such specified offices outside the United States is illegal or effectively precluded by exchange controls or other similar restrictions on the full payment or receipt of principal and interest in U.S. dollars; and
- (iii) such payment is then permitted under United States law without involving, in the reasonable opinion of the Issuer, adverse tax consequences to the Issuer.

In respect of definitive Bearer Notes, payments of installments of principal (if any), other than the final installment, will (subject as provided below) be made in the manner provided in paragraph (a) above against surrender of the relevant Receipt. Payment of the final installment will be made in the manner provided in paragraph (a) above only against surrender of the relevant Bearer Note. Each Receipt must be presented for payment of the relevant installment together with the definitive Bearer Note to which it appertains. Receipts presented without the definitive Bearer Note to which they appertain do not constitute valid obligations of the Issuer. Upon the date on which any definitive Bearer Note becomes due and repayable, unmatured Receipts (if any) relating thereto (whether or not attached) shall become void and no payment shall be made in respect thereof.

Fixed Rate Notes in definitive bearer form (other than Dual Currency Notes or Long Maturity Notes (as defined below)) should be presented for payment together with all unmatured Coupons appertaining thereto (which expression shall for this purpose include Coupons falling to be issued on exchange of matured Talons), failing which the amount of any missing unmatured Coupon (or, in the case of payment not being made in full, the same proportion of the amount of such missing unmatured Coupon as the sum so paid bears to the sum due) will be deducted from the sum due for payment. Each amount of principal so deducted will be paid in the manner mentioned above against surrender of the relative missing Coupon at any time before the expiry of five years after the Relevant Date (as defined in Condition 9 (*Taxation*)) in respect of such principal (whether or not such Coupon would otherwise have become void under Condition 10 (*Prescription*)) or, if later, two years from the date on which such Coupon would otherwise have become due, but in no event thereafter. Upon any Fixed Rate Note becoming due and repayable prior to its Maturity Date, all unmatured Talons (if any) appertaining thereto will become void and no further Coupons will be issued in respect thereof.

Upon the date on which any Floating Rate Note, Dual Currency Note or Long Maturity Note in definitive bearer form becomes due and repayable, unmatured Coupons and Talons (if any) relating thereto (whether or not attached) shall become void and no payment or, as the case may be, exchange for further Coupons shall be made in respect thereof. A “**Long Maturity Note**” is a Fixed Rate Note whose nominal amount on issue is less than the aggregate interest payable thereon provided that such Note shall cease to be a Long Maturity Note on the Interest Payment Date on which the aggregate amount of interest remaining to be paid after that date is less than the nominal amount of such Note.

If the due date for redemption of any definitive Bearer Note is not a Fixed Interest Date or an Interest Payment Date, interest (if any) accrued in respect of such Note from (and including) the preceding Fixed Interest Date or Interest Payment Date or, as the case may be, the Interest Commencement Date shall be payable only against surrender of the relevant definitive Bearer Note.

#### **(c) Payments in respect of Bearer Global Notes**

Payments of principal and interest (if any) in respect of Bearer Notes represented by any global Bearer Note will (subject as provided below) be made in the manner provided in paragraph (a) above and otherwise in the manner

specified in the relevant global Bearer Note (i) in the case of a global Bearer Note lodged with the CMU Service, at the direction of the bearer to the CMU Accountholders, or (ii) in the case of a global Bearer Note not lodged with the CMU Service, against presentation or surrender, as the case may be, of such global Bearer Note at the specified office of any Paying Agent outside the United States. A record of each payment made against presentation or surrender of such global Bearer Note, distinguishing between any payment of principal and any payment of interest, will be made on such global Bearer Note (in the case of a global Bearer Note not lodged with the CMU Service) by such Paying Agent or in the records of Euroclear and Clearstream, as applicable or (in the case of a global Bearer Note lodged with the CMU Service) on withdrawal of such global Bearer Note by the CMU Lodging and Paying Agent, and in such case such record shall be prima facie evidence that the payment in question has been made.

**(d) *Payments in respect of Registered Notes***

Payments of principal (other than installments of principal (if any) prior to the final installments) in respect of each Registered Note (whether in definitive or global form) will be made against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the Registered Note at the specified office of the Registrar, any of the Paying Agents or, in the case of CMU Notes, the CMU Lodging and Paying Agent. Such payments will be made by transfer to the Designated Account (as defined below) of the holder (or the first named of joint holders) of the Registered Note appearing in the register of holders of the Registered Notes maintained by the Registrar (the “**Register**”) (i) where in global form, at the close of the business day (being for this purpose (x) in respect of Notes clearing through Euroclear and/or Clearstream, a day on which Euroclear and/or Clearstream are open for business, (y) in respect of Notes clearing through the CMU Service, a day on which the CMU Service is open for business, and (z) in respect of Notes clearing through the DTC, a day on which the DTC is open for business) immediately prior to the relevant due date, and (ii) where in definitive form, at the close of business on the third business day (being for this purpose a day on which banks are open for business in the city where the specified office of the Registrar is located) prior to the relevant due date. Notwithstanding the previous sentence, if (i) a holder does not have a Designated Account or (ii) the principal amount of the Notes held by a holder is less than U.S.\$250,000 (or its approximate equivalent in any other Specified Currency), payment will instead be made by a check in the Specified Currency drawn on a Designated Bank (as defined below). For these purposes, “**Designated Account**” means the account (which, in the case of a payment in Japanese Yen to a non-resident of Japan, shall be a non-resident account) maintained by a holder with a Designated Bank and identified as such in the Register and “**Designated Bank**” means (in the case of payment in a Specified Currency other than Euro) a bank in the principal financial center of the country of such Specified Currency (which, if the Specified Currency is Australian dollars, New Zealand dollars or Renminbi, shall be Sydney, Auckland or Hong Kong, respectively) and (in the case of a payment in Euro) any bank which processes payments in Euro.

Payments of interest and payments of installments of principal (other than the final installment) in respect of each Registered Note (whether or not in global form) will be made in the manner specified in paragraph (a) to the holder (or the first named of joint holders) of the Registered Note appearing in the Register (i) where in global form, at the close of the business day (being for this purpose (i) (x) in respect of Notes clearing through Euroclear and/or Clearstream, a day on which Euroclear and Clearstream are open for business, (y) in respect of Notes clearing through the CMU Service, a day on which the CMU Service is open for business and (z) in respect of Notes clearing through the DTC, a day on which the DTC is open for business) immediately prior to the relevant due date, and (ii) where in definitive form, at the close of business on the fifteenth day (whether or not such day is a business day) prior to the relevant due date (the “**Record Date**”) at his address shown in the Register on the Record Date and at his risk. Upon application of the holder to the specified office of the Registrar not less than three business days in the city where the specified office of the Registrar is located before the due date for any payment of interest in respect of a Registered Note, the payment may be made by transfer on the due date in the manner provided in the preceding paragraph. Any such application for transfer shall be deemed to relate to all future payments of interest (other than interest due on redemption) and installments of principal (other than the final installment) in respect of the Registered Notes which become payable to the holder who has made the initial application until such time as the Registrar is notified in writing to the contrary by such holder. Payment of the interest due in respect of each Registered Note on redemption and the final installment of principal will be made in the same manner as payment of the principal amount of such Registered Note.

Holders of Registered Notes will not be entitled to any interest or other payment for any delay in receiving any amount due in respect of any Registered Note as a result of a check posted in accordance with this Condition arriving after the due date for payment or being lost in the post. No commissions or expenses shall be charged to such holders by the Registrar in respect of any payments of principal or interest in respect of the Registered Notes.

If payment in respect of any Registered Notes is required by transfer as referred to in paragraph (a) above, application for such payment must be made by the holder to the Registrar not later than the relevant Record Date.

In the case of Registered Notes (whether or not in global form) held in the CMU Service, payment of all amounts payable to the CMU Service or its sub-custodian as registered holder of a Registered Note (whether or not in global form) will be made at the direction of the registered holder to the CMU Accountholders and such payment shall discharge the obligations of the Issuer in respect of that payment.

None of the Issuer or the Agents will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Registered Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

**(e) General provisions applicable to payments**

The holder of a Global Note (if the Global Note is not lodged with the CMU Service), or the CMU Accountholder at the direction of the holder of a Global Note (if the Global Note is lodged with the CMU Service), shall be the only person entitled to receive payments in respect of Notes represented by such Global Note and the Issuer will be discharged by payment to, or to the order of, the holder of such Global Note in respect of each amount so paid. Each of the persons shown in the records of Euroclear, Clearstream, the CMU Service or DTC as the beneficial holder of a particular nominal amount of Notes represented by such Global Note must look solely to Euroclear, Clearstream, the CMU Service or DTC, as the case may be, for his share of each payment so made by the Issuer to, or to the order of, the holder of such Global Note. No person other than the holder of such Global Note shall have any claim against the Issuer in respect of any payments due on such Global Note.

**(f) Payment Day**

If the date for payment of any amount in respect of any Note, Receipt or Coupon is not a **Payment Day**, the holder thereof shall not be entitled to payment until the next following Payment Day in the relevant place and shall not be entitled to further interest or other payment in respect of such delay unless as otherwise specified in these Conditions or the Pricing Supplement. For these purposes, “**Payment Day**” means any day which is:

- (i) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in:
  - (A) in the case of Notes in definitive form only, the relevant place of presentation;
  - (B) London; and
  - (C) any Additional Financial Center specified in the applicable Pricing Supplement;
- (ii) either (1) in relation to any sum payable in a Specified Currency other than Euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial center of the country of the relevant Specified Currency (and which, if the Specified Currency is Australian dollars, New Zealand dollars, or Renminbi shall be Sydney, Auckland or Hong Kong, respectively) or (2) in relation to any sum payable in Euro, a day on which the TARGET2 System is open; and
- (iii) in the case of any payment in respect of a Registered Note denominated in a Specified Currency other than U.S. dollars and registered in the name of DTC or its nominee and in respect of which an accountholder of DTC (with an interest in such Registered Note) has elected to receive any part of such payment in U.S. dollars, a day on which commercial banks are not authorized or required by law or regulation to be closed in New York City.

**(g) Interpretation of Principal and Interest**

Any reference in these Terms and Conditions to principal in respect of the Notes shall be deemed to include, as applicable:

- (i) any additional amounts which may be payable with respect to principal under Condition 9 (*Taxation*);
- (ii) the Final Redemption Amount of the Notes;
- (iii) the Early Redemption Amount of the Notes;
- (iv) the Optional Redemption Amount(s) (if any) of the Notes;



- (v) in relation to Notes redeemable in installments, the Installment Amounts;
- (vi) in relation to Zero Coupon Notes, the Amortized Face Amount; and
- (vii) any premium and any other amounts which may be payable by the Issuer under or in respect of the Notes.

Any reference in these Terms and Conditions to interest in respect of the Notes shall be deemed to include, as applicable, any additional amounts which may be payable with respect to interest under Condition 9 (*Taxation*).

**(h) Renminbi Currency Event**

If “**Renminbi Currency Event**” is specified in the applicable Pricing Supplement and a Renminbi Currency Event, as determined by the Issuer acting in good faith, exists on a date for payment of any amount in respect of any Note, Receipt or Coupon, the Issuer’s obligation to make a payment in Renminbi under the terms of the Notes may be replaced by an obligation to pay such amount in the Relevant Currency (selected by the Issuer, if applicable, and converted at the Alternate Settlement Rate as of a time selected by the Alternate Settlement Rate Determination Agent as specified in the applicable Pricing Supplement).

Upon the occurrence of a Renminbi Currency Event, the Issuer shall give notice not less than five days nor more than 30 days prior to the due date for payment to the Noteholders in accordance with Condition 15 (*Notice*) stating the occurrence of the Renminbi Currency Event, giving details thereof and the action proposed to be taken in relation thereto.

For the purposes of this Condition 7(h) and unless stated otherwise in the applicable Pricing Supplement:

“**Alternate Settlement Rate**” means the spot rate, determined by the Alternate Settlement Rate Determination Agent, between Renminbi and the Relevant Currency, taking into consideration all available information which the Alternate Settlement Rate Determination Agent deems relevant (including, but not limited to, the pricing information obtained from the Renminbi non-deliverable market outside the People’s Republic of China and/or the Renminbi exchange market within the People’s Republic of China);

“**Governmental Authority**” means any de facto or de jure government (or any agency or instrumentality thereof), court, tribunal, administrative or other governmental authority or any other entity (private or public) charged with the regulation of the financial markets (including the central bank) of Hong Kong;

“**Relevant Currency**” means United States dollars or such other currency as may be specified in the applicable Pricing Supplement;

“**Renminbi Currency Event**” means any one of Renminbi Illiquidity, Renminbi Non-Transferability and Renminbi Inconvertibility;

“**Renminbi Illiquidity**” means the general Renminbi exchange market in Hong Kong becoming illiquid as a result of which the Issuer cannot obtain sufficient Renminbi in order to satisfy its obligation to pay interest or principal (in whole or in part) in respect of the Notes, as determined by the Issuer acting in good faith and in a commercially reasonable manner following consultation with two independent foreign exchange dealers of international repute active in the Renminbi exchange market in Hong Kong;

“**Renminbi Inconvertibility**” means the occurrence of any event that makes it impossible for the Issuer to convert any amount due in respect of the Notes in the general Renminbi exchange market in Hong Kong, other than where such impossibility is due solely to the failure of the Issuer to comply with any law, rule or regulation enacted by any Governmental Authority (unless such law, rule or regulation is enacted after the Issue Date of the first Tranche of the relevant Series and it is impossible for the Issuer, due to an event beyond the control of the Issuer, to comply with such law, rule or regulation); and

“**Renminbi Non-Transferability**” means the occurrence of any event that makes it impossible for the Issuer to deliver Renminbi between accounts inside Hong Kong or from an account inside Hong Kong to an account outside Hong Kong or from an account outside Hong Kong to an account inside Hong Kong (including where the Renminbi clearing and settlement system for participating banks in Hong Kong is disrupted or suspended), other than where such impossibility is due solely to the failure of the Issuer to comply with any law, rule or regulation enacted by any Governmental Authority (unless such law, rule or regulation is enacted after the Issue Date of the first Tranche of the relevant Series and it is impossible for the Issuer due to an event beyond the control of the Issuer, to comply with such law, rule or regulation).

Any reference in these Terms and Conditions to interest in respect of the Notes shall be deemed to include, as applicable, any additional amounts which may be payable with respect to interest under Condition 9 (*Taxation*).

## **8. Redemption and Purchase**

### **(a) At Maturity**

Unless previously redeemed or purchased and canceled as specified below, each Note will be redeemed by the Issuer at its Final Redemption Amount specified in, or determined in the manner specified in, the applicable Pricing Supplement in the relevant Specified Currency on the Maturity Date.

### **(b) Redemption for Tax Reasons**

The Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time (if this Note is not a Floating Rate Note) or on any Interest Payment Date (if this Note is a Floating Rate Note), on giving not less than 30 nor more than 60 days' notice to the Issuing and Paying Agent and, in accordance with Condition 15 (*Notices*), the Noteholders (which notice shall be irrevocable), if:

- (i) on the occasion of the next payment due under the Notes, the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 9 (*Taxation*) as a result of any change in, or amendment to, the laws or regulations of Korea, or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations (including the cessation of tax exemptions presently applicable), which change or amendment becomes effective on or after the Issue Date of the first Tranche of the Notes; and
- (ii) such obligation cannot be avoided by the Issuer taking reasonable measures available to it,

provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts were a payment in respect of the Notes then due. Prior to the publication of any notice of redemption pursuant to this Condition, the Issuer shall deliver to the Issuing and Paying Agent a certificate signed by two duly authorized officers of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred, and an opinion of independent legal advisers or tax consultants of recognized standing to the effect that the Issuer has or will become obliged to pay such additional amounts as a result of such change or amendment.

Notes redeemed pursuant to this Condition 8(b) will be redeemed at their Early Redemption Amount referred to in paragraph (e) below together (if appropriate) with interest accrued to (but excluding) the date of redemption.

### **(c) Redemption at the Option of the Issuer ("Issuer Call")**

If Issuer Call is specified in the applicable Pricing Supplement, the Issuer shall, having given:

- (i) not less than 30 nor more than 60 days' notice to the Noteholders in accordance with Condition 15 (*Notices*); and
- (ii) not less than 15 days before the giving of the notice referred to in (i), notice to the Issuing and Paying Agent (and the CMU Lodging and Paying Agent if applicable) and, in the case of a redemption of Registered Notes, the Registrar;

(which notices shall be irrevocable), redeem all or some of the Notes then outstanding on any Optional Redemption Date and at the Optional Redemption Amount(s) specified in, or determined in the manner specified in, the applicable Pricing Supplement together, if appropriate, with interest accrued to (but excluding) the relevant Optional Redemption Date. Any such redemption must be of a nominal amount equal to the Minimum Redemption Amount or a Higher Redemption Amount. In the case of a partial redemption of Notes, the Notes to be redeemed ("**Redeemed Notes**") will be selected individually by lot, in the case of Redeemed Notes represented by definitive Notes, and in accordance with the rules of Euroclear and/or Clearstream and/or, as the case may be, DTC, in the case of Redeemed Notes represented by a global Note, not more than 30 days prior to the date fixed for redemption (such date of selection being hereinafter called the "**Selection Date**"). In the case of Redeemed Notes represented by definitive Notes, a list of the serial numbers of such Redeemed Notes will be published in accordance with Condition 15 (*Notices*) not less than 15 days prior to the date fixed for redemption. The aggregate nominal amount of Redeemed Notes represented by definitive Notes shall bear the same

proportion to the aggregate nominal amount of all Redeemed Notes as the aggregate nominal amount of definitive Notes outstanding bears to the aggregate nominal amount of the Notes outstanding, in each case on the Selection Date, provided that such first mentioned nominal amount shall, if necessary, be rounded downwards to the nearest integral multiple of the Specified Denomination, and the aggregate nominal amount of Redeemed Notes represented by a Global Note shall be equal to the balance of the Redeemed Notes. No exchange of the relevant Global Note will be permitted during the period from and including the Selection Date to and including the date fixed for redemption pursuant to this sub-paragraph (c) and notice to that effect shall be given by the Issuer to the Noteholders in accordance with Condition 15 (*Notices*) at least 5 business days prior to the Selection Date.

**(d) Redemption at the Option of the Noteholders (“Investor Put”)**

If Investor Put is specified in the applicable Pricing Supplement, upon the holder of any Note giving to the Issuer in accordance with Condition 15 (*Notices*) not less than 30 nor more than 45 days’ notice or such other period of notice as is specified in the applicable Pricing Supplement, the Issuer will, upon the expiry of such notice, redeem, subject to, and in accordance with, the terms specified in the applicable Pricing Supplement, in whole (but not in part), such Note on the Optional Redemption Date and at the Optional Redemption Amount specified in, or determined in the manner specified in, the applicable Pricing Supplement together, if appropriate, with interest accrued to (but excluding) the Optional Redemption Date. Registered Notes may be redeemed under this Condition in any multiple of their lowest specified denomination.

If this Note is in definitive form, to exercise the right to require redemption of this Note the holder of this Note must deliver such Note at the specified office of any Paying Agent (in the case of a Bearer Note) or any Transfer Agent (in the case of a Registered Note) at any time during normal business hours of such Paying Agent or Transfer Agent, as the case may be, falling within the notice period, accompanied by a duly completed and signed notice of exercise in the form (for the time being current) obtainable from any specified office of any Paying Agent or Transfer Agent (a “**Put Notice**”) and in which the holder must specify a bank account (or, if payment is by check, an address) to which payment is to be made under this Condition.

Any Put Notice given by a holder of any Note pursuant to this paragraph shall be irrevocable except where prior to the due date of redemption an Event of Default shall have occurred and be continuing in which event such holder, at its option, may elect by notice to the Issuer to withdraw the notice given pursuant to this paragraph and instead to declare such Note forthwith due and payable pursuant to Condition 11 (*Events of Default*).

Each Note should be presented for redemption together with all unmatured Coupons relating to it, failing which such Note will be redeemed only against provision of such indemnity as the Issuer may require. Upon the date on which any Note falls due for redemption or is purchased for cancellation, all unmatured Coupons appertaining thereto will become void and no payment will thereafter be made in respect thereto.

**(e) Change of Control Redemption**

Upon the occurrence of a Change of Control (as defined below), each Noteholder will have the option (the “**Change of Control Put Option**”) (unless, prior to the giving of the Change of Control Put Event Notice (as defined below), the Issuer shall have given notice under paragraph (b) or (c) above in respect of the relevant Notes), exercisable during the Change of Control Put Period, to require the Issuer to redeem all or any part of its Notes at a redemption price (the “**Change of Control Redemption Price**”) equal to 100% of the nominal amount of such Notes, together with accrued and unpaid interest, if any, to but excluding the Change of Control Put Date (as defined below). The Change of Control Put Option shall operate as set out in paragraph (d) above. Accrued and unpaid interest in respect of the then current Interest Period (or portion thereof) shall be determined as if the Change of Control Put Date was an Interest Payment Date. Within 30 days following a Change of Control, the Issuer shall give notice (a “**Change of Control Put Event Notice**”) to the Noteholders in accordance with Condition 15 (*Notices*) stating (i) that a Change of Control has occurred and that such holder has the right to require the Issuer to redeem such holder’s Notes at the Change of Control Redemption Price, (ii) the date (the “**Change of Control Put Date**”) fixed by the Issuer for redemption under this Condition 8(e) (which shall be the fifth day after the expiry of the Change of Control Put Period) and (iii) the procedures determined by the Issuer that a Noteholder must follow in order to have its Notes redeemed.

In this Condition:

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

**“Change of Control Put Period”** means the period fixed by the Issuer, which shall end on a Business Day no earlier than 30 days or later than 60 days after a Change of Control Put Event Notice is given.

**(f) Early Redemption Amounts**

For the purpose of paragraph (b) above and Condition 11 (*Events of Default*), the Notes will be redeemed at the Early Redemption Amount calculated as follows:

- (i) in the case of Notes with a Final Redemption Amount equal to the Issue Price, at the Final Redemption Amount thereof;
- (ii) in the case of Notes (other than Zero Coupon Notes but including Installment Notes and Partly Paid Notes) with a Final Redemption Amount which is or may be less or greater than the Issue Price or which is payable in a Specified Currency other than that in which the Notes are denominated, at the amount specified in, or determined in the manner specified in, the applicable Pricing Supplement or, if no such amount or manner is so specified in the Pricing Supplement, at their nominal amount; or
- (iii) in the case of Zero Coupon Notes, at an amount (the **“Amortized Face Amount”**) equal to the sum of:
  - (A) the Reference Price; and
  - (B) the product of the Accrual Yield (compounded annually) being applied to the Reference Price from (and including) the Issue Date to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Note becomes due and repayable.

Where such calculation is to be made for a period which is not a whole number of years, it shall be made on the basis of a 360-day year consisting of 12 months of 30 days each or such other calculation basis as may be specified in the applicable Pricing Supplement.

**(g) Installments**

If the Notes are repayable in installments, they will be redeemed in the Installment Amounts and on the Installment Dates. In the case of early redemption, the Early Redemption Amount will be determined pursuant to paragraph (e) above.

**(h) Partly Paid Notes**

If the Notes are Partly Paid Notes, they will be redeemed, whether at maturity, early redemption or otherwise, in accordance with the provisions of this Condition and the applicable Pricing Supplement.

**(i) Purchases**

The Issuer may at any time purchase Notes at any price (provided that, in the case of Bearer Notes in definitive form, these are purchased together with all unmatured Receipts, Coupons and Talons appertaining thereto) in the open market or otherwise. Such Notes may be held, reissued, resold or, at the option of the Issuer, surrendered to any Paying Agent, the Registrar or the CMU Lodging and Paying Agent for cancellation.

**(j) Cancellation**

All Notes which are redeemed will forthwith be canceled (together with all unmatured Receipts, Coupons and Talons attached thereto or surrendered therewith at the time of redemption). All Notes so canceled and the Notes purchased and canceled pursuant to paragraph (h) above (together with all unmatured Receipts, Coupons and Talons canceled therewith) shall be forwarded to the Issuing and Paying Agent (and the CMU Lodging and Paying Agent if applicable) which shall notify the Registrar of such canceled Notes in the case of Registered Notes and such Notes cannot be reissued or resold.

**(k) Late payment on Zero Coupon Notes**

If the amount payable in respect of any Zero Coupon Note upon redemption of such Zero Coupon Note pursuant to paragraph (a), (b), (c) or (d) above or upon its becoming due and repayable as provided in Condition 11 (*Events of Default*) is improperly withheld or refused, the amount due and repayable in respect of such Zero Coupon Note shall be the amount calculated as provided in paragraph (e)(iii) above as though the references

therein to the date fixed for the redemption or the date upon which such Zero Coupon Note becomes due and payable were replaced by references to the date which is the earlier of:

- (i) the date on which all amounts due in respect of such Zero Coupon Note have been paid; and
- (ii) the date on which the full amount of the moneys payable has been received by the Issuing and Paying Agent, the DTC Paying Agent or the CMU Lodging and Paying Agent, as the case may be, and notice to that effect has been given to the Noteholders in accordance with Condition 15 (*Notices*).

#### **(I) *Obligation to redeem***

Upon the expiry of any notice as is referred to in paragraph (b), (c) or (d) above, the Issuer shall be bound to redeem the Notes to which the notice referred at the relevant redemption price applicable at the date of such redemption together with, if appropriate, interest accrued to (but excluding) the relevant redemption date.

#### **9. *Taxation***

All payments of principal and interest in respect of the Notes, Receipts and Coupons by the Issuer will be made without withholding or deduction for or on account of any present or future taxes, duties, levies, imposts, assessments or other government charges and any interest, penalties or other liabilities with respect thereto (“**Taxes**”) imposed or levied by or on behalf of any Tax Jurisdiction (as defined below) unless such withholding or deduction is required by law. In such event, the Issuer will pay such additional amounts as shall be necessary in order that the net amounts received by the holders of the Notes, Receipts or Coupons after such withholding or deduction shall equal the amounts which would otherwise have been receivable in respect of the Notes, Receipts or Coupons, as the case may be, in the absence of such withholding or deduction; except that no such additional amounts shall be payable with respect to:

- (i) any Taxes with respect to a Note, Receipt or Coupon presented for payment (where presentation is required) in Korea (solely to the extent such Taxes would not have been imposed if such Note, Receipt or Coupon, as the case may be, were presented at an office of a Paying Agent outside Korea); or
- (ii) any withholding or deduction imposed on a payment received by or on behalf of a holder of a Note, Receipt or Coupon who is liable for such Taxes by reason of such holder of the Note (or fiduciary, settlor, beneficiary, member or shareholder of, or possessor of power over the relevant holder, if the relevant holder is an estate, nominee, trust or corporation) being or having been connected with a Tax Jurisdiction otherwise than merely by holding such Note, Receipt or Coupon, or enforcing rights thereunder; or
- (iii) any Taxes with respect to a Note, Receipt or Coupon presented for payment (where presentation is required) more than 30 days after the Relevant Date (as defined below) except to the extent that the holder thereof would have been entitled to additional amounts on presenting the same for payment on any date during such 30-day period; or
- (iv) any withholding or deduction required to be made pursuant to European Union Directive 2003/48/EC or any other directive implementing the conclusions of the ECOFIN Council meeting of November 26-27, 2000 or any law implementing or complying with, or introduced in order to conform to, such Directive; or
- (v) presented for payment by or on behalf of a holder who would have been able to avoid such withholding or deduction by presenting the relevant Note, Receipt or Coupon to another Paying Agent in a Member State of the European Union; or
- (vi) presented for payment by or on behalf of a holder of such Note, Receipt or Coupon who, at the time of such presentation, is able to avoid such withholding or deduction by making a declaration of non-residence or other similar claim for exemption and does not make such declaration or claim; or
- (vii) any withholding or deduction is imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, official interpretations thereof or any law implementing an intergovernmental approach thereto; or
- (viii) any combination of paragraphs (i), (ii), (iii), (iv), (v), (vi) or (vii) above;

nor will additional amounts be paid with respect to any payment on a Note, Receipt or Coupon to a holder who is a fiduciary, a partnership, a limited liability company or a holder other than the sole beneficial owner of that



payment to the extent that a beneficiary or settlor with respect to such fiduciary, a member of such a partnership, an interest holder in such a limited liability company or the beneficial owner of the payment would not have been entitled to the additional amounts had the beneficiary, settlor, member or beneficial owner been the holder of such Note, Receipt or Coupon.

As used herein:

- (i) “**Tax Jurisdiction**” means Korea or any political subdivision or any authority thereof or therein having power to tax; and
- (ii) the “**Relevant Date**” means the date on which such payment first becomes due, except that, if the full amount of the moneys payable has not been duly received by the Issuing and Paying Agent or the Registrar, as the case may be, on or prior to such due date, it means the date on which, the full amount of such moneys having been so received, notice to that effect is duly given to the Noteholders in accordance with Condition 15 (*Notices*).

The obligation to pay additional amounts shall not apply to (a) any estate, inheritance, gift, sales, transfer, personal property or any similar tax, assessment or other governmental charge or (b) any tax, assessment or other governmental charge which is payable otherwise than by deduction or withholding from payments on the Notes, Receipts or Coupons; provided that, except as otherwise set forth in these Terms and Conditions, the Issuer shall pay all stamp and other duties, if any, which may be imposed by Korea, the United Kingdom, the United States or any respective political subdivision or any taxing authority thereof or therein, as a consequence of the initial issuance of the Notes.

Whenever there is mentioned in any context the payment of principal of, and any premium or interest on, any Note, Receipt or Coupon, such mention shall be deemed to include payment of additional amounts to the extent that, in such context, additional amounts are, were or would be payable in respect thereof.

## 10. Prescription

The Notes, Receipts and Coupons will become void unless presented for payment within a period of five years (in the case of principal) and two years (in the case of interest) after the Relevant Date (as defined in Condition 9 (*Taxation*)) therefor.

There shall not be included in any Coupon sheet issued on exchange of a Talon any Coupon the claim for payment in respect of which would be void pursuant to this Condition or Condition 7(b) (*Payments in respect of Definitive Bearer Notes*) or any Talon which would be void pursuant to Condition 7(b) (*Payments in respect of Definitive Bearer Notes*).

## 11. Events of Default

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

- (i) Non-payment: default in the payment of any amount of principal of (or premium, if any, on), or interest in respect of, any of the Notes on the due date for payment thereof and such default remains unremedied for, in the case of default in the payment of interest, 15 days thereafter; or
- (ii) Breach of other obligations: default in the performance or observance of any other obligation of the Issuer under or in respect of any of the Notes and these Conditions and (except in any case where the failure is incapable of remedy, when no continuation or notice as is hereinafter mentioned will be required) such default remains unremedied for ten days after written notice thereof, addressed to the Issuer by any holder of a Note, has been delivered to the Issuer or to the specified office of a Paying Agent; or
- (iii) Cross-acceleration: any Indebtedness for Borrowed Money (as defined below) of the Issuer or any of its Principal Subsidiaries (as defined below) in the aggregate outstanding principal amount of US\$10,000,000 (or its equivalent in any currency) or more either (A) becoming due and payable prior to the due date for payment thereof by reason of acceleration thereof following default by the Issuer or (B) not being repaid at, and remaining unpaid after, maturity as extended by the period of

grace, if any, applicable thereto, or any guarantee given by the Issuer in respect of Indebtedness for Borrowed Money of any other Person not being honored when, and remaining dishonored after becoming, due and called; provided that, in the case of (A) above, if any such default under any such Indebtedness for Borrowed Money shall be cured or waived, then the default hereunder by reason thereof shall be deemed to have been cured and waived; or

- (iv) if (A) proceedings are initiated against the Issuer or any of its Principal Subsidiaries under any applicable liquidation, insolvency, composition, reorganization or other similar laws or an application is made (or documents filed with a court) for the appointment of an administrative or other receiver, manager, administrator or other similar official, or an administrative or other receiver, manager, administrator or other similar official is appointed, in relation to the Issuer or any of its Principal Subsidiaries or, as the case may be, in relation to the whole or any part of the undertaking or assets of any of them or an encumbrancer takes possession of the whole or any part of the undertaking or assets of any of them, or a distress, execution, attachment, sequestration or other process is levied, enforced upon, sued out or put in force against the whole or any part of the undertaking or assets of any of them, and (B) in any such case (other than the appointment of an administrator) unless initiated by the relevant company, is not discharged within 14 days; or
- (v) if the Issuer or any of its Principal Subsidiaries (or their respective directors or shareholders) initiates or consents to judicial proceedings relating to itself under any applicable liquidation, insolvency, composition, reorganization or other similar laws (including the obtaining of a moratorium) or makes a conveyance or assignment for the benefit of, or enters into any composition or other arrangement with, its creditors generally (or any class of its creditors) or any meeting is convened to consider a proposal for an arrangement or composition with its creditors generally (or any class of its creditors); or
- (vi) all or any substantial part of the undertaking, assets and revenues of the Issuer is condemned, seized or otherwise appropriated by any person acting or purporting to act under the authority of any national, regional or local government of Korea or the Issuer is prevented by any such person from exercising normal control over all or any substantial part of its undertaking, assets and revenues; or
- (vii) an order is made by any competent court or resolution is passed for the winding-up, liquidation or dissolution of the Issuer or any of its Principal Subsidiaries; or
- (viii) if the Issuer or any of its Principal Subsidiaries ceases or threatens to cease to carry on the whole or a substantial part of its business, save for the purposes of reorganization on terms approved by the Noteholders, or the Issuer or any of its Principal Subsidiaries stops or threatens to stop payment of, or is unable to, or admits inability to, pay, its debts (or any class of its debts) as they fall due or is deemed unable to pay its debts pursuant to or for the purposes of any applicable law, or is adjudicated or found bankrupt or insolvent; or
- (ix) any event occurs which under the laws of Korea has an analogous effect to any of the events referred to in paragraphs (iv) to (viii) above,

then any holder of a Note may, by written notice to the Issuer at the specified office of the Issuing and Paying Agent, effective upon the date of receipt thereof by the Issuing and Paying Agent, declare any Notes held by that holder to be forthwith due and payable together with premium (if any) and accrued interest (if any) to the date of repayment, without presentment, demand, protest or other notice of any kind. Any such notice shall specify the serial number of each Note in respect of which it is given.

The Issuer shall fully indemnify each Noteholder from and against any reasonable costs, expenses, liabilities and losses which such Noteholder may suffer or incur as a direct result of the occurrence of any Event of Default (including, but without limitation, any expenses incurred in connection with legal proceedings to enforce repayment of such Note).

In these Conditions:

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

**“Principal Subsidiary”** means:

- (a) any Subsidiary (as defined in Condition 4(d)) of the Issuer, under the Korean International Financial Reporting Standards (or any other successor generally accepted accounting principles in Korea):
  - (i) whose operating revenue, as shown by the then latest audited accounts (consolidated where applicable) of such Subsidiary, constitute at least ten per cent. (10%) of the consolidated operating revenue of the Issuer as shown by the then latest audited consolidated accounts of the Issuer; or
  - (ii) whose total assets, as shown by the then latest audited accounts (consolidated where applicable) of such Subsidiary, constitute at least ten per cent. (10%) of the total consolidated assets of the Issuer as shown by the then latest audited consolidated accounts of the Issuer;

provided that:

- (A) in the case of a Subsidiary acquired, or a company becoming a Subsidiary, after the end of the financial period to which the latest audited consolidated accounts of the Issuer relate, the reference to the then latest audited consolidated accounts of the Issuer for the purposes of the calculation above shall, until audited consolidated accounts of the Issuer for the financial period in which the acquisition is made or, as the case may be, in which the relevant company becomes a Subsidiary are published, be deemed to be a reference to the then latest audited consolidated accounts of the Issuer adjusted to consolidate the last audited accounts (consolidated where applicable) of such Subsidiary in such accounts;
  - (B) if at any relevant time in relation to the Issuer or any Subsidiary in respect of which financial consolidation is relevant, no consolidated accounts are prepared and audited, operating revenue and total assets of the Issuer and/or any such Subsidiary shall be determined on the basis of pro-forma consolidated accounts prepared for this purpose by the auditors for the time being of the Issuer;
  - (C) if at any relevant time in relation to any Subsidiary no accounts are audited, its operating revenue and total assets (consolidated where applicable) shall be determined on the basis of pro-forma accounts (consolidated where applicable) of the relevant Subsidiary prepared for this purpose by the auditors for the time being of the Issuer; and
  - (D) if the accounts of any Subsidiary (not being a Subsidiary referred to in proviso (A) above) are not consolidated with those of the Issuer, then the determination of whether or not such Subsidiary is a Principal Subsidiary shall be based on a pro-forma consolidation of its accounts (consolidated where applicable) with the then latest consolidated audited accounts (determined on the basis of the foregoing) of the Issuer; or
- (b) any Subsidiary of the Issuer to which is transferred all or substantially all of the assets of a Subsidiary which immediately prior to such transfer was a Principal Subsidiary, provided that the Principal Subsidiary which so transfers its assets shall forthwith upon such transfer cease to be a Principal Subsidiary.

## **12. Replacement of Notes, Receipts, Coupons and Talons**

Should any Note, Receipt, Coupon or Talon be lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Issuing and Paying Agent or the relevant Paying Agent (in the case of Bearer Notes, Receipts, Coupons and Talons) or of any Transfer Agent (in the case of Registered Notes) upon payment by the claimant of such costs and expenses as may be incurred in connection therewith and on such terms as to evidence and indemnity as the Issuer and the relevant Paying Agent or the Transfer Agent, as the case may be, may reasonably require. Mutilated or defaced Notes, Receipts, Coupons or Talons must be surrendered before replacements will be issued.



### **13. Issuing and Paying Agent, Calculation Agent, Registrar, Paying Agents, Transfer Agents and CMU Lodging and Paying Agent**

The names of the initial Issuing and Paying Agent, the other initial Paying Agents, the Calculation Agent, the initial Registrar, the other initial Transfer Agents, the CMU Lodging and Paying Agent and their initial specified offices are set out below.

The Issuer is entitled to vary or terminate the appointment of any Paying Agent, Calculation Agent, Registrar or Transfer Agent, the CMU Lodging and Paying Agent and/or appoint additional or other Paying Agents, Calculation Agent, Registrars or Transfer Agents, the CMU Lodging and Paying Agent and/or approve any change in the specified office through which any of the same acts, provided that:

- (i) so long as the Notes are listed on any stock exchange, there will at all times be a Paying Agent and, if appropriate, a Registrar and Transfer Agent with a specified office in such place as may be required by the rules and regulations of the relevant stock exchange;
- (ii) there will at all times be a Paying Agent and a Transfer Agent with a specified office in a city in continental Europe;
- (iii) there will at all times be a Registrar and a Transfer Agent each having a specified office in New York City;
- (iv) there will at all times be an Issuing and Paying Agent;
- (v) the Issuer undertakes that it will ensure that it maintains a Paying Agent in a Member State of the European Union that is not obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC (as amended from time to time) or any other directive implementing the conclusions of the ECOFIN Council meeting of November 26-27, 2000 or any law implementing or complying with, or introduced in order to conform to, such Directive; and
- (vi) so long as the Notes are listed on the Singapore Exchange Securities Trading Limited (the “**Singapore Stock Exchange**”) and the rules of the Singapore Stock Exchange so require, if the Notes are issued in definitive form, there will at all times be a Paying Agent in Singapore unless the Issuer obtains an exemption from the Singapore Stock Exchange.

In addition, the Issuer shall forthwith appoint a Paying Agent having a specified office in New York City in the circumstances described in the second paragraph of Condition 7(b) (*Payments in respect of Definitive Bearer Notes*). Any variation, termination, appointment or change shall only take effect (other than in the case of insolvency, when it shall be of immediate effect) after not less than 30 nor more than 45 days' prior notice thereof shall have been given to the Noteholders in accordance with Condition 15 (*Notices*).

In acting under the Agency Agreement, the Issuing and Paying Agent, the Calculation Agent, the Registrar, the other Paying Agents, the CMU Lodging and Paying Agent and the Transfer Agents act solely as agents of the Issuer and do not assume any obligation or trust for or with any Noteholders.

### **14. Exchange of Talons**

On and after the Fixed Interest Date or the Interest Payment Date, as appropriate, on which the final Coupon comprised in any Coupon sheet matures, the Talon (if any) forming part of such Coupon sheet may be surrendered at the specified office of the Issuing and Paying Agent or any other Paying Agent in exchange for a further Coupon sheet including (if such further Coupon sheet does not include Coupons to (and including) the final date for the payment of interest due in respect of the Bearer Note to which it appertains) a further Talon, subject to the provisions of Condition 10 (*Prescription*). Each Talon shall, for the purposes of these Terms and Conditions, be deemed to mature on the Fixed Interest Date or the Interest Payment Date (as the case may be) on which the final Coupon comprised in the relative Coupon sheet matures.

### **15. Notices**

Notices to holders of Registered Notes will be deemed to be validly given (i) if sent by first class mail or (if posted to an overseas address) by air mail to them at their respective addresses as recorded in the Register and (ii) if and for so long as the Notes are listed on the Singapore Stock Exchange and the rules of the Singapore Stock Exchange so require, if published in a daily newspaper of general circulation in Singapore. Any such notice will be deemed to have been validly given on the latter of the fourth day after the date of such mailing and, if applicable, the date of such first publication.

All notices regarding the Bearer Notes shall be published (i) in a leading English language daily newspaper of general circulation in London and Asia and (ii) if and for so long as the Notes are listed on the Singapore Stock Exchange and the rules of the Singapore Stock Exchange so require, in a daily newspaper of general circulation in Singapore. It is expected that such publication will be made in the *Financial Times* in London and the *Asian Wall Street Journal*. The Issuer shall also ensure that notices are duly published in a manner which complies with the rules and regulations of any other stock exchange on which the Notes are for the time being listed. Any such notice will be deemed to have been given on the date of the first publication or, where required to be published in more than one newspaper, on the date of first publication in each such newspaper or where published in such newspapers on different dates, the last date of such first publication.

Until such time as any definitive Notes are issued, there may (provided that, in the case of Notes listed on a stock exchange, the rules of the stock exchange allow for and further provided that, for so long as the Notes are listed on the Singapore Stock Exchange and the rules of the Singapore Stock Exchange so require, notices will always be published in a daily newspaper of a general circulation in Singapore), so long as the Global Note(s) is or are held in its/their entirety on behalf of (i) Euroclear and/or Clearstream or DTC, be substituted for such publication in such newspaper(s), the delivery of the relevant notice to Euroclear and/or Clearstream or DTC for communication by them to the holders of the Notes and (ii) the CMU Service, be substituted for such publication in such newspaper(s) the delivery of the relevant notice to the persons shown in a CMU Instrument Position Report issued by the CMU Service on the second business day preceding the date of dispatch of such notice as holding interests in the relevant Global Note and, in addition, for so long as any Notes are listed on a stock exchange and the rules of that stock exchange (or any other relevant authority) so require, such notice will be published in a manner specified by those rules. Any such notice shall be deemed to have been given to the holders of the Notes on the seventh day after the day on which the said notice was given to Euroclear and/or Clearstream or DTC or the persons shown in the relevant CMU Instrument Position Report.

Notices to be given by any holder of the Notes shall be in writing and given by lodging the same, together with the relative Note or Notes, with the Issuing and Paying Agent. While any of the Notes are represented by a Global Note, such notice or demand may be given or made by any holder of a Note to the Issuing and Paying Agent or, the Registrar through Euroclear, Clearstream and/or DTC or, in the case of Notes lodged with the CMU Service, by delivery by such holder of such notice to the CMU Lodging and Paying Agent in Hong Kong, as the case may be, in such manner as the Issuing and Paying Agent and Registrar and Euroclear, Clearstream, the CMU Service and/or DTC, as the case may be, may approve for this purpose.

## **16. Meetings of Noteholders, Modification and Waiver**

The Agency Agreement contains provisions for convening meetings of the Noteholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of the Notes, the Receipts, the Coupons or any of the provisions of the Agency Agreement. Such a meeting may be convened by the Issuer or Noteholders holding not less than ten per cent. in nominal amount of the Notes for the time being remaining outstanding. The quorum at any such meeting for passing an Extraordinary Resolution is one or more persons holding or representing not less than 50 per cent. in nominal amount of the Notes for the time being outstanding, or at any adjourned meeting one or more persons being or representing Noteholders whatever the nominal amount of the Notes so held or represented, except that at any meeting the business of which includes the modification of certain provisions of the Notes, Receipts or Coupons (including modifying the date of maturity of the Notes or any date for payment of interest thereof, reducing or canceling the amount of principal or the rate of interest payable in respect of the Notes or altering the currency of payment of the Notes, Receipts or Coupons), the quorum shall be one or more persons holding or representing not less than 75 per cent. in nominal amount of the Notes for the time being outstanding, or at any adjourned such meeting one or more persons holding or representing a clear majority, in nominal amount of the Notes for the time being outstanding. An Extraordinary Resolution passed at any meeting of the Noteholders shall be binding on all the Noteholders, whether or not they are present at the meeting, and on all Receiptholders and Couponholders.

The Issuing and Paying Agent and the Issuer may agree, without the consent of the Noteholders, Receiptholders or Couponholders, to:

- (i) any modification (except as mentioned above) of any of the provisions of the Notes, the Receipts, the Coupons, the Conditions, or the Agency Agreement which is not prejudicial to the interests of the Noteholders; or

- (ii) any modification of the Notes, the Receipts, the Coupons, the Conditions, the Deed of Covenant or the Agency Agreement which is of a formal, minor or technical nature or is made to correct a manifest error or to comply with mandatory provisions of the law of the jurisdiction in which the Issuer is incorporated.

Any determination as to whether any modification is prejudicial to the interests of the Noteholders shall be made solely by the Issuer and none of the Agents shall have any responsibility or liability whatsoever with respect to such determination. Any such modification shall be binding on the Noteholders, the Receiptholders and the Couponholders and any such modification shall be notified to the Noteholders in accordance with Condition 15 (*Notices*) as soon as practicable thereafter.

## **17. Further Issues**

The Issuer shall be at liberty from time to time without the consent of the Noteholders, Receiptholders or Couponholders to create and issue further notes having terms and conditions the same as the Notes or the same in all respects save for the amount and date of the first payment of interest thereon and so that the same shall be consolidated and form a single Series with the outstanding Notes, provided that such further issuance constitutes a qualified reopening for U.S. federal income tax purposes.

## **18. Provision of Information**

The Issuer has covenanted in the Agency Agreement for the benefit of the Noteholders, Receiptholders and Couponholders that for so long as any Notes remain outstanding and are “**restricted securities**” (as defined in Rule 144(a)(3) under the Securities Act), the Issuer shall, during any period in which it is neither subject to Section 13 or 15(d) of the Exchange Act nor exempt from reporting pursuant to Rule 12g3-2(b) under the Exchange Act, make available to any Noteholder, Receiptholder or Couponholder of, or beneficial owner of an interest in, such Notes, Receipts or Coupons in connection with any resale thereof and to any prospective purchaser designated by such Noteholder, Receiptholder, Couponholder or beneficial owner, in each case upon request, the information specified in, and meeting the requirements of, Rule 144A(d)(4) under the Securities Act.

## **19. Governing Law and Submission to Jurisdiction**

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

## 20. Currency Indemnity

If, under any applicable law and whether pursuant to a judgment being made or registered against the Issuer or in the liquidation, insolvency or analogous process of the Issuer or for any other reason, any payment under or in connection with any Note, Receipt or Coupon, as the case may be, is made or fails to be satisfied in a currency (the “**other currency**”) other than that in which the relevant payment is expressed to be due (the “**required currency**”), then, to the extent that the payment (when converted into the required currency at the rate of exchange (as defined below) on the date of payment or, if it is not practicable for any Noteholder, Receiptholder or Couponholder, as the case may be, to purchase the required currency with the other currency on the date of payment, at the rate of exchange as soon thereafter as it is practicable for it to do so or, in the case of a liquidation, insolvency or analogous process of the Issuer, at the rate of exchange on the latest date permitted by applicable law for the determination of liabilities in such liquidation, insolvency or analogous process) actually received by any Noteholder, Receiptholder or Couponholder, as the case may be, falls short of the amount due under the terms of the relevant Note, Receipt or Coupon, as the case may be, the Issuer shall, as a separate and independent obligation, indemnify and hold harmless such Noteholder, Receiptholder or Couponholder against the amount of such shortfall.

“**Rate of exchange**” means the rate at which the relevant Noteholder, Receiptholder or Couponholder, as the case may be, is able on the relevant date in London to purchase the required currency with the other currency and shall take into account any premium and other costs of exchange.

## 21. Waiver of Immunity

To the extent that the Issuer has or hereafter may acquire any immunity (sovereign or otherwise) from any legal action, suit or proceeding, from jurisdiction of any court or from set-off or any legal process (whether service or notice, attachment in aid or otherwise) with respect to itself or any of its property, the Issuer hereby irrevocably waives and agrees not to plead or claim such immunity in respect of its obligations under the Agency Agreement, the Notes, the Receipts or the Coupons, as the case may be.

## **USE OF PROCEEDS**

The net proceeds from each issue of Notes will be applied by the Issuer for its general corporate purposes or as may otherwise be disclosed in the applicable Pricing Supplement.

## EXCHANGE RATES

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

<u>Period</u>	<u>At End of Period</u>	<u>Average<sup>(1)</sup></u>	<u>High</u>	<u>Low</u>
		<i>(Won per US\$1.00)</i>		
2013 .....	1,055.3	1,095.0	1,159.1	1,051.5
2014 .....	1,099.2	1,053.2	1,118.3	1,008.9
2015 .....	1,172.0	1,131.5	1,203.1	1,068.1
2016 .....	1,208.5	1,160.5	1,240.9	1,093.2
2017 .....	1,071.4	1,130.8	1,208.5	1,071.4
2018 (through August 27) .....	1,121.8	1,087.3	1,135.2	1,057.6
January .....	1,071.5	1,066.7	1,071.5	1,061.3
February .....	1,071.0	1,079.6	1,094.3	1,068.0
March .....	1,066.5	1,071.9	1,081.9	1,064.3
April .....	1,076.2	1,067.8	1,079.7	1,057.6
May .....	1,081.3	1,076.4	1,083.8	1,066.6
June .....	1,121.7	1,092.8	1,121.7	1,067.9
July .....	1,116.7	1,122.8	1,135.2	1,112.3
August (through August 27) .....	1,121.8	1,123.5	1,133.7	1,117.9

*Source: Seoul Money Brokerage Services, Ltd.*

*Note:*

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

## INVESTMENT CONSIDERATIONS

*Prospective purchasers of Notes should carefully review the information contained in this Offering Circular, including the following matters.*

### **Risks Relating to Our Business**

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

We are a statutory entity wholly-owned by the Government with the mandate to execute the Government's public policy objectives in respect of the railroad industry pursuant to the KRC Act. Revenues from our transportation services have historically been insufficient to cover our operating expenses due to limitations on our ability to raise our railway tariffs, which are subject to tariff ceilings determined by the MOLIT. Hence, we have historically relied on significant subsidies from the Government to conduct our business. The Government has provided such support in the form of contributions of operating assets as investments-in-kind, capital injections, cost reimbursements for PSO services performed by us, assumption by the Government of the cost associated with maintenance of conventional railroads and construction of KTX railroads, financing our investment, and reimbursement of our railroad facility maintenance, repair and upgrade work performed on behalf of the Government. See "*Relationship with the Government — Government Support*". In 2017, we received subsidies in various forms from the Government in the amount of ₩631 billion.

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

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

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

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

Our business is capital intensive, and as a result we have historically made, and are expected to continue to make, significant capital expenditures. Our capital expenditure (which represents the acquisition of property, trains and equipment as shown in our cash flow statements) amounted to ₩906 billion and ₩634 billion in 2016 and 2017, respectively. The biggest portion of our capital expenditure over those periods was spent for the acquisition of new rolling stock.

We have historically relied on support from the Government and debt financings to meet our capital needs. In 2017, we received subsidies in various forms from the Government in the amount of ₩631 billion, including reimbursements of our PSO services in the amount of ₩296 billion and other subsidies such as payments to



contractors for purposes of facility maintenance, facility improvement and traffic control system operation. We also issued bonds in the aggregate principal amount of ₩2,022 billion and ₩2,722 billion in 2016 and 2017, respectively. As of December 31, 2017, our net long-term debt, consisting of long-term borrowings and bonds, excluding the current portion thereof and net of present value discounts and bond issuance discounts, amounted to ₩10,379 billion, representing 207.6% of owner's equity. If we are unable to obtain financing for our capital expenditure or to refinance our existing debt on commercially reasonable terms, we could be forced to suspend, curtail or reduce certain aspects of our operations, which could adversely affect our business, financial condition and results of operations, as well as our ability to make interest or principal payments on the Notes.

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

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

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

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

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

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



***Labor unrest may adversely affect our operations.***

We have experienced labor unrest from time to time. As of December 31, 2017, approximately 76.2% of our employees belonged to labor unions. In the second half of 2016, our unionized employees engaged in a strike for 74 days, the longest rail strike in Korea. See “*Business — Employees and Labor Relations*”. There can be no assurance that we will not experience additional strikes or other labor disruptions in the future which could halt or impede our railway operations or require us to acquiesce to certain terms and conditions which could increase our costs and materially and adversely affect our business prospects, results of operations and financial condition.

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

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

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

***We may be adversely affected by volatility in energy costs.***

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

***We are subject to cyber security risk.***

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

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

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

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

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

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

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

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

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

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

In tandem with the Supreme Court ruling, as of the date of this Offering Circular, we are subject to ongoing lawsuits filed by over 47,000 employees based on claims that ordinary wages had been paid without including certain items that should have been included as ordinary wage. In January 2018, the trial court decided on a lawsuit filed by over 20,000 employees, ordering us to pay such employees about ₩187 billion out of ₩204 billion originally claimed by the employees. We appealed the trial court’s decision, and the case is currently pending before the appeals court. The rest of the lawsuits are still pending before the trial court. In addition, we cannot presently assure you that there will not be additional lawsuits in relation to ordinary wages. Although we have set up reserves for possible lawsuits by the entire employees (taking account of the statute of limitations of the salary claim), if we are finally and conclusively required to pay a significant amount as a result of the above and/or additional litigations, such a result may have an adverse effect on our financial condition and results of operation.

## Risks Relating to Korea

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

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

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

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

- continued volatility or deterioration in Korea's credit and capital markets;
- increased sovereign default risks in selected countries and the resulting adverse effects on the global financial markets;
- global market volatility in connection with "Brexit," the United Kingdom's vote to leave the European Union in a referendum held in June 2016;
- adverse changes or volatility in foreign currency reserve levels, commodity prices (including oil prices), exchange rates (including fluctuation of the U.S. dollar, the Euro or Japanese Yen exchange rates or revaluation of the Chinese Renminbi), interest rates, inflation rates or stock markets;
- a continuing rise in the level of household debt and increasing delinquencies and credit defaults by retail and small- and medium-sized enterprise borrowers in Korea;
- continuing adverse conditions in the economies of countries and regions that are important export markets for Korea, such as the United States, Europe, Japan and China, or in emerging market economies in Asia or elsewhere;
- decreases in the market prices of Korean real estate;
- declines in consumer confidence and a slowdown in consumer spending;
- social and labor unrest;
- increases in social expenditures to support an aging population in Korea or decreases in economic productivity due to the declining population size in Korea;
- a substantial increase in the Government's expenditures for fiscal stimulus measures, unemployment compensation and other economic and social programs that would lead to an increased government budget deficit;
- financial problems or lack of progress in the restructuring of Korean business groups, other large troubled companies (including those in the shipbuilding and shipping sectors), their suppliers or the financial sector;
- investigations of large Korean business groups and their senior management for bribery, embezzlement and other possible misconduct;
- loss of investor confidence arising from corporate accounting irregularities or corporate governance issues at certain Korean companies;
- the economic impact of any pending or future free trade agreements or changes in existing free trade agreements;

- geo-political uncertainty and risk of further attacks by terrorist groups around the world;
- the occurrence of severe health epidemics in Korea or other parts of the world, such as the Middle East Respiratory Syndrome outbreak in Korea in 2015;
- deterioration in economic or diplomatic relations between Korea and its trading partners or allies, including deterioration resulting from territorial or trade disputes or disagreements in foreign policy, such as the controversy between Korea and China regarding the deployment of a Terminal High Altitude Area Defense (THAAD) system in Korea by the United States commencing in March 2017 and the ensuing economic and other retaliation measures imposed by China against Korea;
- political uncertainty or increasing strife among or within political parties in Korea, and political gridlock within the Government or in the legislature, which prevent or disrupt timely and effective policy making;
- natural or man-made disasters that have a significant adverse economic or other impact on Korea (such as the sinking of the Sewol ferry in 2014, which significantly dampened consumer sentiment in Korea) or its major trading partners;
- hostilities or political or social tensions involving countries in the Middle East and North Africa and any material disruption in the supply of oil or significant decrease or increase in the price of oil;
- political or social tensions involving Russia and any resulting adverse effects on the global supply of oil or the global financial markets; and
- an increase in the level of tensions or an outbreak of hostilities between North Korea and Korea or the United States.

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

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

- North Korea renounced its obligations under the Nuclear Non-Proliferation Treaty in January 2003 and conducted six rounds of nuclear tests since October 2006, including claimed detonations of hydrogen bombs, which are more powerful than plutonium bombs, and warheads that can be mounted on ballistic missiles. Over the years, North Korea has also conducted a series of ballistic missile tests, including missiles launched from submarines and intercontinental ballistic missiles that it claims can reach the United States mainland. In response, the Government has repeatedly condemned the provocations and flagrant violations of relevant United Nations Security Council resolutions. In February 2016, the Government also closed the inter-Korea Gaesong Industrial Complex in response to North Korea's fourth nuclear test in January 2016. Internationally, the United Nations Security Council has passed a series of resolutions condemning North Korea's actions and significantly expanding the scope of sanctions applicable to North Korea, most recently in December 2017 in response to North Korea's intercontinental ballistic missile test in November 2017. Over the years, the United States and the European Union have also expanded their sanctions applicable to North Korea.
- In August 2015, two Korean soldiers were injured in a landmine explosion near the South Korean demilitarized zone. Claiming the landmines were set by North Koreans, the South Korean army re-initiated its propaganda program toward North Korea utilizing loudspeakers near the demilitarized zone. In retaliation, the North Korean army fired artillery rounds on the loudspeakers, resulting in the highest level of military readiness for both Koreas. High-ranking officials from North and South Korea subsequently met for discussions and entered into an agreement on August 25, 2015 intending to deflate military tensions.
- In March 2010, a Korean naval vessel was destroyed by an underwater explosion, killing many of the crewmen on board. The Government formally accused North Korea of causing the sinking, while North Korea denied responsibility. Moreover, in November 2010, North Korea fired more than one hundred artillery shells that hit Korea's Yeonpyeong Island near the Northern Limit Line, which acts as the de facto maritime boundary between Korea and North Korea on the west coast of the Korean peninsula, causing casualties and significant property damage. The Government condemned North Korea for the attack and vowed stern retaliation should there be further provocation.

A series of recent diplomatic activity hints at positive developments in North Korea's relations with Korea as well as with the United States. Korean President Moon Jae-in and North Korean leader Kim Jong Un met on April 27, 2018 for the third inter-Korean summit. The three main agenda items for the inter-Korean summit announced by the Blue House were the denuclearization of the Korean Peninsula, the establishment of permanent peace and progress on inter-Korean relations. Furthermore, on June 12, 2018, U.S. President Donald Trump and Kim held a historic summit in Singapore, representing the first meeting between a sitting U.S. president and a North Korean chairman. In a joint statement signed by both leaders, Trump and Kim stated that the two countries commit to establishing new US-North Korea relations and joining efforts to build a lasting peace regime on the Korean Peninsula.

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

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

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

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

## **Risks Relating to the Notes**

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

### ***The Notes are not guaranteed by the Republic of Korea.***

The Notes are not the obligations of, or guaranteed by, the Republic of Korea. There is no statutory or other legal requirement for the Government to provide us with direct subsidies to meet our outstanding debt obligations, including the Notes. In addition, the Government is under no obligation to maintain the solvency of the Issuer. Therefore, investors should not rely on the Government to fulfill the Issuer's obligations under the Notes in the event the Issuer is unable to do so.

### ***The Notes are unsecured obligations.***

Because the Notes are unsecured obligations, their repayment may be compromised if:

- we enter into bankruptcy, liquidation, reorganization or other winding-up proceedings;
- there is a default in payment under our future secured indebtedness or other unsecured indebtedness; or
- there is an acceleration of any of our indebtedness.



If any of these events occurs, our assets may not be sufficient to pay amounts due on any of the Notes.

***The Notes may have limited liquidity.***

The Notes, when issued, will constitute a new issue of securities for which there will be no existing trading market. Although the Dealers may make a market for the Notes, they are not obligated to do so, and any market-making activity with respect to the Notes, if commenced, may be discontinued at any time without notice.

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

- prevailing interest rates;
- our financial condition, performance and prospects;
- the rate of exchange between Won and the currency of the Notes;
- political and economic developments in Korea; and
- the market conditions for similar securities.

***The Notes are subject to transfer restrictions.***

The Notes will not be registered under the Securities Act or any state securities laws and may not be offered or sold within the United States, except to certain persons in offshore transactions in reliance on Regulation S, or, if available, pursuant to another exemption from, or in another transaction not subject to, the registration requirements of the Securities Act and, in each case, in accordance with applicable state securities laws. For a further discussion of the transfer restrictions applicable to the Notes, see “*Subscription and Sale and Transfer and Selling Restrictions*”.

***The benchmark rate for the Floating Rate Notes may not be available.***

The London Interbank Offered Rate (“**LIBOR**”), the Euro Interbank Offered Rate (“**EURIBOR**”) and other benchmark indices are the subject of ongoing national and international regulatory reform. For example, on July 27, 2017, the UK Financial Conduct Authority announced that it will no longer persuade or compel banks to submit rates for the calculation of the LIBOR benchmark after 2021 (the “**FCA Announcement**”). The FCA Announcement indicates that the continuation of LIBOR on the current basis cannot and will not be guaranteed after 2021. On September 21, 2017, the European Central Bank announced that it would be part of a new working group tasked with the identification and adoption of a “a risk free overnight rate” which can serve as a basis for an alternative to current benchmarks used in a variety of financial instruments and contracts.

Following the implementation of any such potential reforms, the manner of administration of LIBOR, EURIBOR or other benchmark indices may change, with the result that it may perform differently than in the past, or benchmarks could be eliminated entirely. The potential elimination of the LIBOR or any other benchmark, or changes in the manner of administration of any benchmark, could require an adjustment to the terms and conditions, or result in other consequences, in respect of any Notes linked to such benchmark (including but not limited to Floating Rate Notes whose interest rates are linked to LIBOR). Any such consequence could have a material adverse effect on the value of and return on any such Notes or may have other consequences that cannot be predicted.

**Risks Relating to Notes Denominated in Renminbi**

A description of risks which may be relevant to an investor in Notes denominated in Renminbi (“**Renminbi Notes**”) are set out below.

***Renminbi is not freely convertible and there are significant restrictions on the remittance of Renminbi into and outside the PRC which may adversely affect the liquidity of Renminbi Notes.***

Renminbi is not freely convertible at present. The government of the PRC (the “**PRC Government**”) continues to regulate conversion between Renminbi and foreign currencies, including the Hong Kong dollar, despite significant reduction in control by it in recent years over trade transactions involving import and export of goods and services as well as other frequent routine foreign exchange transactions. These transactions are known as current account items.

However, remittance of Renminbi by foreign investors into the PRC for the purposes of capital account items, such as capital contributions, is generally only permitted upon obtaining specific approvals from, or completing specific registrations or filings with, the relevant authorities on a case-by-case basis and is subject to a strict monitoring system.

Regulations in the PRC on the remittance of Renminbi into the PRC for settlement of capital account items are developing gradually. In recent years, the People's Bank of China ("PBoC") and the Ministry of Commerce of the PRC have issued circulars providing guidance on simplifying certain remittance requirements for settlement of capital account items. However, such circulars are relatively new and are subject to interpretation and application by the relevant authorities in the PRC.

In the event that we decide to remit some or all of the proceeds into the PRC in Renminbi, our ability to do so will be subject to obtaining all necessary approvals from, and/or registration or filing with, the relevant PRC government authorities. Investors may be required to provide certifications and other information (including Renminbi account information) in order to be allowed to receive payments in Renminbi in accordance with the Renminbi clearing and settlement system for participating banks in Hong Kong, Singapore and Taiwan. However, there is no assurance that the necessary approvals from, and/or registration or filing with, the relevant PRC government authorities will be obtained at all or, if obtained, they will not be revoked or amended in the future.

There is no assurance that the PRC Government will continue to gradually liberalize control over cross-border remittance of Renminbi in the future, that the pilot schemes for Renminbi cross-border utilization will not be discontinued or that new regulations in the PRC will not be promulgated in the future which have the effect of restricting or eliminating the remittance of Renminbi into or outside the PRC. In the event that funds cannot be repatriated outside the PRC in Renminbi, this may affect the overall availability of Renminbi outside the PRC and our ability to source Renminbi to finance our obligations under Notes denominated in Renminbi.

***There is only limited availability of Renminbi outside the PRC, which may affect the liquidity of the Renminbi Notes and our ability to source Renminbi outside the PRC to service Renminbi Notes.***

As a result of the restrictions by the PRC Government on cross-border Renminbi fund flows, the availability of Renminbi outside the PRC is limited. While the PBoC has entered into settlement agreements on the clearing of Renminbi business with financial institutions in a number of financial centers and cities (the "**Renminbi Clearing Banks**"), including but not limited to Hong Kong and is in the process of establishing Renminbi clearing and settlement mechanisms in several other jurisdictions (the "**Settlement Arrangements**"), the current size of Renminbi-denominated financial assets outside the PRC is limited.

There are restrictions imposed by PBoC on Renminbi business participating banks in respect of cross-border Renminbi settlement, such as those relating to direct transactions with PRC enterprises. Furthermore, Renminbi business participating banks do not have direct Renminbi liquidity support from the PBoC. The Renminbi Clearing Banks only have access to onshore liquidity support from the PBoC for the purpose of squaring open positions of participating banks for limited types of transactions and are not obliged to square for participating banks any open positions resulting from other foreign exchange transactions or conversion services. In such cases, the participating banks will need to source Renminbi from outside the PRC to square such open positions.

Although it is expected that the offshore Renminbi market will continue to grow in depth and size, its growth is subject to many constraints as a result of PRC laws and regulations on foreign exchange. There is no assurance that new PRC regulations will not be promulgated or the existing Settlement Arrangements will not be terminated or amended in the future which will have the effect of restricting availability of Renminbi outside the PRC. The limited availability of Renminbi outside the PRC may affect the liquidity of the Renminbi Notes. To the extent we are required to source Renminbi in the offshore market to service our Renminbi Notes, there is no assurance that we will be able to source such Renminbi on satisfactory terms, if at all.

***Investment in the Renminbi Notes is subject to exchange rate risks.***

The value of Renminbi against other foreign currencies fluctuates from time to time and is affected by changes in the PRC and international political and economic conditions as well as many other factors. We will make all payments of interest and principal with respect to the Renminbi Notes in Renminbi unless otherwise specified. As a result, the value of these Renminbi payments may vary with the changes in the prevailing exchange rates in the marketplace. If the value of Renminbi depreciates against another foreign currency, the value of the investment made by a holder of the Renminbi Notes in that foreign currency will decline.

***Investment in the Renminbi Notes is subject to interest rate risks.***

The PRC Government has gradually liberalized its regulation of interest rates in recent years. Further liberalization may increase interest rate volatility. Consequently, the trading price of the Renminbi Notes will vary with the fluctuations in the Renminbi interest rates. If holders of the Renminbi Notes propose to sell their Notes before their maturity, they may receive an offer lower than the amount they have invested.

***Payments with respect to the Renminbi Notes may be made only in the manner designated in the Renminbi Notes.***

All payments to investors in respect of the Renminbi Notes will be made solely (i) for so long as the Renminbi Notes are represented by global certificates held with the common depositary for Clearstream Banking *société anonyme* and Euroclear Bank SA/NV or any alternative clearing system, by transfer to a Renminbi bank account maintained in Hong Kong or a financial center in which a Renminbi Clearing Bank clears and settles Renminbi, if so specified in the Pricing Supplement, (ii) for so long as the Renminbi Notes are represented by global certificates lodged with a sub-custodian for or registered with the CMU, by transfer to a Renminbi bank account maintained in Hong Kong in accordance with prevailing CMU rules and procedures or (iii) for so long as the Renminbi Notes are in definitive form, by transfer to a Renminbi bank account maintained in Hong Kong or a financial center in which a Renminbi Clearing Bank clears and settles Renminbi, if so specified in the Pricing Supplement, in accordance with prevailing rules and regulations. We cannot be required to make payment by any other means (including in any other currency or by transfer to a bank account in the PRC).

***Gains on the transfer of the Renminbi Notes may be subject to income tax under PRC tax laws.***

Under the New Enterprise Income Tax Law and its implementation rules, any gains realized on the transfer of Renminbi Notes by holders who are deemed under the New Enterprise Income Tax Law as non-resident enterprises may be subject to PRC enterprise income tax if such gains are regarded as income derived from sources within the PRC. However, there remains uncertainty as to whether the gains realized from the transfer of the Renminbi Notes would be treated as income derived from sources within the PRC and be subject to PRC tax. This will depend on how the PRC tax authorities interpret, apply or enforce the relevant laws and rules. According to an arrangement between the PRC and Hong Kong, for the avoidance of double taxation, noteholders who are Hong Kong residents, including both enterprise holders and individual holders, will be exempted from PRC income tax on capital gains derived from a sale or exchange of the Renminbi Notes.

Therefore, if a noteholder, being a non-resident enterprise, is required to pay any PRC income tax on gains on the transfer of the Renminbi Notes (such enterprise income tax is currently levied at the rate of 10 per cent. of the gross proceeds, unless there is an applicable tax treaty between the PRC and the jurisdiction in which such non-resident enterprise holders of Renminbi Notes reside that reduces or exempts the relevant tax), the value of their investment in the Renminbi Notes may be materially and adversely affected.

Similarly, if a noteholder, as a non-resident individual holder, is required to pay any PRC income tax on gains on the transfer of the Renminbi Notes (such individual income tax is currently levied at the rate of 20 per cent. of the gross proceeds, unless there is an applicable tax treaty between the PRC and the jurisdiction in which the relevant non-resident individual holder of the Renminbi Notes resides that reduces or exempts the relevant tax), the value of such noteholder's investment in the Renminbi Notes may be affected.

***Investors should contact their own financial, legal, accounting and tax advisers about the risks associated with an investment in the Renminbi Notes, the appropriate tools to analyze that investment, and the suitability of the investment in each investor's particular circumstances. No investor should purchase the Renminbi Notes unless that investor understands and has sufficient financial resources to bear the price, market liquidity, structure and other risks associated with an investment in the Renminbi Notes.***

***Before entering into any transaction, investors should ensure that they fully understand the potential risks and rewards of that transaction and independently determine that the transaction is appropriate given their objectives, experience, financial and operational resources and other relevant circumstances. Investors should consider consulting with such advisers as they deem necessary to assist them in making these determinations.***



## CAPITALIZATION

The following table sets out our capitalization, consisting of long-term debt (consisting of long-term borrowings and bonds but each excluding current portion thereof and net of present value discounts and bond issuance discounts, respectively) and equity, as of December 31, 2017. This information has been derived from the audited consolidated statements of financial position as of December 31, 2017, included elsewhere in this Offering Circular.

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

	<b>As of December 31, 2017<sup>(1)</sup></b>	
	<i>(in billions of Won and millions of U.S. dollar<sup>(2)</sup>)</i>	
<b>Long-term debt:</b>		
Long-term borrowings, net .....	₩ 61	US\$ 57
Bonds, net .....	10,316	9,628
Total long-term debt .....	10,376	9,685
<b>Equity:</b>		
Total equity .....	4,998	4,665
<b>Total capitalization<sup>(3)</sup> .....</b>	<b>₩15,374</b>	<b>US\$14,349</b>

*Notes:*

- (1) Except as disclosed herein and for (i) the incurrence of long-term borrowings in the aggregate amount of ₩200 billion in March 2018, (ii) the issuances of Won-denominated bonds in the amount of ₩120 billion and ₩140 billion in March 2018 and June 2018, respectively, (iii) the issuance of Hong Kong dollar-denominated bonds in the aggregated amount of HK\$631 million in June 2018, and (iv) the issuance of Swiss franc-denominated bonds in the aggregated amount of CHF100 million in July 2018, there has been no material changes in the capitalization of the Issuer since December 31, 2017.
- (2) Won amounts as of December 31, 2017 have been converted into U.S. dollars solely for the convenience of the readers at the Market Average Exchange Rate of ₩1,071.4 to US\$1.00 in effect on such date.
- (3) Long-term debt (excluding current portion and net of present value discounts and bond issuance discounts) plus equity.

## SELECTED FINANCIAL INFORMATION

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

### STATEMENT OF COMPREHENSIVE INCOME (LOSS) DATA:

	<b>For the Year Ended December 31,</b>	
	<b>2016</b>	<b>2017</b>
	<i>(in billions of Won)</i>	
Revenue .....	₩ 5,694	₩ 5,787
Cost of sales .....	(5,232)	(5,918)
<b>Gross profit (loss) .....</b>	<b>462</b>	<b>(131)</b>
Selling, general and administrative expenses .....	(340)	(339)
<b>Operating profit (loss) .....</b>	<b>122</b>	<b>(470)</b>
Other revenue .....	34	15
Other expenses .....	(53)	(90)
Other income (loss), net .....	56	(140)
Finance income .....	45	132
Finance expense .....	(455)	(528)
Gains on valuation of investments in associates .....	19	10
Losses on valuation of investments in associates .....	(2)	(91)
<b>Loss before income taxes .....</b>	<b>(232)</b>	<b>(1,163)</b>
Income tax benefit from continuing operation .....	6	307
<b>Loss from continuing operation .....</b>	<b>(226)</b>	<b>(856)</b>
Income from discontinued operation .....	—	—
<b>Income (loss) for the year .....</b>	<b>₩ (226)</b>	<b>₩ (856)</b>
<b>Other comprehensive income (loss), net of tax</b>		
Asset revaluation gain .....	36	953
Defined benefit plan actuarial gain (loss), net of tax in the fair value of cash flow hedges, net of tax .....	96	(13)
Unrealized net changes in the effective portion of changes in the fair value of cash flow hedges, net of tax .....	1	4
Unrealized net changes in the fair value of available-for-sale financial assets ....	(2)	0
Changes in equity of equity method investments .....	1	1
<b>Other comprehensive income (loss) for the year, net of tax .....</b>	<b>132</b>	<b>945</b>
<b>Total comprehensive income (loss) for the year .....</b>	<b>₩ (94)</b>	<b>₩ 90</b>
<b>Profit (loss) attributable to:</b>		
Owners of the Issuer .....	(206)	(874)
Non-controlling interests .....	(20)	19
<b>Profit (Loss) for the year .....</b>	<b>₩ (226)</b>	<b>₩ (856)</b>
<b>Total comprehensive income (loss) attributable to:</b>		
Owners of the Issuer .....	(73)	72
Non-controlling interests .....	(21)	18
<b>Total comprehensive income (loss) for the year .....</b>	<b>₩ (94)</b>	<b>₩ 90</b>

# STATEMENT OF FINANCIAL POSITION DATA:

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

	As of December 31,	
	2016	2017
	(in billions of Won)	
<b>Equity</b>		
Share capital .....	10,104	10,246
Accumulated deficit .....	(8,387)	(9,228)
Other equity components .....	2,930	3,839
<b>Equity attributable to owners of the Issuer</b> .....	4,647	4,858
<b>Non-controlling interests</b> .....	122	140
<b>Total equity</b> .....	4,769	4,998
<b>Total liabilities and equity</b> .....	<u>₩18,513</u>	<u>₩19,878</u>

#### OTHER FINANCIAL DATA:

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

*Note:*

(1) Includes depreciation and depreciation of investment property.

## **RELATIONSHIP WITH THE GOVERNMENT**

### **Government Ownership and Control**

#### ***Government Ownership***

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

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

#### ***Government Control and Regulation***

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

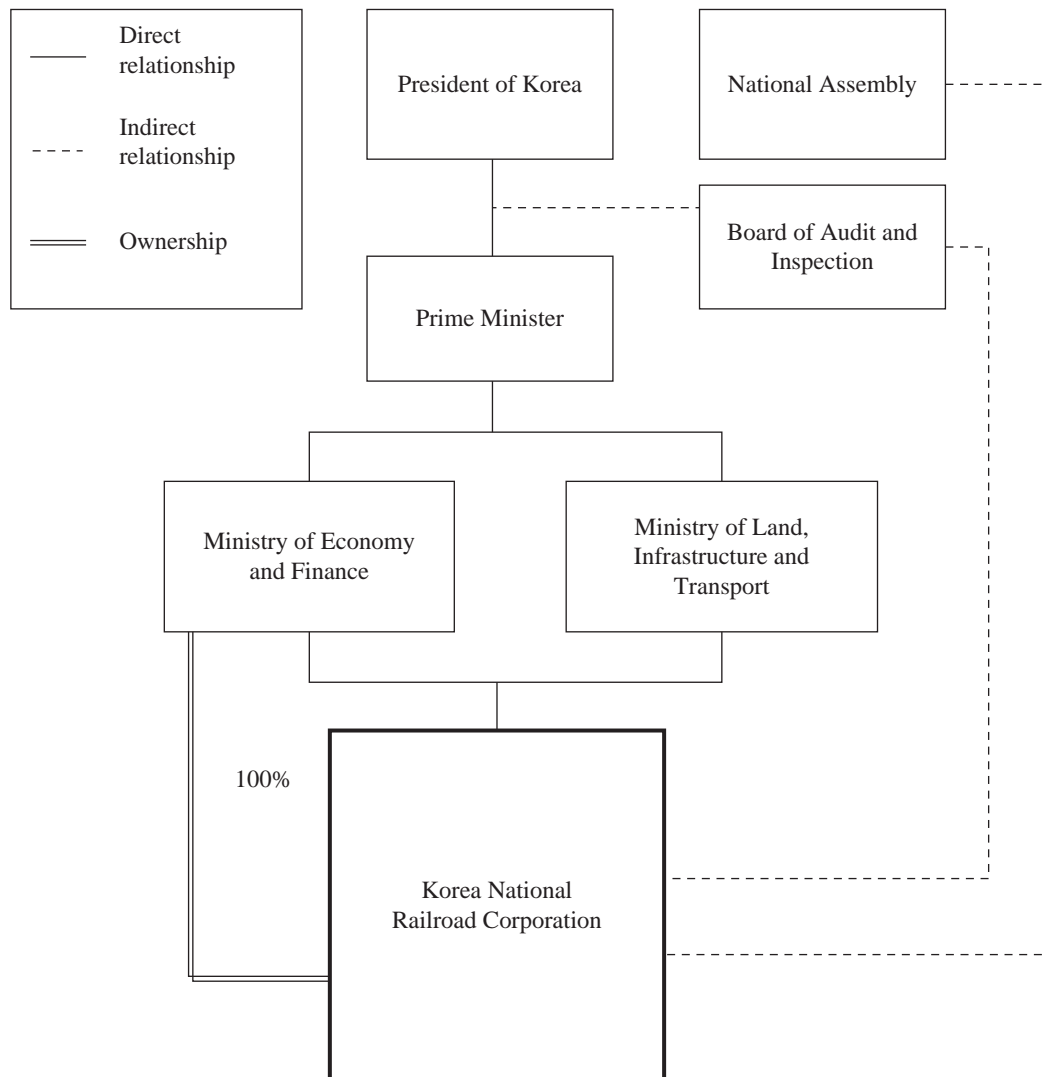
We are entrusted by the Government to operate and maintain the national railroad network pursuant to a legal framework that governs all railroad-related matters. Our business operations and management policy are subject to strict regulation by the Government and are supervised and evaluated by different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

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

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

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

The chart below illustrates our ownership and supervisory structure.



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

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

In addition, when it is deemed necessary to ensure the smooth operation of the railroad transportation system, improve services, ensure the safety of transportation and promote public welfare, the MOLIT may require us to implement the following:

- changes in the railroad business plan submitted by us to the MOLIT when we applied for the license to operate our business;
- improvements in railroad cars, transport equipment and facilities;
- improvements in the method of collecting freight rates and passenger fares;
- changes in the contractual terms of the railroad business;

- execution of a joint transport agreement;
- subscription of insurance against any accident involving railroad cars and railroad damage;
- measures necessary to ensure the safety of transportation and the upgrade services; and
- education and training of workforce in railroad transportation.

## Government Support

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

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

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

- our initial paid-in capital of ₩8,486 billion was provided by the Government in 2005, and our paid-in capital (before issuance discount) has since increased to ₩10,251 billion as of December 31, 2017.
- the Government has to date contributed all of our operating assets, comprising mainly rolling stock, as investments-in-kind. The Government subsidies amounted to ₩759 billion and ₩631 billion in 2016 and 2017, respectively.
- Articles 32 and 33 of the Framework Act on the Development of the Railroad Industry provide that the Government shall enter into a contract with us to provide compensation for the cost of PSO services provided by us and the amount of such compensation is determined to the extent agreed under the contract made between us and the Government. The Government provided ₩351 billion and ₩296 billion in Government subsidies in respect of these obligations in 2016 and 2017, respectively. For the years between 2005 and 2017 (inclusive), the Government has generally compensated for approximately 76.7% of the cost incurred for PSO services provided by us.
- All railroad infrastructure in Korea, including the rail track which we utilize for our services, is owned by the Government and managed by the KRNA. The KRNA, on the Government's behalf, levies an annual charge for usage of such facilities. In order to use high-speed and conventional rail tracks, we pay stipulated amounts to the KRNA pursuant to the then-current facility usage agreements. In 2016 and 2017, our total usage fee payments to the KRNA for use of high-speed and conventional rail tracks amounted to ₩951 billion and ₩1,097 billion, representing 17.1% and 17.5% of our operating expenses for such years, respectively. The total usage fees paid in 2016 and 2017 consisted of (i) our facility usage fees paid for the use of high-speed rail tracks in the amount of ₩569 billion and ₩727 billion in 2016 and 2017, respectively and (ii) our facility usage fees for the use of conventional rail tracks amounted to ₩382 billion and ₩370 billion in 2016 and 2017, respectively. In connection with our usage of high-speed rail tracks, we are required to pay 34% of our operating revenue from our high-speed railroad business as usage fee. With respect to our usage of conventional rail tracks, we are required to pay a fixed usage fee, which generally represents 60% to 70% of the Government's reimbursement for our consignment services with respect to conventional rail tracks. The Government is currently considering a reform of the railroad usage fee structure into a "per-unit" usage fee system, which will be based on a formula that factors in actual railway and facility usage amounts.
- To enhance our operational efficiency, the Government is authorized to provide us with financing, from time to time, such as subsidies for purchases of new rolling stocks. In 2016 and 2017, the Government provided ₩115 billion and ₩142 billion, respectively, as Government subsidies for purchases of new rolling stocks.

- The Government also compensates us annually for all costs associated with railroad maintenance and repair work consigned to us. Government consignment business revenues derived from such railroad maintenance and repair work consigned to us amounted to ₩1,031 billion and ₩936 billion in 2016 and 2017, respectively.

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

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

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

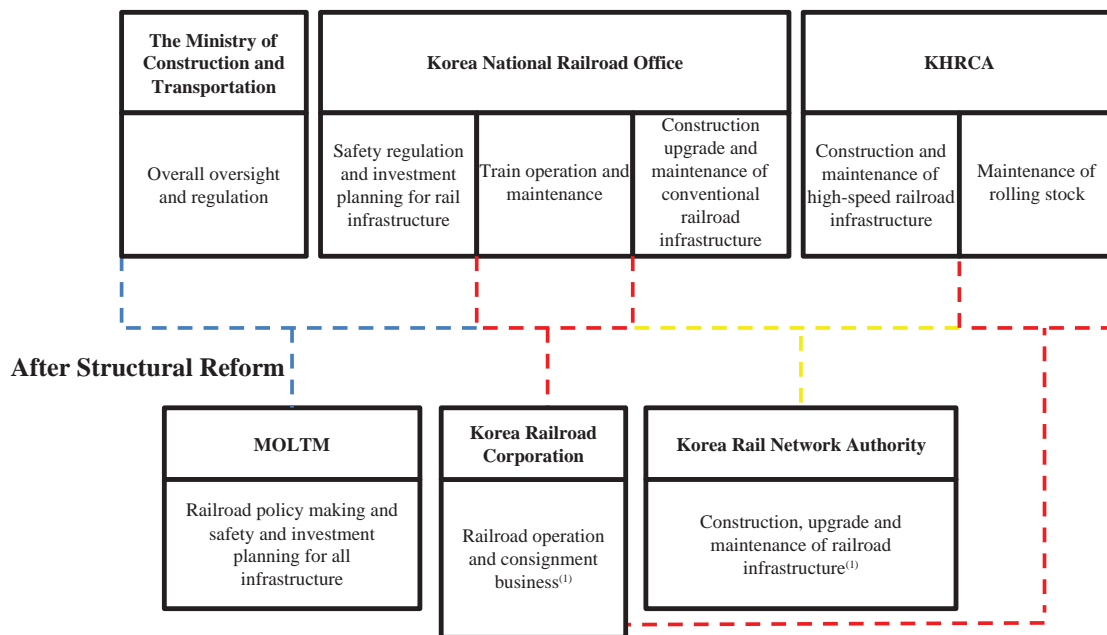
Until the 1970s, railroads were a major mode of transportation in Korea. However, with the introduction and development of other means of transport, in particular the rapid development of, and the Government's significantly greater investment in, road transportation, demand for rail services fell and the railroad industry gradually lost its market share to other means of transportation. The Government recognized the untapped potential of railroad transportation as a cost-effective, fast, reliable, safe and environmentally-friendly means of transport of both passengers and freight and the vital strategic role that railroad transportation can play in the further social and economic development of Korea. To increase the competitiveness and efficiency of the railroad industry and improve the standards of the industry, such as safety regulation, the Government commenced structural reforms in 1999, introducing the Framework Act on the Development of the Railroad Industry, which sets out the framework for the structural reform and sets the foundation for the development of the national railroad industry (the **"Restructuring Plan"**).

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



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

#### Before Structural Reform



*Note:*

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

#### Budget and Financing Plan Formulation Process

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

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

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

#### Railway Tariffs

Our railway tariffs, consisting of fares and fees charged on passenger and freight transport, are determined in accordance with Article 9 of the Railroad Business Act. Article 9 provides that our railway tariffs must take

into account factors such as the cost basis and equitableness with respect to rates of other transport means and be set within the maximum limits prescribed by the MOLIT. The MOLIT determines the maximum limits on railway tariffs and any adjustments thereto after consultation with the MOEF, taking into account the aforementioned factors. We are required to set our tariff structure within such maximum tariff limits and report our tariff structure and any adjustment thereto to the MOLIT.

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

## **Regulations**

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

### ***The KRC Act***

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

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

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

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

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

### ***Act on the Operation of Public Institutions***

The Act on the Operation of Public Institutions governs all Government-controlled enterprises. We are subject to the Act on the Operation of Public Institutions as the Government owns more than 50% of our paid-in

capital. The Act on the Operation of Public Institutions regulates general matters such as obligations to report business performance, procedures for enacting and amending articles of incorporation, process of forming boards of directors and issuing resolutions, appointment and removal of management personnel, duties of officers, budgeting, submission of financial statement, disclosure of business operations, and inspection of operations and management of Government-controlled institutions, including us.

### ***Other Regulations***

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

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

## BUSINESS

### Overview

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

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

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

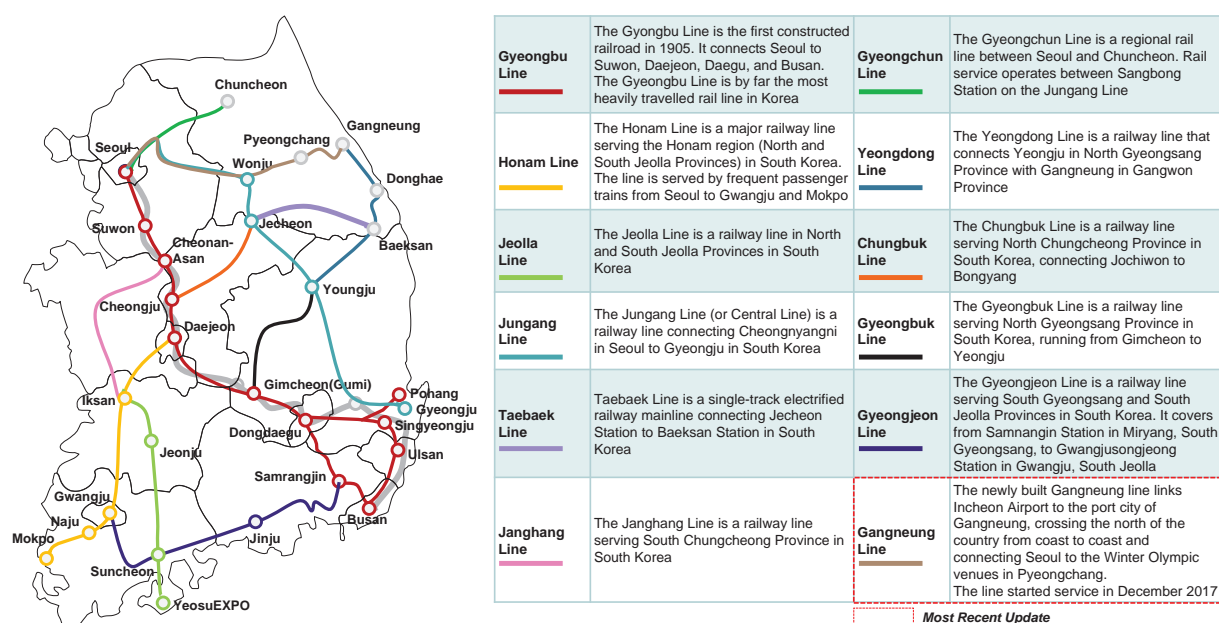
- Development of railroad as a key means of transportation in order to promote long-term economic and social development throughout various regions of Korea;
- Improvement of efficiency of railroad services by maximizing allocation of resources, such as transformation of an unprofitable train station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

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

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

Our organization includes six business headquarters consisting of Safety Innovation, Passenger Business, Logistics Business, Metropolitan Railroad, Business Development and Engineering, and 12 regional headquarters (covering major metropolitan regions). Our conventional and KTX rail networks comprise a total of 96 lines throughout Korea (and 15 lines linking Korea’s most populated metropolitan areas) and our metropolitan rail transit network comprises 12 main lines connecting Seoul and the greater metropolitan area. Our consolidated subsidiary SR operates a separate high-speed line from Suseo that joins the two KTX lines connecting Seoul and Busan and Seoul and Mokpo. Our passenger railroad networks extend over the total operating distance of 3,857.3 kilometers, which include the operating distance of 596.3 kilometers for our KTX railroad network. As of December 31, 2017, we had 697 stations servicing our KTX, conventional, metropolitan and freight transportation operation. As of the same date, we had 531 passenger stations, of which 41 were KTX rail stations. We also owned 37 train signaling stations, seven train signal centers and two train depots. In addition, as of December 31, 2017, we owned a total of 16,840 railroad vehicles, including 1,530 KTX locomotives, 280 diesel locomotives, 920 ordinary passenger cars, 2,622 electric railroad vehicles, 10,865 freight cars and 15 other car types.

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



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

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

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

## Business Segments

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

### High-Speed Rail Passenger Transportation

We derive a substantial portion of our revenue from our high-speed rail, KTX, passenger services. We offer KTX services on six rail routes: (i) the Gyeongbu Line, which connects Seoul to Busan, (ii) the Honam Line, which runs from Yongsan to Mokpo, (iii) the Donghae Line, which runs from Seoul to Pohang, (iv) the Kyungjeon Line which runs from Seoul to Jinju, (v) the Jeolla Line which runs from Yongsan to Yeosu EXPO and (vi) the Gangneung Line which runs from Incheon Airport to Gangneung. The current travel time between Seoul and Busan on KTX trains is approximately 2 hours and 15 minutes, compared to approximately 4 hours and 43 minutes by the first class conventional train. Likewise, the current travel time between Seoul and Mokpo on KTX trains is approximately 2 hours and 15 minutes, compared to approximately 4 hours and 29 minutes by the first class conventional train.

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

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

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

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

### ***Conventional Rail Passenger Transportation***

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

- Gyeongbu Line (Seoul to and from Busan)
- Honam Line (Yongsan to and from Mokpo)
- Janghang Line (Cheonan to and from Iksan)
- Jeolla Line (Iksan to and from Yeosu Expo)
- Chungbuk Line (Jochiwon to and from Bongyang)
- Gyeongbuk Line (Gimcheon to and from Yeongju)
- Daegu Line (Gachon to and from Yeongcheon)
- Donghae Nambu Line (Busanjin to and from Pohang)
- Gyeongjeon Line (Samnangjin to and from Gwangjusongjeong)
- Jungang Line (Cheongnyangni to and from Gyeongju)
- Taebaek Line (Jecheon to and from Baeksan)
- Youngdong Line (Yeongju to and from Gangneung)
- Gyeongwon Line (Yongsan to and from Baengmagoji)
- Gyeongui Commuter Line (Munsan to and from Dorasan)
- Gangneung Line (Incheon Airport to and from Gangneung)

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

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

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

### ***Metropolitan Railroad Transportation***

We also operate subway commuter rail lines in the Seoul metropolitan area. Subway lines in the Seoul metropolitan area are currently being operated by us, as well as Seoul Metropolitan Subway (“**Seoul Metro**”) and



other smaller operators. As of December 31, 2017, our metropolitan railroad transportation network extended over 619 kilometers and comprised a total of 261 metropolitan stations. In 2017, an average of 3.2 million passengers used our metropolitan rail services per day. Our metropolitan railroad transportation services are provided on the following commuter lines:

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

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

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

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

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

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

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

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

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

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

### ***Other Related Business***

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

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

### ***Yongsan Development Project***

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

### ***Government-Consignment Services***

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

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

### ***Facility Usage Arrangement with the KRNA***

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



reimbursement for our consignment services with respect to conventional rail tracks. The Government is currently considering a reform of the railroad usage fee structure into a “per-unit” usage fee system, which will be based on a formula that factors in actual railway and facility usage amounts.

### **Public Service Obligations**

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

### **Government Funding for PSO Services**

Articles 32 and 33 of the Framework Act on the Development of the Railroad Industry provide that the Government shall enter into a contract with us to reimburse cost of our PSO services. We enter into a contract with the MOLIT on an annual basis for provision and reimbursement of our PSO services. The Government determines amount of reimbursements, based on the national budget allotted for the overall funding of PSO services offered by all Government-owned entities including us. On average, for the years between 2005 and 2017, approximately 76.7% of the cost incurred for the PSO services we provide has been recovered. See “*Relationship with the Government*”.

In 2017, aggregate PSO funding received from the Government as partial reimbursement amounted to ₩296 billion, representing approximately 58.9% of our incurred costs. For the year ended December 31, 2017, 49.7%, 49.3% and 1.0% of the total reimbursement amount were granted for fare discounts, provision of railroad operations to remote areas and operation of special purpose trains, respectively.

### **Determination of Railway Tariffs**

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

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

### **Procurement**

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

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

## Property, Trains and Equipment

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

<i>(In billions of Korean Won)</i>	<u>Acquisition cost</u>	<u>Government grants<sup>(1)</sup></u>	<u>Accumulated depreciation</u>	<u>Accumulated impairment loss</u>	<u>Book value</u>
Land <sup>(2)</sup> . . . . .	₩ 9,849	(7)	—	—	9,842
Buildings . . . . .	1,988	(104)	(453)	—	1,431
Structures . . . . .	305	(10)	(116)	(1)	178
Machinery . . . . .	1,165	(73)	(718)	—	374
Servers . . . . .	8	—	(2)	—	6
Trains . . . . .	8,295	(340)	(2,672)	—	5,283
Vehicles . . . . .	57	0	(39)	—	18
Furniture and fixtures . . . . .	18	0	(14)	—	3
Tools . . . . .	139	0	(105)	—	34
Construction-in-progress . . . . .	169	(12)	—	—	157
Financial lease assets . . . . .	2	—	(2)	—	0
Other tangible assets . . . . .	32	—	(1)	—	31
<b>Total</b> . . . . .	<u>₩22,025</u>	<u>(544)</u>	<u>(4,123)</u>	<u>(1)</u>	<u>17,357</u>

### Notes:

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

## Safety Standards and Environmental Matters

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

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

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

## Operational and Information Systems

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

## **Employees and Labor Relations**

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

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

Although we aim to maintain effective communications with our employees, we have, from time to time, experienced disagreements with certain of our employees and strikes organized by the labor unions. The last major organized labor dispute was in the second half of 2016 whereby our unionized workers conducted a strike which lasted for 74 days, the longest rail strike in Korea, in response to our plan to implement a performance-based pay system.

## **Litigation**

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

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

### ***Litigations Regarding Yongsan Station Area***

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

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

In 2013, we returned the payment of ₩2,417 billion and regained the ownership on part of the land disposed to DHPFI (138,908.4 m<sup>2</sup>, 38.97% of the total area disposed), which had been placed into a trust according to the real estate collateral trust agreement with Daehan Real Estate Trust Ltd. We regained the land equivalent to the amount of the special buyback registration that expired during the year ended December 31, 2015 (1,288.3 m<sup>2</sup>, 0.36% of the total area disposed). In January 2014, we filed a lawsuit against DHPFI over the ownership of the remaining area in Yongsan (217,582.0 m<sup>2</sup>, 60.28% of total area disposed). We won the trial and DHPFI appealed the trial court’s decision in November 2015. Thereafter, in April 18, 2018, the appeals court affirmed the trial court’s decision on the ownership of the remaining area, and the judgment became final on May 11, 2018, which allowed us to regain such ownership effective June 14, 2018.

In June 2013, we demanded the National Tax Service Daejeon District Office (the “NTS DDO”) to refund the corporate tax paid in the amount of ₩870 billion in connection with cancellation of the disposal of the land in Yongsan, but the NTS DDO rejected such demand. Upon a decision by the Board of Audit and Inspection of

Korea, a partial amount of ₩170 billion was refunded, and we filed a lawsuit against the NTS DDO over the remaining ₩700 billion. In January 2015, we won the trial and the NTS DDO appealed the trial court's decision, but the appeals court affirmed the trial court's decision in March 2016. The NTS DDO subsequently appealed, and the case is currently pending before the Supreme Court.

### ***Litigations Regarding Ordinary Wages***

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

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

In tandem with the Supreme Court ruling, as of the date of this Offering Circular, we are subject to ongoing lawsuits filed by over 47,000 employees based on claims that ordinary wages had been paid without including certain items that should have been included as ordinary wage. In January 2018, the trial court decided on a lawsuit filed by over 20,000 employees, ordering us to pay such employees about ₩187 billion out of ₩204 billion originally claimed by the employees. We appealed the trial court's decision, and the case is currently pending before the appeals court. The rest of the lawsuits are still pending before the trial court. However, we have set up reserves for possible lawsuits by the entire employees (taking account of the statute of limitations of the salary claim). In 2017, we recognized provisions in the aggregate amount of ₩498 billion for potential obligations with respect to the ordinary wage claims.

### **Research and Development**

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

### **Subsidiaries**

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

Recently, there have been discussions regarding the potential integration of SR into our company. In early 2018, the MOLIT ordered a study to evaluate the public benefits of the railway industry and announced its

intention to pursue the integration initiative based on the research findings. As of the date of this Offering Circular, integration plans are still under review, with further developments expected within the year.

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

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

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

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

*Notes:*

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

## **Competition**

### ***General***

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

### ***Passenger and Freight Railroad Services***

Prior to its restructuring in 2005, the Government had monopoly over the railroad operation. Subsequent to the restructuring, we may face competition from third parties which seek to enter the railroad industry by

obtaining approval from the MOLIT under the Framework Act on the Development of the Railroad Industry. However, third parties face high entry barrier as their services must utilize Government-owned railroad infrastructure which are not utilized by us.

### ***Subway Services***

Subway lines in the Seoul metropolitan area are operated by us, Seoul Metro and a few other smaller operators. As of December 31, 2017, our subway transit operation network extended over 619 kilometers, whereas Seoul Metro's subway transit operation network extended over 300.1 kilometers.



## MANAGEMENT

### Board of Directors

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

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

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

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

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

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

<u>Name</u>	<u>Title/Position</u>	<u>Other Activities, If Any</u>	<u>Position Held Since</u>
Oh, Young-sik	Standing Director, President and CEO	N/A	February 6, 2018
Park, Chong-jun	Standing Director and Statutory Auditor	N/A	February 14, 2017
Chung, In-soo	Standing Director and Vice President	N/A	March 5, 2018
Yang, Dai-kwon	Standing Director and Director of Safety Innovation Headquarter	N/A	April 23, 2018
Cho, Hyung-ik	Standing Director and Director of Passenger Business Headquarter	N/A	April 23, 2018
Yoon, Yang-su	Standing Director and Director of Metropolitan Railroad Headquarter	N/A	July 16, 2018

Name	Title/Position	Other Activities, If Any	Position Held Since
Park, Kuy-han	Standing Director and Director of Engineering Headquarter	N/A	April 23, 2018
Lee, Young-keun	Non-Standing Director	N/A	July 8, 2016
Ahn, Jin-hong	Non-Standing Director	Certified Public Accountant of Daesung Accounting Corporation	July 8, 2016
Hwang, Young-will	Non-Standing Director	Managing Partner of Yeonwoo Legal Professional Association	July 8, 2016
Kim, Moo-hwan	Non-Standing Director	N/A	October 14, 2016
Kim, Jeung-geun	Non-Standing Director	N/A	May 23, 2018
Lee, Jong-kuk	Non-Standing Director	N/A	May 23, 2018
Oh, Keon-ho	Non-Standing Director	N/A	May 23, 2018
Lee, Choong-nam	Non-Standing Director	N/A	May 23, 2018

### ***Standing Directors***

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

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

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

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

*Yoon, Yang-su* has been a Standing Director and Director of Metropolitan Railroad Headquarter since July 16, 2018. Mr. Yoon received a Bachelor's Degree in Business Administration from Open Cyber University of Korea. He previously served as director of Eastern Metropolitan Office, manager of Chungcheong Logistics Business Division and head of business in Daejeon-Chungnam Office.

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

### ***Non-Standing Directors***

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



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

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

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

*Kim, Jeung-geun* has been a Non-Standing Director since May 23, 2018. Mr. Kim has previously served as special labor advisor to President Moon Jae-in, chairman of World Labor Movement History Initiative and director of Korean Confederation of Trade Unions.

*Lee, Jong-kuk* has been a Non-Standing Director since May 23, 2018. Mr. Lee received a Bachelor's degree in Electronic Engineering from Pukyong National University, a Master's degree in Business Administration from Dong-a University, another Master's degree in Information and Communication Engineering from Korea Aerospace University and a Ph.D. degree in Business Administration from Seoul National University of Science and Technology. He has previously served as deputy head of Korea Agency for Infrastructure Technology Advancement and head of the Busan Regional Office of Aviation of the MOLIT, among other positions in the MOLIT.

*Oh, Keon-ho* has been a Non-Standing Director since May 23, 2018. Mr. Oh received a Bachelor's degree, a Master's degree and a Ph.D. degree in Sociology from Seoul National University. He has previously served as research director of Global Political Economy Institute, research director of Public Policy Institute for People and expert member of the Democratic Labor Party.

*Lee, Choong-nam* has been a Non-Standing Director since May 23, 2018. Mr. Lee received a Bachelor's degree in Korean Linguistics and Literature from Hanyang University. He has previously served as chairman of the special committee in real estate policy for the 19th presidential election and CEO of New Enertech.

#### **Statutory Auditor**

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

#### **Compensation of Directors and Executive Officers**

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

#### **Board Practices**

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

## OWNERSHIP

The following table sets out certain information relating to the ownership of the Issuer as of December 31, 2017.

	<u>Amount of Share Capital</u>	<u>% of Total Share Capital</u>
	<i>(in billions of Won)</i>	<i>(percentages)</i>
<b>MOEF</b> .....	<b>₩ 9,232</b>	<b>90.1%</b>
<b>MOLIT</b> .....	<b>₩ 1,014</b>	<b>9.9%</b>
<b>Total</b> .....	<b><u>₩10,246</u></b>	<b><u>100.0%</u></b>

## TAXATION

### Korea

**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**”) generally 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 a permanent establishment in Korea are taxed in the manner described below. Non-Residents with permanent establishments in Korea are taxed in accordance with different rules.

#### *Tax on Interest*

Interest payable to Non-Residents in respect of the Notes, if qualified as certain foreign currency-denominated bonds issued outside of Korea pursuant to the Special Tax Treatment Control Law (“**STTCL**”), is exempt from income tax and corporation tax (whether payable by withholding or otherwise) pursuant to the STTCL.

If the tax exemption under the STTCL referred to above were to cease to be in effect, the rate of income tax or corporation tax applicable to interest on the Notes without the tax exemption under the STTCL, for a Non-Resident without a permanent establishment in Korea, is currently 14 per cent. of income. In addition, a tax surcharge called a local income tax would be imposed at the rate of 10 per cent. of the income or corporation tax (raising the total tax rate to 15.4 per cent.).

In addition, in order to obtain the benefit of a reduced rate available under applicable tax treaties, a Non-Resident holder must submit an application for reduced rate to either the payor or the entity obligated to withhold such tax liable for the withholding before the receipt of the relevant interest payment (if there is no change in the contents of such application, it is not required to submit such application again within three years thereafter), together with a certificate of the Non-Resident holder’s tax residence issued by a competent authority of the Non-Resident holder’s resident country. If the Non-resident holder was unable to receive the benefit of a reduced rate due to his or her failure to timely submit the aforementioned application, the Non-Resident holder may still receive a tax return if the submission to the relevant tax office is made within five years from the last day of the month in which the date of withholding occurs.

The tax rates may be reduced or exempted by applicable tax treaty, convention or agreement between Korea and the country of the recipient of the income. The relevant tax treaties are discussed below.

#### *Tax on Capital Gains*

Korean tax laws currently exclude from Korean taxation gains made by a Non-Resident without a permanent establishment in Korea from the sale of Notes to Non-Residents (other than to their permanent establishments in Korea). In addition, capital gains earned by Non-Residents from the transfer outside Korea of Notes to Non-Residents are currently exempt from taxation by virtue of the STTCL.

If the exclusion or exemption from Korean taxation referred to above were to cease to be in effect, in the absence of an applicable treaty or any other special tax laws reducing or eliminating tax on capital gains, the applicable rate of tax is the lower of 11 per cent. (including local income tax) of the gross realization proceeds and (subject to the production of satisfactory evidence of the acquisition cost and certain direct transaction costs of the relevant Note) 22 per cent. (including local income tax) of the realized gain (i.e., the excess of the gross realization proceeds over the acquisition cost and certain direct transaction costs) made. If such evidence shows that no gain (or a loss) was made on the sale, no Korean tax is payable. There is no provision under relevant Korean law for offsetting gains and losses or otherwise aggregating transactions for the purpose of computing the net gain attributable to sales of instruments issued by Korean companies. The purchaser or any other designated withholding agent of Notes is obliged under Korean law to withhold the applicable amount of Korean tax and make payment thereof to the relevant Korean tax authority. Unless the seller can claim the benefit of an exemption from tax under an applicable tax treaty or on the failure of the seller to produce satisfactory evidence

of his acquisition cost and certain direct transaction costs in relation to the Notes being sold, the purchaser or such withholding agent must withhold an amount equal to 11 per cent. of the gross realization proceeds. Any amounts withheld by the purchaser or withholding agent must be paid to the relevant Korean tax authority. The purchaser or withholding agent must pay any withholding tax no later than the tenth day of the month following the month in which the payment for the purchase of the relevant Notes occurred. Failure to transmit the withheld tax to the Korean tax authorities in time subjects the purchaser to penalties under Korean tax laws. The Korean tax authorities may attempt to collect such tax from a Non-Resident who is liable for payment of any Korean tax, either as a seller of Notes or as a purchaser or withholding agent who is obliged to withhold such tax through proceedings against payments due to the Non-Resident from its Korean investments and the assets or revenues of any of the Non-Resident's branch or representative offices in Korea.

### ***Inheritance Tax and Gift Tax***

Korean inheritance tax is imposed upon (a) all assets (wherever located) of the deceased if at the time of his death he was domiciled in Korea and (b) all property located in Korea which passes on death (irrespective of the domicile of the deceased). Gift tax is imposed in similar circumstances to the above. The taxes are imposed if the value of the relevant property is above a certain limit and the rate varies from 10 per cent. to 50 per cent. depending on the price of the assets and the nature of the relationship between the parties. At present, Korea has not entered into any tax treaties regarding its inheritance or gift taxes.

Under Korean inheritance and gift tax laws, bonds issued by Korean corporations are deemed located in Korea irrespective of where they are physically located or by whom they are owned, and consequently, the Korean inheritance and gift taxes will be imposed on transfers of the Notes by inheritance or gift. Prospective purchasers should consult their personal tax advisors regarding the consequences of the imposition of the Korean inheritance or gift tax.

### ***Stamp Duty and Securities Transaction Tax***

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

### ***Tax Treaties***

At the date of this Offering Circular, Korea has tax treaties with, inter alia, Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Italy, Japan, Luxembourg, Malaysia, the Netherlands, New Zealand, Norway, Singapore, Sweden, Switzerland, the United Kingdom and the United States under which the rate of withholding tax on interest (including local income tax) is reduced, generally to between 5 and 16.5 per cent. and the tax on capital gains is often eliminated.

The special withholding tax system took effect July 1, 2006. Under the system, residents of Labuan, Malaysia are presumed to be tax treaty shopping, and are denied tax treaty benefits. Instead, payments made to the residents of Labuan, Malaysia will be subject to the default Korean withholding tax rates (generally 15.4% for interest and 22% for capital gain (including local income tax)) rather than the reduced or exempted rate available under the Korea-Malaysia tax treaty. A Labuan taxpayer, however, will be given an opportunity to get refund by proving that it is entitled to the tax treaty benefits as a beneficial owner of the income and a real resident of Labuan, Malaysia. A Labuan taxpayer may also file an application with the National Tax Service (the "NTS") for confirmation that it is entitled to the tax treaty benefits and obtain an advance confirmation from the NTS prior to receiving Korean source income.

Each holder should enquire for himself whether he is entitled to the benefit of a tax treaty with respect to any transaction involving Notes. It is the responsibility of the party claiming the benefits of a tax treaty in respect of interest payments to file with the payer or the Issuer a certificate as to his residence. In the absence of sufficient proof, the payer or the Issuer must withhold taxes in accordance with the above discussion. Each holder must submit an application for entitlement to reduced tax rate on domestic source income in order to benefit from reduced rates under a tax treaty for any income (e.g., interest).

Further, in order for a non-resident to obtain the benefit of a tax exemption under an applicable tax treaty, Korean tax law requires such non-resident (or its agents) to submit to the payer of such Korean source income an application for tax exemption under a tax treaty along with a certificate of tax residency of such non-resident

issued by a competent authority of the non-resident's country of residence, subject to certain exceptions. If the Korean source incomes are paid to Non-Residents through an overseas investment vehicle, such investment vehicle must obtain an application for tax exemption from each Non Resident, who are the beneficial owners of such investment vehicle and submit to the payer of such Korean source incomes an overseas investment vehicle report, together with the applications for tax exemption prepared by the Non-Resident beneficial owners. An application for tax exemption submitted by a Non-Resident remains effective for three years from submission, and if any material changes occur with respect to information provided in the application, an application reflecting such change must be newly submitted.

The payer of such Korean source income, in turn, is required to submit such application to the relevant district tax authority by the ninth day of the month following the date of the first payment of such income. However, this requirement does not apply to tax exemptions under Korean tax laws.

#### ***Withholding and Gross Up***

As mentioned above, interest under the Notes is exempt from any withholding or deduction on account of income tax or corporation tax pursuant to the STTCL. However, in the event that the payer or the Issuer is required by law to make any withholding or deduction for or on account of any Korean taxes (as more fully described in Condition 9), the Issuer has agreed to pay (subject to the customary exceptions as set out in such Condition 9) such additional amounts as may be necessary in order that the net amounts receivable by the holder of any Note or Coupon after such withholding or deduction shall equal the respective amounts which would have been receivable by such holder in the absence of such withholding or deduction.

## BOOK-ENTRY CLEARANCE SYSTEMS

*This section includes provisions applicable to Rule 144A Global Notes and Definitive IAI Registered Notes in case the Program and the related offering circular are amended to permit such notes to be issued under the Program. The Notes offered or sold pursuant to this offering circular may be offered and sold only outside the United States in reliance on Regulation S under the U.S. Securities Act of 1933, as amended.*

*The information set out below is subject to any change in or reinterpretation of the rules, regulations and procedures of DTC, Euroclear or Clearstream (together, the “**Clearing System**”) currently in effect. The information in this section concerning the Clearing Systems has been obtained from sources that the Issuer believes to be reliable, but none of the Issuer nor any Dealer takes any responsibility for the accuracy thereof. Investors wishing to use the facilities of any of the Clearing Systems are advised to confirm the continued applicability of the rules, regulations and procedures of the relevant Clearing System. None of the Issuer nor any other party to the Agency Agreement will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Notes held through the facilities of any Clearing System or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.*

### Book-entry Systems

#### *Depository Trust Company*

DTC has advised the Issuer that it is a limited purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a “clearing corporation” within the meaning of the New York Uniform Commercial Code and a “clearing agency” registered pursuant to Section 17A of the Exchange Act. DTC holds securities that its participants (“**Participants**”) deposit with DTC. DTC also facilitates the settlement among Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Participants’ accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. Access to the DTC System is also available to others such as securities brokers and dealers, banks and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“**Indirect Participants**”).

Under the rules, regulations and procedures creating and affecting DTC and its operations (the “**Rules**”), DTC makes book-entry transfers of Registered Notes among Direct Participants on whose behalf it acts with respect to Notes accepted into DTC’s book-entry settlement system (“**DTC Notes**”) as described below and receives and transmits distributions of principal and interest on DTC Notes. The Rules are on file with the Securities and Exchange Commission. Direct Participants and Indirect Participants with which beneficial owners of DTC Notes (“**Owners**”) have accounts with respect to the DTC Notes similarly are required to make book-entry transfers and receive and transmit such payments on behalf of their respective Owners. Accordingly, although Owners who hold DTC Notes through Direct Participants or Indirect Participants will not possess Registered Notes, the Rules, by virtue of the requirements described above, provide a mechanism by which Direct Participants will receive payments and will be able to transfer their interest in respect of the DTC Notes.

Purchases of DTC Notes under the DTC system must be made by or through Direct Participants, which will receive a credit for the DTC Notes on DTC’s records. The ownership interest of each actual purchaser of each DTC Note (“**Beneficial Owner**”) is in turn to be recorded on the Direct and Indirect Participant’s records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the DTC Notes are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in DTC Notes, except in the event that use of the book-entry system for the DTC Notes is discontinued.

To facilitate subsequent transfers, all DTC Notes deposited by participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co. The deposit of DTC Notes with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the DTC Notes; DTC’s records reflect only the identity of the Direct Participants to whose accounts such DTC Notes are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.



Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to Cede & Co. If less than all of the DTC Notes within an issue are being redeemed, selection of Notes for such partial redemption will be made in accordance of rules and procedures of DTC.

Neither DTC nor Cede & Co. will consent or vote with respect to DTC Notes. Under its usual procedures, DTC mails an Omnibus Proxy to the Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the DTC Notes are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payment on the DTC Notes will be made to DTC. DTC's practice is to credit Direct Participants' accounts on the due date for payment in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on the due date. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC or the Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the Issuer, disbursement of such payments to Direct Participants is the responsibility of DTC, and disbursement of such payments to the Beneficial Owners is the responsibility of Direct and Indirect Participants.

Under certain circumstances, including if there is an Event of Default under the Notes, DTC will exchange the DTC Notes for definitive Registered Notes, which it will distribute to its Participants in accordance with their proportionate entitlements and which, if representing interests in a Rule 144A Global Note, will be legended as set forth under "*Subscription and Sale and Transfer and Selling Restrictions.*"

Since DTC may only act on behalf of Direct Participants, who in turn act on behalf of Indirect Participants, any Owner desiring to pledge DTC Notes to persons or entities that do not participate in DTC, or otherwise take actions with respect to such DTC Notes, will be required to withdraw its Registered Notes from DTC as described below.

### ***Euroclear and Clearstream***

Euroclear and Clearstream each holds securities for its customers and facilitates the clearance and settlement of securities transactions by electronic book-entry transfer between their respective account holders. Euroclear and Clearstream provide various services including safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream also deal with domestic securities markets in several countries through established depository and custodial relationships. Euroclear and Clearstream have established an electronic bridge between their two systems across which their respective participants may settle trades with each other.

Euroclear and Clearstream customers are world-wide financial institutions, including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Indirect access to Euroclear and Clearstream is available to other institutions that clear through or maintain a custodial relationship with an account holder of either system.

### **Book-entry Ownership of and Payments in respect of DTC Notes**

The Issuer may apply to DTC in order to have any Tranche of Notes represented by a Registered Global Note accepted in its book-entry settlement system. Upon the issue of any such Registered Global Note, DTC or its custodian will credit, on its internal book-entry system, the respective nominal amounts of the individual beneficial interests represented by such Registered Global Note to the accounts of persons who have accounts with DTC. Such accounts initially will be designated by or on behalf of the relevant Dealer. Ownership of beneficial interests in such Registered Global Note will be limited to Direct Participants or Indirect Participants, including, in the case of any Regulation S Global Note, the respective depositories of Euroclear and Clearstream. Ownership of beneficial interests in a Registered Global Note accepted by DTC will be shown on, and the transfer of such ownership will be effected only through, records maintained by DTC or its nominee (with respect to the interests of Direct Participants) and the records of Direct Participants (with respect to interests of Indirect Participants).

Payments in U.S. dollars of principal and interest in respect of a Registered Global Note accepted by DTC will be made to the order of DTC or its nominee as the registered holder of such Note.

The Issuer expects DTC to credit accounts of Direct Participants on the applicable payment date in accordance with their respective holdings as shown in the records of DTC unless DTC has reason to believe that it will not receive payment on such payment date. The Issuer also expects that payments by Participants to beneficial owners of Notes will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers, and will be the responsibility of such Participant and not the responsibility of DTC, the DTC Paying Agent, the Registrar or the Issuer. Payment of principal, premium, if any, and interest, if any, on Notes to DTC is the responsibility of the Issuer.

### **Transfers of Notes Represented by Registered Global Notes**

Transfers of any interests in Notes represented by a Registered Global Note within DTC, Euroclear and Clearstream will be effected in accordance with the customary rules and operating procedures of the relevant clearing system. The laws in some States within the United States require that certain persons take physical delivery of securities in definitive form. Consequently, the ability to transfer Notes represented by a Registered Global Note to such persons may depend upon the ability to exchange such Notes for Notes in definitive form.

Similarly, because DTC can only act on behalf of Direct Participants in the DTC system who in turn act on behalf of Indirect Participants, the ability of a person having an interest in Notes represented by a Registered Global Note accepted by DTC to pledge such Notes to persons or entities that do not participate in the DTC system or otherwise to take action in respect of such Notes may depend upon the ability to exchange such Notes for Notes in definitive form. The ability of any holder of Notes represented by a Registered Global Note accepted by DTC to resell, pledge or otherwise transfer such Notes may be impaired if the proposed transferee of such Notes is not eligible to hold such Notes through a direct or indirect participant in the DTC system.

Subject to compliance with the transfer restrictions applicable to the Registered Notes described under “*Subscription and Sale and Transfer and Selling Restrictions*,” cross-market transfers between DTC, on the one hand, and directly or indirectly through Clearstream or Euroclear accountholders, on the other, will be effected by the relevant clearing system in accordance with its rules and through action taken by the Registrar, the DTC Paying Agent and any custodian (“**Custodian**”) with whom the relevant Registered Global Notes have been deposited.

On or after the Issue Date for any Series, transfers of Notes of such Series between accountholders in Clearstream and Euroclear and transfers of Notes of such Series between participants in DTC will generally have a settlement date three business days after the trade date (T+3). The customary arrangements for delivery versus payment will apply to such transfers.

Cross-market transfers between accountholders in Clearstream or Euroclear and DTC participants will need to have an agreed settlement date between the parties to such transfer. Because there is no direct link between DTC, on the one hand, and Clearstream and Euroclear, on the other, transfers of interests in the relevant Registered Global Notes will be effected through the Registrar, the Issuing and Paying Agent and the Custodian receiving instructions (and, where appropriate, certification) from the transferor and arranging for delivery of the interests being transferred to the credit of the designated account for the transferee. In the case of cross-market transfers, settlement between Euroclear or Clearstream accountholders and DTC participants cannot be made on a delivery versus payment basis. The securities will be delivered on a free delivery basis and arrangements for payment must be made separately.

DTC, Clearstream and Euroclear have each published rules and operating procedures designed to facilitate transfers of beneficial interests in Registered Global Notes among participants and accountholders of DTC, Clearstream and Euroclear. However, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued or changed at any time. None of the Issuer, the Agents or any Dealer will be responsible for any performance by DTC, Clearstream or Euroclear or their respective direct or indirect participants or accountholders of their respective obligations under the rules and procedures governing their operations and none of them will have any liability for any aspect of the records relating to or payments made on account of beneficial interests in the Notes represented by Registered Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial interests.



## CMU Notes

Unless otherwise specified in the applicable Pricing Supplement, CMU Notes will initially be issued in registered form and represented by a global certificate (the “**CMU Global Note**”) registered in the name of HKMA, in its capacity as operator of the CMU Service and shall be delivered to and held by a sub-custodian nominated by the HKMA as operator of the CMU Service, or the CMU operator. The CMU Global Note will be held for the account of CMU members who have accounts with the CMU operator, or the CMU participants. For persons seeking to hold a beneficial interest in the Notes through Euroclear or Clearstream, such persons will hold their interests through an account opened and held by Euroclear or Clearstream with the CMU operator. Interests in the CMU Global Note will only be shown on, and transfers of interests will be effected through, records maintained by the CMU operator.

Because the CMU operator can act only on behalf of the CMU participants, who in turn may act on behalf of persons who hold interests through them, or indirect participants, the ability of persons having interests in the CMU Global Note to pledge such interests to persons or entities that are not CMU participants, or otherwise take action in respect of such interests, may be affected by the lack of definitive notes.

While the CMU Global Note representing the Notes is held by or on behalf of the CMU operator, payments of interest or principal will be made to the persons for whose account a relevant interest in the CMU Global Note is credited as being held by the CMU operator at the relevant time, as notified to the CMU Paying Agent by the CMU operator in a relevant CMU instrument position report (as defined in the rules of the CMU) or in any other relevant notification by the CMU operator. So long as the Notes are represented by the CMU Global Note that is held by or on behalf of the CMU operator, such payment by the Issuer will discharge the Issuer’s obligations in respect of that payment. Any payments by the CMU participants to indirect participants will be governed by arrangements agreed between the CMU participants and the indirect participants and will continue to depend on the inter-bank clearing system and traditional payment methods. Such payments will be the sole responsibility of such CMU participants.

Payments, transfers, exchanges and other matters relating to interests in the CMU Global Note may be subject to various policies and procedures adopted by the CMU operator from time to time. None of the Issuer, the Registrar, the Paying Agents, the CMU Lodging and Paying Agent or any other Agent will have any responsibility or liability for any aspect of the CMU operator’s records relating to, or for payments made on account of, interests in the CMU Global Note, or for maintaining, supervising or reviewing any records relating to such interests.

For so long as all of the Notes are represented by the CMU Global Note and such CMU Global Note is held on behalf of the CMU operator, notices to Noteholders may be given by delivery of the relevant notice to the persons shown in a CMU instrument position report issued by the CMU operator on the business day preceding the date of dispatch of such notice as holding interests in the CMU Global Note for communication to the CMU participants. Any such notice shall be deemed to have been given to the Noteholders on the second business day on which such notice is delivered to the persons shown in the relevant CMU instrument position report as aforesaid. Indirect participants will have to rely on the CMU participants (through whom they hold the Notes, in the form of interests in the global certificate) to deliver the notices to them, subject to the arrangements agreed between the indirect participants and the CMU participants.

The CMU operator is under no obligation to maintain or continue to operate the CMU Service and the CMU operator is under no obligation to perform or continue to perform the procedures described above. Accordingly, the CMU and such procedures may be discontinued or modified at any time. None of the Issuer, the Registrar, the Paying Agents, the CMU Lodging and Paying Agent or any other Agent will have any responsibility for the performance by the CMU operator or the CMU participants of their respective obligations under the rules and procedures governing their operations.

## SUBSCRIPTION AND SALE AND TRANSFER AND SELLING RESTRICTIONS

The Dealers have, in a program agreement dated August 28, 2018, as supplemented and amended from time to time (the “**Program Agreement**”), agreed with the Issuer a basis upon which they or any of them may from time to time agree to purchase Notes. Any such agreement will extend to those matters stated under “*Form of the Notes*” and “*Terms and Conditions of the Notes*” above. In the Program Agreement, the Issuer has agreed to reimburse the Dealers for certain of their expenses in connection with the establishment of the Program and the issue of Notes under the Program and to indemnify the Dealers against certain liabilities incurred by them in connection therewith.

In order to facilitate the offering of any Tranche of the Notes, certain persons participating in the offering of the Tranche may, to the extent permitted by applicable laws and regulations, engage in transactions that stabilize, maintain or otherwise affect the market price of the relevant Notes during and after the offering of the Tranche. Specifically, such persons may over-allot or create a short position in the Notes for their own account by selling more Notes than have been sold to them by the Issuer. Such persons may also elect to cover any such short position by purchasing Notes in the open market. In addition, such persons may stabilize or maintain the price of the Notes by bidding for or purchasing Notes in the open market and may impose penalty bids, under which selling concessions allowed to syndicate members or other broker-dealers participating in the offering of the Notes are reclaimed if Notes previously distributed in the offering are repurchased in connection with stabilization transactions or otherwise. The effect of these transactions may be to stabilize or maintain the market price of the Notes at a level above that which might otherwise prevail in the open market. The imposition of a penalty bid may also affect the price of the Notes to the extent that it discourages resales thereof. No representation is made as to the magnitude or effect of any such stabilizing or other transactions. Such transactions, if commenced, may be discontinued at any time. Stabilization activities are subject to certain prescribed time limits in certain jurisdictions.

### Certain Relationships

Certain of the Dealers and their affiliates may from time to time perform various investment banking, commercial banking or advisory services for the Issuer and its affiliates, for which they have received and may in the future receive customary compensation. The Dealers or their affiliates may own securities issued by the Issuer. The Dealers or their affiliates may purchase the Notes and be allocated Notes for asset management and/or proprietary purposes but not with a view to distribution.

The Dealers or their respective affiliates may purchase Notes for its or their own account and enter into transactions, including credit derivatives, such as asset swaps, repackaging and credit default swaps relating to Notes and/or other securities of the Issuer, or its subsidiaries or associates at the same time as the offer and sale of 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 Notes to which this Offering Circular relates (notwithstanding that such selected counterparties may also be purchasers of Notes).

### Transfer Restrictions

***As a result of the following restrictions, investors are advised to consult legal counsel prior to making any offer, resale, pledge or other transfer of the Notes offered pursuant to this Offering Circular.***

The Notes have not been and will not be registered under the Securities Act or the securities laws of any state of the United States or the securities laws of any other jurisdiction. 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. Terms used in this section are defined in Regulation S.

Each purchaser of the Notes hereunder will be deemed to have represented and agreed as follows:

- (i) the purchaser agrees that neither the purchaser nor any of the purchaser’s Affiliates (or any persons acting on behalf thereof) has engaged, or will engage, in any “directed selling efforts” within the meaning of Regulation S under the Securities Act in connection with the offering of the Notes;
- (ii) the purchaser acknowledges that until 40 days after the commencement of the offering of the Notes, an offer or sale of the Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act; and

- (iii) at or prior to the confirmation of sale of any Notes sold in reliance on Regulation S, the purchaser will have sent to each distributor, dealer or other person receiving a selling concession, fee or other remuneration that purchases Notes from it during the restricted period a confirmation or notice to substantially the following effect:

THE NOTES COVERED HEREBY HAVE NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), AND MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES AS PART OF THEIR DISTRIBUTION AT ANY TIME, EXCEPT IN ACCORDANCE WITH REGULATION S. TERMS USED ABOVE HAVE THE MEANINGS GIVEN TO THEM BY REGULATION S.

Prior to or simultaneously with the confirmation of sale by the purchaser to any subsequent purchaser of any of the Notes purchased by the purchaser from the Company pursuant hereto, the purchaser shall have furnished to that subsequent purchaser a copy of the Offering Circular (and any amendment or supplement thereto that the Company shall have furnished to the purchaser prior to the date of such confirmation of sale); and

the Notes will bear legends to the following effect, unless we determine otherwise in compliance with applicable law, and such purchaser will observe the restrictions contained therein:

THIS NOTE (OR ITS PREDECESSOR) WAS ORIGINALLY ISSUED IN A TRANSACTION EXEMPT FROM REGISTRATION UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), AND MAY NOT BE TRANSFERRED IN THE UNITED STATES EXCEPT PURSUANT TO AN AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND ALL APPLICABLE STATE SECURITIES LAWS. TERMS USED ABOVE HAVE THE MEANINGS GIVEN TO THEM IN REGULATION S UNDER THE SECURITIES ACT. THIS LEGEND SHALL CEASE TO APPLY UPON THE EXPIRY OF THE PERIOD OF 40 DAYS AFTER THE COMPLETION OF THE DISTRIBUTION OF ALL THE NOTES.

UNLESS THIS CERTIFICATE IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF EUROCLEAR AND CLEARSTREAM TO KOREA RAILROAD CORPORATION (“THE COMPANY”) OR ITS AGENT FOR REGISTRATION OF TRANSFER, EXCHANGE OR PAYMENT, AND ANY CERTIFICATE ISSUED IS REGISTERED IN THE NAME OF THE BANK OF NEW YORK DEPOSITORY (NOMINEES) LIMITED OR SUCH OTHER NAME AS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF EUROCLEAR AND CLEARSTREAM (AND ANY PAYMENT IS MADE TO THE BANK OF NEW YORK DEPOSITORY (NOMINEES) LIMITED OR TO SUCH OTHER ENTITY AS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF EUROCLEAR AND CLEARSTREAM), ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL INASMUCH AS THE REGISTERED OWNER HEREOF, THE BANK OF NEW YORK DEPOSITORY (NOMINEES) LIMITED, HAS AN INTEREST HEREIN.

## **Selling Restrictions**

### ***United States of America***

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 and may not be offered or sold within the United States except in certain transactions exempt from the registration requirements of the Securities Act.

The Notes in bearer form are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the Code and regulations thereunder.

In addition, until 40 days after the commencement of the offering of any Series of Notes, an offer or sale of such Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with an applicable exemption from registration under the Securities Act.

Each issuance of Dual Currency Notes shall be subject to such additional U.S. selling restrictions as the Issuer and the relevant Dealer may agree as a term of the issuance and purchase of such Notes, which additional selling restrictions shall be set out in the applicable Pricing Supplement.

### ***European Economic Area (“EEA”) - Prohibition of Sales to EEA Retail Investors***

Unless the Pricing Supplement in respect of any Notes specifies the “Prohibition of Sales to EEA Retail Investors” as “Not Applicable,” each Dealer has represented and agreed, and each further Dealer appointed under the Program will be required to represent and agree, that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes which are the subject of the offering contemplated by this Offering Circular as completed by the Pricing Supplement in relation thereto to any retail investor in the EEA. 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, 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 an “**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.

If the Pricing Supplement in respect of any Notes specifies “Prohibition of Sales to EEA Retail Investors” as “Not Applicable,” in relation to each EEA State which has implemented the Prospectus Directive (each, a “**Relevant EEA State**”), each Dealer has represented and agreed, and each further Dealer appointed under the Program will be required to represent and agree, that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant EEA State (the “**Relevant Implementation Date**”) it has not made and will not make an offer of any Notes the subject of such Pricing Supplement to the public in that Relevant EEA State except that it may, with effect from and including the Relevant Implementation Date, make an offer of such Notes to the public in that Relevant EEA State:

- (a) if the pricing supplement in relation to the Notes specify that an offer of those Notes may be made other than pursuant to Article 3(2) of the Prospectus Directive in that Relevant EEA State (a “**Non-exempt Offer**”), following the date of publication of a prospectus in relation to such Notes which has been approved by the competent authority in that Relevant EEA State or, where appropriate, approved in another Relevant EEA State and notified to the competent authority in that Relevant EEA State, provided that any such prospectus has subsequently been completed by the pricing supplement contemplating such Non-exempt Offer, in accordance with the Prospectus Directive, in the period beginning and ending on the dates specified in such prospectus or pricing supplement, as applicable and the Issuer has consented in writing to its use for the purpose of that Non-exempt Offer;
- (b) at any time to any legal entity which is a “qualified investor” as defined in the Prospectus Directive;
- (c) at any time to fewer than 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive), subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or
- (d) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive, provided that no such offer of Notes referred to in (b) to (d) above shall require the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive, or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression “**an offer of Notes to the public**” in relation to any Notes in any Relevant EEA State means 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, as the same may be varied in that Relevant EEA State by any measure implementing the Prospectus Directive in that State including any relevant implementing measure in each Relevant EEA State).

### ***United Kingdom***

Each Dealer has represented and agreed, and each further Dealer appointed under the Program will be required to represent and agree, that:

- (a) in relation to any Notes having a maturity of less than one year, (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent)

for the purposes of its business and (ii) it has not offered or sold and will not offer or sell any Notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Notes would otherwise constitute a contravention of Section 19 of the Financial Services and Markets Act 2000 (the “FSMA”) by the Issuer;

- (b) 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 FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and
- (c) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

### ***Japan***

Each Dealer has acknowledged, and each further Dealer appointed under the Program will be required to acknowledge, that the Notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Law No. 25 of 1948, as amended) (the “FIEA”). Each Dealer has represented and agreed, and each further Dealer appointed under the Program will be required to represent and agree, that it has not offered or sold and will not offer or sell any Notes, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (as defined under Item 5, Paragraph 1, Article 6 of the Foreign Exchange and Foreign Trade Control Law (Law No. 228 of 1949, as amended)) or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEA and other applicable laws, regulations and ministerial guidelines of Japan.

### ***Hong Kong***

Each Dealer has represented and agreed, and each further Dealer appointed under the Program will be required to represent and agree, that:

- (a) it has not offered or sold, and will not offer or sell, in the Hong Kong Special Administrative Region of the PRC (“**Hong Kong**”), by means of any document, any Notes (except for Notes which are a “structured product” as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong) other than (i) to persons whose ordinary business is to buy or sell shares or debentures (whether as principal or agent); or (ii) to “professional investors” as defined in the Securities and Futures Ordinance and any rules made under that Ordinance; or (iii) in other circumstances which do not result in the document being a “prospectus” as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance; and
- (b) it has not issued, or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Notes, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to 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 Securities and Futures Ordinance of Hong Kong and any rules made thereunder.

### ***Singapore***

Each Dealer has acknowledged, and each further Dealer appointed under the Program will be required to acknowledge, that this Offering Circular has not been and will not be registered as a prospectus with the Monetary Authority of Singapore under the SFA. Accordingly, each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Program will be required to represent, warrant and agree, that it has not offered or sold any Notes or caused the Notes to be made the subject of an invitation for subscription or purchase and will not offer or sell the Notes or cause the Notes to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Offering Circular or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor under Section 274 of the SFA, (ii) to a relevant person pursuant to Section 275(1), or any



person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275, of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

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

- (a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

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

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

**Notification under Section 309B(1)(c) of the Securities and Futures Act, Chapter 289 of Singapore (the "SFA")** – Unless otherwise stated in the Pricing Supplement in respect of any Notes, the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA) that the Notes to be issued under the Program shall be prescribed capital markets products (as defined in the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

### ***Switzerland***

The Notes may not be publicly offered, sold, or advertised, directly or indirectly, in, into or from Switzerland, and will not be listed on SIX Swiss Exchange ("SIX") or on any other exchange or regulated trading facility in Switzerland. This Offering Circular has been prepared without regard to the disclosure standards for issuance prospectuses under article 652a or article 1156 of the Swiss Code of Obligations, or the disclosure standards for listing prospectuses under article 27 et seq. of the SIX Listing Rules or the listing rules of any other stock exchange or regulated trading facility in Switzerland, or the rules related to prospectuses under Swiss Federal Act on Collective Investment Schemes. Neither this Offering Circular nor any other offering or marketing material relating to the Notes or the offering thereof may be publicly distributed or otherwise made publicly available in Switzerland.

Neither this Offering Circular nor any other offering or marketing material relating to the offering of any Notes, the Issuer or the Notes have been or will be filed with or approved by any Swiss regulatory authority. In particular, this Offering Circular will not be filed with, and the offer of any Notes will not be supervised by, the Swiss Financial Market Supervisory Authority FINMA ("FINMA"). Acquirers of the Notes will not benefit from protection or supervision by FINMA.

### ***Korea***

The Notes have not been and will not be registered under the FSCMA. Each Dealer has represented and agreed each further Dealer appointed under the Program will be required to represent and agree that 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 Law of Korea and its Enforcement Decree), 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.

Each Dealer has undertaken, and each further Dealer appointed under the Program will be required to undertake, to ensure that any securities dealer to which it sells Notes confirms that it is purchasing such Notes as principal and agrees with such Dealer that it will comply with the restrictions described above.

## **General**

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

If a jurisdiction requires that any offering of Notes under the Program be made by a licensed broker or dealer and any Dealer or any affiliate of a Dealer is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by such Dealer or such affiliate on behalf of the Issuer in such jurisdiction.

Neither the Issuer nor any of the Dealers represents that Notes may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating such sale.

With regard to each Tranche, the relevant Dealer will be required to comply with such other additional restrictions as the Issuer and the relevant Dealer shall agree and as shall be set out in the applicable Pricing Supplement.

## GENERAL INFORMATION

### Authorization

The establishment of the Program and the issue of Notes under the Program have been duly authorized under the articles of incorporation of the Issuer. However, the issue of any particular Tranche of Notes is further subject to the authorization by the resolution of the Board of the Issuer prior to the relevant issue and the issue of Notes for a particular year is subject to approval of the plan on issuance and management of bonds for the relevant year by the MOLIT.

### Listing of Notes on the Singapore Stock Exchange

Approval in-principle has been received from the Singapore Stock Exchange in connection with the Program and application will be made for the listing and quotation of Notes that may be issued pursuant to the Program and which are agreed, at or prior to the time of issue thereof, to be so listed on the Singapore Stock Exchange. Such permission will be granted when such Notes have been admitted for listing and quotation on the Singapore Stock Exchange. The Singapore Stock Exchange assumes no responsibility for the correctness of any of the statements made, opinions expressed or reports contained herein. Approval in-principle from, admission to the Official List of, and listing and quotation of any Notes on, the Singapore Stock Exchange are not to be taken as an indication of the merits of the Issuer, the Program or the Notes. For so long as any Notes are listed on the Singapore Stock Exchange and the rules of the Singapore Stock Exchange so require, such Notes, if traded on the Singapore Stock Exchange, will be traded in a minimum board lot size of S\$200,000 (or its equivalent in foreign currencies).

### Documents Available

From the date hereof and so long as Notes are capable of being issued under the Program, copies of the following documents will, when published, be available for inspection at the registered office of the Issuer (in the case of clause (v) below, those documents will also be available at the specified office of the Issuing and Paying Agent):

- (i) the constitutional documents (together with English translations) of the Issuer;
- (ii) the Program Agreement, the Agency Agreement, the forms of the Global Notes, the Notes in definitive form, the Receipts, the Coupons, and the Talons;
- (iii) a copy of this Offering Circular;
- (iv) any future offering circulars, information memoranda and supplements, including Pricing Supplements (save that a Pricing Supplement relating to an unlisted Note will only be available for inspection by a holder of such Note and such holder must produce evidence satisfactory to the Issuer or the relevant Paying Agent, as the case may be, as to its holding and as to identity), to this Offering Circular and any other documents incorporated herein or therein by reference; and
- (v) in the case of each issue of listed Notes subscribed pursuant to a subscription agreement, the subscription agreement (or equivalent document).

### Clearing Systems

The Notes have been accepted for clearance through Euroclear and Clearstream. The appropriate Common Code and ISIN for each Tranche of Notes allocated by Euroclear and Clearstream will be specified in the applicable Pricing Supplement. The Issuer may also apply to have the Notes accepted for clearance through the CMU Service. The relevant CMU instrument number will be specified in the applicable Pricing Supplement. For persons seeking to hold a beneficial interest in the CMU Notes held in a global certificate through Euroclear or Clearstream, such persons will hold their interests through an account opened and held by Euroclear or Clearstream with HKMA as the CMU operator. The CUSIP and/or CINS numbers for each Tranche of Registered Notes, together with the relevant ISIN and Common Code, will be specified in the applicable Pricing Supplement. If the Notes are to clear through an additional or alternative clearing system, the appropriate information will be specified in the applicable Pricing Supplement.

### Auditors

The consolidated financial statements of the Korea Railroad Corporation as of and for the year ended December 31, 2017 included in this Offering Circular have been audited by KPMG Samjong Accounting Corp., independent auditors, as stated in their report appearing herein.



The consolidated financial statements of the Korea Railroad Corporation as of and for the year ended December 31, 2016 included in this Offering Circular have been audited by Deloitte Anjin LLC, independent auditors, as stated in their report appearing herein.

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# **Independent Auditors' Report**

To the Board of Directors and Shareholder  
Korea Railroad Corporation:

We have audited the accompanying consolidated financial statement of Korea Railroad Corporation and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as of December 31, 2017, and the consolidated statements of comprehensive income, changes in shareholder's 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 Government-owned and Quasi-government Accounting Regulations and Standards and 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 audit. We conducted our audit in accordance with Korean Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

***Opinion***

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Korean Government-owned and Quasi-government Accounting Regulations and Standards and Korean International Financial Reporting Standards.

***Other Matters***

The comparative consolidated financial statements as of and for the year ended December 31, 2016 were audited by other auditor in accordance with Korean Standards on Auditing whose report dated March 22, 2017, expressed an unqualified opinion on those statements.

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

KPMG Samjong Accounting Corp.

Seoul, Korea

February 28, 2018

This report is effective as of February 28, 2018, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying consolidated financial statements and notes thereto. Accordingly, the readers of the audit report should understand that the above audit report has not been updated to reflect the impact of such subsequent events or circumstances, if any.

# KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

## Consolidated Statements of Financial Position

As of December 31, 2017 and 2016

(In thousands of won)

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

See accompanying notes to the consolidated financial statements.

# KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

## Consolidated Statements of Financial Position, Continued

As of December 31, 2017 and 2016

(In thousands of won)

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

See accompanying notes to the consolidated financial statements.

# KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

## Consolidated Statements of Comprehensive Income (Loss)

For the years ended December 31, 2017 and 2016

(In thousands of won)

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

See accompanying notes to the consolidated financial statements.

**KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES**

## Consolidated Statements of Comprehensive Income (Loss)

For the years ended December 31, 2017 and 2016

*(In thousands of won)*

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

See accompanying notes to the consolidated financial statements.



# KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

## Consolidated Statements of Changes in Shareholder's Equity

For the years ended December 31, 2017 and 2016

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

See accompanying notes to the consolidated financial statements.

# KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

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

For the years ended December 31, 2017 and 2016

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

See accompanying notes to the consolidated financial statements.

# KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

## Consolidated Statements of Cash Flows

For the years ended December 31, 2017 and 2016

(In thousands of won)

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

See accompanying notes to the consolidated financial statements.

# KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

## Consolidated Statements of Cash Flows, Continued

For the years ended December 31, 2017 and 2016

(In thousands of won)

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

See accompanying notes to the consolidated financial statements.

# KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

## Consolidated Statements of Cash Flows, Continued

For the years ended December 31, 2017 and 2016

(In thousands of won)

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

See accompanying notes to the consolidated financial statements.

# KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

## Consolidated Statements of Cash Flows, Continued

For the years ended December 31, 2017 and 2016

(In thousands of won)

		2017	2016
<b>Cash flows from investing activities</b>			
Proceeds from sales of short-term financial instruments	₩	43,238,233	-
Proceeds from available-for-sale financial instruments		(41,818)	129,054
Decrease in long-term deposits		10,869,922	11,398,561
Decrease in leasehold deposits		3,128,604	2,269,599
Proceeds from sale of non-current assets held for sale		160,265,927	75,946,317
Proceeds from sale of property, trains and equipment		1,235,201	6,770,789
Disposal of short-term financial instruments		3,938,374	47,362,237
Collection of short-term loans		-	94,813
Collection of long-term other receivables		2,049,933	-
Disposal of long-term investment		65	-
Collection of long-term deposits provided		2,103,270	-
Interest received		6,657,136	7,070,268
Dividends received		14,046,444	14,809,337
Acquisition of property, trains and equipment		(634,117,852)	(905,808,569)
Acquisition of intangible assets		(9,640,213)	(21,169,201)
Acquisition of available-for-sale financial instruments		(5,193,000)	(6,106,692)
Increase in long-term loans		(7,912,886)	(7,463,444)
Increase in long-term deposits		(4,092,245)	(3,533,748)
Increase in short-term financial instruments		(6,000,000)	(31,627,836)
Increase in short-term loans		(29,476)	-
Increase in short-term deposits		(245,338)	-
Acquisition of financial assets for trading purpose		(40,000,000)	-
Other		(4,367,753)	-
<b>Net cash used in investing activities</b>	₩	<u>(464,107,472)</u>	<u>(809,858,515)</u>

See accompanying notes to the consolidated financial statements.

# KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

## Consolidated Statements of Cash Flows, Continued

For the years ended December 31, 2017 and 2016

(In thousands of won)

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

See accompanying notes to the consolidated financial statements.

## KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

### 1. GENERAL INFORMATION:

(1) Description of the controlling company

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

The main businesses of the Company are as follows:

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



## KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

#### For the years ended December 31, 2017 and 2016

#### 1. GENERAL INFORMATION, Continued:

##### (2) Consolidated subsidiaries

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

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

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

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

# KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2017 and 2016

## 1. GENERAL INFORMATION, Continued:

(2) Consolidated subsidiaries, Continued

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

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

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

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

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

<i>(In thousands of won)</i>		Profit attributable to non-controlling interests	Accumulated non-controlling interests	Location
Company				
SR Co., Ltd.	₩	18,312,444	(3,604,120)	Republic of Korea

## KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2017 and 2016

### 1. GENERAL INFORMATION, Continued:

(2) Consolidated subsidiaries, Continued

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

iii) Financial information of subsidiaries whose non-controlling interests are significant to the Group as of and for the year ended December 31, 2017, is summarized as follows:

- Statements of Financial Position and Comprehensive Income

*(In thousands of won)*

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

- Statements of Cash flows

*(In thousands of won)*

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

## KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2017 and 2016

### 2. BASIS OF PREPARATION:

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

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

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

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

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

The Group recognizes business profits in response to expenses incurred at the time of execution, and does not offset them.

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

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

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

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

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

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

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

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

## KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2017 and 2016

### 3. SIGNIFICANT ACCOUNTING POLICIES:

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

#### (1) Basis of consolidation

##### (i) Business combinations

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

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

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

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

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

## KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2017 and 2016

### 3. SIGNIFICANT ACCOUNTING POLICIES, Continued:

#### (ii) Non-controlling interests (NCIs)

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

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

#### (iii) Subsidiaries

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

#### (iv) Loss of control

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

## KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2017 and 2016

### 3. SIGNIFICANT ACCOUNTING POLICIES, Continued:

(1) Basis of consolidation, Continued

(v) Interests in equity-accounted investees

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

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

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

(vi) Transactions eliminated on consolidation

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

(vii) Acquisitions from entities under common control

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

(2) Cash and cash equivalents

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

## KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2017 and 2016

### 3. SIGNIFICANT ACCOUNTING POLICIES, Continued:

#### (3) Inventories

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

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

#### (4) Non-derivative financial assets

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

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

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

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



## KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2017 and 2016

### 3. SIGNIFICANT ACCOUNTING POLICIES, Continued:

#### (4) Non-derivative financial assets, Continued

##### (ii) Held-to-maturity investments

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

##### (iii) Loans and receivables

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

##### (iv) Available-for-sale financial assets

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

##### (v) Derecognition of financial assets

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

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

##### (vi) Offsetting between financial assets and financial liabilities

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

## KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2017 and 2016

### 3. SIGNIFICANT ACCOUNTING POLICIES, Continued:

(5) Derivative financial instruments, including hedge accounting

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

(i) Hedge accounting

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

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

- Fair value hedge

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

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

- Cash flow hedge

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

## KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2017 and 2016

### 3. SIGNIFICANT ACCOUNTING POLICIES, Continued:

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

(i) Hedge accounting, Continued

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

(ii) Separable embedded derivatives

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

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

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

(iii) Other derivative financial instruments

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

## KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2017 and 2016

### 3. SIGNIFICANT ACCOUNTING POLICIES, Continued:

#### (6) Impairment of financial assets

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

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

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

#### (i) Financial assets measured at amortized cost

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

#### (ii) Financial assets carried at cost

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

## KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2017 and 2016

### 3. SIGNIFICANT ACCOUNTING POLICIES, Continued:

(6) Impairment of financial assets, Continued

(iii) Available-for-sale financial assets

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

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

## KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2017 and 2016

### 3. SIGNIFICANT ACCOUNTING POLICIES, Continued:

#### (7) Property, plant and equipment

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

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

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

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

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

## KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2017 and 2016

### 3. SIGNIFICANT ACCOUNTING POLICIES, Continued:

(7) Property, plant and equipment, Continued

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

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

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

## KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2017 and 2016

### 3. SIGNIFICANT ACCOUNTING POLICIES, Continued:

#### (8) Intangible assets

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

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

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

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

#### (i) Service concession arrangements

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



## KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2017 and 2016

### 3. SIGNIFICANT ACCOUNTING POLICIES, Continued:

#### (8) Intangible assets, Continued

##### (ii) Subsequent expenditures

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

#### (9) Government grants

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

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

#### (10) Investment property

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

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

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

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

## KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2017 and 2016

### 3. SIGNIFICANT ACCOUNTING POLICIES, Continued:

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

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

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

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

## KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2017 and 2016

### 3. SIGNIFICANT ACCOUNTING POLICIES, Continued:

#### (12) Leases

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

##### (i) Finance leases

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

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

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

##### (ii) Operating leases

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

## KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2017 and 2016

### 3. SIGNIFICANT ACCOUNTING POLICIES, Continued:

#### (13) Construction work in progress

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

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

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

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

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

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

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

## KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2017 and 2016

### 3. SIGNIFICANT ACCOUNTING POLICIES, Continued:

#### (15) Borrowing Costs

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

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

#### (16) Non-derivative financial liabilities

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

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

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

## KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2017 and 2016

### 3. SIGNIFICANT ACCOUNTING POLICIES, Continued:

(16) Non-derivative financial liabilities, Continued

(ii) Other financial liabilities

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

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

(17) Employee benefits

(i) Retirement benefits: defined contribution plans

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

(ii) Retirement benefits: defined benefit plans

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

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

## KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2017 and 2016

### 3. SIGNIFICANT ACCOUNTING POLICIES, Continued:

(17) Employee benefits, Continued

(ii) Retirement benefits: defined benefit plans, Continued

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

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

(18) Provision

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

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

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

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

## KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2017 and 2016

### 3. SIGNIFICANT ACCOUNTING POLICIES, Continued:

#### (18) Provision, Continued

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

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

#### (19) Foreign currency transactions

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

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

#### (20) Equity capital

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

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



## KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2017 and 2016

### 3. SIGNIFICANT ACCOUNTING POLICIES, Continued:

#### (21) Revenue

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

##### (i) Goods sold

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

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

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

##### (ii) Services

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

## KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2017 and 2016

### 3. SIGNIFICANT ACCOUNTING POLICIES, Continued:

(21) Revenue, Continued

(iii) Customer loyalty programs

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

(iv) Construction contracts

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

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

(v) Rental income

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

## KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2017 and 2016

### 3. SIGNIFICANT ACCOUNTING POLICIES, Continued:

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

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

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

#### (23) Income taxes

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

##### (i) Current tax

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

## KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2017 and 2016

### 3. SIGNIFICANT ACCOUNTING POLICIES, Continued:

(23) Income taxes, Continued

(ii) Deferred tax

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

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

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

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

## KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2017 and 2016

### 3. SIGNIFICANT ACCOUNTING POLICIES, Continued:

(24) New standards and interpretations, not yet adapted

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

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

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

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

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

#### - Classification and Measurement of Financial Assets

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

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

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

## KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2017 and 2016

### 3. SIGNIFICANT ACCOUNTING POLICIES, Continued:

(24) New standards and interpretations, not yet adapted, Continued

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

#### - Impairment

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

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

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

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

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

The Group plans to apply K-IFRS No. 1115 starting from fiscal year beginning on January 1, 2018. The Group intends to apply the retrospective approach which will recognize the cumulative impact of initially applying the revenue standard as of January 1, 2018, the date of initial application and the Company also decided to apply the practical expedients by applying the new standard only to those contracts that are not considered as completed contracts at the date of initial application. Accordingly, upon adoption of K-IFRS No. 1115, the Company will not restate the financial statements for comparative periods.

Current K-IFRS standards and interpretations including K-IFRS No. 1018 provide revenue recognition standards by transaction types such as sales of goods, provision of services, interest income, royalty income, dividend income and construction revenue; however, under the new standard, K-IFRS No. 1115, the five-step approach (① Identify the contract(s) with a customer, ② Identify the performance obligations in the contract, ③ Determine the transaction price, ④ Allocate the transaction price to the performance obligations in the contract, ⑤ Recognize revenue when the

## KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2017 and 2016

entity satisfied a performance obligation) is applied for all types of contracts or agreements.

### **3. SIGNIFICANT ACCOUNTING POLICIES, Continued:**

(24) New standards and interpretations, not yet adapted, Continued

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

#### **- Sales of goods**

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

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

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

#### **- Provision of services**

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

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

#### **- Construction Contracts**

The adoption of K-IFRS No. 1115 may affect the consolidate financial statements because the timing of revenue recognition differs depending on whether the performance obligation of construction service satisfied over time or at a point in time.

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

## KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2017 and 2016

### 3. SIGNIFICANT ACCOUNTING POLICIES, Continued:

(24) New standards and interpretations, not yet adapted, Continued

In the construction service of the Group, the Group has determined that there is no alternative use of service objects because they can not be converted for other use due to contractual and practical restrictions and significant rework cost is incurred related to the conversion. Further more, if there is a claim to be paid if the amount is close to the selling price of the transferred construction work, the Group has an enforceable right to payment for performance completed to date.

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

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

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

K-IFRS No. 1116, 'Leases' replaces K-IFRS No. 1017, 'Leases', and K-IFRS No. 2104, 'Determining whether an Arrangement contains a Lease'.

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

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

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

Application of K-IFRS No. 1116 will change current operating lease expense which has been recognized in straight-line method into depreciation expense of right-of-use asset and interest expense of lease liability, and therefore, nature of expense recognized in relation to lease will change. However, it is expected that there will be no significant impact on finance lease.



## KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2017 and 2016

### 4. SIGNIFICANT ACCOUNTING ESTIMATION AND ASSUMPTION:

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

#### (1) Income tax

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

#### (2) Fair value of financial instruments

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

#### (3) Provisions

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

## KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2017 and 2016

### 5. FINANCIAL RISK MANAGEMENT:

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

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

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

#### (1) Risk management activities

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

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

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

## KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2017 and 2016

### 5. FINANCIAL RISK MANAGEMENT, Continued:

#### (2) Credit risk

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

##### (i) Trade and other receivables

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

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

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

##### (ii) Guarantees

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

##### (iii) Investments

The Group deposits its cash and cash equivalents and short-term financial instruments in Kookmin Bank and others, and limits its exposure to credit risk by only transacting with financial institutions with high credit ratings. The Group indirectly participates in the development and operation of the surrounding area of Yongsan station and owns associated companies' equity. Although the Group is exposed to credit risk as the market value of the associated companies that operate the private capital railway station sphere fluctuates depending on the location and surrounding conditions, the Group manages the investment assets by reviewing the fluctuation of net assets of investees on a regular basis and recognizes impairment loss when recoverability of investment assets is no longer probable.

## KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2017 and 2016

### 5. FINANCIAL RISK MANAGEMENT, Continued:

#### (3) Liquidity risk

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

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

#### (4) Market risk

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

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

#### (i) Currency risk

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

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

## KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2017 and 2016

### 5. FINANCIAL RISK MANAGEMENT, Continued:

(4) Market risk, Continued

(ii) Interest rate risk

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

(iii) Other market price risk

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

(5) Capital management

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

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

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

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

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

## KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2017 and 2016

### 6. OPERATING SEGMENTS:

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

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

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

# KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2017 and 2016

## 6. OPERATING SEGMENTS, Continued:

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

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

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

# KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2017 and 2016

## 6. OPERATING SEGMENTS, Continued:

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

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

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



## KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2017 and 2016

### 6. OPERATING SEGMENTS, Continued:

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

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

### 7. CASH AND CASH EQUIVALENTS:

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

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

# KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2017 and 2016

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

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

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

## 9. DERIVATIVES:

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

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

# KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2017 and 2016

## 9. DERIVATIVES, Continued:

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

(In thousands of won)

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

# KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2017 and 2016

## 9. DERIVATIVES, Continued:

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

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

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

# KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2017 and 2016

## 10. TRADE RECEIVABLES AND OTHER RECEIVABLES:

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

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

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

# KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2017 and 2016

## 10. TRADE RECEIVABLES AND OTHER RECEIVABLES, Continued:

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

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

## KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2017 and 2016

### 10. TRADE RECEIVABLES AND OTHER RECEIVABLES, Continued:

(3) Credit risk and allowance for impairment

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

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

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

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

# KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2017 and 2016

## 10. TRADE RECEIVABLES AND OTHER RECEIVABLES, Continued:

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

<i>(In thousands of won)</i>	Trade receivables	
	December 31, 2017	December 31, 2016
Current and not impaired	₩ 270,442,816	249,985,823
Overdue, but not impaired	94,754,737	8,963,854
Current reviewed for impairment	11,702,136	73,556,308
- Under 90 days	4,461,671	9,427,015
- 90 days–120 days	450,169	342,782
- 120 days or more	6,790,296	63,786,511
Subtotal	376,899,689	332,505,985
Allowance for impairment	(13,508,560)	(18,422,734)
	₩ 363,391,129	314,083,251
<i>(In thousands of won)</i>	Other receivables	
	December 31, 2017	December 31, 2016
Current and not impaired	₩ 751,361,842	579,183,920
Overdue, but not impaired	6,892,012	4,413,386
Current reviewed for impairment	1,845,426	9,883,048
- Under 90 days	181,069	72,272
- 90 days–120 days	16,601	14,414
- 120 days or more	1,647,756	9,796,362
Subtotal	760,099,280	593,480,354
Allowance for impairment	(2,170,026)	(8,286,831)
Present value discounts	(384,251)	(384,622)
	₩ 757,545,003	584,808,901



# KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2017 and 2016

## 10. TRADE RECEIVABLES AND OTHER RECEIVABLES, Continued:

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

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

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

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

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

# KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2017 and 2016

## 12. LOANS:

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

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

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

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

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

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

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

# KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2017 and 2016

## 13. FINANCIAL INSTRUMENTS:

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

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

## 14. INVENTORIES:

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

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

# KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2017 and 2016

## 14. INVENTORIES, Continued:

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

## 15. NON-FINANCIAL ASSETS:

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

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

**KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES**

Notes to the Consolidated Financial Statements, Continued

**For the years ended December 31, 2017 and 2016****15. NON-FINANCIAL ASSETS, Continued:**

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

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

# KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2017 and 2016

## 16. INVESTMENTS IN ASSOCIATES:

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

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

# KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2017 and 2016

## 16. INVESTMENTS IN ASSOCIATES, Continued:

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

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

# KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2017 and 2016

## 16. INVESTMENTS IN ASSOCIATES, Continued:

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

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

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

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



# KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2017 and 2016

## 16. INVESTMENTS IN ASSOCIATES, Continued:

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

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

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

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

# KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2017 and 2016

## 16. INVESTMENTS IN ASSOCIATES, Continued:

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

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

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

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

# KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2017 and 2016

## 17. PROPERTY, TRAINS AND EQUIPMENT:

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

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

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

# KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2017 and 2016

## 17. PROPERTY, TRAINS AND EQUIPMENT, Continued:

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

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

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

# KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2017 and 2016

## 17. PROPERTY, TRAINS AND EQUIPMENT, Continued:

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

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

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

# KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2017 and 2016

## 17. PROPERTY, TRAINS AND EQUIPMENT, Continued:

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

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

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

(3) Accounting policy for subsequent measurement

In 2013, the Group adopted accounting policy for the revaluation model for land. The Group believes that the book value of Yongsan station area that the Group has reclaimed as a result of the cancellation of the project should be measured at-fair-value using revaluation model, as it would provide more reliable and relevant information of the Group's financial position and future cash flows.

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

**KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES**

Notes to the Consolidated Financial Statements, Continued

**For the years ended December 31, 2017 and 2016****17. PROPERTY, TRAINS AND EQUIPMENT, Continued:**

(3) Accounting policy for subsequent measurement, Continued

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

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

# KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2017 and 2016

## 18. INVESTMENT PROPERTY:

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

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



# KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2017 and 2016

## 18. INVESTMENT PROPERTY, Continued:

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

		2017				
<i>(In thousands of won)</i>		Book value as of Jan. 1, 2017	Disposals	Depreciation	Government grants	Book value as of Dec. 31, 2017
					Other(*)	
Land	₩	65,544,373	(85,950)	-	-	151,064,716
Buildings and Structures		101,707,516	(613,089)	(2,152,184)	1,661,511	126,486,462
	₩	167,251,889	(699,039)	(2,152,184)	1,661,511	277,551,178

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

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

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

# KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2017 and 2016

## 18. INVESTMENT PROPERTY, Continued:

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

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

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

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

The fair value of investment property (land) as of December 31, 2017, was determined based on the appraisal performed by the independent appraisal institution, Nara Appraisal Co., Ltd., on December 31, 2017. As a member of Korea Appraisal Association, Nara Appraisal Co., Ltd. has extensive experience and qualification in connection with the appraisal of real estates in the area. The appraisal was performed in accordance with international standards and the appraisal value was measured based on the market price of similar real estates.

# KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2017 and 2016

## 19. CONSTRUCTION CONTRACTS:

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

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

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

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

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

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

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

## KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2017 and 2016

### 20. GOODWILL:

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

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

(2) There is no change in goodwill during the periods presented.

### 21. INTANGIBLE ASSETS:

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

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

# KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2017 and 2016

## 21. INTANGIBLE ASSETS, Continued:

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

(In thousands of won)	December 31, 2016		
	Acquisition cost	Accumulated amortization	Book value
Industrial property rights	₩ 479,058	(231,553)	247,505
Development costs	60,554,851	(45,090,608)	15,464,243
Computer software	74,113,170	(52,982,026)	21,131,144
Service operating rights on donated assets	330,735	-	330,735
Other intangible assets	20,156,498	-	20,156,498
Developing intangible assets	12,489,528	-	12,489,528
	₩ 168,123,840	(98,304,187)	69,819,653

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

(In thousands of won)	2017						
	Industrial property rights	Development costs	Computer software	Service operating rights on donated assets	Other intangible assets	Developing intangible assets	Total
Beginning balance	₩ 247,506	15,464,242	21,131,144	330,735	20,156,498	12,489,528	69,819,653
Increase	7,499	4,508,657	1,075,669	-	2,246,227	1,802,162	9,640,214
Amortization	(35,376)	(4,624,316)	(6,802,900)	(33,072)	(1,006,362)	-	(12,502,026)
Other	4,907	7,501,244	930,481	-	-	(14,174,970)	(5,738,338)
Ending balance	₩ 224,536	22,849,827	16,334,394	297,663	21,396,363	116,720	61,219,503

# KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2017 and 2016

		2016						
		Industrial property rights	Development costs	Computer software	Service operating rights on donated assets	Other intangible assets	Developing intangible assets	Total
(In thousands of won)								
Beginning balance	₩	280,001	7,530,987	18,359,034	363,807	20,189,233	14,050,854	60,773,916
Increase		2,362	-	2,296,596	-	1,003,134	17,867,109	21,169,201
Amortization		(34,857)	(3,117,118)	(5,754,204)	(33,072)	(1,035,869)	-	(9,975,120)
Other		-	11,050,373	6,229,718	-	-	(19,428,435)	(2,148,344)
Ending balance	₩	247,506	15,464,242	21,131,144	330,735	20,156,498	12,489,528	69,819,653

## 22. TRADE AND OTHER PAYABLES:

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

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

# KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2017 and 2016

## 23. FINANCIAL LIABILITIES:

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

(In thousands of won)

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

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

(In thousands of won)

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

# KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2017 and 2016

## 23. FINANCIAL LIABILITIES, Continued:

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

(In thousands of won)	Type of borrowings	Interest rate	Maturity	December 31, 2017	
				Borrowings denominated in foreign currency	Borrowings denominated in won
Ministry of Strategy and Finance	Public management fund financing	Variable(*)	2020	-	90,000,000
Korea workers' compensation and welfare Service	Financing on foundation of day care center in workplace	2.00%	2023	-	1,000,000
Woori Bank	Facility fund debt	5.55%	2017	-	-
NH Bank	Facility fund debt	2.13%	2018	-	25,000,000
	Subtotal			-	116,000,000
	Less: reclassified to current borrowings			-	(55,000,000)
				-	61,000,000

(\*) 3 years Treasury bonds interest-50bp

(In thousands of won)	Type of borrowings	Interest rate	Maturity	December 31, 2016	
				Borrowings denominated in foreign currency	Borrowings denominated in Won
Ministry of Strategy and Finance	Public management fund financing	Variable(*)	2020	-	120,000,000
Korea workers' compensation and welfare Service	Financing on foundation of day care center in workplace	2.00%	2023	-	1,000,000
Woori Bank	Facility fund debt	5.55%	2017	-	1,300,000
NH Bank	Facility fund debt	2.13%	2018	-	25,000,000
	Subtotal			-	147,300,000
	Less: reclassified to current borrowings			-	(31,300,000)
				-	116,000,000

(\*) 3 years Treasury bonds interest-50bp



# KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2017 and 2016

## 23. FINANCIAL LIABILITIES, Continued:

(4) Bonds as of December 31, 2017 and 2016, are as follows:

<i>(In thousands of won)</i>	Interest rate	Maturity	December 31, 2017	
			Borrowings denominated in foreign currency	Borrowings denominated in won
Foreign public bond4	CHF 1.00%	2018-11-16	CHF 300,000,000	328,416,000
Foreign public bond6	CHF 1.50%	2019-12-02	CHF 315,000,000	344,836,800
Foreign public bond8	SGD 1.76%	2018-09-04	SGD 65,000,000	52,040,950
Foreign public bond10	AUD BBSW(3M)+0.85%	2018-08-13	AUD 55,000,000	45,933,800
Foreign public bond11	LIBOR(3M)+0.70%	2019-06-20	USD 200,000,000	214,280,000
Foreign public bond12	AUD 4.11%	2032-04-26	AUD 50,000,000	41,758,000
Foreign public bond13	HKD 2.60%	2023-05-25	HKD 921,000,000	126,241,470
Foreign public bond14	SEK 2.31%	2032-05-26	SEK 300,000,000	38,970,000
Foreign public bond15	CAD 3.07%	2037-06-07	CAD 110,000,000	93,795,900
Foreign public bond16	EUR 1.89%	2037-06-09	EUR 50,000,000	63,962,500
Foreign public bond17	SGD 1.73%	2020-11-29	SGD 140,000,000	112,088,200
Korea Railroad Corporation48	5.25%	2019-04-15	-	103,000,000
Korea Railroad Corporation50	5.29%	2018-05-14	-	150,000,000
Korea Railroad Corporation52	5.67%	2019-09-03	-	140,000,000
Korea Railroad Corporation53	5.67%	2019-09-17	-	122,000,000
Korea Railroad Corporation58	5.69%	2018-10-29	-	117,000,000
Korea Railroad Corporation60	5.45%	2020-02-04	-	150,000,000
Korea Railroad Corporation61	5.43%	2020-02-17	-	190,000,000
Korea Railroad Corporation65	5.12%	2020-04-27	-	50,000,000
Korea Railroad Corporation67	5.24%	2020-05-13	-	160,000,000
Korea Railroad Corporation68	5.19%	2018-05-25	-	180,000,000
Korea Railroad Corporation71	4.66%	2020-08-23	-	110,000,000
Korea Railroad Corporation76	5.03%	2021-02-17	-	150,000,000
Korea Railroad Corporation78	4.40%	2018-03-17	-	40,000,000
Korea Railroad Corporation79	4.67%	2021-04-08	-	100,000,000
Korea Railroad Corporation82	4.27%	2026-08-08	-	120,000,000
Korea Railroad Corporation83	4.10%	2021-08-23	-	80,000,000
Korea Railroad Corporation84	4.06%	2026-09-06	-	100,000,000
Korea Railroad Corporation88	4.17%	2021-11-08	-	170,000,000
Korea Railroad Corporation89	4.00%	2022-02-24	-	130,000,000
Korea Railroad Corporation90	4.26%	2027-03-19	-	130,000,000
Korea Railroad Corporation92	4.09%	2027-04-23	-	200,000,000
Korea Railroad Corporation93	3.84%	2022-05-22	-	190,000,000
Korea Railroad Corporation95	3.12%	2019-07-26	-	110,000,000
Korea Railroad Corporation96	3.16%	2027-09-11	-	90,000,000
Korea Railroad Corporation98	3.06%	2022-10-09	-	130,000,000
Korea Railroad Corporation99	3.12%	2027-10-18	-	100,000,000
Korea Railroad Corporation102	3.20%	2023-02-07	-	100,000,000
Korea Railroad Corporation106	4.04%	2033-09-06	-	90,000,000

# KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

## Notes to the Consolidated Financial Statements, Continued

### For the years ended December 31, 2017 and 2016

<i>(In thousands of won)</i>	Interest rate	Maturity	Borrowings denominated in foreign currency	Borrowings denominated in won
Korea Railroad Corporation107	3.62%	2023-09-26	-	100,000,000
Korea Railroad Corporation110	3.68%	2023-10-29	-	50,000,000
Korea Railroad Corporation111	3.48%	2018-11-08	-	80,000,000
Korea Railroad Corporation114	3.89%	2024-01-15	-	110,000,000
Korea Railroad Corporation115	3.57%	2019-01-15	-	90,000,000
Korea Railroad Corporation116	3.52%	2019-01-24	-	121,000,000
Korea Railroad Corporation118	3.81%	2034-02-17	-	40,000,000
Korea Railroad Corporation119	3.41%	2019-03-06	-	70,000,000
Korea Railroad Corporation120	3.22%	2018-03-12	-	70,000,000
Korea Railroad Corporation121	3.82%	2029-03-12	-	60,000,000
Korea Railroad Corporation122	3.36%	2019-03-19	-	70,000,000
Korea Railroad Corporation123	3.70%	2024-03-19	-	40,000,000
Korea Railroad Corporation125	3.68%	2024-03-31	-	60,000,000
Korea Railroad Corporation126	3.40%	2019-04-04	-	130,000,000
Korea Railroad Corporation127	3.30%	2018-10-16	-	180,000,000
Korea Railroad Corporation128	3.84%	2034-04-18	-	50,000,000
Korea Railroad Corporation129	3.39%	2019-04-23	-	184,000,000
Korea Railroad Corporation130	3.70%	2024-04-29	-	100,000,000
Korea Railroad Corporation131	3.16%	2018-05-14	-	129,000,000
Korea Railroad Corporation132	3.62%	2024-05-14	-	70,000,000
Korea Railroad Corporation133	3.55%	2024-05-21	-	70,000,000
Korea Railroad Corporation135	3.52%	2024-06-10	-	150,000,000
Korea Railroad Corporation136	3.26%	2024-07-04	-	150,000,000
Korea Railroad Corporation137	3.25%	2029-07-24	-	150,000,000
Korea Railroad Corporation138	2.93%	2029-10-28	-	100,000,000
Korea Railroad Corporation139	2.86%	2026-11-12	-	220,000,000
Korea Railroad Corporation140	2.79%	2024-11-25	-	200,000,000
Korea Railroad Corporation141	2.07%	2036-03-08	-	200,000,000
Korea Railroad Corporation142	1.79%	2023-04-11	-	150,000,000
Korea Railroad Corporation143	1.98%	2036-04-26	-	110,000,000
Korea Railroad Corporation144	1.47%	2026-08-01	-	100,000,000
Korea Railroad Corporation145	1.57%	2036-08-09	-	70,000,000
Korea Railroad Corporation146	1.56%	2036-08-26	-	150,000,000
Korea Railroad Corporation147	1.64%	2021-10-27	-	60,000,000
Korea Railroad Corporation148	1.88%	2046-10-27	-	70,000,000
Korea Railroad Corporation149	1.94%	2046-11-03	-	40,000,000
Korea Railroad Corporation150	1.62%	2019-11-08	-	152,000,000
Korea Railroad Corporation151	2.39%	2046-11-23	-	130,000,000
Korea Railroad Corporation152	2.35%	2046-12-06	-	150,000,000
Korea Railroad Corporation153	2.14%	2021-12-12	-	70,000,000
Korea Railroad Corporation154	1.99%	2022-02-09	-	200,000,000
Korea Railroad Corporation155	2.40%	2047-03-03	-	70,000,000
Korea Railroad Corporation156	2.11%	2022-03-07	-	150,000,000

# KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

## Notes to the Consolidated Financial Statements, Continued

### For the years ended December 31, 2017 and 2016

<i>(In thousands of won)</i>	Interest rate	Maturity	Borrowings denominated in foreign currency	Borrowings denominated in won
Korea Railroad Corporation157	2.40%	2047-03-21	-	140,000,000
Korea Railroad Corporation158	1.81%	2020-03-27	-	230,000,000
Korea Railroad Corporation159	2.49%	2047-04-12	-	150,000,000
Korea Railroad Corporation160	2.12%	2023-04-17	-	120,000,000
Korea Railroad Corporation161	2.38%	2047-07-20	-	80,000,000
Korea Railroad Corporation162	2.37%	2037-07-24	-	130,000,000
Korea Railroad Corporation163	2.31%	2027-07-25	-	70,000,000
Korea Railroad Corporation164	2.44%	2037-08-08	-	150,000,000
Korea Railroad Corporation165	2.38%	2047-09-12	-	150,000,000
Korea Railroad Corporation166	2.37%	2037-09-19	-	50,000,000
Korea Railroad Corporation167	2.38%	2047-09-19	-	50,000,000
Korea Railroad Corporation168	2.59%	2047-10-30	-	40,000,000
Korea Railroad Corporation169	2.65%	2037-11-09	-	160,000,000
Korea Railroad Corporation170	2.58%	2022-11-23	-	150,000,000
Korea Railroad Corporation171	2.55%	2047-12-15	-	150,000,000
Bond issuance	Average of interest+2bp	2021-06-28	-	90,000,000
Bond issuance	Average of interest-3bp	2023-06-28	-	100,000,000
		KRW	-	10,228,000,000,000
		USD	200,000,000	214,280,000,000
		CHF	615,000,000	673,252,800,000
		SGD	205,000,000	164,129,150,000
Subtotal		AUD	105,000,000	87,691,800,000
		HKD	921,000,000	126,241,470,000
		SEK	300,000,000	38,970,000,000
		CAD	110,000,000	93,795,900,000
		EUR	50,000,000	63,962,500,000
		KRW	-	946,000,000,000
		USD	-	-
Deduct: reclassified to current borrowings		CHF	300,000,000	328,416,000
		SGD	65,000,000	52,040,950
		AUD	55,000,000	45,933,800
		Total	-	1,372,390,750
		KRW	-	9,282,000,000
		USD	200,000,000	214,280,000
		CHF	315,000,000	344,836,800
		SGD	140,000,000	112,088,200
		AUD	50,000,000	41,758,000
Total		HKD	921,000,000	126,241,470
		SEK	300,000,000	38,970,000
		CAD	110,000,000	93,795,900
		EUR	50,000,000	63,962,500
		KRW	-	10,317,932,870

# KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

## Notes to the Consolidated Financial Statements, Continued

### For the years ended December 31, 2017 and 2016

(In thousands of won)	Interest rate	Maturity	December 31, 2016	
			Borrowings denominated in foreign currency	Borrowings denominated in won
Korea Railroad Corporation48	5.25%	2019-04-15	-	110,000,000
Korea Railroad Corporation50	5.29%	2018-05-14	-	150,000,000
Korea Railroad Corporation52	5.67%	2019-09-03	-	150,000,000
Korea Railroad Corporation53	5.67%	2019-09-17	-	130,000,000
Korea Railroad Corporation54	5.61%	2017-09-24	-	150,000,000
Korea Railroad Corporation58	5.69%	2018-10-29	-	120,000,000
Korea Railroad Corporation60	5.45%	2020-02-04	-	150,000,000
Korea Railroad Corporation61	5.43%	2020-02-17	-	200,000,000
Korea Railroad Corporation63	5.03%	2017-04-15	-	150,000,000
Korea Railroad Corporation65	5.12%	2020-04-27	-	50,000,000
Korea Railroad Corporation67	5.24%	2020-05-13	-	160,000,000
Korea Railroad Corporation68	5.19%	2018-05-25	-	200,000,000
Korea Railroad Corporation71	4.66%	2020-08-23	-	150,000,000
Korea Railroad Corporation74	4.53%	2017-11-11	-	150,000,000
Korea Railroad Corporation76	5.03%	2021-02-17	-	150,000,000
Korea Railroad Corporation78	4.40%	2018-03-17	-	100,000,000
Korea Railroad Corporation79	4.67%	2021-04-08	-	100,000,000
Korea Railroad Corporation82	4.27%	2026-08-08	-	120,000,000
Korea Railroad Corporation83	4.10%	2021-08-23	-	80,000,000
Korea Railroad Corporation84	4.06%	2026-09-06	-	100,000,000
Korea Railroad Corporation88	4.17%	2021-11-08	-	170,000,000
Korea Railroad Corporation89	4.00%	2022-02-24	-	130,000,000
Korea Railroad Corporation90	4.26%	2027-03-19	-	130,000,000
Korea Railroad Corporation91	3.94%	2017-04-05	-	200,000,000
Korea Railroad Corporation92	4.09%	2027-04-23	-	200,000,000
Korea Railroad Corporation93	3.84%	2022-05-22	-	190,000,000
Korea Railroad Corporation95	3.12%	2019-07-26	-	130,000,000
Korea Railroad Corporation96	3.16%	2027-09-11	-	90,000,000
Korea Railroad Corporation97	3.08%	2017-09-26	-	130,000,000
Korea Railroad Corporation98	3.06%	2022-10-09	-	130,000,000
Korea Railroad Corporation99	3.12%	2027-10-18	-	100,000,000
Foreign public bond4	CHF 1.00%	2018-11-16	CHF 300,000,000	354,399,000
Korea Railroad Corporation101	2.95%	2017-01-17	-	120,000,000
Korea Railroad Corporation102	3.20%	2023-02-07	-	100,000,000
Korea Railroad Corporation106	4.04%	2033-09-06	-	90,000,000
Korea Railroad Corporation107	3.62%	2023-09-26	-	100,000,000
Korea Railroad Corporation110	3.68%	2023-10-29	-	50,000,000
Korea Railroad Corporation111	3.48%	2018-11-08	-	90,000,000
Foreign public bond6	CHF 1.50%	2019-12-02	CHF 315,000,000	372,118,950

# KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

## Notes to the Consolidated Financial Statements, Continued

### For the years ended December 31, 2017 and 2016

<i>(In thousands of won)</i>	Interest rate	Maturity	Borrowings denominated in foreign currency	Borrowings denominated in won
Korea Railroad Corporation114	3.89%	2024-01-15	-	110,000,000
Korea Railroad Corporation115	3.57%	2019-01-15	-	100,000,000
Korea Railroad Corporation116	3.52%	2019-01-24	-	150,000,000
Korea Railroad Corporation117	3.11%	2017-02-10	-	250,000,000
Korea Railroad Corporation118	3.81%	2034-02-17	-	40,000,000
Foreign public bond7	LIBOR(3M)+0.70%	2017-02-28	USD 200,000,000	241,700,000
Korea Railroad Corporation119	3.41%	2019-03-06	-	100,000,000
Korea Railroad Corporation120	3.22%	2018-03-12	-	80,000,000
Korea Railroad Corporation121	3.82%	2029-03-12	-	60,000,000
Korea Railroad Corporation122	3.36%	2019-03-19	-	90,000,000
Korea Railroad Corporation123	3.70%	2024-03-19	-	40,000,000
Korea Railroad Corporation124	3.10%	2017-03-27	-	200,000,000
Korea Railroad Corporation125	3.68%	2024-03-31	-	60,000,000
Korea Railroad Corporation126	3.40%	2019-04-04	-	150,000,000
Korea Railroad Corporation127	3.30%	2018-10-16	-	200,000,000
Korea Railroad Corporation128	3.84%	2034-04-18	-	50,000,000
Korea Railroad Corporation129	3.39%	2019-04-23	-	200,000,000
Korea Railroad Corporation130	3.70%	2024-04-29	-	100,000,000
Korea Railroad Corporation131	3.16%	2018-05-14	-	140,000,000
Korea Railroad Corporation132	3.62%	2024-05-14	-	70,000,000
Korea Railroad Corporation133	3.55%	2024-05-21	-	70,000,000
Korea Railroad Corporation134	3.00%	2017-05-26	-	150,000,000
Korea Railroad Corporation135	3.52%	2024-06-10	-	150,000,000
Korea Railroad Corporation136	3.26%	2024-07-04	-	150,000,000
Korea Railroad Corporation137	3.25%	2029-07-24	-	150,000,000
Foreign public bond8	SGD 1.76%	2018-09-04	SGD 65,000,000	54,249,000
Foreign public bond9	LIBOR(3M)+0.55%	2017-09-18	USD 100,000,000	120,850,000
Korea Railroad Corporation138	2.93%	2029-10-28	-	100,000,000
Korea Railroad Corporation139	2.86%	2026-11-12	-	220,000,000
Foreign public bond10	AUD BBSW(3M)+0.85%	2018-08-13	AUD 55,000,000	47,962,750
Korea Railroad Corporation140	2.79%	2024-11-25	-	200,000,000
Foreign public bond11	LIBOR(3M)+0.70%	2019-06-20	USD 200,000,000	241,700,000
Korea Railroad Corporation141	2.07%	2036-03-08	-	200,000,000
Korea Railroad Corporation142	1.79%	2023-04-11	-	150,000,000

# KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

## Notes to the Consolidated Financial Statements, Continued

### For the years ended December 31, 2017 and 2016

<i>(In thousands of won)</i>	Interest rate	Maturity	Borrowings denominated in foreign currency	Borrowings denominated in won
Korea Railroad Corporation143	1.98%	2036-04-26	-	110,000,000
Korea Railroad Corporation144	1.47%	2026-08-01	-	100,000,000
Korea Railroad Corporation145	1.57%	2036-08-09	-	70,000,000
Korea Railroad Corporation146	1.56%	2036-08-26	-	150,000,000
Korea Railroad Corporation147	1.64%	2021-10-27	-	60,000,000
Korea Railroad Corporation148	1.88%	2046-10-27	-	70,000,000
Korea Railroad Corporation149	1.94%	2046-11-03	-	40,000,000
Korea Railroad Corporation150	1.62%	2019-11-08	-	300,000,000
Korea Railroad Corporation151	2.39%	2046-11-23	-	130,000,000
Korea Railroad Corporation152	2.35%	2046-12-06	-	150,000,000
Korea Railroad Corporation153	2.14%	2021-12-12	-	70,000,000
Bond issuance	Average of interest+2bp	2021-06-28	-	90,000,000
Bond issuance	Average of interest-3bp	2023-06-28	-	100,000,000
		KRW	-	9,990,000,000
		USD	500,000,000	604,250,000
		CHF	615,000,000	726,517,950
		SGD	65,000,000	54,249,000
		AUD	55,000,000	47,962,750
Deduct: reclassified to current borrowings		KRW	-	1,500,000,000
		USD	300,000,000	362,550,000
		KRW	-	8,490,000,000
		USD	200,000,000	241,700,000
		CHF	615,000,000	726,517,950
		SGD	65,000,000	54,249,000
		AUD	55,000,000	47,962,750
Total		KRW	-	9,560,429,700

## KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2017 and 2016

### 24. OTHER FINANCIAL LIABILITIES:

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

(In thousands of won)	December 31, 2017		December 31, 2016	
	Current	Non-current	Current	Non-current
Other financial liabilities(*) ₩	-	147,500,000	-	147,600,000

The Group may account for the non-controlling shareholder of the subsidiary, SR Company, at an amount equal to the annual compound interest of 5.6% until the expiration of 8 years and 6 months from 3 years and 6 months from the date of capital increase. The Group recognizes the present value of the amount that may be repaid as a financial liability.

### 25. FINANCE LEASE LIABILITIES:

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

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

(In thousands of won)	December 31, 2017		December 31, 2016	
	Tools and equipment		Tools and equipment	
Acquisition cost ₩	1,717,071		1,717,071	
Accumulated depreciation	(1,717,064)		(1,717,064)	
Carrying amounts ₩	7		7	

## KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2017 and 2016

### 26. EMPLOYEE BENEFITS:

#### (1) Defined contribution plan

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

Total expense included in the consolidated statement of comprehensive loss for the year ended December 31, 2017, amounting to ₩3,734,646 thousand (2016: ₩4,425,672 thousand), represents the contributions to the retirement benefit plan according to the ratio pursuant to retirement benefit plan.

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

<i>(In thousands of won)</i>		2017
		<hr/>
Cost of sales	₩	1,977,558
Selling, general and administrative expense		<hr/> 1,757,088
	₩	<hr/> <hr/> 3,734,646

#### (2) Defined benefits retirement plan

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

The major actuarial calculation of the plan asset and the defined benefit retirement liabilities was performed by HMC INVESTMENT SECURITIES CO., LTD. whose report was dated December 31, 2017. Present value of defined benefit liabilities, current service costs and past service costs are calculated using the projected credit method.



# KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2017 and 2016

## 26. EMPLOYEE BENEFITS, Continued:

(2) Defined benefits retirement plan, Continued

(i) The component of defined benefit liabilities as of December 31, 2017 and 2016, is as follows:

<i>(In thousands of won)</i>		Dec. 31, 2017	Dec. 31, 2016
Present value of defined benefit obligations	₩	937,288,825	811,869,226
Fair value of plan assets		(73,720,165)	(64,914,443)
Recognized as defined benefit liabilities in the consolidated statement of financial position	₩	863,568,660	746,954,783

(ii) Changes in defined benefit liabilities for the years ended December 31, 2017 and 2016, are as follows:

<i>(In thousands of won)</i>		2017	2016
Beginning balance	₩	811,869,226	838,053,652
Current service costs		138,385,462	144,817,157
Interests		24,695,870	24,659,312
Actuarial gains or losses		11,644,548	(96,987,334)
Service costs related past periods		18,410,658	-
Benefit paid		(68,982,495)	(99,845,397)
Other		1,265,556	1,171,836
Ending balance	₩	937,288,825	811,869,226

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

<i>(In thousands of won)</i>		2017	2016
Beginning balance	₩	64,914,443	43,862,222
Expected return on plan assets		1,332,162	793,057
Actuarial gains or losses		(954,602)	(266,359)
Benefit paid by the plan		(5,565,820)	(5,204,219)
Contribution paid into the plan		13,507,376	14,605,622
Employee contribution		-	11,124,120
Other		486,606	-
Ending balance	₩	73,720,165	64,914,443

**KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES**

Notes to the Consolidated Financial Statements, Continued

**For the years ended December 31, 2017 and 2016****26. EMPLOYEE BENEFITS, Continued:**

(2) Defined benefits retirement plan, Continued

(iv) Expense recognized in profit or loss

<i>(In thousands of won)</i>		2017	2016
Current service costs	₩	138,385,462	144,817,157
Interests		24,695,870	24,659,312
Expected return on plan assets		(1,332,162)	(793,057)
Gain due to calculation adjustment		18,410,658	-
	₩	<u>180,159,828</u>	<u>168,683,412</u>

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

<i>(In thousands of won)</i>		2017	2016
Cost of sales	₩	165,269,582	154,152,708
Selling, general and administrative expense		14,890,246	14,530,704
	₩	<u>180,159,828</u>	<u>168,683,412</u>

(v) Remeasurement factors recognized in other comprehensive income for the years ended December 31, 2017 and 2016, are as follows:

<i>(In thousands of won)</i>		2017	2016
Actuarial gain (loss)	₩	(11,644,548)	96,987,334
Interests of plan assets		(954,602)	(266,359)
		(12,599,150)	96,720,975
Tax effect		-	(281,767)
	₩	<u>(12,599,150)</u>	<u>96,439,208</u>

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

## KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2017 and 2016

### 26. EMPLOYEE BENEFITS, Continued:

(2) Defined benefits retirement plan, Continued

(vi) Plan assets details:

<i>(In thousands of won)</i>		<u>December 31, 2017</u>	<u>December 31, 2016</u>
Cash and cash equivalents	₩	73,720,165	64,914,443

(vii) Principal actuarial assumptions at the reporting date.

<i>(In thousands of won)</i>	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Discount rate (expected return on plan assets)	3.62%	3.23%
Future salary increases	3.64%	3.76%

As for the defined benefit liabilities and plan assets, the Group applied market yield of A-rated corporate bonds (Public offering, unsecured : AA0).

## KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2017 and 2016

### 27. PROVISIONS:

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

(In thousands of won)	2017		2016	
	Current	Non-current	Current	Non-current
Provision for employee benefits(*1) ₩	389,822,573	313,490,863	206,980,388	-
Warranty provision	-	358,128	-	372,487
Provision for pending litigations	-	8,584,909	-	12,063,355
Provisions for restoration(*2)	-	186,115,464	-	183,347,064
Provisions for others	-	100,000	-	88,272
	₩ 389,822,573	508,649,364	206,980,388	195,871,178

(\*1) The Group has recognized provisions for the provision of retroactive claims for the provision of work in the past period based on the assumption that the prescribed allowances are subject to normal wage recognition.

(\*2) As the Group is obligated to restore contamination of lands in use, the Group recognizes the future expenditure amount as provisions during construction every year. Above provisions for restoration include estimations on additional costs in the Group's restoration that resulted from the cancelation of development project for Yongsan Station area that took place in the year ended December 31, 2013.

# KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2017 and 2016

## 27. PROVISIONS, Continued:

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

(In thousands of won)	2017						Ending balance
	Beginning balance	Increase	Used	Reversal	Reclassification to current portion	Others	
Provision for employee benefits	₩ 206,980,388	536,260,557	(206,980,388)	-	167,052,880	-	703,313,437
Warranty provision	372,487	185,749	(200,108)	-	-	-	358,128
Provision for pending litigations	12,063,355	96,976	-	(3,575,421)	-	-	8,584,909
Provision for restoration	183,347,064	5,079,004	-	(8,174,445)	-	5,863,840	186,115,464
Provisions for others	88,272	-	(88,272)	-	-	100,000	100,000
	<u>₩ 402,851,566</u>	<u>541,622,286</u>	<u>(207,268,768)</u>	<u>(11,749,866)</u>	<u>167,052,880</u>	<u>5,963,840</u>	<u>898,471,938</u>

(In thousands of won)	2016						Ending balance
	Beginning balance	Increase	Used	Reversal	Others		
₩							
Provision for employee benefits	163,173,475	206,980,388	(163,173,475)	-	-	-	206,980,388
Warranty provision	317,327	176,622	(121,462)	-	-	-	372,487
Provision for pending litigations	2,197,865	11,951,766	-	(2,086,275)	-	-	12,063,356
Provision for restoration	208,235,581	-	-	(30,784,903)	5,896,385	-	183,347,063
Provisions for others	-	88,272	-	-	-	-	88,272
	<u>₩ 373,924,248</u>	<u>219,197,048</u>	<u>(163,294,937)</u>	<u>(32,871,178)</u>	<u>5,896,385</u>		<u>402,851,566</u>

## KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2017 and 2016

### 28. GOVERNMENT GRANTS:

(1) Accounting treatment for government grants

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

(2) Government grants as of December 31, 2017 and 2016, are as follows:

<i>(In thousands of won)</i>		December 31, 2017	December 31, 2016
Cash and cash equivalents	₩	(63,512,513)	(68,713,017)
Supplies		(65,160,755)	(56,344,234)
Prepayment		(6,584,210)	(5,140,300)
Land		(6,598,459)	(6,598,459)
Buildings		(103,574,407)	(104,178,832)
Structures		(9,553,995)	(8,417,758)
Machinery		(72,849,761)	(85,801,076)
Trains		(339,673,654)	(365,064,401)
Vehicles		(98)	(256,598)
Tools		(1,360)	(36,543)
Fixtures		(8,626)	(2,209)
Construction in progress		(11,688,993)	(12,284,510)
Investment property (buildings)		(379,289)	(2,068,923)
	₩	<u>(679,586,120)</u>	<u>(714,906,860)</u>

# KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2017 and 2016

## 28. GOVERNMENT GRANTS, Continued:

(3) Changes in government grants for the years ended December 31, 2017 and 2016, are as follows:

(In thousands of won)	2017							
	Book value as of Jan. 1, 2017	Receipt	Acquisition of assets	Offsetting with depreciation cost	Disposal	Recognized as revenue	Other(*)	Book value as of Dec. 31, 2017
Cash and cash equivalents ₩	(68,713,017)	(299,717,042)	1,507,751	-	-	301,157,793	2,252,002	(63,512,513)
Supplies	(56,344,234)	(245,064,225)	-	-	-	-	236,247,704	(65,160,755)
Prepayment	(5,140,300)	(83,096,688)	-	-	-	-	81,652,778	(6,584,210)
Land	(6,598,459)	-	-	-	-	-	-	(6,598,459)
Buildings	(104,178,832)	(316,156)	-	2,538,040	5,558	-	(1,623,017)	(103,574,407)
Structures	(8,417,758)	(1,650,741)	-	440,148	74,356	-	-	(9,553,995)
Machinery	(85,801,076)	-	-	12,950,389	926	-	-	(72,849,761)
Trains	(365,064,401)	-	-	25,249,515	141,232	-	-	(339,673,654)
Vehicles	(256,598)	-	-	-	256,500	-	-	(98)
Tools	(36,543)	-	-	35,043	140	-	-	(1,360)
Fixture	(2,209)	(8,150)	-	1,733	-	-	-	(8,626)
Construction in progress	(12,284,510)	(1,294,203)	-	-	1,889,720	-	-	(11,688,993)
Investment property (buildings)	(2,068,923)	-	-	28,124	32,470	-	1,629,040	(379,289)
₩	<u>(714,906,860)</u>	<u>(631,147,205)</u>	<u>1,507,751</u>	<u>41,242,992</u>	<u>2,400,902</u>	<u>301,157,793</u>	<u>320,158,507</u>	<u>(679,586,120)</u>

(\*) Other increase and decrease is based on the account replacement caused by the acquisition of each asset item.

# KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2017 and 2016

## 28. GOVERNMENT GRANTS, Continued:

(3) Changes in government grants for the year ended as of December 31, 2017 and 2016, are as follows, Continued:

2016								
(In thousands of won)	Book value as of Jan. 1, 2016	Receipt	Acquisition of assets	Offsetting with depreciation cost	Disposal	Recognized as revenue	Other(*)	Book value as of Dec. 31, 2016
Cash and cash equivalents	₩ (116,190,367)	(359,770,689)	51,977,998	-	-	351,999,918	3,270,123	(68,713,017)
Supplies	(54,351,104)	(277,871,710)	-	-	-	-	275,878,580	(56,344,234)
Prepayment	(3,809,413)	(70,599,712)	-	-	-	-	69,268,825	(5,140,300)
Land	(6,526,056)	(72,403)	-	-	-	-	-	(6,598,459)
Buildings	(81,118,815)	(22,970,728)	-	2,420,102	4,621	-	(2,514,012)	(104,178,832)
Structures	(6,747,135)	(1,664,324)	(374,452)	357,065	10,490	-	598	(8,417,758)
Machinery	(98,807,082)	(169,316)	-	13,119,955	53,793	-	1,574	(85,801,076)
Trains	(364,110,309)	(25,814,000)	-	24,859,908	-	-	-	(365,064,401)
Vehicles	(416,098)	-	-	112,000	47,500	-	-	(256,598)
Tools	(107,435)	(1,853)	-	72,745	-	-	-	(36,543)
Fixture	(2,856)	-	-	647	-	-	-	(2,209)
Construction in progress	(14,441,312)	-	(979,641)	-	-	-	3,136,443	(12,284,510)
Investment property (buildings)	(1,893,977)	-	-	54,170	-	-	(229,116)	(2,068,923)
	₩ (748,521,959)	(758,934,735)	50,623,905	40,996,592	116,404	351,999,918	348,813,015	(714,906,860)

(\*) Other increase and decrease is based on the account replacement caused by the acquisition of each asset item.

(4) Revenues from government grants for the years ended December 31, 2017 and 2016, are as follows:

(In thousands of won)	2017	2016
Revenues from government grants	₩ 301,157,793	351,999,918
Others	41,242,992	40,996,592
	₩ 342,400,785	392,996,510



# KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2017 and 2016

## 29. OTHER NON-FINANCIAL LIABILITIES:

Non-financial liabilities as of December 31, 2017 and 2016, are as follows:

<i>(In thousands of won)</i>	December 31, 2017		December 31, 2016	
	Current	Non-current	Current	Non-current
Advance payments	₩ 94,112,714	321,686	39,894,062	411,216
Unearned revenues	66,944,194	13,545,567	44,819,494	13,325,229
Withholding	66,584,463	-	88,473,155	-
Due to customer for contract work	-	14,899	-	772,270
Other	31,465,361	-	4,614,620	-
	₩ 259,106,732	13,882,152	177,801,331	14,508,715

## 30. SHARE CAPITAL:

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

<i>(In thousands of won)</i>	December 31, 2017	December 31, 2016
Subscription certificate(*)	₩ 10,250,984,991	10,108,884,991
Discount stock issuance	(4,647,052)	(4,991,513)
Contributed capital	₩ 10,246,337,939	10,103,893,478

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

(2) Changes in subscription certificate issued for the years ended December 31, 2017 and 2016, are as follows:

<i>(In thousands of won)</i>	December 31, 2017	December 31, 2016
Beginnings balance	₩ 10,108,884,991	9,994,028,991
Issue of equity	142,100,000	114,856,000
Ending balance	₩ 10,250,984,991	10,108,884,991

**KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES**

Notes to the Consolidated Financial Statements, Continued

**For the years ended December 31, 2017 and 2016****30. SHARE CAPITAL, Continued:**

(3) Discount on subscription certificate issued as of December 31, 2017 and 2016, is as follows:

<i>(In thousands of won)</i>		December 31, 2017	December 31, 2016
Beginnings balance	₩	(4,991,513)	(4,991,513)
Issue of equity		206,955	-
Other		137,506	-
Ending balance	₩	(4,647,052)	(4,991,513)

**31. ACCUMULATED DEFICIT:**

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

<i>(In thousands of won)</i>		December 31, 2017	December 31, 2016
Accumulated deficit	₩	(9,299,539,129)	(8,476,086,927)

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

<i>(In thousands of won)</i>		December 31, 2017	December 31, 2016
Beginning balance	₩	(8,476,086,927)	(8,373,991,312)
Loss for the year		(862,285,961)	(204,410,926)
Gain (loss) on remeasurement factors		(10,836,314)	97,620,406
Reclassification of gain on revaluation of assets to retained earnings		49,670,073	4,694,905
Ending balance	₩	(9,299,539,129)	(8,476,086,927)

# KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2017 and 2016

## 31. ACCUMULATED DEFICIT, Continued:

(3) Changes in gain (loss) on remeasurement factors of defined benefit plan for the year ended December 31, 2017 and 2016, are as follows:

<i>(In thousands of won)</i>		2017	2016
Beginning balance	₩	123,142,365	25,521,960
Changes		(10,836,315)	97,620,405
Ending balance	₩	112,306,050	123,142,365

## 32. STATEMENT OF DISPOSITION OF ACCUMULATED DEFICIT:

Details of statement of disposition of accumulated deficit for the years ended December 31, 2017 and 2016, are as follows:

Date of disposition for 2017: March 31, 2018

Date of disposition for 2016: March 31, 2017

<i>(In thousands of won)</i>		Dec. 31, 2017	Dec. 31, 2016
Undisposed accumulated deficit:			
Balance at beginning of year	₩	(8,476,086,927)	(8,373,991,312)
loss for the year		(862,285,961)	(204,410,926)
Gain on remeasurement factors of defined benefit plan		(10,836,314)	97,620,405
Reclassification of gain on revaluation of assets to retained earnings		49,670,073	4,694,905
Balance at end of year before disposition		(9,299,539,129)	(8,476,086,927)
Appropriation of disposition of accumulated deficit		-	-
Undisposed accumulated deficit to be carried over to subsequent year		(9,299,539,129)	(8,476,086,927)

## KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2017 and 2016

### 33. OTHER EQUITY COMPONENTS:

(1) As of December 31, 2017 and 2016, other equity components are as follows:

<i>(In thousands of won)</i>		<u>December 31, 2017</u>	<u>December 31, 2016</u>
Other accumulated comprehensive income	₩	3,983,549,525	3,074,611,143
Other additional paid-up capital		<u>(144,128,451)</u>	<u>(144,128,451)</u>
	₩	<u>3,839,421,074</u>	<u>2,930,482,692</u>

(2) Other accumulated comprehensive income or loss for the years ended December 31, 2017 and 2016, is detailed as follows:

<i>(In thousands of won)</i>		<u>December 31, 2017</u>	<u>December 31, 2016</u>
Gain on valuation of available-for-sale securities	₩	9,345,783	9,447,469
Change in equity of equity method investment		760,581	(719,458)
Gain(loss) on valuation of derivatives		2,818,971	(954,948)
Gain on reassessment of assets		<u>3,970,624,190</u>	<u>3,066,838,081</u>
	₩	<u>3,983,549,525</u>	<u>3,074,611,144</u>

# KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2017 and 2016

## 34. REVENUE:

Details of revenues for the years ended December 31, 2017 and 2016, are summarized as follows:

(In thousands of won)	2017		2016	
	Domestic	Overseas	Domestic	Overseas
<u>Revenue from goods sold:</u>				
Revenue from entrusted multiple business ₩	295,662,685	3,458,491	289,557,064	492,500
<u>Revenue from services rendered:</u>				
Transportation business	4,365,402,707	-	4,188,467,303	-
Normal passenger transportation	471,141,488	-	484,163,106	-
Express passenger transportation	2,377,786,202	-	2,086,513,085	-
Long-distance passenger transportation	886,133,678	-	934,159,925	-
Freight and other transportation	334,119,339	-	332,768,187	-
Compensation for Public Service Obligation	296,222,000	-	350,863,000	-
Revenue from entrusted multiple business	174,543,786	3,532,685	164,662,845	2,254,293
Subtotal	4,539,946,493	3,532,685	4,353,130,148	2,254,293
<u>Revenue from entrusted business:</u>				
Normal entrusted business	58,195,554	-	60,767,984	-
Government entrusted business	878,021,883	-	969,989,037	-
Subtotal	936,217,437	-	1,030,757,021	-
<u>Construction-related revenue:</u>				
Revenue from entrusted multiple business	7,890,954	-	17,451,929	-
₩	5,779,717,569	6,991,176	5,690,896,162	2,746,793

# KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2017 and 2016

## 35. SELLING, GENERAL AND ADMINISTRATIVE EXPENSE:

(1) Details of selling, general and administrative expense for the years ended December 31, 2017 and 2016, are as follows:

<i>(In thousands of won)</i>		2017	2016
Salaries and wages	₩	164,614,996	158,751,410
Retirement benefits		16,647,334	14,911,940
Other employee benefits		18,318,642	17,903,112
Insurance		2,664,251	2,439,588
Depreciation		28,124,473	31,067,194
Amortization		10,419,839	9,399,087
Bad debts expenses		1,491,697	11,460,328
Professional service fees		37,910,690	36,299,722
Advertising		5,940,322	5,816,542
Training		5,662,388	4,933,152
Vehicles		214,317	234,024
Printing		766,495	959,097
Business development expenses		565,588	686,624
Rent		4,272,817	2,969,839
Communications		2,109,139	2,014,403
Transportation costs		9,942	30,729
Taxes and dues		9,590,282	8,528,512
Supplies		2,209,047	3,150,306
Utilities		5,432,436	5,339,499
Maintenance		8,908,399	10,970,358
Research		642,588	649,895
Travel		2,234,058	2,010,725
Uniform		201,594	879,453
Analysis		718,142	535,842
Annual fees		508,210	332,855
Selling expenses		918,753	798,904
Others		7,805,541	6,541,083
	₩	338,901,980	339,614,223

**KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES**

Notes to the Consolidated Financial Statements, Continued

**For the years ended December 31, 2017 and 2016****35. SELLING, GENERAL AND ADMINISTRATIVE EXPENSE, Continued:**

(2) Details of other selling, general and administrative expense for the years ended December 31, 2017 and 2016, are as follows:

<i>(In thousands of won)</i>		2017	2016
Conference expenses	₩	843,042	162,251
Cooperation expense		246,620	1,270,989
Prize expense		897,377	791,256
Other severance indemnities		2,155,404	743,727
Other expense		3,663,098	3,572,860
	₩	<u>7,805,541</u>	<u>6,541,083</u>

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

(1) Details of other revenues for the years ended December 31, 2017 and 2016, are as follows:

<i>(In thousands of won)</i>		2017	2016
Reversal of other provisions	₩	11,749,866	32,871,179
Government grants		1,010,944	1,136,918
Reversal of bad debts expenses		57	1,108
Gains from assets contributed		1,870,194	12,500
Others		6,109	7,109
	₩	<u>14,637,170</u>	<u>34,028,814</u>

(2) Details of other expenses for the years ended December 31, 2017 and 2016, are as follows:

<i>(In thousands of won)</i>		2017	2016
Increase in provisions	₩	56,277,562	11,951,766
Other bad debts expenses		97,935	6,778,336
Donations		30,903,854	30,457,757
Depreciation on assets not in use		2,843,236	3,721,660
	₩	<u>90,122,587</u>	<u>52,909,519</u>

# KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2017 and 2016

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

(3) Details of other income (loss) for the years ended December 31, 2017 and 2016, are as follows:

<i>(In thousands of won)</i>		2017	2016
Gains on sale of property, trains and equipment	₩	656,767	5,370,339
Gains on disposal of non-current assets held-for-sale		27,229,511	13,925,259
Gains on foreign currency transaction (related to operating activities)		424,736	426,726
Gains on foreign currency translation (related to operating activities)		73,321	65,389
Gains on insurance settlements		-	8,099
Other income		37,101,529	87,125,503
Losses on sale of property, trains and equipment		(1,799,053)	(2,890,313)
Losses on disposal of other non-current assets		(10,250,926)	(1,117,530)
Losses on valuation of land		(52,929,609)	-
Impairment losses on property, trains and equipment		(7,084,339)	(9,959,565)
Impairment losses on investment property		(699,039)	-
Impairment losses on other non-current assets		(300,000)	(29,035)
Losses on foreign currency transaction (related to operating activities)		(514,470)	(751,171)
Losses on foreign currency translation (related to operating activities)		(38,456)	(10,533)
Other costs		(132,141,262)	(35,864,341)
	₩	<u>(140,271,291)</u>	<u>56,298,827</u>

(3-1) Details of other gains for the years ended December 31, 2017 and 2016, are as follows:

<i>(In thousands of won)</i>		2017	2016
Gains on disposal of inventories	₩	4,977,886	7,608,386
Miscellaneous gains		21,256,758	79,517,117
Gains on valuation of land		10,866,885	-
	₩	<u>37,101,529</u>	<u>87,125,503</u>



## KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2017 and 2016

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

(3-2) Details of other losses for the years ended December 31, 2017 and 2016, are as follows:

<i>(In thousands of won)</i>		2017	2016
Losses from inventory obsolescence	₩	149,567	73,700
Prior period adjustments		482,049	-
Other charge fee		2,749,422	-
Miscellaneous losses		128,760,223	35,790,641
	₩	<u>132,141,261</u>	<u>35,864,341</u>

### 37. FINANCE INCOME:

(1) Details of finance income for the years ended December 31, 2017 and 2016, are as follows:

<i>(In thousands of won)</i>		2017	2016
Interest income	₩	9,868,429	9,751,220
Dividend income		839,806	781,306
Gains on settlement of derivative instruments		14,102	552
Gains on valuation of derivative instruments		3,953,800	20,715,400
Gain from foreign currency translation		94,563,470	2,522,729
Gain from foreign currency transactions		23,170,855	11,715,531
	₩	<u>132,410,462</u>	<u>45,486,738</u>

## KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2017 and 2016

### 37. FINANCE INCOME, Continued:

(2) Details of interest income by related assets for the years ended December 31, 2017 and 2016, are as follows:

<i>(In thousands of won)</i>		2017	2016
Cash and cash equivalents	₩	4,369,902	4,654,547
Current financial instruments recognized in profit or loss		237,910	(161)
Loans and receivables		3,071,002	4,240,238
Short-term financial instruments		2,139,355	799,257
Long-term financial instruments		188	348
Other financial assets		50,072	56,991
	₩	<u>9,868,429</u>	<u>9,751,220</u>

### 38. FINANCE COSTS:

(1) Details of finance cost for the years ended December 31, 2017 and 2016, are as follows:

<i>(In thousands of won)</i>		2017	2016
Interest expenses	₩	392,321,139	420,012,978
Losses on disposal of available-for-sale financial assets		43,250	32
Losses on valuation of derivative instruments		94,563,470	2,496,900
Losses on settlement of derivative instruments		23,100,000	11,000,000
Losses from early extinguishment of debt		14,316,654	-
Losses on foreign currency translation		4,044,451	20,737,905
Losses on foreign currency transaction		72,437	79,688
	₩	<u>528,461,401</u>	<u>454,327,503</u>

**KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES**

Notes to the Consolidated Financial Statements, Continued

**For the years ended December 31, 2017 and 2016****38. FINANCE COSTS, Continued:**

(2) Details of interest cost by related assets for the years ended December 31, 2017 and 2016, are as follows:

<i>(In thousands of won)</i>		2017	2016
Accounts payables and other payables	₩	5,863,839	7,413,068
Short-term borrowings		4,601,562	895,644
Long-term borrowings		1,565,267	4,939,337
Bonds		366,440,405	415,501,616
Derivative liabilities		15,747,208	-
Subtotal		394,218,281	428,749,665
Less: Capitalization of borrowing costs		(1,897,142)	(8,736,687)
	₩	392,321,139	420,012,978

Weighted-average capitalization interest rate for borrowings for the years ended December 31, 2017 and 2016, are 3.21% and 3.54%, respectively.

**39. INCOME TAXES RELATED TO CONTINUING OPERATION:**

(1) The component of income tax benefit for the years ended December 31, 2017 and 2016, is as follows:

<i>(In thousands of won)</i>		2017	2016
<u>Current tax expense:</u>			
Current tax	₩	10,705,021	1,233,613
<u>Adjustment for prior periods:</u>			
Origination and reversal of temporary differences		(221,477)	4,636,829
Income tax recognized in other comprehensive income		(317,828,914)	(11,370,128)
Income tax benefit	₩	(307,345,371)	(5,499,686)

# KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2017 and 2016

## 39. INCOME TAXES RELATED TO CONTINUING OPERATION, Continued:

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

<i>(In thousands of won)</i>	2017	2016
Loss before income tax benefit	₩ (1,162,873,351)	(231,998,503)
Tax rate	25.00%	22.00%
Income tax benefit using the Company's statutory tax rate	(290,718,338)	(51,039,671)
Adjustments:		
Tax effect of non-taxable income	(912,229,461)	(383,770)
Tax effect of non-deductible expenses	1,207,273,705	10,018,293
Current adjustments for prior periods	(17,264)	-
Recognition of previously unrecognized deferred tax assets	(317,828,914)	(11,370,128)
Other (tax rate differences, etc.)	6,174,901	47,275,590
Income tax benefit	(307,345,371)	(5,499,686)
Average effective tax rate	-	-

(3) Deferred income tax recognized directly in other comprehensive income for the years ended December 31, 2017 and 2016, is as follows:

<i>(In thousands of won)</i>	2017	2016
Gains (losses) on valuation of available-for-sale securities	₩ 388	270
Gains (losses) on remeasurement factors of defined benefit plan	-	(281,767)
Gains (losses) on revaluation of assets	(317,829,302)	11,651,625
	₩ (317,828,914)	11,370,128

# KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2017 and 2016

## 39. INCOME TAXES RELATED TO CONTINUING OPERATION, Continued:

(4) Changes in deferred income tax assets (liabilities) during the year ended December 31, 2017 and 2016, are detailed as follows:

		2017			
<i>(In thousands of won)</i>		Beginning balance	Profit or loss	Other comprehensive income	Ending balance
<u>The Company:</u>					
Deferred income tax assets	₩	-	-	-	-
Deferred income tax liabilities		-	-	-	-
<u>Subsidiary:</u>					
Deferred income tax assets		17,800,091	(2,100,286)	388	15,700,193
Deferred income tax liabilities		21,252,523	1,878,808	-	23,131,331
<u>The Group:</u>					
Deferred income tax assets		17,800,091	(2,100,286)	388	15,700,193
Deferred income tax liabilities		21,252,523	1,878,808	-	23,131,331
		2016			
<i>(In thousands of won)</i>		Beginning balance	Profit or loss	Other comprehensive income	Ending balance
<u>The Company:</u>					
Deferred income tax assets	₩	-	-	-	-
Deferred income tax liabilities		-	-	-	-
<u>Subsidiary:</u>					
Deferred income tax assets		8,348,188	9,170,406	281,497	17,800,091
Deferred income tax liabilities		(7,163,791)	(2,437,107)	(11,651,625)	(21,252,523)
<u>The Group:</u>					
Deferred income tax assets		8,348,188	9,170,406	281,497	17,800,091
Deferred income tax liabilities		(7,163,791)	(2,437,107)	(11,651,625)	(21,252,523)

## KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2017 and 2016

### 39. INCOME TAXES RELATED TO CONTINUING OPERATION, Continued:

(5) Temporary differences to be deducted that are not recognized as deferred income tax assets as of December 31, 2017 and 2016, are as follows:

<i>(In thousands of won)</i>		<u>Dec. 31, 2017</u>	<u>Dec. 31, 2016</u>
Temporary differences to be deducted	₩	7,220,536,130	6,891,051,244

### 40. ASSETS HELD FOR SALE:

Details of assets and liabilities held for sale as of December 31, 2017 and 2016, are detailed as follows:

<i>(In thousands of won)</i>		<u>December 31, 2017</u>	<u>December 31, 2016</u>
Held for sale: land (*1)	₩	38,793,945	24,090,996
Held for sale: buildings and structures (*1)		<u>31,430</u>	<u>446,497</u>
Disposal groups classified as held for sale	₩	<u>38,825,375</u>	<u>24,537,493</u>

(\*1) During 2017, assets of land and buildings of the Group were classified as held for sale through the approval of the overall asset management. The process for sale is under progress including negotiation on compensation for loss of public lands. Assets are expected to be sold within a year from the end of reporting period.

# KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2017 and 2016

## 41. NATURE OF EXPENSES:

Details of nature of expenses for the years ended December 31, 2017 and 2016 are as follows:

		2017			
(In thousands of won)		Changes in inventories	Selling, general and administrative expense	Cost of sales	Total
Goods	₩	132,804,735	-	-	132,804,735
Manufactured goods		483,097	-	-	483,097
Salaries		-	164,614,996	2,192,670,426	2,357,285,422
Retirement benefits		-	16,647,334	167,247,140	183,894,474
Employee benefits		-	18,318,642	246,160,406	264,479,048
Insurance		-	2,664,251	6,426,537	9,090,788
Depreciation		-	28,124,473	494,385,198	522,509,671
Amortization		-	10,419,839	2,082,187	12,502,026
Bad debts expenses		-	1,491,697	-	1,491,697
Commissions		-	37,910,690	351,680,871	389,591,561
Advertising		-	5,940,322	51,241	5,991,563
Education and training		-	5,662,388	828,586	6,490,974
Vehicle maintenance		-	214,317	466,587,901	466,802,218
Printing		-	766,495	1,160,347	1,926,842
Project initiatives		-	565,588	135,977	701,565
Rental		-	4,272,817	1,105,595,179	1,109,867,996
Communication		-	2,109,139	2,248,690	4,357,829
Transportation		-	9,942	5,905	15,847
Taxes and dues		-	9,590,282	18,526,885	28,117,167
Supplies		-	2,209,047	16,855,984	19,065,031
Utilities		-	5,432,436	71,008,490	76,440,926
Maintenance		-	8,908,399	576,638,189	585,546,588
Ordinary development expenses		-	642,588	2,398,940	3,041,528
Business trip and transportation expenses		-	2,234,058	20,245,245	22,479,303
Uniforms		-	201,594	13,378,762	13,580,356
Research and analysis		-	718,142	577,818	1,295,960
Annual fees		-	508,210	122,377	630,587
Sales promotion		-	-	749,000	749,000
Sales commissions		-	918,753	16,585	935,338
Others		2,038,199	7,805,541	24,608,113	34,451,853
	₩	135,326,031	338,901,980	5,782,392,979	6,256,620,990

# KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2017 and 2016

## 41. NATURE OF EXPENSES, Continued:

(In thousands of won)	2016			
	Changes in inventories	Selling, general and administrative expense	Cost of sales	Total
Goods	₩ 134,275,524	-	-	134,275,524
Manufactured goods	562,267	-	-	562,267
Salaries	-	158,751,409	1,813,580,435	1,972,331,844
Retirement benefits	-	14,911,940	158,197,144	173,109,084
Employee benefits	-	17,903,112	212,442,826	230,345,938
Insurance	-	2,439,588	6,247,901	8,687,489
Depreciation	-	31,067,194	456,600,755	487,667,949
Amortization	-	9,399,087	576,033	9,975,120
Bad debts expenses	-	11,460,328	-	11,460,328
Commissions paid	-	36,299,722	352,824,108	389,123,830
Advertising	-	5,816,542	59,576	5,876,118
Education and training	-	4,933,152	252,656	5,185,808
Vehicle maintenance	-	234,024	427,174,779	427,408,803
Printing	-	959,097	1,018,324	1,977,421
Project initiatives	-	686,624	143,434	830,058
Rental	-	2,969,839	963,368,741	966,338,580
Communication	-	2,014,403	1,511,336	3,525,739
Transportation	-	30,729	6,373	37,102
Taxes and dues	-	8,528,512	13,419,421	21,947,933
Supplies	-	3,150,306	15,530,778	18,681,084
Utilities	-	5,339,499	63,174,426	68,513,925
Maintenance	-	10,970,358	562,784,414	573,754,772
Ordinary development expenses	-	649,895	1,957,618	2,607,513
Business trip and transportation expenses	-	2,010,725	18,739,328	20,750,053
Uniforms	-	879,453	5,041,195	5,920,648
Research and analysis	-	535,842	31,158	567,000
Annual fees	-	332,856	90,447	423,303
Sales promotion	-	-	796,359	796,359
Sales commissions	-	798,904	21,678	820,582
Others	-	6,541,083	22,015,853	31,954,109
	₩ 134,837,791	339,614,223	5,097,607,096	5,572,059,109



# KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2017 and 2016

## 42. ENTRUSTED BUSINESS:

(1) Revenues and expenses for the government entrusted business reported in the consolidated financial statements as of December 31, 2017 and 2016, are as follows:

(In thousands of won)	December 31, 2017		December 31, 2016	
	Revenue	Expense	Revenue	Expense
Government	₩ 878,021,883	838,819,065	969,989,037	935,895,167
Local government	58,195,555	36,991,002	60,767,984	43,530,493
	₩ 936,217,438	875,810,067	1,030,757,021	979,425,660

(2) Changes in the deferred revenue from the trusted business for the years ended December 31, 2017 and 2016, are as follows:

(In thousands of won)		2017				
		January 1, 2017	Received	Executed	Returned	December 31, 2017
Cash and cash equivalents	Government	₩ 73,928,076	324,693,924	(237,408,903)	(49,004,912)	49,688,503
Other receivables(*)	Government	-	692,013,961	(709,825,765)	(37,428,825)	(141,190,531)
Cash and cash equivalents	Local government	33,441,702	53,696,126	(50,918,831)	(31,036,061)	2,684,575
		₩ 107,369,778	1,070,404,011	(998,153,499)	(117,469,798)	(88,817,453)

(\*) The expenses related to maintenance contracts with the government have been changed from adjust accounts after receipt of payment to the method of receipt after adjust accounts.

# KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2017 and 2016

## 42. ENTRUSTED BUSINESS, Continued:

(2) Changes in the deferred revenue from the trusted business for the years ended December 31, 2017 and 2016, are as follows, Continued:

(In thousands of won)			2016						
			January 1, 2016	Received	Executed	Returned	Others	December 31, 2016	
Cash and cash equivalents	Government	₩	77,953,061	1,075,237,950	(974,429,569)	(101,913,907)	(2,919,459)	73,928,076	
Cash and cash equivalents	Local government		67,258,356	54,179,450	(60,252,471)	(36,417,090)	8,673,457	33,441,702	
			₩	145,211,417	1,129,417,400	(1,034,682,040)	(138,330,997)	5,753,998	107,369,778

# KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2017 and 2016

## 43. CATEGORIES OF FINANCIAL INSTRUMENTS:

(1) Categories of financial instruments as of December 31, 2017 and 2016, are as follows:

		December 31, 2017			
		Loans and receivables	Available-for-sale financial assets	Derivative instruments for hedging	Total
<i>(In thousands of won)</i>					
<u>Current assets:</u>					
Short-term loans	₩	386,635	-	-	386,635
Short-term financial instruments		15,203,275	-	-	15,203,275
Accounts receivables and other receivables		885,995,302	-	-	885,995,302
Subtotal		901,585,212	-	-	901,585,212
<u>Non-current assets:</u>					
Available-for-sale financial assets		-	42,220,585	-	42,220,585
Long-term loans		40,092,731	-	-	40,092,731
Long-term financial instruments		18,755	-	-	18,755
Derivative instrument assets		-	-	7,700,483	7,700,483
Accounts receivables and other receivables		234,940,830	-	-	234,940,830
Subtotal		275,052,316	42,220,585	7,700,483	324,973,384
	₩	1,176,637,528	42,220,585	7,700,483	1,226,558,596

# KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2017 and 2016

## 43. CATEGORIES OF FINANCIAL INSTRUMENTS, Continued:

(1) Categories of financial instruments as of December 31, 2017 and 2016, are as follows, Continued:

		December 31, 2016			
(In thousands of won)		Loans and receivables	Available-for-sale financial assets	Derivative instruments for hedging	Total
<u>Current assets:</u>					
Short-term loans	₩	113,562	-	-	113,562
Derivative instrument assets		-	-	44,554,993	44,554,993
Short-term financial instruments		16,841,649	-	-	16,841,649
Accounts receivables and other receivables		357,860,661	-	-	357,860,661
Subtotal		374,815,872	-	44,554,993	419,370,865
<u>Non-current assets:</u>					
Available-for-sale financial assets		-	38,016,648	-	38,016,648
Long-term loans		42,138,015	-	-	42,138,015
Long-term financial instruments		18,755	-	-	18,755
Derivative instrument assets		-	-	22,248,201	22,248,201
Accounts receivables and other receivables		541,031,492	-	-	541,031,492
Subtotal		583,188,262	38,016,648	22,248,201	643,453,111
	₩	958,004,134	38,016,648	66,803,194	1,062,823,976

# KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2017 and 2016

## 43. CATEGORIES OF FINANCIAL INSTRUMENTS, Continued:

(2) Categories of financial liabilities as of December 31, 2017 and 2016, are as follows:

(In thousands of won)	December 31, 2017		
	Financial liabilities measured at amortized costs	Derivative instruments for hedging	Total
₩			
<u>Current liabilities:</u>			
Accounts payables and other payables	746,568,828	-	746,568,828
Short-term borrowings	7,999,991	-	7,999,991
Current portion of long-term borrowings	55,000,000	-	55,000,000
Current bonds	1,371,162,536	-	1,371,162,536
Derivative instrument liabilities	-	24,208,168	24,208,168
Subtotal	2,180,731,355	24,208,168	2,204,939,523
<u>Non-current liabilities:</u>			
Account payables and other payables	39,357,277	-	39,357,277
Long-term borrowings	60,821,938	-	60,821,938
Bonds	10,315,531,406	-	10,315,531,406
Derivative instrument liabilities	-	53,827,313	53,827,313
Other financial liabilities	147,500,000	-	147,500,000
Subtotal	10,563,210,621	53,827,313	10,617,037,934
₩	12,743,941,976	78,035,481	12,821,977,457

# KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2017 and 2016

## 43. CATEGORIES OF FINANCIAL INSTRUMENTS, Continued:

(2) Categories of financial liabilities as of December 31, 2017 and 2016, are as follows, Continued:

		December 31, 2016		
		Financial liabilities measured at amortized costs	Derivative instruments for hedging	Total
<i>(In thousands of won)</i>				
<u>Current liabilities</u>				
Accounts payables and other payables	₩	619,193,264	-	619,193,264
Short-term borrowings		10,448,562	-	10,448,562
Current portion of long-term borrowings		31,300,000	-	31,300,000
Current bonds		1,862,112,178	-	1,862,112,178
Subtotal		2,523,054,004	-	2,523,054,004
<u>Non-current liabilities</u>				
Account payables and other payables		32,754,691	-	32,754,691
Long-term borrowings		115,783,210	-	115,783,210
Bonds		9,556,404,272	-	9,556,404,272
Derivative instrument liabilities		-	4,352,442	4,352,442
Other financial liabilities		147,600,000	-	147,600,000
Subtotal		9,852,542,173	4,352,442	9,856,894,615
	₩	12,375,596,177	4,352,442	12,379,948,619

# KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2017 and 2016

## 43. CATEGORIES OF FINANCIAL INSTRUMENTS, Continued:

(3) Gain and loss of financial instruments by categories for the years ended December 31, 2017 and 2016, are as follows:

(In thousands of won)

	2017	2016
<u>Loans and receivables:</u>		
Interest income	₩ 9,868,429	9,751,220
<u>Available-for-sale financial assets:</u>		
Dividends income	839,806	781,306
Gains (losses) on disposal of available for sale financial assets	(29,148)	520
financial expense, net		
Comprehensive income or loss recognized for the year	(101,687)	(2,514,799)
<u>Derivative instrument assets for hedging:</u>		
Gains on valuation of derivative financial instruments financial income	3,953,800	20,715,400
Losses on valuation of derivative financial instruments financial expense	(94,563,470)	(2,496,900)
Losses on transaction of derivative financial instruments financial expense	(23,100,000)	(11,000,000)
Comprehensive income or loss recognized in the reporting period	3,773,920	930,000
<u>Financial liabilities measured at amortized costs:</u>		
Gain on foreign currency transaction related to borrowings	23,170,855	11,715,531
Gain on foreign currency translation related to borrowings	94,563,470	2,522,729
Interest expense	(392,321,139)	(420,012,978)
Loss on Redemption of Finance debt	(14,316,655)	-
Losses foreign currency transactions	(72,438)	(79,688)
Losses on foreign exchange translations financial expense	(4,044,451)	(20,735,454)
	₩ (392,378,708)	(410,423,113)

# KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2017 and 2016

## 44. FINANCIAL RISK MANAGEMENT:

### (1) Credit risk

As of December 31, 2017 and 2016, the Group's maximum exposure to credit risk is as follows:

<i>(In thousands of won)</i>		Dec. 31, 2017	Dec. 31, 2016
Loans	₩	40,479,367	42,251,577
Long- and short-term financial instruments		15,222,030	16,860,404
Derivative instrument assets		7,700,483	66,803,194
Trade receivables and other receivables		1,120,936,132	898,892,153
Cash and cash equivalents		344,567,204	374,092,586
	₩	<u>1,528,905,216</u>	<u>1,398,899,914</u>

### (2) Liquidity risk

As of December 31, 2017, contractual maturity of financial liabilities is summarized as follows:

		December 31, 2017						
<i>(In thousands of won)</i>		Carrying amount	Contractual flow	6 month or less	6-12 months	1-2 years	2-5 years	More than 5 years
Borrowings	₩	123,821,929	126,493,860	22,119,212	42,455,350	30,840,384	30,876,418	202,496
Bonds		11,686,693,942	14,464,959,432	748,557,787	986,213,739	2,152,787,102	3,298,170,887	7,279,229,917
Trade payables and other payables		785,926,105	785,926,105	746,568,828	-	39,357,277	-	-
Derivative financial liabilities		78,035,481	78,035,481	-	24,208,168	43,473,438	1,902,357	8,451,518
		₩ 12,674,477,457	15,455,414,878	1,517,245,827	1,052,877,257	2,266,458,201	3,330,949,662	7,287,883,931

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



# KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2017 and 2016

## 44. FINANCIAL RISK MANAGEMENT, Continued:

(2) Liquidity risk, Continued

As of December 31, 2016, contractual maturity of financial liabilities is summarized as follows:

(In thousands of won)	December 31, 2016						
	Carrying amount	Contractual flow	6 month or less	6-12 months	1-2 years	2-5 years	More than 5 years
Borrowings	₩ 157,531,772	160,699,789	22,106,914	20,777,954	56,212,078	61,193,851	408,992
Bonds	11,418,516,450	13,530,622,608	1,493,458,342	737,024,261	1,853,817,117	4,144,978,388	5,301,344,500
Trade payables and other payables	651,947,955	651,947,955	619,193,264	-	32,754,691	-	-
Derivative financial liabilities	4,352,442	4,352,442	-	-	4,352,442	-	-
	₩ 12,232,348,619	14,347,622,794	2,134,758,520	757,802,215	1,947,136,328	4,206,172,239	5,301,753,492

# KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2017 and 2016

## 44. FINANCIAL RISK MANAGEMENT, Continued:

(2) Liquidity risk, Continued

The following table indicates the periods in which the cash flows associated with cash flow hedges are expected to occur as of December 31, 2017 and 2016.

		December 31, 2017					
(In thousands of won)	Book value	Contractual cash flow	6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years
<u>Currency swap</u>							
Assets	₩ 7,700,483	7,700,483	-	-	-	-	7,700,483
Liabilities	78,035,481	(78,035,481)	-	(24,208,168)	(43,473,438)	(1,902,357)	(8,451,518)
	₩ 85,735,964	(70,334,998)	-	(24,208,168)	(43,473,438)	(1,902,357)	(751,035)

		December 31, 2016					
(In thousands of won)	Book value	Contractual cash flow	6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years
<u>Currency swap</u>							
Assets	₩ 66,803,194	66,803,194	28,558,879	15,996,114	10,589,418	11,658,783	-
Liabilities	4,352,442	(4,352,442)	-	-	(4,352,442)	-	-
	₩ 71,155,636	62,450,752	28,558,879	15,996,114	6,236,976	11,658,783	-

# KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2017 and 2016

## 44. FINANCIAL RISK MANAGEMENT, Continued:

(3) Currency risk

(i) Exposure to currency risk

As of December 31, 2017 and 2016, monetary assets and liabilities denominated in currencies other than functional currency are detailed as follows:

<i>(In thousands of won)</i>		December 31, 2017				
		USD	CHF	EUR	SGD	Others
<u>Assets denominated in foreign currency:</u>						
Cash and cash equivalents	₩	93,304	-	38,777	1	38,778
<u>Liabilities denominated in foreign currency:</u>						
Bonds		214,280,000	673,252,800	63,962,500	164,129,150	346,699,170
<i>(In thousands of won)</i>		December 31, 2016				
		USD	CHF	EUR	SGD	Others
<u>Assets denominated in foreign currency:</u>						
Cash and cash equivalents	₩	99,324	-	139,882	1,670	262,654
<u>Liabilities denominated in foreign currency:</u>						
Bonds		604,250,000	726,517,950	-	54,249,000	47,962,750

# KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2017 and 2016

## 44. FINANCIAL RISK MANAGEMENT, Continued:

(3) Currency risk, Continued

Foreign exchange rate applied as of December 31, 2017 and 2016, is as follows:

<i>(In won)</i>		December 31, 2017	December 31, 2016
USD	₩	1,071.40	1,208.50
CHF		1,094.72	1,181.33
EUR		1,279.25	1,267.60
SGD		800.63	834.60
AUD		835.16	872.05
CNY		163.65	173.26
HKD		137.07	155.83
SEK		129.90	132.40
CAD		852.69	894.72
JPY		9.49	10.37

(ii) Sensitivity analysis of changes in exchange rate

A strengthening of the won, as indicated below, against the USD, CHF, EUR, SGD, AUD, JPY and CNY at December 31, 2017, would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis is based on foreign currency exchange rate variances that the Group considered to be reasonably possible at the reporting date. The analysis assumes that all other variables, in particular interest rates, remain constant and ignores any impact of forecasted sales and purchases. The analysis is performed on the same basis for 2017, albeit that the reasonably possible foreign exchange rate variances are different, as indicated below.

<i>(In thousands of won)</i>		10% increase	10% decrease
Net profit or loss before income taxes	₩	(146,206,692)	146,206,692

As the Group manages the risks through currency swaps to eliminate the currency risk of foreign currency liabilities, net exposure to foreign exchange risk is insignificant. However, as with the sensitivity analysis above, foreign currency deposits and foreign currency denominated bonds are exposed to foreign exchange risk.

# KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2017 and 2016

## 44. FINANCIAL RISK MANAGEMENT, Continued:

### (4) Interest rate risk

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

<i>(In thousands of won)</i>	Interest rate	December 31, 2017	December 31, 2016
Public fund management capital	Government bonds-three year interest rate – 0.5%	₩ 90,000,000	120,000,000

### (ii) Cash flow sensitivity analysis of fixed-rate financial instruments

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

(iii) Sensitivity analysis of cash flow from variable interest rate financial instruments on cash flow  
Changes of 100BP in interest rates as of December 31, 2017, would result in increase or decrease in equity and profit or loss. The analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2017. Changes in equity and profit or loss are detailed as follows:

<i>(In thousands of won)</i>	Profit of loss		Equity	
	100BP Increase	100BP Decrease	100BP Increase	100BP Decrease
As of December 31, 2017 – borrowings	₩ (900,000)	900,000	(900,000)	900,000
As of December 31, 2016 – borrowings	(1,200,000)	1,200,000	(1,200,000)	1,200,000

# KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2017 and 2016

## 44. FINANCIAL RISK MANAGEMENT, Continued:

(5) Fair value measurement

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

(In thousands of won)	2017		2016	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Assets carried at fair value:</u>				
Available-for sale financial assets	₩ 41,350,008	41,350,008	38,016,647	38,016,647
Currency swap(hedging)	7,700,483	7,700,483	66,803,194	66,803,194
Subtotal	49,050,491	49,050,491	104,819,841	104,819,841
<u>Assets carried at amortized cost(*):</u>				
Available-for sale financial assets	870,577	870,577	-	-
Loans and other receivables	1,161,415,498	1,161,415,498	941,143,730	941,143,730
Long/short-term financial instrument	15,222,030	15,222,030	16,860,404	16,860,404
Cash and cash equivalents	481,767,204	481,767,204	374,092,586	374,092,586
Subtotal	1,659,275,309	1,659,275,309	1,332,096,720	1,332,096,720
	₩ 1,708,325,801	1,708,325,801	1,436,916,562	1,436,916,562
<u>Liabilities carried at fair value:</u>				
Currency swap(hedging)	₩ 78,035,481	78,035,481	4,352,442	4,352,442
<u>Liabilities carried at amortized cost(*):</u>				
Borrowings	123,821,929	123,821,929	157,531,772	157,531,772
Trade payables and other payables	785,926,105	785,926,105	651,947,955	651,947,955
Bonds	11,686,693,942	11,686,693,942	11,418,516,450	11,418,516,450
Subtotal	12,596,441,976	12,596,441,976	12,227,996,177	12,227,996,177
	₩ 12,674,477,457	12,674,477,457	12,232,348,619	12,232,348,619

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

# KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2017 and 2016

## 44. FINANCIAL RISK MANAGEMENT, Continued:

(ii) Interest rate used to determine the fair value

At the end of reporting period, interest rate used to determine the expected cash flow was determined by adding interest rate of government bonds and credit spread. As of December 31, 2017 and 2016, interest rates applied are detailed as follows:

<i>(In percentage)</i>	December 31, 2017	December 31, 2016
Derivative instruments	1.81%~3.64%	1.81%~3.64%
Available-for-sale financial assets	5.99%~6.74%	5.78%~6.39%

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

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

As of December 31, 2017, details of fair value, carrying amount and secured assets are as follows:

<i>(In thousands of won)</i>	Level 1	Level 2	Level 3	Total
<u>Financial assets:</u>				
Available-for-sale financial assets(*1) ₩	11,990	-	41,338,018	41,350,008
Derivative instruments assets(*2)	-	7,700,483	-	7,700,483
₩	11,990	7,700,483	41,338,018	49,050,491
<u>Financial liabilities:</u>				
Derivative instruments liabilities(*2) ₩	-	78,035,481	-	78,035,481
₩	-	78,035,481	-	78,035,481

(\*1) Available-for-sale financial assets are not quoted in an active market and measured at valuation amount evaluated by an independent valuation agency.

(\*2) Derivative assets and liabilities are measured at fair value in accordance with terms of contract with financial institutions.

## KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2017 and 2016

### 44. FINANCIAL RISK MANAGEMENT, Continued:

(5) Fair value measurement

The following table shows changes in financial instruments of Level 3 (fair value) for the years ended December 31, 2017 and 2016:

<i>(In thousands of won)</i>		2017	2016
Beginning balance	₩	38,016,648	34,305,585
Acquisition		-	6,106,692
Other comprehensive income		4,191,947	2,513,571
Disposal		-	(157,569)
Reclassification to other level		870,577	275,511
Ending balance	₩	41,338,018	38,016,648

### 45. RELATED PARTIES:

(1) As of December 31, 2017, the controlling company that prepares the consolidated financial statements is Korea Railroad Corporation, and the related parties of the Group are detailed as follows:

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



# KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2017 and 2016

## 45. RELATED PARTIES, Continued:

(2) Significant transactions that occurred in the normal course of business with related companies for the years ended December 31, 2017 and 2016, are as follows:

(In thousands of won)

	Name	Revenue		Costs	
		2017	2016	2017	2016
Related companies	Bitplex Co., Ltd.	₩ -	-	21,344	19,895
	Lotte Station Building Co., Ltd.	6,112,176	7,514,422	154,150	220,846
	Bucheon Station Building Co., Ltd.	2,507,188	2,508,358	464,526	487,664
	Bupyeong Department Store Co., Ltd.	-	-	174,570	190,401
	Kwangwoon Univ. Station Building Co., Ltd.	2,513	17,497	-	-
	Shinsegae Uijeongbu Station Building Co., Ltd.	14,179	13,543	141,854	-
	Ansan Central Station Building Co., Ltd.	-	5,972	-	-
	Anyang Station Building Co., Ltd.	25,521	75,485	138,569	132,121
	Uiwang ICD Co., Ltd.	8,519,215	6,971,194	-	-
	Hanwha Station Development Co., Ltd.	2,116,514	2,114,388	245,565	137,660
		₩ 19,297,306	19,220,859	1,340,578	1,188,587

# KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2017 and 2016

## 45. RELATED PARTIES, Continued:

(3) Account balances with related companies as of December 31, 2017 and 2016, are as follows:

(In thousands of won)

Name		Receivable		Payables	
		2017	2016	2017	2016
Related companies	Dream Hub Project Financial Investment Co., Ltd.	₩ -	-	65,268,912	65,268,912
	Lotte Station Building Co., Ltd.	5,945	2,801	580,473	576,878
	Bucheon Station Building Co., Ltd.	-	1,118	43,579	244
	Bupyeong Department Store Co., Ltd.	-	11	13,881	13,580
	Bitplex Co., Ltd.	-	-	1,471	1,678
	Kwangwoon Univ. Station Building Co., Ltd	6,589	-	120	-
	Ansan Central Station Building Co., Ltd.	4,025	16,004	-	-
	Anyang Station Building Co., Ltd.	-	25,000	21,421	20,993
	Yongsan Development Co., Ltd.	360,529	360,529	-	-
	Uiwang ICD Co., Ltd.	1,018,817	709,259	761,553	837,787
	Shinsegae Uijeongbu Station Building Co., Ltd	-	-	11,973	-
	Hanwha Station Development Co., Ltd.	5,126	-	11,999	10,625
		₩ 1,401,031	1,114,722	66,715,382	66,730,697

## KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2017 and 2016

### 45. RELATED PARTIES, Continued:

(4) During the year ended December 31, 2017 and 2016, compensation to management is detailed as follows:

<i>(In thousands of won)</i>		2017	2016
Short-term employees benefits	₩	527,320	570,235
Accrual for retirement and severance benefits		30,758	25,928
	₩	558,078	596,163

(5) Short-term and long-term loans of the consolidation entity as of the end of the current term and the prior term are all loans to employees, as described in Note 12.

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

Major non-cash investing transactions and non-cash financing transactions not included in the statement of cash flows for the current term and the prior term are as follows.

<i>(In thousands of won)</i>		2017	2016
Reclassification of construction in progress to buildings	₩	464,513,224	753,635,137
Reclassification of current portion of long-term borrowings		30,000,000	31,300,000
Reclassification of current portion of bonds		1,372,390,750	1,862,550,000
Reclassification of long-term non-trade receivables to property, trains and equipment		2,049,028	26,282,528
Reclassification of prepayment to property, trains and equipment		601,491	-
Other account payables of property, trains and equipment acquisition amount		64,091	-

# KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2017 and 2016

## 47. COMMITMENTS AND CONTINGENCIES:

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

<i>(In thousands of won)</i>		2017(*1)	2016(*2)
Pending litigations(*1),(*)2)	₩	232,948,892	581,226,170

(\*1) The Group is a defendant for 88 litigations, such as claims for payment of goods.

(\*2) The Group was a defendant for 124 litigations, such as claims for payment of ordinary wages.

(2) Pledged assets and guarantees

(i) Assets pledged as collateral for the Group's borrowings as of December 31, 2017, are summarized as follows:

<i>(In thousands of won)</i>	Type of borrowings	Lender	Carrying amount	Guaranteed amount
Buildings	Guarantee money	Seoul Election Commission	₩ 2,809,014	100,000
	Guarantee money	Hyundai Card Inc.		550,234
	Guarantee money	Hyundai Commercial Inc.		110,273
	Guarantee money	Kookmin Bank		180,000
	Guarantee money	Samsung Life Service Inc.		1,099,269
	Guarantee money	Samsung Life Service Inc.		370,962
Land and buildings		Samsung Fire&Marine		
	Guarantee money	Insurance Financial Service Co., Ltd.	137,131,253	102,258
	Guarantee money	KB Claims Survey & Adjusting Co., Ltd.		366,423
	Guarantee money	KakaoBank of Korea Co., Ltd.		1,090,827
	Guarantee money	Hyundai Capital Services, Inc.		253,541
			₩ 139,940,267	4,223,787

# KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2017 and 2016

## 47. COMMITMENTS AND CONTINGENCIES, Continued:

(2) Pledged assets and guarantees, Continued

(ii) Collaterals and guarantees provided by third parties on behalf of the Group as of December 31, 2017, are as follows:

<i>(In thousands of won)</i>	Type of guarantees		Amount
Seoul Guarantee Insurance Co., Ltd.(SGI)	Contract performance guarantee	KRW	2,938,365
Seoul Guarantee Insurance Co., Ltd.(SGI)	Contract performance guarantee	KRW	934,340
Seoul Guarantee Insurance Co., Ltd.(SGI)	Permission	KRW	119,523
Seoul Guarantee Insurance Co., Ltd.(SGI)	Deposition	KRW	1,316,355
Woori Bank	Payment guarantee in foreign currency	USD	358,536.30
Woori Bank	Other	USD	358,536.30
Woori Bank	Operating capital loans	KRW	2,000,000
Hana Bank	L/C (Import)	USD	55,229,947.55
Hana Bank	Operating capital loans	KRW	1,000,000
Kookmin Bank	Export cargo pre-arrival guarantee	EUR	2,137,476.66
Kookmin Bank	Payment guarantee in foreign currency	USD	2,488,426.06
Kookmin Bank	Payment guarantee in foreign currency	EUR	50,576,354.85
Kookmin Bank	Payment guarantee in foreign currency	JPY	68,086,308.00
Kookmin Bank	Payment guarantee in foreign currency	AUD	40,545.00
Kookmin Bank	Limit loan arrangement	KRW	2,000,000
Kookmin Bank	Card	KRW	1,000,000
Korea Speciality Contractor Financial Cooperative (KSCFC)	Contract guarantee	KRW	2,169,054
Korea Speciality Contractor Financial Cooperative (KSCFC)	construction warranties	KRW	649,307
Korea Speciality Contractor Financial Cooperative (KSCFC)	Warranty insurance	KRW	30,672
Electric Contractors' Financial Cooperative(ECFC)	Performance bonds	KRW	640,000

# KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2017 and 2016

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

(1) Transactions with the Government and other public institutions for the years ended December 31, 2017 and 2016, are as follows.

(In thousands of won)		Revenue		Costs	
		2017	2016	2017	2016
Ministries	₩	357,865,464	425,239,656	30,429,824	29,209,892
Local governments		107,201,390	104,912,398	42,216,153	34,203,954
Public companies		34,080,477	4,331,306	377,853,107	340,665,945
Semipublic institutions		878,003,811	981,309,059	785,666,975	952,280,799
Other public institution		841,116,772	832,293,517	79,415,251	75,745,903
	₩	<u>2,218,267,914</u>	<u>2,348,085,936</u>	<u>1,315,581,310</u>	<u>1,432,106,493</u>

(2) Account balances with government and other public institutions as of December 31, 2017 and 2016, are as follows.

(In thousands of won)		Receivable		Payable	
		2017	2016	2017	2016
Ministries	₩	2,809,352	4,790,032	436,880	27,414
Local governments		6,116,299	9,762,776	161,604	162
Public companies		3,148,640	336,489	118,932	334
Semipublic institutions		202,408	404,028	4,387,889	200,008
Other public institution		21,885,640	19,823,089	14,936,380	15,744,672
	₩	<u>34,162,339</u>	<u>35,116,414</u>	<u>20,041,685</u>	<u>15,972,590</u>

(3) Government grants and receivables for entrusted business with the Government and other public institutions as of December 31, 2017 and 2016 are as follows.

(In thousands of won)		Government grants		receivables for entrusted business	
		2017	2016	2017	2016
Ministries	₩	63,322,374	68,713,017	161,896,688	73,928,076
Local governments		-	-	7,867,511	33,441,702
	₩	<u>63,322,374</u>	<u>68,713,017</u>	<u>169,764,199</u>	<u>107,369,778</u>

## KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2017 and 2016

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

#### (1) Summary

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

#### (2) The progress of the project

In 2013, the Group notified the business cancellation to DHPFI and the members of Dream Hub Consortium. The Company claimed KRW 240,000 million to Seoul Guarantee Insurance Company based on the business agreement and the land purchase contract. As a result of the dismissal of the business, the Company inspected the recovery of the land ownership and settlement of debts and liabilities and recognized a loss on dismissal of the business amounted to KRW 4,662 billion in 2013.

In 2013, the Group returned the payment of ₩2,416,700 million and regained the ownership on part of the land disposed to DHPFI (138,908.4 m<sup>2</sup>, 38.97% of total area), which had been placed into a trust according to the real estate collateral trust agreement with Daehan Real Estate Trust Ltd. (the "Trust Company") in relation to the outstanding balance that DHPFI borrowed in order to purchase land in Yongsan from the Group. The Group also regained the land equivalent to the amount of the special buyback registration that expired during the year ended December 31, 2017 (1,288.3 m<sup>2</sup>, 0.36% of total area). In addition, the Group has finally won a lawsuit of claim for land ownership transfer registration (ownership of the part of land entrusted to Daehan Real Estate Trust Co., Ltd. by DHPFI for financing purposes) against Daehan Real Estate Trust Co., Ltd. in 2017, the Group restored ownership of the part of land. (Land area 875.8m<sup>2</sup>, 0.25%).

#### (3) Expectation of business

In related with the land near Yongsan Station, the Group is in the process of filing a cancellation case (approximately KRW 705.9 billion) for corporate tax imposed on transfer of ownership as of the end of 2017. In addition, the Group is in the process of filing a claim for transfer of ownership of the remaining land (215,419.3m<sup>2</sup>, 60.43% of the total). In the future, the Group plans to restore land ownership of Yongsan Land and utilize land.

# KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2017 and 2016

## 50. SEPARATE ACCOUNTING FOR BUSINESS DEPARTMENTS:

(1) The Group defines business departments as follows:

- 1) Passenger transport business : KTX, ITX-Saemaoul, Saemaoul, Moogoonghwa, Nuri and trains for commuters
- 2) Metro business : Passenger transport business for Seoul metro area and ITX-Chungcheon
- 3) Freight business : Freight and storage for industrial materials such as coal, cement
- 4) Other multiple business : Development of station area and overseas business
- 5) Yongsan : Development of Yongsan station area (Cancellation on April 2013)
- 6) Entrusted business : Maintenance of properties for trains, etc.
- 7) Others
- 8) Airport train : Acquired stock of Incheon International Airport Railroad (sell stock in 2015)

(2) Details of financial information of business departments as of and for the years ended December 31, 2017 and 2016 are as follows:

(In thousands of won)		2017				
		Assets	Liabilities	Revenue	Operating income(loss)	Net income(loss)
Passenger	₩	10,092,332,822	9,320,372,507	2,618,164,197	81,990,532	(38,905,363)
Metro		3,951,307,548	774,515,885	1,063,152,042	(142,765,492)	(102,063,558)
Freight		2,419,096,886	4,491,570,657	402,411,695	(315,528,602)	(477,724,620)
Other multiple		2,031,224,874	272,207,639	52,112,555	21,314,040	43,628,639
Yongsan		3,008,512,311	1,992,678,024	-	(1,073,292)	(82,623,058)
Entrusted		663,096,797	863,898,549	918,551,631	(171,040,976)	(211,962,878)
Others		4,885,588	3,521,928	2,854,956	(1,195,044)	(1,162,867)
Airport train		442,333,022	-	-	-	8,527,744
Transactions between departments		(3,393,814,719)	(3,393,814,719)	-	-	-
Subsidiaries		886,923,837	448,762,003	1,094,779,078	58,325,303	49,722,723
Internal transactions		(227,555,915)	107,047,474	(365,317,409)	61,286	(42,964,742)
	₩	<u>19,878,343,051</u>	<u>14,880,759,947</u>	<u>5,786,708,745</u>	<u>(469,912,245)</u>	<u>(855,527,980)</u>



# KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements, Continued

For the years ended December 31, 2017 and 2016

## 50. SEPARATE ACCOUNTING FOR BUSINESS DEPARTMENTS, Continued:

(2) Details of financial information of business departments as of and for the years ended December 31, 2017 and 2016 are as follows, Continued:

(In thousands of won)		2016				
		Assets	Liabilities	Revenue	Operating income(loss)	Net income(loss)
Passenger	₩	8,775,824,241	8,458,272,200	2,774,116,206	360,942,131	137,796,642
Metro		3,696,654,734	643,148,685	1,100,299,562	53,093,334	48,851,151
Freight		2,451,671,995	4,108,515,655	422,084,616	(229,825,235)	(349,326,401)
Other multiple		1,829,537,546	268,621,949	46,006,819	24,218,388	54,872,301
Yongsan		3,907,631,470	2,951,510,127	-	(1,004,057)	(57,831,670)
Entrusted		577,000,958	576,933,383	1,019,229,683	(53,307,277)	(45,297,363)
Others		5,888,203	3,332,608	3,394,954	(187,317)	(202,561)
Airport train		433,805,278	-	-	-	6,726,975
Transactions between departments		(3,737,484,770)	(3,737,484,770)	-	-	-
Subsidiaries		801,575,189	393,250,118	541,422,773	(29,892,651)	(14,215,771)
Internal transactions		(229,175,397)	78,045,882	(212,911,659)	(2,453,471)	(7,872,120)
	₩	<u>18,512,929,447</u>	<u>13,744,145,837</u>	<u>5,693,642,954</u>	<u>121,583,845</u>	<u>(226,498,817)</u>

## INDEPENDENT AUDITORS' REPORT

English Translation of the Independent Auditors' Report Originally Issued in Korean on March 22, 2017

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

### Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Korea Railroad Corporation and its subsidiaries (the "Group"), which comprise the consolidated statements of financial position as of December 31, 2016 and 2015, respectively, and the consolidated statements of comprehensive income, consolidated statements of changes in the shareholder's equity and consolidated statements of cash flows for the years ended December 31, 2016 and 2015, and a summary of significant accounting policies and other explanatory information.

### Management's Responsibility for the Consolidated Financial Statements

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

### Auditors' Responsibility

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

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

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

## Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of December 31, 2016 and 2015, and its financial performance and its cash flows for the years ended December 31, 2016 and 2015, in accordance with Korean Government-owned and Quasi-government Accounting Regulations and Standards.

A handwritten signature in black ink that reads "Deloitte Anjin LLC". The signature is written in a cursive, flowing style.

March 22, 2017

## Notice to Readers

This report is effective as of March 22, 2017, the auditors' report date. Certain subsequent events or circumstances may have occurred between the auditors' report date and the time the auditors' report is read. Such events or circumstances could significantly affect the financial statements and may result in modifications to the auditors' report.

# KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

## Consolidated Statements of Financial Position

As of December 31, 2016 and 2015

<i>(In thousands of Korean won)</i>	<i>Note</i>	<b>2016</b>	<b>2015</b>
<b>Assets</b>			
Cash and cash equivalents	7,8,28,44	₩ 374,092,586	208,608,820
Short-term financial instruments	7,13,43,44	16,841,649	32,576,051
Short-term loans	12,43,44	113,562	208,376
Current derivative instrument assets	9,43,44	44,554,993	10,597,473
Trade receivables and other receivables	10,43,44	357,860,661	448,694,904
Inventories	14,28	231,787,194	198,904,170
Prepaid income taxes		978,984	9,045,777
Current non-financial assets	15	45,355,964	37,028,152
Non-current assets held for sale	40,50	24,537,493	7,073,397
<b>Total current assets</b>		<b>1,096,123,086</b>	<b>952,737,120</b>
Long-term financial instruments	7,13,43,44	18,755	18,755
Non-current available-for-sale financial assets	11,43,44	38,016,648	34,305,585
Long-term loans, net	12,43,44,37	42,138,014	45,372,294
Non-current derivative instrument assets	9,43,44	22,248,201	51,986,225
Long-term trade receivables and other receivables	10,43,44	541,031,492	566,059,152
Property, trains and equipment, net	17,25,28	16,296,122,523	15,957,921,127
Investment property	18,28	167,251,889	302,831,192
Goodwill	20	3,732,906	3,732,906
Intangible assets, net	21	69,819,653	60,773,916
Investment in associates	16	209,932,877	205,237,753
Deferred tax assets	39	17,800,091	8,348,188
Non-current non-financial assets	15	8,693,312	9,381,075
<b>Total non-current assets</b>		<b>17,416,806,361</b>	<b>17,245,968,168</b>
<b>Total assets</b>		<b>₩ 18,512,929,447</b>	<b>18,198,705,288</b>

Continued

KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES  
Consolidated Statements of Financial Position, Continued

As of December 31, 2016 and 2015

<i>(In thousands of Korean won)</i>	<i>Note</i>	<b>2016</b>	<b>2015</b>
<b>Liabilities</b>			
Trade payables and other payables	22,43,44	₩ 619,193,264	646,169,452
Short-term borrowings	23,43,44	10,448,562	221,589,755
Current portion of long-term borrowings, net	23,43,44	31,300,000	30,812,500
Current portion of bonds, net	23,43,44	1,862,112,178	1,523,667,779
Current derivative instrument liabilities	9,43,44	-	1,491,143
Current tax liabilities		828,299	528,324
Current non-financial liabilities	29	177,801,331	219,232,807
Current provisions	27	206,980,388	163,173,475
<b>Total current liabilities</b>		<b>2,908,664,022</b>	<b>2,806,665,235</b>
Long-term trade payables and other payables	22,43,44	32,754,691	1,503,451
Long-term borrowings, net	23,43,44	115,783,210	133,000,000
Bonds, net	23,43,44	9,556,404,272	9,375,550,460
Non-current derivative instrument liabilities	9,43,44	4,352,442	6,790,303
Other non-current financial liabilities	24,43	147,600,000	96,270,000
Non-current non-financial liabilities	29	14,508,715	18,300,354
Employee benefits	26	746,954,783	794,191,430
Deferred tax liabilities	39	21,252,523	7,163,791
Provisions	27	195,871,179	210,750,774
<b>Total non-current liabilities</b>		<b>10,835,481,815</b>	<b>10,643,520,563</b>
<b>Total liabilities</b>		<b>13,744,145,837</b>	<b>13,450,185,798</b>
<b>Equity</b>			
Share capital	1,30	10,103,893,478	9,989,037,477
Accumulated deficit	31,32	(8,387,695,695)	(8,283,041,210)
Other equity components	33	2,930,482,691	2,950,694,593
<b>Equity attributable to owners of the Group</b>		<b>4,646,680,474</b>	<b>4,656,690,860</b>
<b>Non-controlling interests (NCIs)</b>		<b>122,103,136</b>	<b>91,828,630</b>
<b>Total equity</b>		<b>4,768,783,610</b>	<b>4,748,519,490</b>
<b>Total liabilities and equity</b>	₩	<b>18,512,929,447</b>	<b>18,198,705,288</b>

Concluded

See notes to consolidated financial statements.

# KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

## Consolidated Statements of Comprehensive Income

**For the years ended December 31, 2016 and 2015**

<i>(In thousands of Korean won)</i>	<i>Note</i>	<b>2016</b>	<b>2015</b>
Revenues	6,19,34,42 ₩	5,693,642,954	5,516,031,289
Cost of sales	41,42	(5,232,444,886)	(5,108,949,751)
<b>Gross profit</b>		<b>461,198,068</b>	<b>407,081,538</b>
Selling, general and administrative expense	35,41	(339,614,223)	(293,507,610)
<b>Operating income</b>	<b>6</b>	<b>121,583,845</b>	<b>113,573,928</b>
Other revenue	36	34,028,813	22,664,151
Other expenses	36	(52,909,518)	(33,651,492)
Other income, net	36	56,298,826	69,621,406
Finance income	37	45,486,738	102,669,751
Finance expense	38	(454,327,503)	(572,122,499)
Gains on valuation of investments in associates	16	19,411,657	20,877,283
Losses on valuation of investments in associates	16	(1,571,361)	-
<b>Loss before income tax benefit from continuing operation</b>		<b>(231,998,503)</b>	<b>(276,367,472)</b>
Income tax benefit from continuing operation	39	5,499,686	219,431,766
<b>Loss from continuing operation</b>		<b>(226,498,817)</b>	<b>(56,935,706)</b>
Income from discontinued operation	51	-	143,331,671
<b>Income (loss) for the year</b>		<b>(226,498,817)</b>	<b>86,395,965</b>
<b>Other comprehensive income, net of tax</b>			
Defined benefit plan actuarial gain, net of tax		96,439,207	52,103,843
Asset revaluation gain, net of tax		36,495,587	-
Unrealized net changes in the effective portion of changes in the fair value of cash flow hedges, net of tax		930,000	21,266,250
Unrealized net changes in the fair value of available-for-sale financial assets		(2,513,841)	869,301
Changes in equity of equity method investments		1,072,493	1,429,401
<b>Other comprehensive income for the year, net of tax</b>		<b>132,423,446</b>	<b>75,668,795</b>
<b>Total comprehensive income (loss) for the year</b>		<b>(94,075,371)</b>	<b>162,064,760</b>
<b>Profit (loss) attributable to:</b>			
Owners of the Company		(205,843,322)	82,289,572
NCIs		(20,655,495)	4,106,393
<b>Profit (Loss) for the year</b>	₩	<b>(226,498,817)</b>	<b>86,395,965</b>

Continued

KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES  
Consolidated Statements of Comprehensive Income, Continued

For the years ended December 31, 2016 and 2015

	<u>Note</u>	<u>2016</u>	<u>2015</u>
<b>Total comprehensive income (loss) attributable to:</b>			
Owners of the Company		(73,357,847)	158,136,648
NCIs		<u>(20,717,524)</u>	<u>3,928,112</u>
<b>Total comprehensive income (loss) for the year</b>	₩	<u>(94,075,371)</u>	<u>162,064,760</u>

Concluded

*See notes to consolidated financial statements.*

KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES  
Consolidated Statements of Changes in Shareholder's Equity

For the years ended December 31, 2016 and 2015

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



KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES  
Consolidated Statements of Changes in Shareholder's Equity, Continued

For the years ended December 31, 2016 and 2015

<i>(In thousands of Korean won)</i>	<u>Common stock</u>	<u>Accumulated deficit</u>	<u>Other equity components</u>	<u>Equity attributable to owners of the Company</u>	<u>Non-controlling interests</u>	<u>Total Equity</u>
<b>Balance at January 1, 2016</b>	₩ 9,989,037,478	(8,283,041,210)	2,950,694,593		91,828,630	4,748,519,490
<b>Total comprehensive income (loss) for the year:</b>						
Loss for the year	-	(205,843,322)	-	(205,843,322)	(20,655,495)	(226,498,817)
Defined benefit plan actuarial gains, net of tax	-	96,501,254	-	96,501,254	(62,047)	96,439,207
Asset revaluation gain, net of tax	-	-	36,495,587	36,495,587	-	36,495,587
Reclassification of asset revaluation gain	-	4,694,905	(4,694,905)	-	-	-
Unrealized net change in the effective portion of changes in the fair value of cash flow hedges, net of tax	-	-	930,000	930,000	-	930,000
Unrealized net change in the fair value of available-for-sale financial assets, net of tax	-	-	(2,513,860)	(2,513,860)	19	(2,513,841)
Change in equity of equity method investments, net of tax	-	-	1,072,493	1,072,493	-	1,072,493
<b>Total comprehensive income (loss) for the year</b>	<u>-</u>	<u>101,196,160</u>	<u>31,289,315</u>	<u>132,485,474</u>	<u>(62,028)</u>	<u>132,423,446</u>
<b>Transactions with owners of the Company, recognized directly in equity</b>						
Issuance of common stock	114,856,000	-	(51,330,000)	63,526,000	51,330,000	114,856,000
Dividends to owners of the Company	-	-	-	-	(255,762)	(255,762)
<b>Total transactions with owners of the Company</b>	<u>114,856,000</u>	<u>-</u>	<u>(51,330,000)</u>	<u>63,526,000</u>	<u>51,074,238</u>	<u>114,600,238</u>
<b>Others</b>	<u>-</u>	<u>(7,322)</u>	<u>(171,217)</u>	<u>(178,539)</u>	<u>(82,209)</u>	<u>(260,748)</u>
<b>Balance at December 31, 2016</b>	₩ <u>10,103,893,478</u>	<u>(8,387,695,695)</u>	<u>2,930,482,691</u>	<u>4,646,680,474</u>	<u>122,103,136</u>	<u>4,768,783,610</u>

Concluded

See notes to consolidated financial statements.

# KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

## Consolidated Statements of Cash Flows

**For the years ended December 31, 2016 and 2015**

(In thousands of Korean won)

	<u>Note</u>	<u>2016</u>	<u>2015</u>
			-
<b>Cash flows from operating activities</b>			-
Income (loss) for the year	₩	(226,498,817)	86,395,965
Adjustments for:			
Income tax benefit		(5,499,686)	(219,431,766)
Bad debt expenses		11,460,328	2,060,605
Other bad debt expenses		6,778,336	661,248
Losses from inventory obsolescence		-	94
Losses from inventory evaluation		73,700	324,913
Depreciation		488,639,896	448,104,164
Depreciation of investment property		2,749,712	2,417,379
Amortization of intangible assets		9,975,120	8,168,546
Losses on sale of property, trains and equipment		2,890,313	1,697,091
Impairment losses on property, trains and equipment		9,959,565	6,981,417
Losses on valuation of investments in associates		1,571,362	-
Impairment losses on non-current assets		29,035	-
Losses on disposal of non-current assets held for sale		1,117,530	255,706
Retirement benefits		173,109,084	166,161,696
Increase in provisions for pending litigations		11,951,766	417,355
Gains on disposal of available-for-sale financial assets		(550)	-
Losses on disposal of available-for-sale financial assets		32	2,161
Losses on disposal of held-to-maturity financial assets		-	5,255
Losses on valuation of derivative instruments		2,496,900	2,767,350
Losses on settlement of derivative instruments		11,000,000	1,960,000
Losses on earlier settlement of financial liabilities than expected		-	2,212,192
Interest expenses		420,012,978	480,668,462
Foreign currency translation losses		20,737,905	81,887,159
Other expenses		-	212,751
Other losses		222,240	-
Reversal of other allowance for doubtful accounts		(1,108)	(42,270)
Gains on sale of property, trains and equipment		(5,370,339)	(1,011,843)
Gains on disposal of non-current assets held for sale		(13,925,259)	(47,599,819)
Reversal of provisions for restoration		(30,784,903)	(12,880,702)
Reversal of provisions for pending litigations		(2,086,275)	(5,263,820)
Gains on assets contributed		(12,500)	(1,301,721)
Receipt of government grants		(1,136,918)	-

Continued

# KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

## Consolidated Statements of Cash Flows, Continued

For the years ended December 31, 2016 and 2015

	<i>Note</i>	<b>2016</b>	<b>2015</b>
	<b>₩</b>		
Foreign currency translation gains		(2,563,753)-	(2,769,236)-
Gains on valuation of derivative instruments		(20,715,400)	(81,885,400)
Gains on valuation of investments in associates		(19,411,657)	(20,877,283)
Interest income		(9,751,220)	(17,035,301)
Dividend income		(781,306)	(848,084)
Other income		(300,000)	(73,296)
Changes:		(112,030,656)	(76,338,998)
- inventories		(32,956,723)	(5,737,422)
- trade receivables		72,256,963	(54,746,990)
- other account receivables		380,447	(931,333)
- prepayments		(6,913,387)	14,340,554
- prepaid expenses		(65,885)	4,842,584
- other current financial assets		(2,700,212)	(3,123,339)
- long-term prepaid expenses		2,672,217	2,190,375
- employee benefits		(124,112,827)	(79,861,817)
- provisions for pending litigations		-	(31,579)
- provisions for restoration		(1,516,801)	-
- provisions for repairing defects		(157,591)	(318,131)
- other current non-financial liabilities		4,614,621	-
- other provisions		-	(114,473)
- long-term advances received		381,631	197,312
- long-term unearned revenues		(4,173,269)	(2,878,864)
- trade payables		(23,011,216)	9,549,763
- other account payables		32,574,529	(1,900,898)
- deposits received for guarantee		-	(4,396,575)
- withholdings		(60,059,828)	12,527,736
- advances received		(1,801,678)	(13,416,593)
- accrued expenses		(27,063,969)	31,374,759
- unearned revenues		15,815,408	6,078,289
- employee provisions		43,806,914	10,017,644
<b>Cash generated from operating activities</b>		<b>723,905,453</b>	<b>806,001,970</b>
Income taxes paid		18,784,781	220,452,972
Other outflow from operating activities		-	(88,942,713)
<b>Net cash provided by operating activities</b>		<b>742,690,234</b>	<b>937,512,229</b>

Continued

KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES  
Consolidated Statements of Cash Flows, Continued

For the years ended December 31, 2016 and 2015

	<i>Note</i>	<b>2016</b>	<b>2015</b>
<b>Cash flows from investing activities</b>			
Proceeds from sales of short-term financial instruments	₩	-	800
Proceeds from available-for-sale financial instruments		129,054	-
Decrease in long-term loans		11,398,561	12,095,826
Decrease in leasehold deposits		2,269,599	26,382,814
Proceeds from sale of non-current assets held for sale		75,946,317	1,757,946,188
Proceeds from sale of property, trains and equipment		6,770,789	2,576,125
Proceeds from sales of investment property		-	747,520
Decrease in short-term financial instruments		47,362,237	28,035,938
Decrease in short-term loans		94,813	425,248
Interest received		7,070,268	15,298,327
Dividends received		14,809,337	848,084
Acquisition of property, trains and equipment		(905,808,569)	(986,536,465)
Acquisition of intangible assets		(21,169,201)	(391,488)
Acquisition of available-for-sale financial instruments		(6,106,692)	(4,548,620)
Increase in long-term loans		(7,463,444)	(8,561,457)
Increase in deposits		(3,533,748)	(29,838,616)
Increase in short-term financial instruments		(31,627,836)	(44,212,356)
Increase in short-term loans		-	(77,172)
Loss of control in associates		-	(5,217,746)
Other outflow from investing activities		-	(80,909,429)
<b>Net cash provided by(used in) investing activities</b>	<i>47</i>	<b>(809,858,515)</b>	<b>684,063,521</b>

Continued

KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES  
Consolidated Statements of Cash Flows, Continued

For the years ended December 31, 2016 and 2015

	<i>Note</i>	<b>2016</b>	<b>2015</b>
<b>Cash flows from financing activities</b>			
Proceeds from issuance of share capital		166,186,000	439,280,173
Increase in borrowings		276,053,562	454,889,755
Settlements of currency swap transactions		36,349,009	-
Government grants received		52,902,624	116,790,947
Issuance of debt securities		2,022,374,521	-
Increase in rental deposits		35,038,350	-
Interest paid		(409,457,206)	(468,961,254)
Increase in discount on stock issuance		-	(167,947)
Decrease in borrowings		(503,707,255)	(261,678,864)
Settlement of currency swap transactions		-	(10,920,000)
Settlement of bonds		-	(232,212,191)
Redemption of current portion of long-term liabilities		(1,524,400,000)	(1,849,840,000)
Decrease in rental deposits		(3,736,953)	-
Dividends paid		(255,762)	-
<b>Net cash provided by (used in) financing activities</b>	<i>47</i>	<u>147,346,890</u>	<u>(1,812,819,381)</u>
<b>Net decrease in cash and cash equivalents</b>		80,178,609	(191,243,631)
Effect of exchange rate fluctuations on cash held		(13,832)	(32,554)
Cash and cash equivalents at January 1		470,010,604	661,286,789
<b>Cash and cash equivalents at December 31</b>		<u>550,175,381</u>	<u>470,010,604</u>
Government grants		(68,713,017)	(116,190,367)
Fund for trustee business from governments		(107,369,778)	(145,211,417)
<b>Net Cash and cash equivalents</b>	<i>₩</i>	<u><u>374,092,586</u></u>	<u><u>208,608,820</u></u>

Concluded

*See notes to consolidated financial statements.*

# KOREA RAILROAD CORPORATION AND ITS SUBSIDIARIES

## Notes to Consolidated Financial Statements

As of and for the years ended December 31, 2016 and 2015

### 1. GENERAL INFORMATION:

#### (1) Description of the controlling company

Korea Railroad Corporation (the “Company”) was incorporated on January 1, 2005, to engage in passenger and freight transportation services under the Korea Railroad Act. As of December 31, 2016, the Company’s paid-in capital amounted to ₩10,108,885 million, and the Company is wholly owned by the Government of the Republic of Korea. The consolidated financial statements were authorized for issue by the Board of Directors on February 23, 2017.

The main businesses of the Company are as follows:

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

#### (2) Consolidated subsidiaries

1) Consolidated subsidiaries as of December 31, 2016 and 2015, are detailed as follows:

Company	Location	Reporting date	Ownership (%)		Industry
			Dec. 31, 2016	Dec. 31, 2015	
KORAIL Retail Co., Ltd.	Republic of Korea	Dec. 31	100%	100%	Retail
KORAIL Networks Co., Ltd.	Republic of Korea	Dec. 31	98.98%	98.98%	Service industry
KORAIL Logis Co., Ltd.	Republic of Korea	Dec. 31	97.23%	97.23%	Railroad cargo business
KORAIL Tourism Development Co., Ltd.	Republic of Korea	Dec. 31	60.80%	60.80%	Service industry
KORAIL Tech Co., Ltd.	Republic of Korea	Dec. 31	97.98%	97.98%	Railway track construction
SR Co., Ltd.	Republic of Korea	Dec. 31	41%	41%	Railroad transportation
Korean Insurance Brokerage Co., Ltd.	Republic of Korea	Dec. 31	98.98%	98.98%	Insurance brokerage business

2) The financial information of subsidiaries as of December 31, 2016 and 2015, is summarized as follows:

(In thousands of Korean won)

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

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(In thousands of Korean won)

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

3) Subsidiaries whose NCIs are significant to the Group are detailed as follows:

i) Proportion held by NCIs as of December 31, 2016 and 2015, is as follows:

Company	2016	2015	Location
SR Co., Ltd.	59%	59%	Republic of Korea

ii) Distribution to NCIs for the year ended December 31, 2016, is as follows:

(In thousands of Korean won)

Company		Profit distributed to NCIs	Accumulated NCIs	Location
SR Co., Ltd	₩	(19,532,688)	(21,916,564)	Republic of Korea

4) Subsidiaries whose NCIs are significant to the Group are detailed as follows: Continued

iii) Financial statements of subsidiaries whose NCIs are significant to the Group as of December 31, 2016, are summarized as follows:

- Statements of Financial Position and Comprehensive Income

							(In thousands of Korean won)	
Company		Current assets	Non-current assets	Current liability	Non-current liability	Revenue	Income for the year	Comprehensive income
SR Co., Ltd.	₩	64,600,919	344,904,347	17,725,209	192,274,293	30,156,577	(32,398,301)	(32,487,764)

- Statement of Cash flows

(In thousands of Korean won)						
Company		Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Other cash flows	Net increase in cash and cash equivalents
SR Co., Ltd.	₩	(44,965,204)	(253,825,617)	276,346,500	-	(22,444,321)

## 2. **BASIS OF PREPARATION:**

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

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

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

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

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

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

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

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



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

(i) Amendments to K-IFRS 1110 – Consolidated Financial Statements, K-IFRS 1112 (Revised) – Disclosure of interests in other entities and K-IFRS 1028 (Revised) – Investment in associates

The amendments clarify that in applying the equity method of accounting to an associate or a joint venture that is an investment entity, an investor may retain the fair value measurements that the associate or joint venture used for its subsidiaries. The application of these amendments has no material impact on the disclosures or the amounts recognized in the Group's consolidated financial statements.

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

The amendments to K-IFRS 1111 provide guidance on how to account for the acquisition of a joint operation that constitutes a business as defined in K-IFRS 1103, Business Combinations. A joint operator is also required to disclose the relevant information required by K-IFRS 1103 and other standards for business combinations. The application of these amendments has no material impact on the disclosures or the amounts recognized in the Group's consolidated financial statements.

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

The amendments to K-IFRS 1001 clarify the concept of applying materiality in practice and restrict an entity reducing the understandability of its financial statements by obscuring material information with immaterial information or by aggregating material items that have different natures or functions. The application of these amendments has no material impact on the disclosures or the amounts recognized in the Group's consolidated financial statements.

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

The amendments to K-IFRS 1016 prohibit the Group from using a revenue-based depreciation method for items of property, plant and equipment. The application of these amendments has no material impact on the disclosures or the amounts recognized in the Group's consolidated financial statements.

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

The amendments to K-IFRS 1038 do not allow the presumption that revenue is an appropriate basis for the amortization of intangible assets; the presumption can only be limited when the intangible asset is expressed as a measure of revenue or when it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated. The application of these amendments has no material impact on the disclosures or the amounts recognized in the Group's consolidated financial statements.

(vi) Amendments to K-IFRS 1016 – Property, plant and equipment and K-IFRS 1041 – Agriculture: Bearer Plants

The amendments to K-IFRS 1016 – Property, Plant and Equipment and K-IFRS 1041 – Agriculture define a bearer plant and require biological assets that meet the definition of a bearer plant to be accounted for as property, plant and equipment in accordance with K-IFRS 1016, instead of K-IFRS 1041. The application of these amendments has no material impact on the disclosures or the amounts recognized in the Group's consolidated financial statements.

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

The annual improvements include amendments to a number of K-IFRSs. The amendments introduce specific guidance in K-IFRS 1105, Non-current Assets Held for Sale and Discontinued Operations, when an entity reclassifies an asset (or disposal group) from held for sale to held for distribution to owners (or vice versa); such a change is considered as a continuation of the original plan of disposal, and not as a change to a plan of sale. Other amendments in the annual improvements include K-IFRS 1107, Financial Instruments: Disclosures, K-IFRS 1019, Employee Benefits and K-IFRS 1034, Interim Financial Reporting. The application of these amendments has no material impact on the disclosures or the amounts recognized in the Group's consolidated financial statements.

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

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

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

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

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

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

(iii) Amendments to K-IFRS 1102—Share-based Payment

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

(iv) Amendments to K-IFRS 1007 – Statement of Cash Flows

The amendments require that changes in liabilities arising from financial activities are disclosed. The amendments are effective for annual periods beginning on or after January 1, 2017.

(v) Amendments to K-IFRS 1012 – Income Taxes

The amendments clarify that unrealized losses on fixed-rate debt instruments measured at fair value and measured at cost for tax purposes give rise to a deductible temporary difference regardless of whether the holder expects to recover the carrying amount of the debt instrument by sale or by use, and that the estimate of probable future taxable profit may include the recovery of some of assets for more than their carrying amount. When the Group assesses whether there will be sufficient taxable profit, the Group should compare the deductible temporary differences with future taxable profit that excludes tax deductions resulting from the reversal of those deductible temporary differences. The amendments are effective for annual periods beginning on or after January 1, 2017.

The Group is evaluating the effect of the above-mentioned amendments on the Group's consolidated financial statements.

### **3. SIGNIFICANT ACCOUNTING POLICIES:**

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

#### **(1) Basis of consolidation**

##### **(i) Business combinations**

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

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

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

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

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

(ii) NCIs

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

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

(iii) Subsidiaries

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

(iv) Loss of control

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

(v) Interests in equity-accounted investees

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

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

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

(vi) Transactions eliminated on consolidation

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

(vii) Acquisitions from entities under common control

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

**(2) Cash and cash equivalents**

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

**(3) Inventories**

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

Inventories are measured at the lower of cost or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. The amount of any write-

down of inventories to net realizable value and all losses of inventories are recognized as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realizable value, is recognized as a reduction in the amount of inventories recognized as an expense in the period in which the reversal occurs.

#### **(4) Non-derivative financial assets**

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

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

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

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

##### **(ii) Held-to-maturity investments**

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

##### **(iii) Loans and receivables**

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

##### **(iv) Available-for-sale financial assets**

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

##### **(v) Derecognition of financial assets**

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

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

##### **(vi) Offsetting between financial assets and financial liabilities**

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

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

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

### **(i) Hedge accounting**

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

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

#### **Fair value hedge**

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

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

#### **Cash flow hedge**

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

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

(ii) Separable embedded derivatives

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

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

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

(iii) Other derivative financial instruments

Changes in the fair value of other derivative financial instrument not designated as a hedging instrument are recognized immediately in profit or loss.

**(6) Impairment of financial assets**

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably. However, losses expected as a result of future events, regardless of likelihood, are not recognized.

In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

If financial assets have objective evidence that they are impaired, impairment losses should be measured and recognized.

(i) Financial assets measured at amortized cost

An impairment loss with respect to a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of its estimated future cash flows, discounted at the asset's original effective interest rate. If it is not practicable to obtain the instrument's estimated future cash flows, impairment losses would be measured using prices from any observable current market transactions. The Group can recognize impairment losses directly or establish a provision to cover impairment losses. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss shall be reversed either directly or by adjusting an allowance account.

(ii) Financial assets carried at cost

If there is objective evidence that an impairment loss has occurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to, and must be, settled by delivery of such an unquoted equity instrument, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows, discounted at the current market rate of return for a similar financial asset. Such impairment losses shall not be reversed.

(iii) Available-for-sale financial assets

When a decline in the fair value of an available-for-sale financial asset has been recognized in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss that had been recognized in other comprehensive income shall be reclassified from equity to profit or loss as a reclassification adjustment even though the financial asset has not been derecognized. Impairment losses recognized in profit or loss for an investment in an equity instrument classified as available for sale shall not be reversed through profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss shall be reversed, with the amount of the reversal recognized in profit or loss.

### **(7) Property, plant and equipment**

Property, plant and equipment are initially measured at cost and, after initial recognition, are carried at cost, less accumulated depreciation and accumulated impairment losses. The cost of property, plant and equipment includes expenditures arising directly from the construction or acquisition of the asset, any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Subsequent to initial recognition, an item of property, plant and equipment, except the Group's land, shall be carried at its cost, less any accumulated depreciation and any accumulated impairment losses, while land whose fair value can be measured reliably is carried at revalued amount, being its fair value at the date of the revaluation, less subsequent accumulated impairment losses due to the change in the evaluation method of its land from cost model to revaluation model during the year ended December 31, 2013. Revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

Property, plant and equipment, except for land, are depreciated on a straight-line basis over estimated useful lives that appropriately reflect the pattern in which the asset's future economic benefits are expected to be consumed.

A component that is significant compared to the total cost of property, plant and equipment is depreciated over its separate useful life.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognized in profit or loss.

The estimated useful lives of the Group's property, trains and equipment are as follows:

	<b>Useful life (years)</b>	<b>Depreciation method</b>
Buildings	25–50	Straight-line method
Structures	10–50	Straight-line method
Installation structures	5–15	Straight-line method
Advertising structures	5	Straight-line method
Electric equipment	5–15	Straight-line method
Machinery	5–25	Straight-line method
Trains	6–40	Straight-line method
Vehicles	2–7	Straight-line method
Furniture and fixtures	5	Straight-line method
Tools and office equipment	2–6	Straight-line method
Others	Indefinite, 5	Straight-line method

Depreciation methods, useful lives and residual values are reviewed at the end of each reporting date and adjusted, if appropriate. The change is accounted for as a change in an accounting estimate.



## **(8) Intangible assets**

Intangible assets are measured initially at cost and, subsequently, are carried at cost, less accumulated amortization and accumulated impairment losses.

Amortization of intangible assets, except for goodwill, is calculated on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use. The residual value of intangible assets is zero. However, as there are no foreseeable limits to the periods over which club memberships are expected to be available for use, this intangible asset is determined as having indefinite useful lives and not amortized.

Category	Useful life (years)
Industrial property right	5–10
Development costs	5
Computer software	5–20
Usable and profitable donation assets	15
Facility usage right	Indefinite
Other intangible assets	5–20

Amortization periods and the amortization methods for intangible assets with finite useful lives are reviewed at the end of each reporting period. The useful lives of intangible assets that are not being amortized are reviewed at the end of each reporting period to determine whether events and circumstances continue to support indefinite useful life assessments for those assets. Changes are accounted for as changes in accounting estimates.

### **(i) Service concession arrangements**

The Group recognizes an intangible asset arising from a service concession arrangement when it has a right to charge for usage of the concession infrastructure. An intangible asset received as consideration for providing construction or upgrade services in a service concession arrangement is measured at fair value upon initial recognition. Subsequent to initial recognition, the intangible asset is measured at cost, which includes capitalized borrowing costs, less accumulated amortization and accumulated impairment losses.

### **(ii) Subsequent expenditures**

Subsequent expenditures are capitalized only when they increase the future economic benefits embodied in the specific asset to which it relates. All other expenditures, including expenditures on internally generated goodwill and brands, are recognized in profit or loss as incurred.

## **(9) Government grants**

Government grants are not recognized, unless there is reasonable assurance that the Group will comply with the grant's conditions and that the grant will be received.

Government grants whose primary condition is that the Group purchase; construct; or otherwise, acquire long-term assets are deducted in calculating the carrying amount of the asset. The grant is recognized in profit or loss over the life of a depreciable asset as a reduction to depreciation expense. Also, any related costs incurred with respect to the government grants are recognized in profit or loss when incurred as 'Government Grants' in the consolidated statements of comprehensive income.

## **(10) Investment property**

Property held for the purpose of earning rentals or benefiting from capital appreciation is classified as investment property. Investment property is initially measured at its cost. Transaction costs are included in initial measurement. Subsequently, investment property is carried at depreciated cost less any accumulated impairment losses.

Subsequent costs are recognized in the carrying amount of investment property at cost or, if appropriate, as separate items if it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing are recognized in profit or loss as incurred.

Investment property, except for land, is depreciated on a straight-line basis over 25–50 years, its estimated useful lives.

Depreciation methods, useful lives and residual values are reviewed at the end of each reporting date and adjusted, if appropriate. The change is accounted for as a change in an accounting estimate.

#### **(11) Impairment of non-financial assets**

The carrying amounts of the Group's non-financial assets, other than assets arising from employee benefits, inventories and non-current assets held for sale, are reviewed at the end of the reporting period to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill and intangible assets that have indefinite useful lives or that are not yet available for use, irrespective of whether there is any indication of impairment, are tested for impairment annually by comparing their recoverable amount to their carrying amount.

The Group estimates the recoverable amount of an individual asset. If it is impossible to measure the individual recoverable amount of an asset, the Group estimates the recoverable amount of cash-generating unit (CGU). A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. The recoverable amount of an asset or CGU is the greater of its value in use or its fair value, less costs to sell. The value in use is estimated by applying a pretax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU for which estimated future cash flows have not been adjusted to the estimated future cash flows expected to be generated by the asset or CGU.

An impairment loss is recognized in profit or loss if the carrying amount of an asset or a CGU exceeds its recoverable amount.

#### **(12) Leases**

The Group classifies and accounts for leases as either a finance or operating lease, depending on the terms. Leases where the Group assumes substantially all of the risks and rewards of ownership are classified as finance leases. All other leases are classified as operating leases.

##### **(i) Finance leases**

At the commencement of the lease term, the Group recognizes, as finance assets and finance liabilities in its consolidated statements of financial position, the lower amount of the fair value of the leased property and the present value of the minimum lease payments, each determined at the inception of the lease. Any initial direct costs are added to the amount recognized as an asset.

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent rents are charged as expenses in the periods in which they are incurred.

The depreciable amount of a leased asset is allocated to each accounting period during the period of expected use on a systematic basis consistent with the depreciation policy that the lessee adopts for depreciable assets that are owned. If there is no reasonable certainty that the lessee will obtain ownership by the end of the lease term, the asset is fully depreciated over the shorter of the lease term and its useful life. The Group reviews to determine whether the leased asset may be impaired.

##### **(ii) Operating leases**

Payments made under operating leases (net of any incentives received from the lessor) are recognized in profit or loss on a straight-line basis over the period of the lease. Incentives under operating lease are recognized by deducting entire benefits from lease expense over the lease term.

#### **(13) Construction work in progress**

Construction work in progress represents the gross unbilled amount expected to be collected from customers for contract work performed to date. It is measured at cost, plus profit recognized to date, less progress billings and recognized losses. Cost includes all expenditures related directly to specific projects and an allocation of fixed and variable overheads incurred in the Group's contract activities based on normal operating capacity.

Construction work in progress is presented as part of trade and other receivables in the consolidated statements of financial position for all contracts in which costs incurred, plus recognized profits, exceed progress billings. If progress billings exceed costs incurred, plus recognized profits, then the difference is presented as deferred income in the consolidated statements of financial position.

#### **(14) Non-current assets held for sale**

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale, rather than through continuing use, are classified as held for sale. In order to be classified as held for sale, the asset (or disposal group) must be available for immediate sale in its present condition and its sale must be highly probable. The asset or disposal group that is classified as non-current assets held for sale is measured at the lower of its carrying amount or fair value, less cost to sell.

The Group recognizes an impairment loss for any initial or subsequent write-down of an asset (or disposal group) to fair value, less costs to sell, and a gain for any subsequent increase in fair value, less costs to sell, up to the cumulative impairment loss previously recognized in accordance with K-IFRS No. 1036, *Impairment of Assets*.

A non-current asset that is classified as held for sale or part of a disposal group classified as held for sale is not depreciated (or amortized).

#### **(15) Borrowing Costs**

The Group capitalizes borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. Other borrowing costs are recognized in expense as incurred. A qualifying asset is an asset that requires a substantial period of time to get ready for its intended use or sale. Financial assets and inventories that are manufactured or otherwise produced over a short period of time are not qualifying assets. Assets that are ready for their intended use or sale when acquired are not qualifying assets.

To the extent that the Group borrows funds specifically for the purpose of obtaining a qualifying asset, the Group determines the amount of borrowing costs eligible for capitalization as the actual borrowing costs incurred on that borrowing during the period, less any investment income on the temporary investment of those borrowings. To the extent that the Group borrows funds generally and uses them for the purpose of obtaining a qualifying asset, the Group shall determine the amount of borrowing costs eligible for capitalization by applying a capitalization rate to the expenditures on that asset. The capitalization rate shall be the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. The amount of borrowing costs that the Group capitalizes during a period shall not exceed the amount of borrowing costs incurred during that period.

#### **(16) Non-derivative financial liabilities**

The Group classifies non-derivative financial liabilities into financial liabilities at fair value through profit or loss or other financial liabilities in accordance with the substance of the contractual arrangement and the definitions of financial liabilities. The Group recognizes financial liabilities in the consolidated statements of financial position when the Group becomes a party to the contractual provisions of the financial liability.

##### **(i) Financial liabilities at fair value through profit or loss**

Financial liabilities are classified as at fair value through profit or loss when the financial liability is a contingent consideration that may be paid by an acquirer as part of a business combination to which K-IFRS 1103 applies, it is held for trading or it is designated as at fair value through profit or loss. Financial liabilities at fair value through profit or loss are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any interest paid on the financial liability and is included in the 'Other gains and losses' line item in the consolidated statements of comprehensive income.

(ii) Other financial liabilities

Non-derivative financial liabilities other than financial liabilities at fair value through profit or loss are classified as other financial liabilities. At the date of initial recognition, other financial liabilities are measured at fair value, less transaction costs that are directly attributable to the acquisition. Subsequent to initial recognition, other financial liabilities are measured at amortized cost using the effective interest method.

The Group derecognizes a financial liability from the consolidated statements of financial position when it is extinguished (i.e., when the obligation specified in the contract is discharged, canceled or expired).

**(17) Employee benefits**

(i) Retirement benefits: defined contribution plans

When an employee has rendered service to the Group during a period, the Group recognizes the contribution payable to a defined contribution plan in exchange for that service as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the end of the reporting period, the Group recognizes that excess as an asset (prepaid expense) to the extent that the prepayment will lead to a reduction in future payments or a cash refund.

(ii) Retirement benefits: defined benefit plans

The Group's net obligation with respect to defined benefit plans is calculated by estimating the present value of defined benefit obligation after reflecting unrecognized past service cost and deducting the fair value of any plan assets.

The calculation of defined benefit obligations is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a potential asset for the Group, the recognized asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognized immediately in OCI. The Group determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognized in profit or loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognized immediately in profit or loss. The Group recognizes gains and losses on the settlement of a defined benefit plan when the settlement occurs.

**(18) Provision**

Provisions are recognized when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The risks and uncertainties that inevitably surround many events and circumstances are taken into account in reaching the best estimate of a provision. Where the effect of the time value of money is material, provisions are determined at the present value of the expected future cash flows.

Where some or all of the expenditures required to settle a provision are expected to be reimbursed by another party, the reimbursement shall be recognized when, and only when, it is virtually certain that reimbursement will be received if the entity settles the obligation. The reimbursement shall be treated as a separate asset.

Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimates. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed.

In accordance with the Group's published environmental policy and applicable legal requirements, a provision for site restoration with respect to contaminated land, and the related expense, is recognized when the land is contaminated.

A provision shall be used only for expenditures for which it was originally recognized.

#### **(19) Foreign currency transactions**

Transactions in foreign currencies are translated to the respective functional currencies of the Group at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising on retranslation are recognized in profit or loss, except for differences arising from the retranslation of available-for-sale equity instruments, a financial liability designated as a hedge of the net investment in a foreign operation or qualifying cash flow hedges, which are recognized in other comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. When gains or losses on non-monetary items are recognized in other comprehensive income, exchange components of those gains or losses are recognized in other comprehensive income. Conversely, when gains or losses on non-monetary items are recognized in profit or loss, exchange components of those gains or losses are recognized in profit or loss.

#### **(20) Equity capital**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of ordinary shares and share options are recognized as a deduction from equity, net of any tax effects.

When the Group repurchases its share capital, the amount of the consideration paid is recognized as a deduction from equity and classified as treasury shares. The profits or losses from the purchase, disposal, reissue or retirement of treasury shares are not recognized as current profit or loss. If the Group acquires and retains treasury shares, the consideration paid or received is directly recognized in equity.

#### **(21) Revenue**

Revenue from the sale of goods, rendering of services or use of the assets is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates, and is recognized as a reduction of revenue.

##### **(i) Goods sold**

Revenue from the sale of goods in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue is recognized when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods and the amount of revenue can be measured reliably.

The timing of the transfers of risks and rewards varies depending on the individual terms of the contract of sale. For sales of products, usually transfer occurs when the product is received at the customer's warehouse; however, for some international shipments, transfer occurs upon loading the goods onto the relevant carrier at the port of the seller.

When two or more revenue-generating activities or deliverables are sold under a single arrangement, each deliverable that is considered to be a separate unit of account is accounted for separately. The allocation of consideration from a revenue arrangement to its separate units of account is based on the relative fair values of each unit.

##### **(ii) Services**

Revenue from services rendered is recognized in profit or loss in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed by reference to surveys of work performed. Revenue from transportation service is recognized at the point when the rendering service is completed, and the amount for which ticket was issued, but related service has not been completed is recognized as advances received.

(iii) Customer loyalty programs

For customer loyalty programs, the fair value of the consideration received or receivable with respect to the initial sale is allocated between the award credits ("Mileage") and the other components of the sale. The Group provides Mileage to customers when tickets are sold. The amounts allocated in the Mileage are estimated by reference to the fair value of the train tickets for which they could be redeemed, as the fair values of the Mileage themselves are not directly observable. The fair value of the train tickets is estimated taking into account the expected redemption rate and the timing of such expected redemptions. Such amount is deferred and revenue is recognized only when the Mileages are redeemed and the Group has fulfilled its obligations to supply the train tickets. The amount of revenue recognized in those circumstances is based on the number of Mileages that have been redeemed in exchange for train tickets, relative to the total number of Mileages that are expected to be redeemed.

(iv) Construction contracts

Contract revenue includes the initial amount agreed in the contract, plus any variations in contract work, claims and incentive payments, to the extent it is probable that they will result in revenue and can be measured reliably. As soon as the outcome of a construction contract can be estimated reliably, contract revenue is recognized in profit or loss in proportion to the stage of completion of the contract. Contract expenses are recognized as incurred, unless they create an asset related to future contract activity.

The stage of completion is assessed by reference to surveys of work performed. When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognized only to the extent of contract costs incurred that are likely to be recoverable. An expected loss on a contract is recognized immediately in profit or loss.

(v) Rental income

Rental income from investment property, net of lease incentives granted, is recognized in profit or loss on a straight-line basis over the term of the lease.

**(22) Finance income and finance costs**

Finance income comprises interest income on funds invested (including available-for-sale financial assets), dividend income, gains on the disposal of available-for-sale financial assets, changes in the fair value of financial assets at fair value through profit or loss and gains on hedging instruments that are recognized in profit or loss. Interest income is recognized as it accrues in profit or loss, using the effective interest method. Dividend income is recognized in profit or loss on the date that the Group's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions, dividends on preference shares classified as liabilities, changes in the fair value of financial assets at fair value through profit or loss, impairment losses recognized on financial assets and losses on hedging instruments that are recognized in profit or loss. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in profit or loss using the effective interest method.

**(23) Income taxes**

Income tax expense comprises current tax and deferred tax. Current tax and deferred tax are recognized in profit or loss, except to the extent that it relates to a business combination or items recognized directly in equity or in other comprehensive income.

(i) Current tax

Current tax is the expected tax payable or receivable on the taxable profit or loss for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable related to previous years. The taxable profit is different from the accounting profit for the period, as the taxable profit is calculated excluding the temporary differences, which will be taxable or deductible in determining taxable profit (tax loss) of future periods, and non-taxable or non-deductible items from the accounting profit.

(ii) Deferred tax

The measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. The Group recognizes a deferred tax liability for all taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except to the extent that the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. The Group recognizes a deferred tax asset for all deductible temporary differences arising from investments in subsidiaries and associates to the extent it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilized.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and reduces the carrying amount to the extent it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax asset to be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset only if there is a legally enforceable right to offset the related current tax liabilities and assets, they relate to income taxes levied by the same tax authority and they intend to settle current tax liabilities and assets on a net basis. Additional income tax due to dividend payments is recognized when the Group recognizes a liability relevant to the dividend payment.

#### **4. SIGNIFICANT ACCOUNTING ESTIMATION AND ASSUMPTION:**

The Group adopted estimations and assumptions for future events. Used estimations and assumptions are continuously evaluated, considering past experience and other aspects, such as future events reasonably foreseeable based on current situation. These estimates may differ from the actual result. Estimations and assumptions on significant risks that can cause adjustments on the book values of assets and liabilities after the reporting period are as follows:

(1) Income tax

There are some uncertainties in calculating final tax effects on the taxable income derived from the Group's operation. The Company recognized current tax expense and deferred income tax by its best estimate on the income tax effects expected to be shown on the Group as a result of the Group's operations up to December 31, 2016. However, the actual income tax payment that will be finally made in the future may be different from the recognized assets and liabilities and this difference can result in effects on the current tax expense for the period when the final tax effect has been finalized for deferred income tax assets and liabilities.

(2) Fair value of financial instruments

For financial instruments that are not traded in active market, their fair values are calculated through related evaluating methods. The Group makes various decisions on selecting evaluation methods and assumptions based on major market situations available as of December 31, 2015.

(3) Provisions

As detailed in Note 27, the Group recognizes provisions related to litigations and recovery. These provisions are decided by estimations based on experience in the past periods.

## **5. FINANCIAL RISK MANAGEMENT:**

The Group has exposure to the following risks from its use of financial instruments:

- ✓ credit risk
- ✓ liquidity risk
- ✓ market risk

This note presents information about the Group's exposure to each of the above risks; the Group's objectives, policies and processes for measuring and managing risk; and the Group's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

### **(1) Risk management activities**

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board of Directors has established the Risk Management Committee, which is responsible for developing and monitoring the Group's risk management policies. The committee reports regularly to the Board of Directors on its activities.

The Group's risk management policies are established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Group Audit Committee oversees how management monitors compliance with the Group's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Group Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

### **(2) Credit risk**

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and investment securities.

#### **(i) Trade and other receivables**

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The Group's customer base comprises a number of entities with small individual amounts; hence, the Group's credit risk is not concentrated. Also, the Group's exposure to credit risk is limited as most receivables get collected in two or three days from the date of billing.

Significant transactions are reviewed for legal and economic validity during regular audits and resolved based on Board of Directors' approval. Also, the Group manages credit risk by requiring collateral or guarantees with respect to significant trade and other receivables.

The Group establishes an allowance for impairment that represents its estimate of incurred losses with respect to trade and other receivables and investments. The main components of this allowance are a specific loss component that relates to individually significant exposures and a collective loss component established for groups of similar assets with respect to losses that have been incurred, but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

#### **(ii) Guarantees**

The Group can only provide financial guarantees based on the Board of Directors' resolution. At December 31, 2015, no guarantees were outstanding.



(iii) Investments

The Group deposits its cash and cash equivalents and short-term financial instruments in Kookmin Bank and others, and limits its exposure to credit risk by investing only in financial institutions with high credit ratings.

The Group indirectly participates in the development and operation of the surrounding area of Yongsan station and owns associated companies' equity. Although the Group is exposed to credit risk as the market value of the associated companies that operate the private capital railway station sphere fluctuates depending on the location and surrounding conditions, the Group manages the investment assets by reviewing the fluctuation of net assets of investees on a regular basis and recognizes impairment loss when there is uncertainty on recoverability of investment assets.

**(3) Liquidity risk**

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

To manage liquidity risk, the Group maintains short-term and medium- to long-term cash flow plan, and continuously analyzes and reviews the actual cash outflow.

Also, the Group has credit lines as follows:

- ✓ Credit line of unsecured loans amounting to ₩550 billion. Interest would be payable at a rate of CD (Certificate of Deposit) (91 days), plus 15–79 basis points (BP).
- ✓ Credit line of unsecured loans amounting to ₩300 billion. Interest would be payable at a rate of CD (Certificate of Deposit) (91 days), plus 21 BP.
- ✓ Credit line of unsecured loans amounting to ₩4 billion. Interest would be payable at a rate of 3.81%-4.50%.

**(4) Market risk**

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices, will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

The Group buys and sells derivatives, and also incurs financial liabilities, in order to manage market risks. All such transactions are carried out within the guidelines set by the Risk Management Committee. Generally, the Group seeks to apply hedge accounting in order to manage volatility in profit or loss.

(i) Currency risk

The Group is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the respective functional currencies of Group entities, primarily the US dollars (USD).

The Group is exposed to currency risk in respect to bonds and long-term borrowings denominated in foreign currency. The Group uses derivative instruments, such as currency swap, to avoid foreign exchange rate fluctuation risk arising from foreign currency liabilities.

(ii) Interest rate risk

The Group adopts a policy of ensuring that between 40% and 60% of its exposure to changes in interest rates on borrowings is on a fixed-rate basis. This is achieved by entering into interest rate swaps.

(iii) Other market price risk

Equity price risk arises from available-for-sale equity securities held for meeting partially the unfunded portion of the Group's defined benefit pension obligations. Management of the Group monitors the mix of debt and equity securities in its investment portfolio based on market indices. Material investments within the portfolio are managed on an individual basis and all buy and sell decisions are approved by the Board of Directors.

## (5) Capital management

The Board of Directors' policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. To maintain or adjust the capital base, the Group returns capital to shareholder and sells out assets to reduce the liabilities.

Also, the Group manages the capital balance to suffice the related regulation, "Korean Railroad Law 11 (Issuance of bonds)," which states that bonds may not exceed twice the sum of capital and reserves. Also the Group aims to maintain the credit rating of AAA.

The Group's capital management strategy is maintained similarly to prior period and the credit rating is maintained AAA at the end of 2016.

The Company's debt-to-adjusted capital ratio at the end of the reporting period was as follows:

<i>(In thousands of Korean won, except equity ratio)</i>		December 31, 2016	December 31, 2015
Bond issued	₩	11,232,979,700	10,905,761,200
Equity capital and reserves		4,667,679,816	4,661,199,136
Net debt-to-adjusted equity ratio on December 31		240.70%	234.00%

## 6. BUSINESS UNITS:

The Group has nine business units, as described below, which are the Group's strategic business units. The strategic business units offer different products and services, and are managed separately because they require different technology and marketing strategies. For each of the strategic business units, the Group's CEO reviews internal management reports on at least a quarterly basis. The following summary describes the operations in each of the Group's business units:

(1) The Group's business units are summarized as follows:

Business units	Primary business
Korea Railroad Corporation	Railroad transportation
KORAIL Retail Co., Ltd.	Retail business
KORAIL Logis Co., Ltd.	Railroad transportation
KORAIL Networks Co., Ltd.	Service industry
KORAIL Tourism Development Co., Ltd.	Service industry
KORAIL Tech Co., Ltd.	Railway track specialized construction
SR Co., Ltd.	Railroad transportation
Korean Insurance Brokerage Co., Ltd.	Insurance brokerage

(2) The Group's business units' information on revenue and profit for the years ended December 31, 2016 and 2015, is as follows:

*(In thousands of Korean won)*

		2016				Depreciation and amortization expenses
		Total revenue	Interunit revenue	External revenue	Operating profit (loss)	
Korea Railroad Corporation	₩	5,365,131,839	109,820,323	5,255,311,516	153,929,967	481,504,890
KORAIL Retail Co., Ltd.		270,541,630	1,411,549	269,130,081	8,205,849	6,778,276
KORAIL Networks Co., Ltd.		81,339,525	35,853,442	45,486,083	5,308,234	1,182,176
KORAIL Logis Co., Ltd.		50,709,345	7,192,008	43,517,337	305,996	512,592
KORAIL Tech Co., Ltd.		60,326,427	29,256,177	31,070,250	(3,353,376)	509,351
KORAIL Tourism Development Co., Ltd.		47,243,372	29,367,018	17,876,354	884,497	221,906
SR Co., Ltd.	-	30,156,577	11,141	30,145,436	(41,655,909)	7,926,195
Korean Insurance Brokerage Co., Ltd.		1,105,897	-	1,105,897	412,059	8,853
Total	₩	5,906,554,612	212,911,658	5,693,642,954	124,037,317	498,644,239

(In thousands of Korean won)

(In thousands of Korean won)

	2015				
	Total revenue	Interunit revenue	External revenue	Operating profit (loss)	Depreciation and amortization expenses
Korea Railroad Corporation	₩ 5,220,739,033	97,005,348	5,123,733,685	114,397,573	447,053,732
KORAIL Retail Co., Ltd.	247,025,757	285,562	246,740,195	7,879,298	5,614,644
KORAIL Networks Co., Ltd.	83,556,917	35,930,577	47,626,340	5,088,714	1,121,533
KORAIL Logis Co., Ltd.	52,041,798	8,235,171	43,806,627	(212,185)	625,255
KORAIL Tech Co., Ltd.	38,098,844	26,436,764	11,662,080	726,238	318,649
KORAIL Tourism Development Co., Ltd.	69,539,002	28,445,369	41,093,633	554,882	860,106
SR Co., Ltd.	-	-	-	(13,832,563)	293,742
Korean Insurance Brokerage Co., Ltd.	1,368,729	-	1,368,729	549,490	9,343
Airport Railroad Co., Ltd.	157,045,379	658,223	156,387,155	89,492,614	2,003,322
Total	₩ 5,869,415,459	196,997,014	5,672,418,444	204,644,061	457,900,326

As explained in Note 51, the revenue and profit of Airport Railroad Co., Ltd. are classified as income from discontinued operation.

(3) Assets and liabilities of the Group's business units as of December 31, 2016 and 2015, are as follows:

		December 31, 2016			
		Business units assets	Investment asset in associates	Acquisitions of non-current assets	Business units liabilities
(In thousands of Korean won)					
Korea Railroad Corporation	₩	17,940,529,654	178,269,323	707,213,307	13,272,849,837
KORAIL Retail Co., Ltd.		297,354,889	20,643,284	29,762,055	142,401,366
KORAIL Networks Co., Ltd.		40,371,165	1,178,649	3,358,897	13,933,342
KORAIL Logis Co., Ltd.		13,193,466	-	39,852	12,628,225
KORAIL Tourism Development Co., Ltd.		17,195,879	-	1,669,492	8,377,574
KORAIL Tech Co., Ltd.		22,043,430	-	783,064	5,691,331
SR Co., Ltd.		409,505,266	-	273,824,145	209,999,502
Korean Insurance Brokerage Co., Ltd.		1,911,093	-	-	218,778
Total	₩	18,742,104,842	200,091,256	1,016,650,812	13,666,099,955

		December 31, 2015			
		Business units assets	Investment asset in associates	Acquisitions of non-current assets	Business units liabilities
(In thousands of Korean won)					
Korea Railroad Corporation	₩	17,869,032,878	178,269,323	841,672,508	13,207,833,742
KORAIL Retail Co., Ltd.		228,416,964	18,467,246	52,747,974	117,316,463
KORAIL Networks Co., Ltd.		36,923,078	1	431,022	13,896,717
KORAIL Logis Co., Ltd.		15,137,454	-	30,924	14,619,350
KORAIL Tourism Development Co., Ltd.		19,772,207	-	3,719,693	6,661,775
KORAIL Tech Co., Ltd.		18,928,153	-	327,118	2,775,785
SR Co., Ltd.		155,749,204	-	40,964,201	10,338,076
Korean Insurance Brokerage Co., Ltd.		1,810,903	-	-	225,550
Total	₩	18,345,770,841	196,736,570	939,893,440	13,373,667,458

(4) External revenues by geographical regions for the years ended December 31, 2016 and 2015, and non-current assets by geographical regions as of December 31, 2016 and 2015, are summarized as follows:

	External revenues		Non-current assets	
	2016	2015	December 31, 2016	December 31, 2015
<i>(In thousands of Korean won)</i>				
Domestic	₩ 5,690,896,161	5,510,080,273	17,416,806,361	17,245,968,168
Overseas	2,746,793	5,951,016	-	-
Total	₩ 5,693,642,954	5,516,031,289	17,416,806,361	17,245,968,168

## 7. CASH AND CASH EQUIVALENTS RESTRICTED IN USE AND COLLATERALIZED FINANCIAL ASSETS:

Cash and cash equivalents that are restricted in use and financial assets that are held as collateral for liabilities or contingencies as of December 31, 2016 and 2015, are summarized as follows:

<i>(In thousands of Korean won)</i>		Type	Dec. 31, 2016	Dec. 31, 2015
Cash and cash equivalents	Railroad membership deposits	₩	8,976,422	8,935,656
Short-term financial instruments	Pledged assets		284,036	-
Long-term financial instruments	Pledged assets		18,754	18,755
Others	Guaranty fulfillment		500,000	-
Total		₩	9,779,212	8,954,411

## 8. CASH AND CASH EQUIVALENTS:

Cash and cash equivalents in the consolidated statements of cash flows include cash and cash equivalents as of December 31, 2016 and 2015, before deducting government grants, which are summarized as follows:

<i>(In thousands of Korean won)</i>		Dec. 31, 2016	Dec. 31, 2015
Cash	₩	13,846,415	14,801,383
Cash equivalents		536,328,966	455,209,221
Government subsidies		(68,713,017)	(116,190,367)
Fund for trustee business from government		(107,369,778)	(145,211,417)
Total	₩	374,092,586	208,608,820

## 9. DERIVATIVES:

(1) Derivative instruments outstanding as of December 31, 2016 and 2015, are as follows:

<i>(In thousands of Korean won)</i>		Dec. 31, 2016		Dec. 31, 2015	
		Current	Non-current	Current	Non-current
Derivative instrument assets:					
Currency swap	₩	44,554,993	22,248,201	10,597,473	51,986,225
Total	₩	44,554,993	22,248,201	10,597,473	51,986,225
Derivative instrument liabilities:					
Currency swap	₩	-	4,352,442	-	6,790,303
Interest swap		-	-	1,491,143	-
Total	₩	-	4,352,442	1,491,143	6,790,303

(2) Details of currency swap outstanding as of December 31, 2016, are summarized as follows:

(In thousands of Korean won and USD)	Financial institutions	Contract term		Contractual amount		Contractual interest rate		Contractu al exchange rate	Valuation amount
				Selling price	Purchasing price	Selling interest rate	Purchasing interest rate		
Cash flow hedge	CREDIT AGRICOLE	2014.02.14- 2017.02.28	USD	106,300,000	100,000,000	2.61%	3M Libor+0.70 %	1,063.00	14,248,007
	Standard Chartered Korea	2014.02.14- 2017.02.28	USD	53,150,000	50,000,000	2.61%	3M Libor+0.70 %	1,063.00	7,165,203
	Standard Chartered Korea	2014.05.29- 2018.11.16	CHF	57,589,000	50,000,000	2.98%	CHF 1.01%	1,151.78	1,716,270
	SG	2014.05.29- 2018.11.16	CHF	57,589,000	50,000,000	2.98%	CHF 1.01%	1,151.78	1,719,087
	BNP	2014.01.03- 2019.12.02	CHF	117,300,000	100,000,000	3.64%	CHF 1.51%	1,173.00	1,213,020
	CREDIT AGRICOLE	2014.09.19- 2017.09.18	USD	104,000,000	100,000,000	2.38%	3M Libor+0.55 %	1,040.00	15,996,114
	Standard Chartered Korea	2014.01.03- 2019.12.02	CHF	134,895,000	115,000,000	3.64%	CHF 1.51%	1,173.00	1,572,505
	BNP	2014.02.14- 2017.02.28	USD	53,150,000	50,000,000	2.61%	3M LIBOR+0.7 0%	1,063.00	7,145,669
	BNP	2014.05.29- 2018.11.16	CHF	172,767,000	150,000,000	2.98%	CHF 1.01%	1,151.78	5,153,769
	SG	2014.01.03- 2019.12.02	CHF	117,300,000	100,000,000	3.64%	CHF 1.51%	1,173.00	1,392,314
	HSBC	2016.12.20- 2019.06.18	USD	233,400,000	200,000,000	1.81%	3M Libor+0.70 %	1,167.00	7,480,945
	DBS	2014.09.04- 2018.09.04	SGD	52,845,000	65,000,000	2.55%	SGD 1.76%	813.00	102,521
	HSBC	2014.11.13- 2018.08.13	AUD	51,700,000	55,000,000	2.28%	AUD 3M BBSW+0.85 %	940.00	(4,352,442)
	CREDIT AGRICOLE	2014.05.29- 2018.11.16	CHF	57,589,000	50,000,000	2.98%	CHF 1.01%	1151.78	1,897,770
	Total			1,369,574,000	1,235,000,000			W	62,450,752

(3) Derivative transaction gain (loss) for the years ended December 31, 2016 and 2015, are as follows:

(In thousands of Korean won)		Gains and losses from valuation		Gains and losses from transactions		Other comprehensive income	
		2016	2015	2016	2015	2016	2015
Currency swap	₩	18,218,500	79,118,050	(11,000,000)	(1,960,000)	(561,143)	20,250,320
Interest swap		-	-	-	-	1,491,143	1,015,930
Total	₩	18,218,500	79,118,050	(11,000,000)	(1,960,000)	930,000	21,266,250

Losses from valuation of derivatives of ₩(-)954,948 thousand recognized in other comprehensive income for the year ended December 31, 2016, are net of tax amount, which are directly recognized in equity.

## 10. TRADE RECEIVABLES AND OTHER RECEIVABLES:

(1) Trade receivables and accounts receivable as of December 31, 2016 and 2015, are detailed as follows:

December 31, 2016					
(In thousands of Korean won)		Receivables	Allowance for impairment	Present value of discount	Carrying amounts
<u>Current assets</u>					
Trade receivables	₩	332,505,985	(18,422,734)	-	314,083,251
Other receivables		52,064,241	(8,286,831)	-	43,777,410
Subtotal		384,570,226	(26,709,565)	-	357,860,661
<u>Non-current assets</u>					
Other receivables		541,416,113	-	(384,622)	541,031,491
Total	₩	925,986,339	(26,709,565)	(384,622)	898,892,152

December 31, 2015					
(In thousands of Korean won)		Receivables	Allowance for impairment	Present value of discount	Carrying amounts
<u>Current assets</u>					
Trade receivables	₩	405,816,738	(8,016,195)	-	397,800,543
Other receivables		52,514,507	(1,620,146)	-	50,894,361
Subtotal		458,331,245	(9,636,341)	-	448,694,904
<u>Non-current assets</u>					
Other receivables		566,419,492	-	(360,340)	566,059,152
Total	₩	1,024,750,737	(9,636,341)	(360,340)	1,014,754,056

(2) Other receivables as of December 31, 2016 and 2015, are detailed as follows:

December 31, 2016					
(In thousands of Korean won)		Receivables	Allowance for impairment	Present value of discount	Carrying amounts
<u>Current assets</u>					
Other receivables	₩	51,986,254	(8,286,831)	-	43,699,423
Accrued revenue		77,987	-	-	77,987
Subtotal		52,064,241	(8,286,831)	-	43,777,410
<u>Non-current assets</u>					
Other receivables		506,269,164	-	-	506,269,164
Deposits provided		35,146,949	-	(384,622)	34,762,327
Subtotal		541,416,113	-	(384,622)	541,031,491
Total	₩	593,480,354	(8,286,831)	(384,622)	584,808,901

December 31, 2015				
(In thousands of Korean won)	Receivables	Allowance for impairment	Present value of discount	Carrying amounts
<b>Current assets</b>				
Other receivables	₩ 52,456,460	(1,620,146)	-	50,836,314
Accrued revenue	58,047	-	-	58,047
Subtotal	52,514,507	(1,620,146)	-	50,894,361
<b>Non-current assets</b>				
Other receivables	532,551,692	-	-	532,551,692
Deposits provided	33,867,800	-	(360,340)	33,507,460
Subtotal	566,419,492	-	(360,340)	566,059,152
Total	₩ 618,933,999	(1,620,146)	(360,340)	616,953,513

### (3) Credit risk and allowance for impairment

Trade receivables and other receivables presented above are categorized into loans and receivables and measured at amortized cost.

Average credit term given to customers for sales is 30 days. The Group records the allowance for impairment for 100% of outstanding receivables for more than 732 days. The Group establishes the allowance for outstanding receivables for more than 30 days, but less than 732 days based on historical data and current financial status of the customers.

The Group establishes a specific loss for individually significant receivables with balances more than ₩1 billion based on considering each customer's credit ratings, late payment history, bankruptcy, insolvency and other information. For all other receivables, the Group establishes the allowance for impairment based on historical data of late payment. However, the Group does not establish the allowance for receivables from federal government or local government.

Details on individual analysis	Rate of allowance for impairment
Receivables with no collection right due to customers' bankruptcy, insolvency, death or disappearance	100%
Customers' impaired capital or under administrative procedure	
Receivables for which collection is requested to collection agency	
Receivables under dispute or litigations	50%
Customer's abilities to repay the debt significantly impaired	
30 days	1%
31 days–90 days	10%
90 days–180 days	15%
180 days–365 days	25%
365 days–732 days	50%
732 days or more	100%
AAA+–A	-
BBB+–B	0.10%
CCC+–C	0.50%
C and below (including no credit rating available)	1%

(4) Aging analysis of trade receivables and other receivables as of December 31, 2016 and 2015, is detailed as follows:

		<b>Trade receivables</b>	
		<b>December 31, 2016</b>	<b>December 31, 2015</b>
<i>(In thousands of Korean won)</i>			
Current and not impaired	₩	249,985,823	302,378,992
Overdue, but not impaired		-	-
Current reviewed for impairment		73,556,308	103,437,746
- Not overdue		8,963,854	9,900,137
- 30 days–90 days		9,427,015	7,253,275
- 90 days–120 days		342,782	235,344
- 120 days or more		63,786,511	86,048,990
Subtotal		332,505,985	405,816,738
Allowance for impairment		(18,422,734)	(8,016,195)
Total	₩	314,083,251	397,800,543

		<b>Other receivables</b>	
		<b>December 31, 2016</b>	<b>December 31, 2015</b>
<i>(In thousands of Korean won)</i>			
Current and not impaired	₩	579,183,920	612,078,929
Overdue, but not impaired			
Current reviewed for impairment		9,883,048	6,855,070
- Not overdue		4,413,386	1,642,892
- 30 days–90 days		72,272	203,508
- 90 days–120 days		14,414	133,399
- 120 days or more		9,796,362	4,875,271
Subtotal		593,480,354	618,933,999
Allowance for impairment		(8,286,831)	(1,620,146)
Present value of discount		(384,622)	(360,340)
Total	₩	584,808,901	616,953,513

(5) Changes in allowance for impairment of trade receivables and other receivables during the years ended December 31, 2016 and 2015, are as follows:

		<b>2016</b>		<b>2015</b>	
		<b>Trade receivables</b>	<b>Other receivables</b>	<b>Trade receivables</b>	<b>Other receivables</b>
<i>(In thousands of Korean won)</i>					
Beginning balance	₩	8,016,195	1,620,146	6,987,816	1,366,948
Impairment loss recognized		11,437,040	6,801,624	2,026,952	707,444
Write-offs		(1,030,501)	(133,832)	(973,269)	(453,455)
Reversal of allowance		-	(1,107)	(25,304)	(791)
Ending balance	₩	18,422,734	8,286,831	8,016,195	1,620,146



## 11. AVAILABLE-FOR-SALE FINANCIAL ASSETS:

(1) Available-for-sale financial assets as of December 31, 2016 and 2015, are summarized as follows:

		December 31, 2016		December 31, 2015	
<i>(In thousands of Korean won)</i>		Current	Non-current	Current	Non-current
Equity instruments:					
Marketable securities	₩	-	8,109	-	4,483
Non-marketable securities		-	38,008,539	-	34,301,102
Subtotal		-	38,016,648	-	34,305,585
Debt instruments:					
Government bonds		-	-	-	-
Subtotal		-	-	-	-
Total	₩	-	38,016,648	-	34,305,585

## 12. LOANS:

Loans as of December 31, 2016 and 2015, are summarized as follows:

		December 31, 2016		
<i>(In thousands of Korean won)</i>		Face Value	Discounted Present Value	Carrying amount
Tuition loans(*1)	₩	50,255,393	(8,117,379)	42,138,014
Others(*2)		113,562	-	113,562
Total	₩	50,368,955	(8,117,379)	42,251,576

		December 31, 2015		
<i>(In thousands of Korean won)</i>		Face Value	Discounted Present Value	Carrying amount
Tuition loans(*1)	₩	54,190,511	(8,818,218)	45,372,293
Others(*2)		208,376	-	208,376
Total	₩	54,398,887	(8,818,218)	45,580,669

(\*1) The Group provides loans to employees for the purpose of financial aid for children. Repayment of loans is made through a monthly payroll deduction.

(\*2) The Group recognizes four major insurance payments made on behalf of employees laid off as other loans.

## 13. FINANCIAL INSTRUMENTS:

Financial instruments as of December 31, 2016 and 2015, are summarized as follows:

		December 31, 2016		December 31, 2015	
<i>(In thousands of Korean won)</i>		Current	Non-Current	Current	Non-Current
Periodical installment savings	₩	12,750,000	18,755	31,650,000	18,755
MMF, MMDA and others		4,091,649	-	926,051	-
Total	₩	16,841,649	18,755	32,576,051	18,755

#### 14. INVENTORIES:

Inventories as of December 31, 2016 and 2015, are detailed as follows:

		December 31, 2016			
		Acquisition cost	Government grants	Provision for loss on valuation	Carrying amount
<i>(In thousands of Korean won)</i>					
Raw materials	₩	2,391,782	-	(39,260)	2,352,522
Merchandises		8,859,252	-	-	8,859,252
Supplies		261,122,933	(56,344,234)	(457,605)	204,321,094
Inventory in transit		15,299,454	-	-	15,299,454
Work in progress		954,872	-	-	954,872
Total	₩	288,628,293	(56,344,234)	(496,865)	231,787,194

		December 31, 2015			
		Acquisition cost	Government grants	Provision for loss on valuation	Carrying amount
<i>(In thousands of Korean won)</i>					
Raw materials	₩	722,613	-	(58,646)	663,967
Merchandises		10,977,313	-	-	10,977,313
Supplies		221,289,327	(54,351,104)	(457,605)	166,480,618
Inventory in transit		16,994,126	-	-	16,994,126
Work in progress		3,788,146	-	-	3,788,146
Total	₩	253,771,525	(54,351,104)	(516,251)	198,904,170

#### 15. NON-FINANCIAL ASSETS:

(1) Non-financial assets as of December 31, 2016 and 2015, are detailed as follows:

		December 31, 2016		December 31, 2015	
		Current	Non-current	Current	Non-current
<i>(In thousands of Korean won)</i>					
Prepayments	₩	20,961,317	-	14,047,929	-
Government grants		(5,140,300)	-	(3,809,413)	-
Allowance for bad debts		(91,369)	-	(70,583)	-
Prepaid expense		7,783,363	8,669,969	7,717,478	9,357,731
Other non-financial assets		21,842,953	23,344	19,142,741	23,344
Total	₩	45,355,964	8,693,313	37,028,152	9,381,075

(2) Other non-financial assets as of December 31, 2016 and 2015, are as follows:

		December 31, 2016		December 31, 2015	
		Current	Non-current	Current	Non-current
<i>(In thousands of Korean won)</i>					
Deposits	₩	14,854,309	23,344	15,990,984	23,344
Non-financial assets - others		6,988,644	-	3,151,757	-
Total	₩	21,849,953	23,344	19,142,741	23,344

## 16. INVESTMENTS IN ASSOCIATES:

(1) Associates as of December 31, 2016 and 2015, are detailed as follows:

(In thousands of Korean won)	Primary business	Location	December 31, 2016		
			Ownership (%)	Acquisition cost	Carrying amount
Uiwang ICD Co., Ltd.	Construction and operation of container depot	Republic of Korea	25.00%	₩ 1,765,000	1,871,137
Dream Hub Project Financial Investment Co., Ltd.	Developing, trading and leasing of real estate	Republic of Korea	25.00%	250,000,000	-
Yong San Station Around Development Co., Ltd.	Asset management	Republic of Korea	29.90%	897,000	-
Sinchon Station Building Co., Ltd.	Development and operation of privatized station's sphere of influence	Republic of Korea	33.33%	1,700,000	-
Lotte Station Building Co., Ltd.	Development and operation of privatized station's sphere of influence	Republic of Korea	31.67%	84,338,340	156,915,079
Bupyeong Department Store Co., Ltd.	Development and operation of privatized station's sphere of influence	Republic of Korea	25.00%	682,300	1,325,625
Changdong Station Building Co., Ltd.	Development and operation of privatized station's sphere of influence	Republic of Korea	31.67%	1,520,000	-
Anyang Station Building Co., Ltd.	Development and operation of privatized station's sphere of influence	Republic of Korea	26.08%	699,962	2,852,826
Donginchon Shopping Center Co., Ltd.	Development and operation of privatized station's sphere of influence	Republic of Korea	21.28%	798,000	-
Bucheon Station Building Co., Ltd.	Development and operation of privatized station's sphere of influence	Republic of Korea	25.00%	6,833,050	6,701,267
Hanwha Station Development Co., Ltd.	Development and operation of privatized station's sphere of influence	Republic of Korea	32.04%	12,953,517	40,252,220
Noryangjin Station Building Co., Ltd.	Development and operation of privatized station's sphere of influence	Republic of Korea	27.00%	540,000	-
Shinsegae Uijeongbu Station Building Co., Ltd.	Development and operation of privatized station's sphere of influence	Republic of Korea	27.55%	1,102,000	-
Seongbuk Station Building Co., Ltd.	Development and operation of privatized station's sphere of influence	Republic of Korea	30.00%	600,000	-
Ansan Central Station Building Co., Ltd.	Development and operation of privatized station's sphere of influence	Republic of Korea	25.00%	500,000	14,723
Bitplex Co., Ltd.	Development and operation of privatized station's sphere of influence	Republic of Korea	28.74%	4,862,340	-
Total			₩	<u>369,791,509</u>	<u>209,932,877</u>

(In thousands of Korean won)	Primary business	Location	December 31, 2015		
			Ownership (%)	Acquisition cost	Carrying amount
Uiwang ICD Co., Ltd.	Construction and operation of container depot	Republic of Korea	25.00%	₩ 1,765,000	1,799,303
Dream Hub Project Financial Investment Co., Ltd.	Developing, trading and leasing of real estate	Republic of Korea	25.00%	250,000,000	-
Yong San Station Around Development Co., Ltd.	Asset management	Republic of Korea	29.90%	897,000	-
Sinchon Station Building Co., Ltd.	Development and operation of privatized station's sphere of influence	Republic of Korea	33.33%	1,700,000	-
Lotte Station Building Co., Ltd.	Development and operation of privatized station's sphere of influence	Republic of Korea	31.67%	84,338,340	154,184,236
Bupyeong Department Store Co., Ltd.	Development and operation of privatized station's sphere of influence	Republic of Korea	25.00%	682,300	906,643
Changdong Station Building Co., Ltd.	Development and operation of privatized station's sphere of influence	Republic of Korea	31.67%	1,520,000	-
Anyang Station Building Co., Ltd.	Development and operation of privatized station's sphere of influence	Republic of Korea	26.08%	699,962	2,678,447
Dongincheon Shopping Center Co., Ltd.	Development and operation of privatized station's sphere of influence	Republic of Korea	21.28%	798,000	-
Bucheon Station Building Co., Ltd.	Development and operation of privatized station's sphere of influence	Republic of Korea	25.00%	6,833,050	7,380,957
Hanwha Station Development Co., Ltd.	Development and operation of privatized station's sphere of influence	Republic of Korea	32.04%	12,953,517	37,737,892
Noryangjin Station Building Co., Ltd.	Development and operation of privatized station's sphere of influence	Republic of Korea	27.00%	540,000	-
Shinsegae Uijeongbu Station Building Co., Ltd.	Development and operation of privatized station's sphere of influence	Republic of Korea	27.55%	1,102,000	-
Seongsbuk Station Building Co., Ltd.	Development and operation of privatized station's sphere of influence	Republic of Korea	30.00%	600,000	-
Ansan Central Station Building Co., Ltd.	Development and operation of privatized station's sphere of influence	Republic of Korea	25.00%	500,000	71,336
Bitplex Co., Ltd.	Development and operation of privatized station's sphere of influence	Republic of Korea	23.78%	4,862,340	478,939
Total			₩	<u>369,791,509</u>	<u>205,237,753</u>

(2) Financial information of significant associates as of December 31, 2016 and 2015, is as follows:

(In thousands of Korean won)		<b>Lotte Station Building Co., Ltd.</b>		<b>Hanwha Station Development Co., Ltd.</b>	
		<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
Current assets	₩	237,319,968	277,785,204	7,990,032	6,528,896
Non-current assets		503,325,152	450,437,532	426,815,531	437,985,349
Current liabilities		235,456,909	232,636,368	65,051,864	57,317,348
Non-current liabilities		9,666,868	8,688,779	244,134,162	269,424,245
Revenue		582,892,426	612,650,790	65,421,500	62,553,210
Profit for the year		34,828,921	42,184,892	14,612,728	14,560,047
Total comprehensive profit for the year		38,116,324	46,705,025	14,396,957	14,643,671
Dividend received		9,350,984	17,223,192	2,098,822	1,469,189

(3) Details of adjustments made for book value of associates as of December 31, 2016, are as follows:

(In thousands of Korean won)		<b>Net assets</b>	<b>Percentage of ownership</b>	<b>Share of interests in net assets</b>	<b>Book value</b>
Uiwang ICD Co., Ltd.	₩	7,484,548	25.00%	₩ 1,871,137	1,871,137
Lotte Station Building Co., Ltd.		495,521,342	31.67%	156,915,092	156,915,079
Bupyeong Department Store Co., Ltd.		5,302,241	25.00%	1,325,560	1,325,625
Anyang Station Building Co., Ltd.		10,940,847	26.08%	2,853,373	2,852,826
Bucheon Station Building Co., Ltd.		26,805,066	25.00%	6,701,267	6,701,267
Hanwha Station Development Co., Ltd.		125,619,537	32.04%	40,252,317	40,252,220
Ansan Central Station Building Co., Ltd.		58,891	25.00%	14,723	14,723
Bitplex Co., Ltd.		-	23.78%	-	-

(4) Book value of non-significant associates and joint arrangements is as follows:

(In thousands of Korean won)		<b>Others</b>
Book value	₩	12,765,578
Profit attributable to associates and joint ventures:		
Profit from continuing operations		2,607,712
Total comprehensive income for the year		2,607,712

(5) Changes in investments in associates for the years ended December 31, 2016 and 2015, were as follows:

(In thousands of Korean won)

(In thousands of Korean won)		2016							
		Book value as of				Share of	Change in equity method	Other increase	Book value as of
		Jan. 1, 2016	Acquisitions	Disposals	Dividend	profits	investments	(decrease)	Dec. 31, 2016
Uiwang ICD Co., Ltd.	₩	1,799,303	-	-	-	77,525	-	(5,691)	1,871,137
Lotte Station Building Co., Ltd.		154,184,224	-	-	(9,350,984)	11,029,159	1,041,011	11,669	156,915,079
Bupyeong Department Store Co., Ltd.		906,707	-	-	-	479,593	31,482	(92,157)	1,325,625
Anyang Station Building Co., Ltd.		2,678,447	-	-	(78,225)	253,269	-	(665)	2,852,826
Bucheon Station Building Co., Ltd.		7,380,957	-	-	(2,500,000)	1,845,525	-	(25,215)	6,701,267
Hanwha Station Development Co., Ltd.		37,737,840	-	-	(2,098,822)	4,682,362	-	(69,160)	40,252,220
Ansan Central Station Building Co., Ltd.		71,336	-	-	-	(48,199)	-	(8,414)	14,723
Bitplex Co., Ltd.		478,939			-	(478,939)	-	-	-
Total	₩	205,237,753	-	-	(14,028,031)	17,840,295	1,072,493	(189,633)	209,932,877

(In thousands of Korean won)

(In thousands of Korean won)		2015							
		Book value as of Jan. 1, 2015	Acquisitions	Disposals	Dividend	Share of profits	Change in equity method investments	Other increase (decrease)	Book value as of Dec. 31, 2015
Uiwang ICD Co., Ltd.	₩	1,689,284	-	-	-	144,238	-	(34,219)	1,799,303
Lotte Station Building Co., Ltd.		156,617,886	-	-	(17,223,192)	13,358,549	1,431,375	(394)	154,184,224
Bupyeong Department Store Co., Ltd.		710,252	-	-	-	334,587	(1,974)	(136,158)	906,707
Anyang Station Building Co., Ltd.		2,746,469	-	-	(78,225)	92,769	-	(82,566)	2,678,447
Bucheon Station Building Co., Ltd.		7,439,261	-	-	(2,500,000)	1,802,719	-	638,977	7,380,957
Hanwha Station Development Co., Ltd.		34,514,516	-	-	(1,469,189)	4,665,482	-	27,031	37,737,840
Ansan Central Station Building Co., Ltd.		71,336	-	-	-	-	-	-	71,336
Bitplex Co., Ltd.		-	-	-	-	478,939	-	-	478,939
Total	₩	203,789,004	-	-	(21,270,606)	20,877,283	1,429,401	412,671	205,237,753

(6) Details of unrecognized equity losses for the year ended December 31, 2016, and accumulated unrecognized equity losses due to discontinuance of equity method application are as follows:

<i>(In thousands of Korean won)</i>	<b>Unrecognized equity losses for the year ended</b>	<b>Unrecognized equity losses accumulated</b>
Dongincheon Shopping Center Co., Ltd.	₩ (272,322)	(8,385,457)
Seongbuk Station Building Co., Ltd.	(211,947)	(2,250,072)
Shinsegae Uijeongbu Station Building Co., Ltd.	(274,599)	(4,534,322)
Sinchon Station Building Co., Ltd.	(1,248,439)	(8,116,572)

## 17. **PROPERTY, TRAINS AND EQUIPMENT:**

(1) Details of property, trains and equipment as of December 31, 2016 and 2015, are as follows:

<b>December 31, 2016</b>					
<i>(In thousands of Korean won)</i>	<b>Acquisition cost</b>	<b>Government grants</b>	<b>Accumulated depreciation</b>	<b>Accumulated Impairment losses</b>	<b>Book value</b>
Land(*)	₩ 8,778,257,843	(6,598,459)	-	-	8,771,659,384
Buildings(*)	1,974,106,355	(104,178,832)	(406,126,120)	-	1,463,801,403
Structures	289,248,288	(8,417,758)	(106,352,408)	(728,111)	173,750,011
Machinery	1,128,342,610	(85,801,076)	(652,767,724)	-	389,773,810
Servers	7,731,279	-	(361,870)	-	7,369,409
Trains	7,861,661,276	(365,064,401)	(2,285,392,428)	-	5,211,204,447
Vehicles	49,844,590	(256,598)	(37,991,923)	-	11,596,069
Furniture and fixtures	16,835,945	(2,209)	(13,398,231)	-	3,435,505
Tools	121,623,909	(36,543)	(98,099,850)	-	23,487,516
Construction in progress	221,896,907	(12,284,510)	-	-	209,612,397
Financial lease assets	1,717,071	-	(1,717,064)	-	7
Other tangible assets	31,330,931	-	(898,366)	-	30,432,565
<b>Total</b>	<b>₩ 20,482,597,004</b>	<b>(582,640,386)</b>	<b>(3,603,105,984)</b>	<b>(728,111)</b>	<b>16,296,122,523</b>

<b>December 31, 2015</b>				
<i>(In thousands of Korean won)</i>	<b>Acquisition cost</b>	<b>Government grants</b>	<b>Accumulated depreciation</b>	<b>Book value</b>
Land(*)	₩ 8,635,956,834	(6,526,056)	-	8,629,430,778
Buildings(*)	1,877,158,346	(81,118,815)	(363,334,667)	1,432,704,864
Structures	293,504,703	(6,747,135)	(99,989,702)	186,767,866
Machinery	1,065,761,003	(98,807,082)	(588,153,712)	378,800,209
Trains	7,152,462,640	(364,110,309)	(1,906,667,156)	4,881,685,175
Vehicles	50,100,647	(416,098)	(36,232,029)	13,452,520
Furniture and fixtures	16,686,792	(2,856)	(12,770,053)	3,913,883
Tools	112,133,213	(107,435)	(91,962,464)	20,063,314
Construction in progress	396,500,752	(14,441,312)	-	382,059,440
Financial lease assets	1,717,071	-	(1,717,064)	7
Other tangible assets	29,880,722	-	(837,651)	29,043,071
<b>Total</b>	<b>₩ 19,631,862,723</b>	<b>(572,277,098)</b>	<b>(3,101,664,498)</b>	<b>15,957,921,127</b>

(\*) Some land and buildings of the Group are being provided as collateral for the Group's borrowings.

(2) Changes in property, trains and equipment for the years ended December 31, 2016 and 2015, are as follows:

(In thousands of  
Korean won)

		2016						Book value as of December 31, 2016
		Book value as of January 1, 2016	Acquisitions	Disposals	Depreciation	Other(*)	Government grants	
Land	₩	8,629,430,778	2,473,520	(6,888,223)	-	-	146,643,310	8,771,659,385
Buildings		1,432,704,864	(13,762,301)	(1,055,506)	(57,628,159)	-	103,542,505	1,463,801,403
Structures		186,767,867	4,435,778	(2,211,921)	(10,748,922)	(728,111)	(3,764,679)	173,750,012
Machinery		378,800,209	26,595,384	(1,032,941)	(53,591,097)	-	39,002,255	389,773,810
Servers		-	2,067,991	-	(361,870)	-	5,663,288	7,369,409
Trains		4,881,685,174	240,480,696	(2,684,848)	(353,865,364)	-	445,588,788	5,211,204,446
Vehicles		13,452,520	3,465,691	(38,817)	(3,034,475)	-	(2,248,851)	11,596,068
Furniture and fixtures		3,913,883	8,735,951	(45,636)	(9,074,948)	-	(93,745)	3,435,505
Tools		20,063,314	110,579	(6,852)	(67,903)	-	3,388,378	23,487,516
Construction in progress		382,059,440	578,051,651	-	-	-	(750,498,694)	209,612,397
Financial lease assets		7	-	-	-	-	-	7
Other tangible assets		29,043,070	1,481,365	(197,311)	(267,159)	-	372,600	30,432,565
Total	₩	15,957,921,126	854,136,305	(14,162,055)	(488,639,897)	(728,111)	(12,404,845)	16,296,122,523

(In thousands of  
Korean won)

		2015						Book value as of December 31, 2015
		Book value as of January 1, 2015	Acquisitions	Disposals	Depreciation	Other(*)	Government grants	
Land	₩	8,534,991,282	3,990,217	-	-	90,449,279	-	8,629,430,778
Buildings		1,453,286,090	3,239,074	(1,571,945)	(42,813,672)	26,201,814	(5,636,497)	1,432,704,864
Structures		191,016,841	6,463,257	(2,943,135)	(11,728,957)	4,675,629	(715,769)	186,767,866
Machinery		424,618,432	14,666,764	(1,439,308)	(64,699,452)	15,370,847	(9,717,074)	378,800,209
Trains		4,427,731,352	7,596,011	(3,809,757)	(356,260,332)	806,467,858	(39,957)	4,881,685,175
Vehicles		12,686,018	4,649,290	(544,393)	(3,236,023)	(298,113)	195,741	13,452,520
Furniture and fixtures		5,397,112	1,045,515	(117,943)	(2,018,228)	(389,717)	(2,856)	3,913,883
Tools		18,158,504	7,491,836	(45,741)	(6,135,715)	508,482	85,948	20,063,314
Construction in progress		182,629,393	936,950,112	-	-	(731,620,485)	(5,899,580)	382,059,440
Financial lease assets		7	-	-	-	-	-	7
Other tangible assets		28,715,914	444,389	(8,443)	(212,469)	103,680	-	29,043,071
Total	₩	15,279,230,945	986,536,465	(10,480,665)	(487,104,848)	211,469,274	(21,730,044)	15,957,921,127

(\*) Other increase (decrease) relates to reclassification of assets under construction, payment in kind and assets contribution.

### (3) Change of accounting policy

The Group changed its accounting policy for land from the cost model to the revaluation model. The Group believes that the book value of Yongsan station area that the Group has reclaimed as a result of the cancellation of the project should be measured at fair value, as it would provide more reliable and relevant information of the Group's financial position and future cash flows. The Group requested value assessment to Cheil Appraisal and Assessment Institution and Korea Appraisal Board, the independent and publicly authorized appraisal institutions, to determine the fair value of the land. The fair value is measured based on actual market price, taking into account differences arising from specific assets' characteristics, location and condition of the market, and the date of revaluation is April 30, 2013. Fair value of the land as of December 31, 2016, has not been significantly changed from the assessed value as of December 31, 2015.



(In thousands of Korean won)

		2016	2015
Beginning balance	₩	3,035,037,399	3,073,787,934
Gain on revaluation of the land		36,495,587	-
Reclassification of gain on revaluation of assets to retained earnings		(4,694,905)	(38,750,535)
Ending balance	₩	3,066,838,081	3,035,037,399

## 18. INVESTMENT PROPERTY:

(1) Investment property as of December 31, 2016 and 2015, is as follows:

(In thousands of Korean won)

December 31, 2016					
		Acquisition cost	Government grants	Accumulated depreciation	Book value
Land	₩	65,544,373	-	-	65,544,373
Buildings and structure		132,940,538	(2,068,923)	(29,164,099)	101,707,516
Total	₩	198,484,911	(2,068,923)	(29,164,099)	167,251,889

(In thousands of Korean won)

December 31, 2015					
		Acquisition cost	Government grants	Accumulated depreciation	Book value
Land	₩	242,830,679	-	-	242,830,679
Buildings and structure		84,193,754	(1,893,977)	(22,299,264)	60,000,513
Total	₩	327,024,433	(1,893,977)	(22,299,264)	302,831,192

(2) Changes in investment property for the years ended December 31, 2016 and 2015, are as follows:

(In thousands of Korean won)

2016							
	Book value as of January 1, 2016	Acquisitions	Disposals	Depreciation	Government grants	Other(*)	Book value as of December 31, 2016
Land	₩ 242,830,679	-	-	-	-	(177,286,306)	65,544,373
Buildings and structure	60,000,513	-	-	(2,749,712)	(174,946)	44,631,661	101,707,516
Total	₩ 302,831,192	-	-	(2,749,712)	(174,946)	(132,654,645)	167,251,889

(In thousands of Korean won)

2015							
	Book value as of January 1, 2015	Acquisitions	Disposals	Depreciation	Government grants	Other(*)	Book value as of December 31, 2015
Land	₩ 394,679,844	-	-	-	-	(151,849,165)	242,830,679
Buildings and structure	68,836,981	-	-	(2,464,986)	(1,654,381)	(4,717,101)	60,000,513
Total	₩ 463,516,825	-	-	(2,464,986)	(1,654,381)	(156,566,266)	302,831,192

(\*) Other changes represent reclassification of investment property from property, trains and equipment.

(3) Income and expense from investment property for the years ended December 31, 2016 and 2015, are as follows:

<i>(In thousands of Korean won)</i>		<b>2016</b>	<b>2015</b>
Rental income	₩	44,831,204	42,889,774
Operating expense		(2,749,712)	(2,778,636)
Total	₩	42,081,492	40,111,138

(4) Fair value

<i>(In thousands of Korean won)</i>		<b>2016</b>		<b>2015</b>	
		<b>Book value</b>	<b>Fair value</b>	<b>Book value</b>	<b>Fair value</b>
Land	₩	65,544,373	66,665,677	242,830,679	251,177,631
Buildings and structure		101,707,516	101,707,516	60,000,513	60,000,513
Total	₩	167,251,889	168,373,193	302,831,192	311,178,144

The fair value of investment property as of December 31, 2016, was determined based on the appraisal performed by the independent appraisal institution, Korea Appraisal Board, on April 1, 2013. As a member of Korea Appraisal Association, Korea Appraisal Board has extensive experience and qualification in connection with the appraisal of real estates. The appraisal was performed in accordance with international standards and the appraisal value was measured based on the market price of the similar real estates.

## 19. CONSTRUCTION CONTRACTS:

(1) During the year ended December 31, 2016, changes in outstanding balance of construction contracts are as follows:

<i>(In thousands of Korean won)</i>	<b>Contract price outstanding as of January 1, 2016</b>	<b>Increase</b>	<b>Current construction revenue</b>	<b>Contract price outstanding as of December 31, 2016</b>
Domestic civil engineering works	₩ 4,406,287	20,120,178	(17,451,929)	7,074,536

Revenue from new construction contracts increased by ₩20,272,876 thousand (₩3,217,672 thousand in 2015) and revenue from changes in construction contracts increased by ₩152,698 thousand (₩86,056 thousand in 2015).

(2) Details of profit or loss related to the construction contract recognized during the years ended December 31, 2016 and 2015, are as follows:

<i>(In thousands of Korean won)</i>		<b>2016</b>		
		<b>Accumulated revenue of construction</b>	<b>Accumulated cost of construction</b>	<b>Accumulated profit or loss of construction</b>
Domestic civil engineering works	₩	29,555,274	(28,043,044)	1,512,230

<i>(In thousands of Korean won)</i>		<b>2015</b>		
		<b>Accumulated revenue of construction</b>	<b>Accumulated cost of construction</b>	<b>Accumulated profit or loss of construction</b>
Domestic civil engineering works	₩	12,045,399	(10,922,701)	1,122,698

(3) As of December 31, 2016 and 2015, there is no unbilled amount or deferred income.

## 20. GOODWILL:

(1) Goodwill as of December 31, 2016 and 2015, is as follows:

(In thousands of Korean won)

		<u>December 31, 2016</u>	<u>December 31, 2015</u>
Acquisition costs	₩	4,095,870	4,095,870
Book value	₩	<u>3,732,906</u>	<u>3,732,906</u>

(2) Changes in goodwill for the years ended December 31, 2016 and 2015, are as follows:

(In thousands of Korean won)

		<u>2016</u>	<u>2015</u>
Beginning balance	₩	3,732,906	3,732,906
Additional recognition		-	-
Other increase/decrease		-	-
Ending balance	₩	<u>3,732,906</u>	<u>3,732,906</u>

## 21. INTANGIBLE ASSETS:

(1) Intangible assets as of December 31, 2016 and 2015, are as follows:

		<u>December 31, 2016</u>		
		<u>Acquisition cost</u>	<u>Government grants</u>	<u>Accumulated amortization</u>
				<u>Book value</u>
Industrial property rights	₩	479,058	-	(231,553)
Development costs		60,554,851	-	(45,090,608)
Computer software		74,113,170	-	(52,982,026)
Service operating rights on donated assets		330,735	-	-
Other intangible assets		20,156,498	-	-
Developing intangible assets		12,489,528	-	-
Total	₩	<u>168,123,840</u>	<u>-</u>	<u>(98,304,187)</u>

		<u>December 31, 2015</u>		
		<u>Acquisition cost</u>	<u>Government grants</u>	<u>Accumulated amortization</u>
				<u>Book value</u>
Industrial property rights	₩	511,199	-	(231,198)
Development costs		49,985,415	-	(42,454,428)
Computer software		66,245,337	-	(47,886,303)
Service operating rights on donated assets		363,807	-	-
Other intangible assets		20,189,233	-	-
Developing intangible assets		14,050,854	-	-
Total	₩	<u>151,345,845</u>	<u>-</u>	<u>(90,571,929)</u>

(2) Changes in intangible assets for the years ended December 31, 2016 and 2015, are as follows:

		2016				
(In thousands of Korean won)		Industrial property rights	Development costs	Computer software	Service operating rights on donated assets	Other intangible assets(*)
						Total
Beginning balance	₩	280,001	7,530,987	18,359,034	363,807	34,240,087
Increase		2,362	-	2,296,596	-	18,870,243
Disposal		-	-	-	-	-
Amortization		(34,857)	(3,117,118)	(5,754,204)	(33,072)	(1,035,869)
Government grants		-	-	-	-	-
Other		-	11,050,373	6,229,718	-	(19,428,435)
Ending balance	₩	247,506	15,464,242	21,131,144	330,735	32,646,026

		2015				
(In thousands of Korean won)		Industrial property rights	Development costs	Computer software	Service operating rights on donated assets	Other intangible assets(*)
						Total
Beginning balance	₩	308,251	8,713,963	10,929,805	396,880	18,382,695
Increase		-	-	210,265	-	181,223
Disposal		-	-	-	-	-
Amortization		(715)	(1,881,442)	(4,631,496)	(33,073)	(1,621,820)
Government grants		-	-	-	-	-
Other		(27,535)	698,466	11,850,460	-	17,297,989
Ending balance	₩	280,001	7,530,987	18,359,034	363,807	34,240,087

(\*) Other intangible assets include developing intangible assets and the amounts of increase are ₩17,867,109 thousand and nil for the years ended December 31, 2016 and 2015, respectively. In addition, the amounts of other are ₩(19,428,435) thousand and ₩14,050,854 thousand for the years ended December 31, 2016 and 2015, respectively.

(3) Details of important intangible assets for the years ended December 31, 2016 and 2015, are as follows:

		2016		
(In thousands of Korean won)	Details	Book value		Remaining amortization period
Development costs	SR API System	₩	1,329,484	4 years
Development costs	IT Service management for maintenance request		70,682	4 years
Computer software	Management system for ticket reservation		294,562	4 years
Computer software	REORG Software		52,668	4 years
		2015		
(In thousands of Korean won)	Details	Book value		Remaining amortization period
Development costs	System for gathering Big Data	₩	294,802	4 years
Development costs	Information security ISP		11,277	4 years
Computer software	GPS system		508,163	4 years
Computer software	New generation of customer business system (Second edition)		7,804,953	4 years

## 22. TRADE AND OTHER PAYABLES:

Details of trade and other payables as of December 31, 2016 and 2015, are as follows:

(In thousands of Korean won)	December 31, 2016		December 31, 2015	
	Current	Non-current	Current	Non-current
Trade payables	₩ 209,077,168	-	232,088,383	-
Other payables	184,707,613	-	161,912,958	-
Accrued expenses	225,408,483	-	252,168,110	-
Other	-	32,754,691	-	1,503,451
Total	₩ 619,193,264	32,754,691	646,169,451	1,503,451

## 23. FINANCIAL LIABILITIES:

(1) Financial liabilities as of December 31, 2016 and 2015, are as follows:

(In thousands of Korean won)	December 31, 2016	December 31, 2015
<u>Current liabilities</u>		
Short-term borrowings	₩ 10,448,562	221,589,755
Current portion of long-term borrowings	31,300,000	30,812,500
Current bonds	1,862,550,000	1,524,400,000
Deduct: Bond issuance discount	(437,822)	(732,221)
Subtotal	1,903,860,740	1,776,070,034
<u>Non-current liabilities</u>		
Long-term borrowings	116,000,000	133,000,000
Deduct: Present value discount	(216,790)	-
Bonds	9,560,429,700	9,381,361,200
Deduct: Bond issuance discount	(4,025,428)	(5,810,740)
Subtotal	9,672,187,482	9,508,550,460
Total	₩ 11,576,048,222	11,284,620,494

(2) Short-term borrowings as of December 31, 2016 and 2015, are as follows:

(In thousands of Korean won)	Type of borrowings	Interest rate	December 31, 2016	December 31, 2015
Hana Bank	Working fund borrowings	4.83%	₩ 395,000	1,415,000
Hana Bank	Working fund borrowings	4.42%	1,500,000	1,500,000
Woori Bank	Working fund borrowings	3.82%	950,000	1,974,755
Woori Bank	Working fund borrowings	3.81%	995,000	-
NH Bank	Working fund borrowings	2.27%	6,400,000	16,700,000
Hana Bank	Loans on others	-	-	100,000,000
Shinhan Bank	Loans on others	-	-	100,000,000
KB Bank	Working fund borrowings	4.13%	208,562	-
Ending balance			₩ 10,448,562	221,589,755

(3) Long-term borrowings as of December 31, 2016 and 2015, are as follows:

				December 31, 2016	
				Borrowings denominated in foreign currency	Borrowings denominated in Korean won
(In thousands of Korean won)	Type of borrowings	Interest rate	Maturity		
Ministry of Strategy and Finance	Public management fund financing	Variable	2020	-	120,000,000
Korea Workers' Compensation and Welfare Service	Financing on foundation of day care center in workplace	2.00%	2023	-	1,000,000
Woori Bank	Facility fund debt	5.55%	2017	-	1,300,000
NH Bank	Facility fund debt	2.13%	2018	-	25,000,000
Subtotal				-	147,300,000
				-	147,300,000
Deduct: reclassified to current borrowings				-	(31,300,000)
	Total			-	116,000,000

				December 31, 2015	
				Borrowings denominated in foreign currency	Borrowings denominated in Korean won
(In thousands of Korean won)	Type of borrowings	Interest rate	Maturity		
Ministry of Strategy and Finance	Public management fund financing	Variable	2020	-	150,000,000
Korea Workers' Compensation and Welfare Service	Financing on foundation of day care center in workplace	2.00%	2023	-	1,000,000
Woori Bank	Facility fund debt	5.55%	2018	-	1,000,000
Kookmin Bank	Facility fund debt	5.15%	2016	-	812,500
NH Bank	Facility fund debt	2.13%	2018	-	11,000,000
Subtotal				-	163,812,500
				-	163,812,500
Deduct: reclassified to current borrowings				-	(30,812,500)
	Total			-	133,000,000

(4) Bonds as of December 31, 2016 and 2015, are as follows:

			December 31, 2016	
			Borrowings denominated in foreign currency	Borrowings denominated in Korean won
(In thousands of Korean won)	Interest rate	Maturity		
Korea Railroad Corporation48	5.25%	2019-04-15	- ₩	110,000,000
Korea Railroad Corporation50	5.29%	2018-05-14	-	150,000,000
Korea Railroad Corporation52	5.67%	2019-09-03	-	150,000,000
Korea Railroad Corporation53	5.67%	2019-09-17	-	130,000,000
Korea Railroad Corporation54	5.61%	2017-09-24	-	150,000,000
Korea Railroad Corporation58	5.69%	2018-10-29	-	120,000,000
Korea Railroad Corporation60	5.45%	2020-02-04	-	150,000,000
Korea Railroad Corporation61	5.43%	2020-02-17	-	200,000,000
Korea Railroad Corporation63	5.03%	2017-04-15	-	150,000,000
Korea Railroad Corporation65	5.12%	2020-04-27	-	50,000,000
Korea Railroad Corporation67	5.24%	2020-05-13	-	160,000,000
Korea Railroad Corporation68	5.19%	2018-05-25	-	200,000,000
Korea Railroad Corporation71	4.66%	2020-08-23	-	150,000,000
Korea Railroad Corporation74	4.53%	2017-11-11	-	150,000,000
Korea Railroad Corporation76	5.03%	2021-02-17	-	150,000,000
Korea Railroad Corporation78	4.40%	2018-03-17	-	100,000,000
Korea Railroad Corporation79	4.67%	2021-04-08	-	100,000,000
Korea Railroad Corporation82	4.27%	2026-08-08	-	120,000,000
Korea Railroad Corporation83	4.10%	2021-08-23	-	80,000,000

Korea Railroad Corporation84	4.06%	2026-09-06	-	100,000,000
Korea Railroad Corporation88	4.17%	2021-11-08	-	170,000,000
Korea Railroad Corporation89	4.00%	2022-02-24	-	130,000,000
Korea Railroad Corporation90	4.26%	2027-03-19	-	130,000,000
Korea Railroad Corporation91	3.94%	2017-04-05	-	200,000,000
Korea Railroad Corporation92	4.09%	2027-04-23	-	200,000,000
Korea Railroad Corporation93	3.84%	2022-05-22	-	190,000,000
Korea Railroad Corporation95	3.12%	2019-07-26	-	130,000,000
Korea Railroad Corporation96	3.16%	2027-09-11	-	90,000,000
Korea Railroad Corporation97	3.08%	2017-09-26	-	130,000,000
Korea Railroad Corporation98	3.06%	2022-10-09	-	130,000,000
Korea Railroad Corporation99	3.12%	2027-10-18	-	100,000,000
Foreign public bond4	CHF 1.00%	2018-11-16	CHF 300,000,000	354,399,000
Korea Railroad Corporation101	2.95%	2017-01-17	-	120,000,000
Korea Railroad Corporation102	3.20%	2023-02-07	-	100,000,000
Korea Railroad Corporation106	4.04%	2033-09-06	-	90,000,000
Korea Railroad Corporation107	3.62%	2023-09-26	-	100,000,000
Korea Railroad Corporation110	3.68%	2023-10-29	-	50,000,000
Korea Railroad Corporation111	3.48%	2018-11-08	-	90,000,000
Foreign public bond6	CHF 1.50%	2019-12-02	CHF 315,000,000	372,118,950
Korea Railroad Corporation114	3.89%	2024-01-15	-	110,000,000
Korea Railroad Corporation115	3.57%	2019-01-15	-	100,000,000
Korea Railroad Corporation116	3.52%	2019-01-24	-	150,000,000
Korea Railroad Corporation117	3.11%	2017-02-10	-	250,000,000
Korea Railroad Corporation118	3.81%	2034-02-17	-	40,000,000
Foreign public bond7	LIBOR (3M)+0.7%	2017-02-28	USD 200,000,000	241,700,000
Korea Railroad Corporation119	3.41%	2019-03-06	-	100,000,000
Korea Railroad Corporation120	3.22%	2018-03-12	-	80,000,000
Korea Railroad Corporation121	3.82%	2029-03-12	-	60,000,000
Korea Railroad Corporation122	3.36%	2019-03-19	-	90,000,000
Korea Railroad Corporation123	3.70%	2024-03-19	-	40,000,000
Korea Railroad Corporation124	3.10%	2017-03-27	-	200,000,000
Korea Railroad Corporation125	3.68%	2024-03-31	-	60,000,000
Korea Railroad Corporation126	3.40%	2019-04-04	-	150,000,000
Korea Railroad Corporation127	3.30%	2018-10-16	-	200,000,000
Korea Railroad Corporation128	3.84%	2034-04-18	-	50,000,000
Korea Railroad Corporation129	3.39%	2019-04-23	-	200,000,000
Korea Railroad Corporation130	3.70%	2024-04-29	-	100,000,000
Korea Railroad Corporation131	3.16%	2018-05-14	-	140,000,000
Korea Railroad Corporation132	3.62%	2024-05-14	-	70,000,000
Korea Railroad Corporation133	3.55%	2024-05-21	-	70,000,000
Korea Railroad Corporation134	3.00%	2017-05-26	-	150,000,000
Korea Railroad Corporation135	3.52%	2024-06-10	-	150,000,000
Korea Railroad Corporation136	3.26%	2024-07-04	-	150,000,000
Korea Railroad Corporation137	3.25%	2029-07-24	-	150,000,000
Foreign public bond8	SGD 1.76%	2018-09-04	SGD 65,000,000	54,249,000
Foreign public bond9	LIBOR (3M)+0.55%	2017-09-18	USD 100,000,000	120,850,000
Korea Railroad Corporation138	2.93%	2029-10-28	-	100,000,000
Korea Railroad Corporation139	2.86%	2026-11-12	-	220,000,000
Foreign public bond10	AUD BBSW (3M)+0.85%	2018-08-13	AUD 55,000,000	47,962,750
Korea Railroad Corporation140	2.79%	2024-11-25	-	200,000,000
Foreign public bond11	(3M)+0.85%	2019-06-20	USD 200,000,000	241,700,000
Korea Railroad Corporation141	2.07%	2036-03-08	-	200,000,000
Korea Railroad Corporation142	1.79%	2023-04-11	-	150,000,000
Korea Railroad Corporation143	1.98%	2036-04-26	-	110,000,000
Korea Railroad Corporation144	1.47%	2026-08-01	-	100,000,000
Korea Railroad Corporation145	1.57%	2036-08-09	-	70,000,000
Korea Railroad Corporation146	1.56%	2036-08-26	-	150,000,000
Korea Railroad Corporation147	1.64%	2021-10-27	-	60,000,000

Korea Railroad Corporation148	1.88%	2046-10-27		70,000,000
Korea Railroad Corporation149	1.94%	2046-11-03		40,000,000
Korea Railroad Corporation150	1.62%	2019-11-08		300,000,000
Korea Railroad Corporation151	2.39%	2046-11-23		130,000,000
Korea Railroad Corporation152	2.35%	2046-12-06		150,000,000
Korea Railroad Corporation153	2.14%	2021-12-12		70,000,000
Bond	Average Rate for AAA+2bp	2021-06-28		90,000,000
"	Average Rate for AAA-3bp	2023-06-28		100,000,000
Subtotal		KRW	-	9,990,000,000
		USD	500,000,000	604,250,000
		CHF	615,000,000	726,517,950
		SGD	65,000,000	54,249,000
		AUD	55,000,000	47,962,750
Deduct: reclassified to current borrowings		KRW	-	1,500,000,000
		USD	300,000,000	362,550,000
Total		KRW	-	8,490,000,000
		USD	400,000,000	241,700,000
		CHF	615,000,000	726,517,950
		SGD	65,000,000	54,249,000
		AUD	55,000,000	47,962,750
		Total	₩	9,560,429,700

(In thousands of Korean won)

	Interest rate	Maturity	December 31, 2015	
			Borrowings denominated in foreign currency	Borrowings denominated in Korean won
Korea Railroad Corporation12	5.05%	2016-09-08	- ₩	100,000,000
Korea Railroad Corporation18	5.05%	2016-12-12	-	140,000,000
Korea Railroad Corporation48	5.25%	2019-04-15	-	110,000,000
Korea Railroad Corporation50	5.29%	2018-05-14	-	150,000,000
Korea Railroad Corporation52	5.67%	2019-09-03	-	150,000,000
Korea Railroad Corporation53	5.67%	2019-09-17	-	130,000,000
Korea Railroad Corporation54	5.61%	2017-09-24	-	150,000,000
Korea Railroad Corporation56	5.56%	2016-10-16	-	140,000,000
Korea Railroad Corporation58	5.69%	2018-10-29	-	120,000,000
Korea Railroad Corporation60	5.45%	2020-02-04	-	150,000,000
Korea Railroad Corporation61	5.43%	2020-02-17	-	200,000,000
Korea Railroad Corporation63	5.03%	2017-04-15	-	150,000,000
Korea Railroad Corporation65	5.12%	2020-04-27	-	50,000,000
Korea Railroad Corporation67	5.24%	2020-05-13	-	160,000,000
Korea Railroad Corporation68	5.19%	2018-05-25	-	200,000,000
Korea Railroad Corporation71	4.66%	2020-08-23	-	150,000,000
Korea Railroad Corporation74	4.53%	2017-11-11	-	150,000,000
Korea Railroad Corporation76	5.03%	2021-02-17	-	150,000,000
Korea Railroad Corporation77	4.56%	2016-02-25	-	50,000,000
Korea Railroad Corporation78	4.40%	2018-03-17	-	100,000,000
Korea Railroad Corporation79	4.67%	2021-04-08	-	100,000,000
Korea Railroad Corporation81	4.40%	2016-04-28	-	150,000,000
Korea Railroad Corporation82	4.27%	2026-08-08	-	120,000,000
Korea Railroad Corporation83	4.10%	2021-08-23	-	80,000,000
Korea Railroad Corporation84	4.06%	2026-09-06	-	100,000,000
Korea Railroad Corporation85	3.99%	2016-09-26	-	150,000,000
Korea Railroad Corporation87	4.06%	2016-10-21	-	180,000,000
Korea Railroad Corporation88	4.17%	2021-11-08	-	170,000,000
Korea Railroad Corporation89	4.00%	2022-02-24	-	130,000,000
Korea Railroad Corporation90	4.26%	2027-03-19	-	130,000,000



Korea Railroad Corporation91	3.94%	2017-04-05	-	200,000,000
Korea Railroad Corporation92	4.09%	2027-04-23	-	200,000,000
Korea Railroad Corporation93	3.84%	2022-05-22	-	190,000,000
Korea Railroad Corporation94	CD (91 days)+0.28%	2016-07-06	-	120,000,000
Korea Railroad Corporation95	3.12%	2019-07-26	-	130,000,000
Korea Railroad Corporation96	3.16%	2027-09-11	-	90,000,000
Korea Railroad Corporation97	3.08%	2017-09-26	-	130,000,000
Korea Railroad Corporation98	3.06%	2022-10-09	-	130,000,000
Korea Railroad Corporation99	3.12%	2027-10-18	-	100,000,000
Foreign public bond4	CHF 1.00%	2018-11-16	CHF 300,000,000	355,617,000
Korea Railroad Corporation101	2.95%	2017-01-17	-	120,000,000
Korea Railroad Corporation102	3.20%	2023-02-07	-	100,000,000
Korea Railroad Corporation104	3.20%	2016-08-22	-	70,000,000
Foreign public bond5	LIBOR (3M)+0.95%	2016-08-29	USD 200,000,000	234,400,000
Korea Railroad Corporation106	4.04%	2033-09-06	-	90,000,000
Korea Railroad Corporation107	3.62%	2023-09-26	-	100,000,000
Korea Railroad Corporation109	3.05%	2016-04-15	-	80,000,000
Korea Railroad Corporation110	3.68%	2023-10-29	-	50,000,000
Korea Railroad Corporation111	3.48%	2018-11-08	-	90,000,000
Korea Railroad Corporation113	3.24%	2016-11-21	-	110,000,000
Foreign public bond6	CHF 1.50%	2019-12-02	CHF 315,000,000	373,397,850
Korea Railroad Corporation114	3.89%	2024-01-15	-	110,000,000
Korea Railroad Corporation115	3.57%	2019-01-15	-	100,000,000
Korea Railroad Corporation116	3.52%	2019-01-24	-	150,000,000
Korea Railroad Corporation117	3.11%	2017-02-10	-	250,000,000
Korea Railroad Corporation118	3.81%	2034-02-17	-	40,000,000
Foreign public bond7	LIBOR (3M)+0.7%	2017-02-28	USD 200,000,000	234,400,000
Korea Railroad Corporation119	3.41%	2019-03-06	-	100,000,000
Korea Railroad Corporation120	3.22%	2018-03-12	-	80,000,000
Korea Railroad Corporation121	3.82%	2029-03-12	-	60,000,000
Korea Railroad Corporation122	3.36%	2019-03-19	-	90,000,000
Korea Railroad Corporation123	3.70%	2024-03-19	-	40,000,000
Korea Railroad Corporation124	3.10%	2017-03-27	-	200,000,000
Korea Railroad Corporation125	3.68%	2024-03-31	-	60,000,000
Korea Railroad Corporation126	3.40%	2019-04-04	-	150,000,000
Korea Railroad Corporation127	3.30%	2018-10-16	-	200,000,000
Korea Railroad Corporation128	3.84%	2034-04-18	-	50,000,000
Korea Railroad Corporation129	3.39%	2019-04-23	-	200,000,000
Korea Railroad Corporation130	3.70%	2024-04-29	-	100,000,000
Korea Railroad Corporation131	3.16%	2018-05-14	-	140,000,000
Korea Railroad Corporation132	3.62%	2024-05-14	-	70,000,000
Korea Railroad Corporation133	3.55%	2024-05-21	-	70,000,000
Korea Railroad Corporation134	3.00%	2017-05-26	-	150,000,000
Korea Railroad Corporation135	3.52%	2024-06-10	-	150,000,000
Korea Railroad Corporation136	3.26%	2024-07-04	-	150,000,000
Korea Railroad Corporation137	3.25%	2029-07-24	-	150,000,000
Foreign public bond8	SGD 1.76%	2018-09-04	SGD 65,000,000	53,825,850
Foreign public bond9	LIBOR (3M)+0.55%	2017-09-18	USD 100,000,000	117,200,000
Korea Railroad Corporation138	2.93%	2029-10-28	-	100,000,000
Korea Railroad Corporation139	2.86%	2026-11-12	-	220,000,000
Foreign public bond10	AUD BBSW (3M)+0.85%	2018-08-13	AUD 55,000,000	46,920,500
Korea Railroad Corporation140	2.79%	2024-11-25	-	200,000,000
Subtotal		KRW	-	9,490,000,000
		USD	500,000,000	586,000,000
		CHF	615,000,000	729,014,850
		SGD	65,000,000	53,825,850
		AUD	55,000,000	46,920,500
Deduct: reclassified to current borrowings		KRW	-	1,290,000,000
		USD	(200,000,000)	234,400,000

Total	KRW	-	8,200,000,000
	USD	300,000,000	351,600,000
	CHF	615,000,000	729,014,850
	SGD	65,000,000	53,825,850
	AUD	55,000,000	46,920,500
	Total	₩	9,381,361,200

## 24. OTHER FINANCIAL LIABILITIES:

Other financial liabilities as of December 31, 2016 and 2015, are as follows:

(In thousands of Korean won)	December 31, 2016		December 31, 2015	
	Current	Non-current	Current	Non-current
Other financial liabilities(*)	₩ -	147,600,000	-	96,270,000

(\*) Regarding the capital increase of SR Co., Ltd., the Group's subsidiary, the Group may have to purchase stocks from non-controlling interest of SR Co., Ltd., at the purchasing amount, plus annual compound interest of 5.6% from three years and six months to eight years and six months after the date of capital increase. The Group recognizes the present value of the repayment related to this transaction as financial liability.

## 25. FINANCE LEASE LIABILITIES:

(1) The Group maintains finance lease agreement with Lotte Capital Corporation for the usage of tools and equipment, and recognizes assets and liabilities related to the lease agreements.

(2) Details of assets under the finance lease are as follows:

(In thousands of Korean won)	December 31, 2016		December 31, 2015	
	Installation structures		Installation structures	
Acquisition cost	₩	1,717,071		1,717,071
Accumulated depreciation		(1,717,064)		(1,717,064)
Carrying amounts	₩	7		7

## 26. EMPLOYEE BENEFITS:

(1) Defined contribution plan

The Group operates a defined contribution plan for employees of Korea Railroad Corporation, KORAIL Networks Co., Ltd., KORAIL Logis Co., Ltd. and KORAIL Tech Co., Ltd. Plan assets are operated independently from the Group's other assets in the form of funds.

Total expense included in the consolidated statement of comprehensive loss for the year ended December 31, 2016, amounting to ₩4,425,672 thousand (2015: ₩2,940,272 thousand), which represents the contributions to the retirement benefit plan according to the ratio pursuant to retirement benefit plan.

(2) Defined benefits retirement plan

The Group operates a defined benefit retirement plan for all other employees who do not participate in the defined contribution plan.

The major actuarial calculation of the plan asset and the defined benefit retirement liabilities was performed by HMC Securities Actuary whose report was dated December 31, 2016. Present value of defined benefit liabilities, current service costs and past service costs are calculated using the projected credit method.

(i) The component of defined benefit liabilities as of December 31, 2016 and 2015, is as follows:

<i>(In thousands of Korean won)</i>		<b>December 31, 2016</b>	<b>December 31, 2015</b>
Present value of defined benefit obligations	₩	811,869,226	838,053,652
Fair value of plan assets		(64,914,443)	(43,862,222)
Recognized as defined benefit liabilities in the consolidated statement of financial position	₩	<u>746,954,783</u>	<u>794,191,430</u>

(ii) Changes in defined benefit liabilities for the years ended December 31, 2016 and 2015, are as follows:

<i>(In thousands of Korean won)</i>		<b>2016</b>	<b>2015</b>
Beginning balance	₩	838,053,652	793,960,712
Current service costs		144,817,157	138,725,214
Interests(*)		24,659,312	27,847,439
Actuarial gains or losses		(96,987,334)	(52,432,986)
Benefit paid		(99,845,397)	(70,273,483)
Gain due to calculation adjustment		-	11,327
Other		1,171,836	215,429
Ending balance	₩	<u>811,869,226</u>	<u>838,053,652</u>

(\*) Interest rate applied for defined benefit liabilities is the market interest rate of government bonds.

(iii) Changes in plan assets for the years ended December 31, 2016 and 2015, are as follows:

<i>(In thousands of Korean won)</i>		<b>2016</b>	<b>2015</b>
Beginning balance	₩	43,862,222	33,928,746
Expected return on plan assets(*)		793,057	670,914
Benefit paid by the plan		(266,359)	(135,615)
Actuarial gains or losses		(5,204,219)	(2,419,726)
Contributions paid into the plan		14,605,622	7,769,178
Employee contribution		11,124,120	4,048,725
Ending balance	₩	<u>64,914,443</u>	<u>43,862,222</u>

(iv) Expense recognized in profit or loss

<i>(In thousands of Korean won)</i>		<b>2016</b>	<b>2015</b>
Current service costs	₩	144,817,157	138,725,214
Interests		24,659,312	27,847,439
Expected return on plan assets		(793,057)	(670,914)
Total	₩	<u>168,683,412</u>	<u>165,901,739</u>

Expense presented above is recognized in the consolidated statements of comprehensive loss as follows:

<i>(In thousands of Korean won)</i>		<b>2016</b>	<b>2015</b>
Cost of sales	₩	154,152,708	152,955,154
Selling, general and administrative expense		14,530,704	12,946,585
Total	₩	<u>168,683,412</u>	<u>165,901,739</u>

(v) Remeasurement factors recognized in other comprehensive income for the years ended December 31, 2016 and 2015, are as follows:

		<u>2016</u>	<u>2015</u>
<i>(In thousands of Korean won)</i>			
Actuarial gain (loss)	₩	96,987,334	52,432,986
Interests of plan assets		(266,359)	(135,615)
Subtotal		96,720,975	52,297,371
Tax effect		(281,767)	(15,262)
Total	₩	<u>96,439,208</u>	<u>52,282,109</u>

Remeasurement factors were directly reclassified to retained earnings in the consolidated statements of financial position.

(vi) Plan assets details:

		<u>December 31, 2016</u>	<u>December 31, 2015</u>
<i>(In thousands of Korean won)</i>			
Equity securities	₩	64,914,443	43,862,222

(vii) Principal actuarial assumptions at the reporting date.

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Discount rate (expected return on plan assets)	3.23%	3.15%
Future salary increases	3.76%	3.42%

## 27. PROVISIONS:

(1) Provisions as of December 31, 2016 and 2015, are as follows:

		<u>December 31, 2016</u>	<u>December 31, 2015</u>
<i>(In thousands of Korean won)</i>			
Provision for employee benefits	₩	206,980,388	163,173,475
Warranty provision		-	317,327
Provision for pending litigations		12,063,355	2,197,865
Provisions for recovery (*)		183,347,064	208,235,581
Provisions for others		88,272	-
Total	₩	<u>206,980,388</u>	<u>163,173,475</u>

(\*) As the Group is obligated to restore contamination of lands in use, the Group recognizes the future expenditure amount as provisions for losses incurred during construction every year. Above provisions for recovery include estimations on additional burden in the Group's recovery that resulted in the cancellation of development project for Yongsan Station area that took place in the year ended December 31, 2013.

(2) Changes in provisions for the years ended December 31, 2016 and 2015, are as follows:

		<u>2016</u>				
<i>(In thousands of Korean won)</i>						
		<u>Beginning balance</u>	<u>Increase</u>	<u>Used</u>	<u>Reversal</u>	<u>Ending balance</u>
Provision for employee benefits	₩	163,173,475	206,980,388	(163,173,475)	-	206,980,388
Warranty provision		317,327	176,622	(121,462)	-	372,487
Provision for pending litigations		2,197,865	11,951,766	-	(2,086,275)	12,063,356
Provision for restoration		208,235,581	-	-	(30,784,903)	183,347,063
Provisions for others		-	88,272	-	-	88,272
Total	₩	<u>373,924,248</u>	<u>219,197,048</u>	<u>(163,294,937)</u>	<u>(32,871,178)</u>	<u>402,851,566</u>

		2015					
(In thousands of Korean won)		Beginning balance	Increase	Used	Reversal	Others(*)	Ending balance
Provision for employee benefits	₩	153,155,831	163,173,475	(153,155,831)	-	-	163,173,475
Warranty provision		422,707	213,010	(318,390)	-	-	317,327
Provision for pending litigations		7,075,910	417,354	(31,579)	(5,263,820)	-	2,197,865
Provision for restoration (Note 49)		212,605,445	-	-	(12,880,702)	8,510,838	208,235,581
Provisions for others		114,473	-	-	-	(114,473)	-
Total	₩	373,374,366	163,803,839	(153,505,800)	(18,144,522 )	8,396,365	373,924,248

(\*) As explained in Notes 40 and 51 provision of Airport Railroad Co., Ltd., is reclassified as liabilities held for sale.

## 28. **GOVERNMENT GRANTS:**

### (1) Accounting treatment for government grants

In accordance with Korean Government-owned and Quasi-government Accounting Regulation and Standards, government grants used for the acquisition of certain assets are deducted from the acquisition cost of the acquired assets and such grants are offset against the depreciation expenses of the acquired assets during the useful lives of the assets.

### (2) Government grants as of December 31, 2016 and 2015, are as follows:

		<b>December 31, 2016</b>	<b>December 31, 2015</b>
<i>(In thousands of Korean won)</i>			
Cash and cash equivalents	₩	(68,713,017)	(116,190,367)
Supplies		(56,344,234)	(54,351,104)
Prepayments		(5,140,300)	(3,809,413)
Land		(6,598,459)	(6,526,056)
Buildings		(104,178,832)	(81,118,815)
Structures		(8,417,758)	(6,747,135)
Machinery		(85,801,076)	(98,807,082)
Trains		(365,064,401)	(364,110,309)
Vehicles		(256,598)	(416,098)
Tools		(36,543)	(107,435)
Fixtures		(2,209)	(2,856)
Construction in progress		(12,284,510)	(14,441,312)
Investment property (buildings)		(2,068,923)	(1,893,977)
Total	₩	<u>(714,906,860)</u>	<u>(748,521,959)</u>

(3) Changes in government grants for the years ended as of December 31, 2016 and 2015, are as follows:

(In thousands of Korean

won)

		2016						Book value as of December 31, 2016
		Book value as of January 1, 2016	Receipt	Acquisition of assets	Offsetting with depreciation cost	Disposal	Others	
Cash and cash equivalents	₩	(116,190,367)	(359,770,689)	51,977,998	-	-	355,270,041	(68,713,017)
Supplies		(54,351,104)	(277,871,710)	-	-	-	275,878,580	(56,344,234)
Prepayments		(3,809,413)	(70,599,712)	-	-	-	69,268,825	(5,140,300)
Land		(6,526,056)	(72,403)	-	-	-	-	(6,598,459)
Buildings		(81,118,815)	(22,970,728)	-	2,420,102	4,621	(2,514,012)	(104,178,832)
Structures		(6,747,135)	(1,664,324)	(374,452)	357,065	10,490	598	(8,417,758)
Machinery		(98,807,082)	(169,316)	-	13,119,955	53,793	1,574	(85,801,076)
Trains		(364,110,309)	(25,814,000)	-	24,859,908	-	-	(365,064,401)
Vehicles		(416,098)	-	-	112,000	47,500	-	(256,598)
Tools		(107,435)	(1,853)	-	72,745	-	-	(36,543)
Fixture		(2,856)	-	-	647	-	-	(2,209)
Construction progress	in	(14,441,312)	-	(979,641)	-	-	3,136,443	(12,284,510)
Investment property (buildings)		(1,893,977)	-	-	54,170	-	(229,116)	(2,068,923)
Total	₩	<u>(748,521,959)</u>	<u>(758,934,735)</u>	<u>50,623,905</u>	<u>40,996,592</u>	<u>116,404</u>	<u>700,812,933</u>	<u>(714,906,860)</u>

(In thousands of Korean

won)

		2015						Book value as of December 31, 2015
		Book value as of January 1, 2015	Receipt	Acquisition of assets	Offsetting with depreciation cost	Disposal	Others	
Cash and cash equivalents	₩	(197,099,794)	(361,158,032)	117,238,203	-	582,867	324,246,389	(116,190,367)
Supplies		(95,900)	-	(54,255,204)	-	-	-	(54,351,104)
Prepayments		-	-	-	-	-	(3,809,413)	(3,809,413)
Land		(6,526,056)	-	-	-	-	-	(6,526,056)
Buildings		(75,482,318)	-	(9,250,529)	1,921,567	-	1,692,465	(81,118,815)
Structures		(6,031,366)	-	(1,162,879)	447,110	-	-	(6,747,135)
Machinery		(89,090,008)	-	(23,102,312)	13,380,007	-	5,231	(98,807,082)
Trains		(364,070,352)	-	(23,077,390)	22,969,933	-	67,500	(364,110,309)
Vehicles		(611,839)	-	-	195,741	-	-	(416,098)
Tools		(193,383)	-	-	85,948	-	-	(107,435)
Fixture		-	-	(3,233)	377	-	-	(2,856)
Construction progress	in	(8,541,732)	-	(6,386,656)	-	-	487,076	(14,441,312)
Investment property (buildings)		(239,596)	-	-	39,426	-	(1,693,807)	(1,893,977)
Total	₩	<u>(747,982,344)</u>	<u>(361,158,032)</u>	<u>-</u>	<u>39,040,109</u>	<u>582,867</u>	<u>320,995,441</u>	<u>(748,521,959)</u>

(4) Revenues from government grants for the years ended December 31, 2016 and 2015, are as follows:

(In thousands of Korean won)

		<u>2016</u>	<u>2015</u>
Revenues from government grants	₩	351,999,918	372,425,367
Others		<u>40,996,592</u>	<u>39,040,109</u>
Total	₩	<u>392,996,510</u>	<u>411,465,476</u>

## 29. OTHER NON-FINANCIAL LIABILITIES:

Non-financial liabilities as of December 31, 2016 and 2015, are as follows:

		<u>December 31, 2016</u>		<u>December 31, 2015</u>	
(In thousands of Korean won)		<u>Current</u>	<u>Non-current</u>	<u>Current</u>	<u>Non-current</u>
Advance payments	₩	39,894,062	411,216	41,695,739	500,747
Unearned revenues		44,819,494	13,325,229	29,004,085	17,498,498
Withholdings		88,473,155	-	148,532,982	-
Due to customer for contract work		-	772,270	-	301,109
Other		4,614,620	-	-	-
Total	₩	<u>177,801,331</u>	<u>14,508,715</u>	<u>219,232,806</u>	<u>18,300,354</u>

## 30. SHARE CAPITAL:

(1) Share capital as of December 31, 2016 and 2015, is as follows:

(In thousands of Korean won)

		<u>December 31, 2016</u>	<u>December 31, 2015</u>
Subscription certificate(*)	₩	10,108,884,991	9,994,028,991

(\*) 100% of the Group's equity is contributed by the Korean government.

(2) Changes in subscription certificate issued for the years ended December 31, 2016 and 2015, are as follows:

(In thousands of Korean won)

		<u>2016</u>	<u>2015</u>
Beginning balance	₩	9,994,028,991	9,603,718,818
Cash contribution		<u>114,856,000</u>	<u>390,310,173</u>
Ending balance	₩	<u>10,108,884,991</u>	<u>9,994,028,991</u>

(3) Discount on subscription certificate issued as of December 31, 2016 and 2015, is as follows:

(In thousands of Korean won)

		<u>December 31, 2016</u>	<u>December 31, 2015</u>
Discount on subscription certificate issued	₩	(4,991,513)	(4,991,513)

## 31. ACCUMULATED DEFICIT:

(1) Accumulated deficit as of December 31, 2016 and 2015, is as follows:

(In thousands of Korean won)

		<u>December 31, 2016</u>	<u>December 31, 2015</u>
Accumulated deficit	₩	(8,476,086,927)	(8,373,991,312)

(2) Changes in accumulated deficit for the years ended December 31, 2016 and 2015, are as follows:

(In thousands of Korean won)

		<b>2016</b>	<b>2015</b>
Beginning balance	₩	(8,373,991,312)	(9,043,181,674)
Income (loss) for the year		(204,410,926)	577,639,907
Gain on remeasurement factors		97,620,405	52,799,920
Reclassification of gain on revaluation of assets to retained earnings		4,694,905	38,750,535
Ending balance	₩	(8,476,086,928)	(8,373,991,312)

(3) Changes in gain (loss) on remeasurement factors of defined benefit plan for the years ended December 31, 2016 and 2015, are as follows:

(In thousands of Korean won)

		<b>2016</b>	<b>2015</b>
Beginning balance	₩	25,521,960	(27,277,960)
Changes		97,620,405	52,799,920
Ending balance	₩	123,142,365	25,521,960

### **32. CONSOLIDATED STATEMENT OF DISPOSITION OF ACCUMULATED DEFICIT:**

Date of Disposition for 2016: March 31, 2017

Date of Disposition for 2015: March 31, 2016

(In thousands of Korean won)

		<b>2016</b>	<b>2015</b>
<b>Undisposed accumulated deficit</b>			
Balance at beginning of year	₩	(8,373,991,312)	(9,043,181,674)
Income (loss) for the year		(204,410,925)	577,639,907
Gain on remeasurement factors of defined benefit plan		97,620,405	52,799,920
Reclassification of gain on revaluation of assets to retained earnings		4,694,905	38,750,535
<b>Balance at end of year before disposition</b>		(8,476,086,927)	(8,373,991,312)
<b>Appropriation of disposition of accumulated deficit</b>		-	-
<b>Undisposed accumulated deficit to be carried over to subsequent year</b>	₩	(8,476,086,927)	(8,373,991,312)



### 33. OTHER EQUITY COMPONENTS:

(1) As of December 31, 2016 and 2015, other equity components are as follows:

<i>(In thousands of Korean won)</i>		<b>December 31, 2016</b>	<b>December 31, 2015</b>
Other accumulated comprehensive income	₩	3,074,611,143	3,043,321,828
Other additional paid-up capital		(144,128,451)	(92,627,235)
Total	₩	2,930,482,692	2,950,694,593

(2) Other accumulated comprehensive income or loss for the years ended December 31, 2016 and 2015, is detailed as follows:

<i>(In thousands of Korean won)</i>		<b>December 31, 2016</b>	<b>December 31, 2015</b>
Gain on valuation of available-for-sale securities	₩	9,447,469	11,961,329
Change in equity of equity method investments		(719,458)	(1,791,952)
Loss on valuation of derivatives		(954,948)	(1,884,948)
Gain on reassessment of assets		3,066,838,081	3,035,037,399
Total	₩	3,074,611,144	3,043,321,828

### 34. REVENUE:

Details of revenues for the years ended December 31, 2016 and 2015, are summarized as follows:

<i>(In thousands of Korean won)</i>		<b>December 31, 2016</b>		<b>December 31, 2015</b>	
		Domestic	Overseas	Domestic	Overseas
Revenue from goods sold	₩	289,557,064	492,500	275,884,480	3,494,628
Revenue from services rendered					
Transportation business		4,188,467,303	-	4,004,999,407	-
- Normal passenger transportation		484,163,106	-	513,511,862	-
- Express passenger transportation		2,086,513,085	-	1,926,671,005	-
- Long-distance passenger transportation		934,159,925	-	828,400,132	-
- Freight and other transportation		332,768,187	-	385,553,408	-
- PSO		350,863,000	-	350,863,000	-
Revenue from other multiple business		164,662,845	2,254,293	175,484,863	2,456,388
Subtotal		4,353,130,148	2,254,293	4,180,484,270	2,456,388
Revenue from entrusted business:					
Normal entrusted business		60,767,984	-	61,208,600	-
Government entrusted business		969,989,037	-	984,957,741	-
Subtotal		1,030,757,021	-	1,046,166,341	-
Construction-related revenue		17,451,929	-	7,545,181	-
Total	₩	5,690,896,162	2,746,793	5,510,080,272	5,951,016

### 35. SELLING, GENERAL AND ADMINISTRATIVE EXPENSE:

(1) Details of selling, general and administrative expense for the years ended December 31, 2016 and 2015, are as follows:

(In thousands of Korean won)

		<u>2016</u>	<u>2015</u>
Contributions for employee welfare business	₩	17,271	40,911
Salaries and wages		158,751,410	144,877,230
Expenses related to retirement benefits		14,911,940	13,085,776
Other employee benefits		17,885,841	16,535,337
Insurance		2,439,588	2,350,984
Depreciation		31,067,194	19,408,579
Amortization		9,399,087	8,168,546
Bad debts expenses		11,460,328	2,060,605
Professional service fees		36,299,722	36,161,515
Advertising		5,816,542	3,589,807
Training		4,933,152	5,712,558
Vehicles		234,024	289,349
Printing		959,097	746,489
Business development expenses		686,624	815,335
Rent		2,969,839	4,825,143
Communications		2,014,403	2,020,391
Transportation costs		30,729	78,225
Taxes and dues		8,528,512	6,814,170
Supplies		3,150,306	2,321,133
Utilities		5,339,499	4,724,614
Maintenance		10,970,358	9,113,702
Research		649,895	733,426
Travel		2,010,725	2,215,901
Uniform		879,453	239,217
Analysis		535,842	695,389
Annual fees		332,855	380,134
Selling expenses		798,904	565,703
Others		6,541,083	4,937,440
		<hr/>	<hr/>
Total	₩	339,614,223	293,507,609
		<hr/>	<hr/>

(2) Details of other selling, general and administrative expense for the years ended December 31, 2016 and 2015, are as follows:

(In thousands of Korean won)

		<u>2016</u>	<u>2015</u>
Conference	₩	162,251	29,645
Cooperation		1,270,989	1,272,020
Rewards		791,256	850,808
Honorary retirement		743,727	1,019,722
Others		3,572,860	1,765,245
		<hr/>	<hr/>
Total	₩	6,541,083	4,937,440
		<hr/>	<hr/>

### 36. OTHER REVENUES, OTHER EXPENSES AND OTHER INCOME:

(1) Details of other revenues for the years ended December 31, 2016 and 2015, are as follows:

(In thousands of Korean won)

	<u>2016</u>	<u>2015</u>
Reversal of other provisions	₩ 32,871,179	18,144,522
Government grants	1,136,918	3,167,460
Reversal of bad debts expenses	1,108	42,270
Gains from assets contributed	12,500	1,301,721
Others	7,109	8,178
Total	₩ <u>34,028,814</u>	<u>22,664,151</u>

(2) Details of other expenses for the years ended December 31, 2016 and 2015, are as follows:

(In thousands of Korean won)

	<u>2016</u>	<u>2015</u>
Increase in provisions	₩ 11,951,766	417,355
Other bad debts expenses	6,778,336	661,248
Donations	30,457,757	29,133,579
Depreciation on assets not in use	3,721,660	3,439,310
Total	₩ <u>52,909,519</u>	<u>33,651,492</u>

(3) Details of other income (costs) for the years ended December 31, 2016 and 2015, are as follows:

(In thousands of Korean won)

	<u>2016</u>	<u>2015</u>
Gains on sale of property, trains and equipment	₩ 5,370,339	1,011,843
Gains on disposal of non-current assets held for sale	13,925,259	47,599,819
Gains on foreign currency transaction (related to operating activities)	426,726	649,506
Gains on foreign currency translation (related to operating activities)	65,389	-
Gains on insurance settlements	8,099	-
Other income	87,125,503	89,311,657
Losses on sale of property, trains and equipment	(2,890,313)	(1,697,091)
Losses on disposal of other non-current assets	(1,117,530)	(255,706)
Impairment losses on property, trains and equipment	(9,959,565)	(6,983,578)
Impairment losses on other non-current assets	(29,035)	-
Losses on foreign currency transaction (related to operating activities)	(751,171)	(616,987)
Losses on foreign currency translation (related to operating activities)	(10,533)	-
Other costs	(35,864,341)	(59,398,057)
Total	₩ <u>56,298,827</u>	<u>69,621,406</u>

(3-1) Details of other gains for the years ended December 31, 2016 and 2015, are as follows:

(In thousands of Korean won)

	<u>2016</u>	<u>2015</u>
Gains on disposal of inventories	₩ 7,608,386	6,849,690
Miscellaneous gains	79,517,117	82,461,967
Total	₩ <u>87,125,503</u>	<u>89,311,657</u>

(3-2) Details of other losses for the years ended December 31, 2016 and 2015, are as follows:

(In thousands of Korean won)

		<b>2016</b>	<b>2015</b>
Impaired loss on fixed assets intended for disposal	₩	-	1
Losses from inventory obsolescence		73,700	325,006
Miscellaneous losses		35,790,641	59,073,050
Total	₩	<u>35,864,341</u>	<u>59,398,057</u>

### 37. **FINANCE INCOME:**

(1) During 2016 and 2015, finance income is detailed as follows:

(In thousands of Korean won)

		<b>2016</b>	<b>2015</b>
Interest income	₩	9,751,220	17,035,301
Dividend income		781,306	848,084
Gain on valuation of derivative instruments		552	-
Gains on settlement of derivative instruments		20,715,400	81,885,400
Gain from foreign currency translation (borrowings denominated in foreign currency)		2,522,729	2,819,739
Gain from foreign currency transactions (borrowings denominated in foreign currency)		11,715,531	81,227
Total	₩	<u>45,486,738</u>	<u>102,669,751</u>

(2) During 2016 and 2015, interest income included in the financial income by related assets is detailed as follows:

(In thousands of Korean won)

		<b>2016</b>	<b>2015</b>
Cash and cash equivalents	₩	4,654,547	13,423,074
Current financial instruments recognized in profit or loss		(161)	(94)
Available-for-sale financial assets		-	1,300
Held-to-maturity financial assets		-	104,626
Loans and receivables		4,240,238	3,343,893
Short-term financial instruments		799,257	89,063
Long-term financial instruments		348	422
Other financial assets		56,991	73,017
Total	₩	<u>9,751,220</u>	<u>17,035,301</u>

### 38. **FINANCE COSTS:**

(1) During 2016 and 2015, finance costs are detailed as follows:

(In thousands of Korean won)

		<b>2016</b>	<b>2015</b>
Interest expenses	₩	420,012,978	480,668,462
Losses on disposal of available-for-sale financial assets		32	5,255
Losses on valuation of derivative instruments		2,496,900	2,767,350
Losses on settlement of derivative instruments		11,000,000	1,960,000
Losses from early extinguishment of debt		-	2,212,192
Losses on foreign currency translation (foreign borrowing)		20,737,905	81,905,109
Losses on foreign currency transaction (foreign Borrowing)		79,688	2,604,131
Total	₩	<u>454,327,503</u>	<u>572,122,499</u>

(2) During 2016 and 2015, interest expense included in finance costs by related liabilities is detailed as follows:

(In thousands of Korean won)

		<b>2016</b>	<b>2015</b>
Accounts payables and other payables	₩	7,413,068	7,738,838
Short-term borrowings		895,644	1,492,381
Long-term borrowings		4,939,337	3,528,932
Bonds		415,501,616	470,711,384
Convertible bonds		-	-
Other financial liabilities		-	-
Subtotal		428,749,665	483,471,535
Deduct: Capitalization of borrowing costs		(8,736,687)	(2,803,073)
Total	₩	420,012,978	480,668,462

Weighted-average capitalization interest rate for borrowings for the years ended December 31, 2016 and 2015, was 3.54% and 3.63%, respectively.

### 39. INCOME TAXES RELATED TO CONTINUING OPERATION:

(1) The component of income tax benefit for the years ended December 31, 2016 and 2015, is as follows:

(In thousands of Korean won)

		<b>2016</b>	<b>2015</b>
Current tax expense	₩	1,233,613	708,631
Adjustment for prior periods		-	(216,562,266)
Origination and reversal of temporary differences		4,636,829	(2,801,901)
Income tax recognized in other comprehensive income		(11,370,128)	(776,230)
Income tax benefit	₩	(5,499,686)	(219,431,766)

(2) Reconciliation between income tax benefit and accounting income is detailed as follows:

(In thousands of Korean won)

		<b>2016</b>	<b>2015</b>
Loss before income tax benefit	₩	(231,998,503)	(276,367,472)
Tax rate		22.00%	22.0%
Income tax benefit using the Company's statutory tax rate		(51,039,671)	736,698
Adjustments:			
Tax effect of non-taxable income		(383,770)	(86)
Tax effect of non-deductible expenses		10,018,293	52,553
Current adjustments for prior periods		-	(216,562,266)
Tax expenses directly added to, or deducted from, equity		281,497	(776,230)
Other (tax rate differences, etc.)		35,623,965	(2,882,435)
Income tax benefit		(5,499,686)	(219,431,766)
Average effective tax rate		N/A	N/A

(3) Deferred income tax recognized directly in other comprehensive income for the years ended December 31, 2016 and 2015, is as follows:

(In thousands of Korean won)

		<b>2016</b>	<b>2015</b>
Deferred income tax:			
Gains/losses on valuation of available-for-sale securities	₩	270	227
Gains/losses on remeasurement factors of defined benefit plan		(281,767)	(3,858)
Gains/losses on revaluation of assets		11,651,625	(772,599)
Total	₩	11,370,128	(776,230)

(4) Changes in deferred income tax assets (liabilities) during the years ended December 31, 2016 and 2015, are detailed as follows:

		<b>2016</b>				
		<b>Beginning balance</b>	<b>Profit or loss</b>	<b>Other comprehensive income</b>	<b>Reclassify to held for sale</b>	<b>Ending balance</b>
<i>(In thousands of Korean won)</i>						
The Company:						
Deferred income tax assets	₩	-	-	-	-	-
Deferred income tax liabilities		-	-	-	-	-
Subsidiary:						
Deferred income tax assets		8,348,188	9,170,406	281,497	-	17,800,091
Deferred income tax liabilities		(7,163,791)	(2,437,107)	(11,651,625)	-	(21,252,523)
The Group:						
Deferred income tax assets		8,348,188	9,170,406	281,497	-	17,800,091
Deferred income tax liabilities		(7,163,791)	(2,437,107)	(11,651,625)	-	(21,252,523)

		<b>2015</b>				
		<b>Beginning balance</b>	<b>Profit or loss</b>	<b>Other comprehensive income</b>	<b>Reclassify to held for sale</b>	<b>Ending balance</b>
<i>(In thousands of Korean won)</i>						
The Company:						
Deferred income tax assets	₩	-	-	-	-	-
Deferred income tax liabilities		-	-	-	-	-
Subsidiary:						
Deferred income tax assets		5,119,338	4,005,080	(776,230)	-	8,348,188
Deferred income tax liabilities		(7,937,472)	773,681	-	-	(7,163,791)
The Group:						
Deferred income tax assets		5,119,338	4,005,080	(776,230)	-	8,348,188
Deferred income tax liabilities		(7,937,472)	773,681	-	-	(7,163,791)

#### 40. **ASSETS HELD FOR SALE:**

(1) Details of assets and liabilities held for sale and related to discontinued operation as of December 31, 2016 and 2015, are detailed as follows:

<i>(In thousands of Korean won)</i>		<b>December 31, 2016</b>	<b>December 31, 2015</b>
Held for sale: land (Note 1)	₩	24,090,996	7,042,189
Held for sale: buildings and structures (Note 1)		446,497	31,209

Note 1.

During the period, some assets of land and buildings of the Group were classified as held for sale through the approval of the overall asset management. Each regional headquarters is in the process of disposal of public land by consultation of compensation for loss with the government. Assets are expected to be sold within a year from the end of reporting period.

#### 41. NATURE OF EXPENSES:

Details of nature of expenses for the years ended December 31, 2016 and 2015, are as follows:

(In thousands of Korean won)

		2016		
	Changes in	Selling, general and administrative expenses	Cost of sales	Total
	inventories			
Goods	₩ 134,275,524	-	-	134,275,524
Manufactured goods	562,267	-	-	562,267
Salaries	-	158,751,409	1,813,580,435	1,972,331,844
Retirement benefits	-	14,911,940	158,197,144	173,109,084
Employee benefits	-	17,903,112	212,442,826	230,345,938
Insurance	-	2,439,588	6,247,901	8,687,489
Depreciation expense	-	31,067,194	456,600,755	487,667,949
Amortization of intangibles	-	9,399,087	576,033	9,975,120
Bad debts expenses	-	11,460,328	-	11,460,328
Commissions paid	-	36,299,722	352,824,108	389,123,830
Advertising	-	5,816,542	59,576	5,876,118
Education and training	-	4,933,152	252,656	5,185,808
Vehicle maintenance	-	234,024	427,174,779	427,408,803
Printing	-	959,097	1,018,324	1,977,421
Project initiatives	-	686,624	143,434	830,058
Rental	-	2,969,839	963,368,741	966,338,580
Communication	-	2,014,403	1,511,336	3,525,739
Transportation	-	30,729	6,373	37,102
Taxes and dues	-	8,528,512	13,419,421	21,947,933
Supplies	-	3,150,306	15,530,778	18,681,084
Utilities	-	5,339,499	63,174,426	68,513,925
Maintenance	-	10,970,358	562,784,414	573,754,772
Ordinary development expenses	-	649,895	1,957,618	2,607,513
Business trip and transportation expenses	-	2,010,725	18,739,328	20,750,053
Uniforms	-	879,453	5,041,195	5,920,648
Research and analysis	-	535,842	31,158	567,000
Annual fees	-	332,856	90,447	423,303
Sales promotion	-	-	796,359	796,359
Sales commissions	-	798,904	21,678	820,582
Others	-	6,541,083	22,015,852	28,556,935
Total	₩ 134,837,791	339,614,223	5,097,607,096	5,572,059,109

(In thousands of Korean won)

		2015			
		Changes in inventories	Selling, general and administrative expenses	Cost of sales	Total
Goods	₩	126,523,580	-	-	126,523,580
Manufactured goods		637,279	-	-	637,279
Salaries		-	144,877,230	1,784,585,762	1,929,462,992
Retirement benefits		-	13,085,776	155,756,236	168,842,012
Employee benefits		-	16,576,248	203,737,623	220,313,871
Insurance		-	2,350,984	6,434,821	8,785,805
Depreciation expense		-	19,408,579	317,858,815	447,277,405
Amortization of intangibles		-	8,168,546	451,056	8,619,602
Bad debts expenses		-	2,060,605	-	2,060,605
Commissions paid		-	36,161,515	308,601,060	344,762,575
Advertising		-	3,589,807	47,613	3,637,420
Education and training		-	5,712,558	383,776	6,096,334
Vehicle maintenance		-	289,349	461,308,820	461,598,169
Printing		-	746,489	784,358	1,530,847
Project initiatives		-	815,335	134,288	949,623
Rental		-	4,825,143	889,493,972	894,319,115
Communication		-	2,020,391	1,398,966	3,419,357
Transportation		-	78,225	10,690	88,915
Taxes and dues		-	6,814,170	13,792,632	20,606,802
Supplies		-	2,321,133	14,930,643	17,251,776
Utilities		-	4,724,614	60,919,444	65,644,058
Maintenance		-	9,113,702	608,551,204	617,664,906
Ordinary development expenses		-	733,426	1,409,519	2,142,945
Business trip and transportation expenses		-	2,215,901	20,077,732	22,293,633
Uniforms		-	239,217	7,719,602	7,958,819
Research and analysis		-	695,389	11,379	706,768
Annual fees		-	380,134	98,773	478,907
Sales promotion		-	-	895,744	895,744
Sales commissions		-	565,703	21,799	587,502
Others		-	4,937,440	12,362,554	17,299,994
Total	₩	127,160,859	293,507,609	4,981,788,892	5,402,457,360

#### 42. ENTRUSTED BUSINESS:

(1) Revenues and expenses for the government entrusted business reported in the consolidated financial statements as of December 31, 2016 and 2015, are as follows:

		December 31, 2016		December 31, 2015	
		Revenue	Expense	Revenue	Expense
(In thousands of Korean won)					
Government	₩	969,989,037	935,895,167	984,957,741	954,354,384
Local government		60,767,984	43,530,493	61,208,600	42,214,782
Total	₩	1,030,757,021	979,425,660	1,046,166,341	996,569,166

(2) Changes in the deferred revenue from the trusted business for the years ended December 31, 2016 and 2015, are as follows:

		2016				
		January 1, 2016	Received	Executed	Returned	December 31, 2016
(In thousands of Korean won)						
Cash and cash equivalent	Government	₩ (77,953,061)	(1,075,237,950)	974,429,569	101,913,907	2,919,459 (73,928,076)
Cash and cash equivalent	Local government	(67,258,356)	(54,179,450)	60,252,471	36,417,090	(8,673,457) (33,441,702)
Total		₩ (145,211,417)	(1,129,417,400)	1,034,682,040	138,330,997	(5,753,998) (107,369,778)



			2015				
			January 1, 2015	Received	Executed	Returned	December 31, 2015
<i>(In thousands of Korean won)</i>							
Cash and cash equivalent	Government	₩	(157,083,824)	(1,004,043,577)	1,041,007,239	40,885,221	1,281,880 (77,953,061)
Cash and cash equivalent	Local government		(77,070,305)	(82,326,162)	62,638,308	19,061,835	10,437,968 (67,258,356)
Total		₩	(234,154,129)	(1,086,369,739)	1,103,645,547	59,947,056	11,719,848 (145,211,417)

#### 43. CATEGORIES OF FINANCIAL INSTRUMENTS:

(1) Categories of financial instruments as of December 31, 2016 and 2015, are as follows:

*(In thousands of Korean won)*

			December 31, 2016				
			Loans and receivables	Available-for-sale financial assets	Held-to-maturity financial assets	Derivative instruments for hedging	Total
<u>Current assets</u>							
Short-term loans		₩	113,562	-	-	-	113,562
Derivative instrument assets			-	-	-	44,554,993	44,554,993
Short-term financial instruments			16,841,649	-	-	-	16,841,649
Accounts receivables and other receivables			357,860,661	-	-	-	357,860,661
Subtotal			374,815,872	-	-	44,554,993	419,370,865
<u>Non-current assets</u>							
Available-for-sale financial assets			-	38,016,648	-	-	38,016,648
Long-term loans			42,138,015	-	-	-	42,138,015
Long-term financial instruments			18,755	-	-	-	18,755
Derivative instrument assets			-	-	-	22,248,201	22,248,201
Accounts receivables and other receivables			541,031,492	-	-	-	541,031,492
Subtotal			583,188,262	38,016,648	-	22,248,201	643,453,111
Total		₩	958,004,134	38,016,648	-	66,803,194	1,062,823,976

*(In thousands of Korean won)*

			December 31, 2015				
			Loans and receivables	Available-for-sale financial assets	Held-to-maturity financial assets	Derivative instruments for hedging	Total
<u>Current assets</u>							
Short-term loans		₩	208,376	-	-	-	208,376
Derivative instrument assets			-	-	-	10,597,473	10,597,473
Short-term financial instruments			32,576,051	-	-	-	32,576,051
Accounts receivables and other receivables			448,694,904	-	-	-	448,694,904
Subtotal			481,479,331	-	-	10,597,473	492,076,804
<u>Non-current assets</u>							
Available-for-sale financial assets			-	34,305,585	-	-	34,305,585
Long-term loans			45,372,293	-	-	-	45,372,293
Long-term financial instruments			18,755	-	-	-	18,755
Derivative instrument assets			-	-	-	51,986,225	51,986,225
Accounts receivables and other receivables			566,059,152	-	-	-	566,059,152
Subtotal			611,450,200	34,305,585	-	51,986,225	697,742,010
Total		₩	1,092,929,531	34,305,585	-	62,583,698	1,189,818,814

(2) Categories of financial liabilities as of December 31, 2016 and 2015, are as follows:

<b>December 31, 2016</b>			
	<b>Financial liabilities measured at amortized costs</b>	<b>Derivative instruments for hedging</b>	<b>Total</b>
<i>(In thousands of Korean won)</i>			
<u><b>Current liabilities</b></u>			
Accounts payables and other payables	₩ 619,193,264	-	619,193,264
Short-term borrowings	10,448,562	-	10,448,562
Current portion of long-term borrowings	31,300,000	-	31,300,000
Current bonds	1,862,112,178	-	1,862,112,178
Subtotal	2,523,054,004	-	2,523,054,004
<u><b>Non-current liabilities</b></u>			
Account payables and other payables	32,754,691	-	32,754,691
Long-term borrowings	115,783,210	-	115,783,210
Bonds	9,556,404,272	-	9,556,404,272
Derivative instrument liabilities	-	4,352,442	4,352,442
Other financial liabilities	147,600,000	-	147,600,000
Subtotal	9,852,542,173	4,352,442	9,856,894,615
Total	₩ 12,375,596,177	4,352,442	12,379,948,619
<b>December 31, 2015</b>			
	<b>Financial liabilities measured at amortized costs</b>	<b>Derivative instruments for hedging</b>	<b>Total</b>
<i>(In thousands of Korean won)</i>			
<u><b>Current liabilities</b></u>			
Accounts payables and other payables	₩ 646,169,452	-	646,169,452
Short-term borrowings	221,589,755	-	221,589,755
Current portion of long-term borrowings	30,812,500	-	30,812,500
Current bonds	1,523,667,779	-	1,523,667,779
Derivative instrument liabilities	-	1,491,143	1,491,143
Subtotal	2,422,239,486	1,491,143	2,423,730,629
<u><b>Non-current liabilities</b></u>			
Account payables and other payables	1,503,451	-	1,503,451
Long-term borrowings	133,000,000	-	133,000,000
Bonds	9,375,550,460	-	9,375,550,460
Derivative instrument liabilities	-	6,790,303	6,790,303
Other financial liabilities	96,270,000	-	96,270,000
Subtotal	9,606,323,911	6,790,303	9,613,114,214
Total	₩ 12,028,563,397	8,281,446	12,036,844,843

(3) Gain and loss of financial instruments by categories for the years ended December 31, 2016 and 2015, are as follows:

(In thousands of Korean won)

		2016	2015
Loans and receivables:			
Interest income	₩	9,751,220	17,035,301
Available-for-sale financial assets:			
Dividends income		781,306	848,084
Loss on disposal of available-for-sale securities		520	(5,255)
Comprehensive income or loss recognized for the year		(2,514,799)	869,301
Derivative instrument assets for hedging:			
Gains on valuation of derivative instruments		20,715,400	81,885,400
Gains on settlement of derivative instruments		-	-
Losses on valuation of derivative instruments		(2,496,900)	(2,767,350)
Losses on settlement of derivative instruments		(11,000,000)	(1,960,000)
Comprehensive income or loss recognized in the reporting period		929,999	21,266,250
Financial liabilities measured at amortized costs:			
Gain on foreign currency transaction related to borrowings		11,715,531	81,227
Gain on foreign currency translation related to borrowings		2,522,729	2,819,739
Interest expense		(420,012,978)	(480,668,462)
Loss on Redemption of Finance debt		-	(2,212,192)
Gain on foreign currency transaction		(79,688)	(2,604,132)
Gain on foreign currency translation		(20,735,454)	(81,905,109)
Total	₩	(410,423,113)	(447,317,196)

#### 40. FINANCIAL RISK MANAGEMENT:

##### (1) Credit risk

As of December 31, 2016 and 2015, the Group's maximum exposure to credit risk is as follows:

(In thousands of Korean won)

		December 31, 2016	December 31, 2015
Loans	₩	42,251,577	45,580,669
Long- and short-term financial instruments		16,860,404	32,594,805
Derivative instrument assets		66,803,194	62,583,698
Trade receivables and other receivables		898,892,153	1,014,754,056
Cash and cash equivalents		374,092,586	208,608,820
Total	₩	1,398,899,914	1,364,122,048

##### (2) Liquidity risk

As of December 31, 2016, contractual maturity of financial liabilities is summarized as follows:

		December 31, 2016					
(In thousands of Korean won)		Carrying amount	Contractual cash flow	6 months or less	6-12 months	1 year-2 years	More than 5 years
Borrowings	₩	157,531,772	160,699,789	22,106,914	20,777,954	56,212,078	408,992
Bonds		11,418,516,450	13,530,622,608	1,493,458,342	737,024,261	1,853,817,117	5,301,344,500
Trade payables and other payables		651,947,955	651,947,955	619,193,264	-	32,754,691	-
Derivative financial liabilities		4,352,442	4,352,442	-	-	4,352,442	-
Total liabilities	₩	12,232,348,619	14,347,622,794	2,134,758,520	757,802,215	1,947,136,328	5,301,753,492

The Group does not expect the cash outflow to occur significantly earlier or at a significantly different amount.

As of December 31, 2015, contractual maturity of financial liabilities is summarized as follows:

		<b>December 31, 2015</b>					
<i>(In thousands of Korean won)</i>		<b>Carrying amount</b>	<b>Contractual cash flow</b>	<b>6 months or less</b>	<b>6–12 months</b>	<b>1 year–2 years</b>	<b>More than 5 years</b>
Borrowings	₩	385,402,255	391,325,216	232,972,225	21,672,331	31,603,211	619,488
Bonds		10,899,218,240	12,878,077,513	475,835,783	1,454,809,172	1,454,809,172	4,192,597,600
Trade payables and other payables		647,672,902	647,674,743	646,169,452	-	1,505,291	-
Derivative financial liabilities		8,281,446	8,281,446	-	1,491,143	-	-
Total liabilities	₩	11,940,574,843	13,925,358,918	1,354,977,460	1,477,972,646	2,215,147,365	4,193,217,088

The following table indicates the periods in which the cash flows associated with cash flow hedges are expected to occur as of December 31, 2016.

		<b>December 31, 2016</b>					
<i>(In thousands of Korean won)</i>		<b>Book value</b>	<b>Contractual cash flow</b>	<b>6 months or less</b>	<b>6–12 months</b>	<b>1 year–2 years</b>	<b>More than 5 years</b>
Currency swap							
Assets	₩	66,803,194	66,803,194	28,558,879	15,996,114	10,589,418	-
Liabilities		4,352,442	(4,352,442)	-	-	(4,352,442)	-
Total	₩	71,155,636	62,450,752	28,558,879	15,996,114	6,236,976	-

The following table indicates the periods in which the cash flows associated with cash flow hedges are expected to occur as of December 31, 2015.

		<b>December 31, 2015</b>					
<i>(In thousands of Korean won)</i>		<b>Book value</b>	<b>Contractual cash flow</b>	<b>6 months or less</b>	<b>6–12 months</b>	<b>1 year–2 years</b>	<b>More than 5 years</b>
Interest rate swap							
Liabilities	₩	1,491,143	(1,491,143)	-	-	(1,491,143)	-
Currency swap							
Assets		62,583,698	62,583,698	-	10,597,473	31,901,738	-
Liabilities		6,790,303	(6,790,303)	-	-	-	-
Total	₩	70,865,144	54,302,252	-	10,597,473	30,410,595	-

### (3) Currency risk

#### (i) Exposure to currency risk

As of December 31, 2016 and 2015, monetary assets and liabilities denominated in currencies other than functional currency are detailed as follows:

	December 31, 2016				
	USD	CHF	EUR	SGD	Others
<i>(in USD, CHF, EUR, SGD and AUD)</i>					
<u>Assets denominated in foreign currency</u>					
Cash and cash equivalents	99,324	-	139,882	1,670	262,654
Total assets denominated in foreign currency	99,324	-	139,882	1,670	262,654
<u>Liabilities denominated in foreign currency</u>					
Trade payables and other payables	-	-	1,591	-	-
Bonds	604,250,000	726,517,950	-	54,249,000	47,962,750
Total liabilities denominated in foreign currency	604,250,000	726,517,950	1,591	54,249,000	47,962,750

	December 31, 2015				
	USD	CHF	EUR	SGD	Others
<i>(in USD, CHF, EUR, SGD and AUD)</i>					
<u>Assets denominated in foreign currency</u>					
Cash and cash equivalents	760,853	-	117,244	1,655	151,028
Total assets denominated in foreign currency	760,853	-	117,244	1,655	151,028
<u>Liabilities denominated in foreign currency</u>					
Bonds	586,000,000	729,014,850	-	53,825,850	46,920,500
Total liabilities denominated in foreign currency	586,000,000	729,014,850	-	53,825,850	46,920,500

Foreign exchange rate applied as of December 31, 2016 and 2015, is as follows:

	Reporting date spot rate	
	December 31, 2016	December 31, 2015
USD	1208.50	1172.0
CHF	1181.33	1185.4
EUR	1267.60	1280.5
SGD	834.60	828.1
AUD	872.05	853.1
JPY	10.3681	9.7201
CNY	173.26	180.6

(ii) Sensitivity analysis of changes in exchange rate

A strengthening of the Korean won, as indicated below, against the USD, CHF, EUR, SGD, AUD, JPY and CNY at December 31, 2016, would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis is based on foreign currency exchange rate variances that the Group considered to be reasonably possible at the reporting date. The analysis assumes that all other variables, in particular, interest rates, remain constant and ignores any impact of forecasted sales and purchases. The analysis is performed on the same basis for 2015, albeit that the reasonably possible foreign exchange rate variances are different, as indicated below.

<i>(In thousands of Korean won)</i>		<u>10% increase</u>	<u>10% decrease</u>
Net profit or loss before income taxes	₩	(1,200,000)	1,200,000

A weakening of the Korean won against the above currencies at December 31, 2016, would have the equal, but opposite effect on the above currencies to the amounts shown above on the basis that all other variables remain constant. As the Group manages foreign exchange rate risk with currency swap, the exposure to exchange rate risk is non-significant.

(4) Interest rate risk

(i) The Group has foreign currency bonds and foreign currency long-term borrowings, which have significant effect on profit or loss and equity depending on fluctuations in interest rates. The Group manages interest rate risk by interest rate swap agreements, and fluctuation in interest rates does not have significant impact on the financial position and financial results.

<i>(In thousands of Korean won)</i>		<u>Interest rate</u>	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Public fund management capital	Government bonds-three-year interest rate - 0.5%	₩	120,000,000	150,000,000

(ii) Cash flow sensitivity analysis of variable interest rate financial instruments

The Group does not account fixed-rate financial instruments as current financial instruments recognized in profit or loss, and does not designate derivative instruments, such as interest swap, to avoid fair value risk. As such, fluctuation of interest rate does not have effect on profit or loss.

(iii) Sensitivity analysis of cash flow from variable interest rate financial instruments on cash flow

Changes of 100 BP in interest rates as of December 31, 2016, would result in increase or decrease in equity and profit or loss. The analysis assumes that all other variables, in particular, interest rates, remain constant. The analysis is performed on the same basis for 2015. Changes in equity and profit or loss are detailed as follows:

<i>(In thousands of Korean won)</i>		<u>Profit of loss</u>		<u>Equity</u>	
		<u>100 BP Increase</u>	<u>100 BP Decrease</u>	<u>100 BP Increase</u>	<u>100 BP Decrease</u>
As of December 31, 2016-borrowings in Korean won	₩	(1,200,000)	1,200,000	(1,200,000)	1,200,000
As of December 31, 2015-borrowings in Korean won		(1,500,000)	1,500,000	(1,500,000)	1,500,000

(5) Fair value measurement

(i) Carrying value and the fair value of financial assets and liabilities are detailed as below:

(In thousands of Korean won)	December 31, 2016		December 31, 2015	
	Carrying Amount	Fair value	Carrying Amount	Fair value
Assets carried at fair value				
Available-for-sale financial assets	₩ 38,016,648	38,016,648	34,305,585	34,305,585
Currency swap (hedging)	66,803,194	66,803,194	62,583,698	62,583,698
Subtotal	104,819,842	104,819,842	96,889,283	96,889,283
Assets carried at amortized cost				
Loans and other receivables	941,143,730	941,143,730	1,060,334,724	1,060,334,724
Long/short-term financial instrument	16,860,404	16,860,404	32,594,805	32,594,805
Cash and cash equivalents	374,092,586	374,092,586	208,608,820	208,608,820
Subtotal	1,332,096,720	1,332,096,720	1,301,538,349	1,301,538,349
Total	₩ 1,436,916,562	1,436,916,562	1,398,427,632	1,398,427,632
Liabilities carried at fair value				
Currency swap (hedging)	₩ 4,352,442	4,352,442	6,790,303	6,790,303
Interest rate swap	-	-	1,491,143	1,491,143
Subtotal	4,352,442	4,352,442	8,281,446	8,281,446
Liabilities carried at amortized cost(*)				
Borrowings	157,531,772	157,531,772	385,402,255	385,402,255
Trade payables and other payables	651,947,955	651,947,955	647,672,902	647,672,902
Bonds	11,418,516,450	11,418,516,450	10,899,218,240	10,899,218,240
Subtotal	12,227,996,177	12,227,996,177	11,932,293,397	11,932,293,397
Total	₩ 12,232,348,619	12,232,348,619	11,940,574,843	11,940,574,843

(\*) The Group recognized some of the financial assets and liabilities at book value as it believes book value is a reasonable measurement of fair value.

(ii) Interest rate used to determine the fair value

At the end of reporting period, interest rate used to determine the expected cash flow was determined by adding interest rate of government bonds and credit spread. As of December 31, 2016 and 2015, interest rates applied are detailed as follows:

(In percentage)	December 31, 2016	December 31, 2015
Derivative instruments	1.81%–3.64%	2.38%–3.64%
Available-for-sale financial assets	5.78%–6.39%	4.60%–5.83%

(iii) The level of fair value hierarchy is as follows:

	Significance of inputs
Level 1	Quoted prices (unadjusted) in active markets for identical assets or liabilities
Level 2	Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices)
Level 3	Inputs for the asset or liability that are not based on observable market data (unobservable inputs)

As of December 31, 2016, details of fair value, carrying amount and secured assets are as follows:

(In thousands of Korean won)	Level 1	Level 2	Level 3	Total
Available-for-sale financial assets(*1)	₩ -	-	38,016,648	38,016,648
Derivative instrument assets(*2)	-	66,803,194	-	66,803,194
Total	₩ -	66,803,194	38,016,648	104,819,842
Derivative instrument liabilities(*2)	₩ -	4,352,442	-	4,352,442
Total	₩ -	4,352,442	-	4,352,442

(\*1) Available-for-sale financial assets are not quoted in an active market and measured at valuation amount evaluated by an independent valuation agency.

(\*2) Derivative assets and liabilities are measured at fair value in accordance with terms of contract with financial institutions.

The following table shows changes in financial instruments of Level 3 (fair value) for the years ended December 31, 2016 and 2015:

(In thousands of Korean won)

		<b>Available-for-sale financial assets</b>	
		<b>2016</b>	<b>2015</b>
Beginning balance	₩	34,305,585	29,730,771
Acquisition		6,106,692	3,678,691
Loss for the period		-	-
Other comprehensive income		(2,513,571)	869,930
Disposal		(157,569)	-
Reclassification to other level		275,511	26,193
Ending balance	₩	38,016,648	34,305,585

#### 45. RELATED PARTIES:

(1) As of December 31, 2016, the controlling company that prepares the consolidated financial statements is Korea Railroad Corporation, and the related parties of the Group are detailed as follows:

	<b>Name of Related Parties</b>
Controlling company (parent company)	Government of Korea
Subsidiaries	KORAIL Retail Co., Ltd., KORAIL Networks Co., Ltd., KORAIL Tech Co., Ltd., KORAIL Logis Co., Ltd., KORAIL Tourism Development Co., Ltd., SR Co., Ltd. and Korean Insurance Brokerage Co., Ltd.
Related companies	Hanwha Station Development Co., Ltd., Noryangjin Station Building Co., Ltd., Uiwang ICD Co., Ltd., Lotte Station Building Co., Ltd., Bucheon Station Building Co., Ltd., Bupyeong Department Store Co., Ltd., Shinsegae Uijeongbu Station Building Co., Ltd., Sinchon Station Building Co., Ltd., Anyang Station Building Co., Ltd., Donginchon Shopping Center Co., Ltd., Bitplex Co., Ltd., Changdong Station Building Co., Ltd., Dream Hub Project Financial Investment Co., Ltd., Seongsu Station Building Co., Ltd., Ansan Central Station Building Co., Ltd. and Yong San Station Around Development Co., Ltd.



(2) Significant transactions that occurred in the normal course of business with related companies for the years ended December 31, 2016 and 2015, are as follows:

(In thousands of  
Korean won)

	Name	Revenue		Costs	
		2016	2015	2016	2015
Related companies	Bitplex Co., Ltd.	₩ -	107,712	19,895	21,544
	Lotte Station Building Co., Ltd.	7,514,422	13,779,853	220,846	245,440
	Bucheon Station Building Co., Ltd.	2,508,358	2,507,353	487,664	471,341
	Bupyeong Department Store Co., Ltd.	-	6	190,401	146,757
	Seongbuk Station Building Co., Ltd.	17,497	16,752	-	-
	Shinsegae Uijeongbu Station Building Co., Ltd.	13,543	13,543	-	-
	Ansan Central Station Building Co., Ltd.	5,972	6,558	-	-
	Anyang Station Building Co., Ltd.	75,485	85,394	132,121	150,333
	Yong San Station Around Development Co., Ltd.	-	95,744	-	-
	Uiwang ICD Co., Ltd.	6,971,194	6,651,007	-	-
	Hanwha Station Development Co., Ltd.	2,114,388	1,516,353	137,660	140,820
	Total	₩ 19,220,859	24,780,275	1,188,587	1,176,235

(3) Account balances with related companies as of December 31, 2016 and 2015, are as follows:

(In thousands of  
Korean won)

	Name	Receivables		Payables	
		2016	2015	2016	2015
Related companies	Noryangjin Station Building Co., Ltd.	₩ -	782	-	624
	Dream Hub Project Financial Investment Co., Ltd.	-	-	65,268,912	65,268,912
	Lotte Station Building Co., Ltd.	2,801	2,639	576,878	679,834
	Bucheon Station Building Co., Ltd.	1,118	379	244	244
	Bupyeong Department Store Co., Ltd.	11	9	13,580	13,548
	Bitplex Co., Ltd.	-	35	1,678	110,499
	Seongbuk Station Building Co., Ltd.	-	231	-	4,979
	Ansan Central Station Building Co., Ltd.	16,004	10,033	-	-
	Anyang Station Building Co., Ltd.	25,000	1	20,993	21,334
	Yongsan Development Co., Ltd.	360,529	360,529	-	-
	Uiwang ICD Co., Ltd.	709,259	989,484	837,787	808,581
	Hanwha Station Development Co., Ltd.	-	-	10,625	-
	Total	₩ 1,114,722	1,364,122	66,730,697	66,908,555

(4) During the years ended December 31, 2016 and 2015, compensation to management is detailed as follows:

(In thousands of Korean won)

		<u>2016</u>	<u>2015</u>
Short-term employees benefits	₩	570,235	631,237
Accrual for retirement and severance benefits		25,928	42,606
Total	₩	<u>596,163</u>	<u>673,843</u>

(5) Loans as of December 31, 2016 and 2015, are totally borrowed from the Group's employees and the details are as follows:

(In thousands of Korean won)

		<u>2016</u>	<u>2015</u>
Tuition loans(*1)	₩	42,138,014	45,372,293
Other loans(*2)		113,562	208,376
Total	₩	<u>42,251,576</u>	<u>45,580,669</u>

(\*1) The Group provides loans to employees for the purpose of financial aid for children. Repayment of loans is made through a monthly payroll deduction.

(\*2) The Group recognized four major insurance payments made on behalf of employees laid off as other loans.

#### **46. NON-CASH INVESTING AND FINANCING ACTIVITIES:**

(In thousands of Korean won)

		<u>2016</u>	<u>2015</u>
Reclassification of construction in progress to buildings	₩	753,635,137	731,620,485
Reclassification of current portion of long-term borrowings		31,300,000	30,812,500
Reclassification of current portion of bonds		1,862,550,000	1,524,400,000
Reclassification of long-term non-trade receivables to land		26,282,528	35,855,669

#### **47. COMMITMENTS AND CONTINGENCIES:**

(1) Details of contingent liabilities as of December 31, 2016 and 2015, are as follows:

(In thousands of Korean won)

		<u>2016 (*1)</u>	<u>2015 (*2)</u>
Pending litigations	₩	581,226,170	629,003,068

(\*1) The Group is a defendant for 124 litigations, such as claims for payment of ordinary wages.

(\*2) The Group was a defendant for 113 litigations, such as claims for Cancellation of development of Yongsan station area.

(2) Details of contingent assets as of December 31, 2016 and 2015, are as follows:

(In thousands of Korean won)

		<u>2016(*3)</u>	<u>2015(*4)</u>
Pending litigations	₩	2,028,080,975	2,280,914,256

(\*3) The Group is a plaintiff for 106 litigations, such as compensation for damages caused by strikes by employees.

(\*4) The Group was a plaintiff for 92 litigations, such as cancellation of corporate income taxation.

(3) Pledged assets and guarantees

(i) Assets pledged as collateral for the Group's borrowings as of December 31, 2016, are summarized as follows:

<i>(In thousands of Korean won)</i>	<b>Carrying amount</b>	<b>Guaranteed amount</b>	<b>Type of borrowings</b>	<b>Lender</b>
Promissory notes	₩ 500,000	500,000	Performance bonds	Mitsui-soko
Buildings	2,970,948	100,000	Guarantee money	Seoul Election Commission
Land and buildings	138,653,496	2,420,520	Guarantee money	Korea Seven

(ii) Collaterals and guarantees provided by third parties on behalf of the Group as of December 31, 2016, are as follows:

<i>(In thousands of Korean won)</i>	<b>Type of guarantees</b>	<b>Amount</b>	<b>Notes</b>
Seoul Guarantee Insurance Co., Ltd. (SGI)	Guarantee fulfillment	KRW 17,020,648	
Woori Bank	Operating capital loans	KRW 100,000,000	
	Operating capital loans	KRW 19,397,000	
	Operating capital loans	KRW 2,000,000	
Hana Bank	L/C (Import)	USD 16,074	
	Operating capital loans	KRW 3,980,000	
Kookmin Bank	Operating capital loans	KRW 100,000,000	
	Payment guarantee in foreign currency	USD 952,908	
	Payment guarantee in foreign currency	EUR 20,959,857	
	Payment guarantee in foreign currency	JPY 73,284,600	
	Business purchasing Card	KRW 3,000,000	
SC Bank	Other contract(P Bond)	USD 533,203	
Import Bank of Korea	Other contract	SAR 24,950,000	
NH Bank	Operating capital loans	KRW 43,100,000	
Korea Specialty Contractor Financial Cooperative (KSCFC)	Contract guarantee	KRW 2,403,333	
	Performance bonds	KRW 751,481	
	Advance bonds	KRW 1,334,476	
Electric Contractors' Financial Cooperative (ECFC)	Contract guarantee	KRW 870,916	
	Performance bonds	KRW 212,274	

**48. TRANSACTIONS WITH THE GOVERNMENT AND OTHER PUBLIC INSTITUTIONS:**

(1) Transactions with the Government and other public institutions for the years ended December 31, 2016 and 2015, are as follows.

Name		Revenue		Costs	
		2016	2015	2016	2015
Ministries	₩	425,239,656	466,840,771	29,209,892	104,504,327
Local governments		104,912,398	129,325,522	34,203,954	38,327,962
Public companies		4,331,306	5,202,568	340,665,945	360,734,750
Semipublic institutions		981,309,059	1,048,627,304	952,280,799	929,083,855
Other public institutions		832,293,517	798,280,231	75,745,903	76,943,596
Total	₩	2,348,085,936	2,448,276,396	1,432,106,493	1,509,594,490

(2) Account balances with government and other public institutions as of December 31, 2016 and 2015, are as follows.

Name		Receivables		Payables	
		2016	2015	2016	2015
Ministries	₩	4,790,032	1,721,253	27,414	1,138,763
Local governments		9,762,776	34,529,069	162	10,742
Public companies		336,489	620,876	334	6,009
Semipublic institutions		404,028	133,839	200,008	1,887,117
Other public institutions		19,823,089	6,509,662	15,744,672	14,278,675
Total	₩	35,116,414	43,514,699	15,972,590	17,321,306

(3) Government grants and receivables for entrusted business with the Government and other public institutions as of December 31, 2016 and 2015 are as follows.

Name		Government grants		Receivables for entrusted business	
		2016	2015	2016	2015
Ministries	₩	68,713,017	116,190,367	73,928,076	77,953,061
Local Governments		-	-	33,441,702	67,258,356
Total	₩	116,190,367	116,190,367	107,369,778	145,211,417

#### **49. DEVELOPMENT OF YONGSAN STATION AREA (INTERNATIONAL BUSINESS DISTRICT):**

##### **(1) Summary**

In 2007, the Group had established the Dream Hub Project Financial Investment Co., Ltd. (DHPFI) (the Group: 25.0%, City of Seoul (SH Construction): 4.9% and Dream Hub Consortium: 70.1%) with the Dream Hub Consortium and had proceeded with the development of Yongsan Station area. Due to a number of amendments to the contracts to cope with the economic recession and financing difficulty, the Board of Directors of the controlling company concluded that factors, such as the default of DHPFI made it impossible to carry the project forward and decided to cancel the project in 2013.

##### **(2) The progress of the project**

In the prior period, the Group notified the business cancellation to DHPFI and the members of Dream Hub Consortium and claimed ₩240,000 million to SGI as a contract performance bond based on the project agreements and land disposal contracts. As a result, the Group recognized business cancellation losses of ₩4,662,000 million, primarily composed of uncollected proceeds from the original sale of the land that was to be developed into the Yongsan Station Area.

In 2013, the Group returned the payment of ₩2,416,700 million and regained the ownership on part of the land disposed to DHPFI (138,908.4 m<sup>2</sup>, 38.97% of total area), which had been placed into a trust according to the real estate collateral trust agreement with Daehan Real Estate Trust Ltd. (the “Trust Company”) in relation to the outstanding balance that DHPFI borrowed in order to purchase land in Yongsan from the Group. The Group also regained the land equivalent to the amount of the special buyback registration that expired during the year ended December 31, 2015 (1,288.3 m<sup>2</sup>, 0.36% of total area).

##### **(3) Expectation of Business**

In October 2013, the Group appealed to the Tax Tribunal for rectification of the corporate tax amounting to ₩705,900 million related to the disposal of the land in Yongsan. In January 2014, the Group filed a lawsuit against DHPFI over the ownership of remaining area in Yongsan (216,295.1 m<sup>2</sup>, 60.67% of total area) and has been planning to seek ways to regain and utilize the land.

#### **50. ACCOUNTING FOR BUSINESS DEPARTMENTS**

##### **(1) The Group defines business departments as follows:**

- 1) Passenger transport business: KTX, ITX-Saemaeul, Saemaeul, Moogoonghwa, Nuri and trains for commuters
- 2) Metro business: Passenger transport business for Seoul metro area and ITX-Chungchoon
- 3) Freight business: Freight and storage for industrial materials such as coal, cement
- 4) Other multiple business: Development of station area and overseas business
- 5) Yongsan: Development of Yongsan station area (Cancellation on April 2013)
- 6) Entrusted business: Maintenance of properties for trains, etc.
- 7) Others
- 8) Airport train: Passenger transport for Incheon international airport (Disposed on June 2015)

(2) Details of financial information of business departments as of and for the years ended December 31, 2016 and 2015, are as follows:

1) 2016

(In thousands of  
Korean won)

		Asset	Liabilities	Revenue	Operating income(loss)	Net income(loss)
Passenger	₩	8,775,824,241	8,458,272,200	2,774,116,206	360,942,131	137,796,642
Metro		3,696,654,734	643,148,685	1,100,299,562	53,093,334	48,851,151
Freight		2,451,671,995	4,108,515,655	422,084,616	(229,825,235)	(349,326,401)
Other multiple		1,829,537,546	268,621,949	46,006,819	24,218,388	54,872,301
Yongsan		3,907,631,470	2,951,510,127	-	(1,004,057)	(57,831,670)
Entrusted		577,000,958	576,933,383	1,019,229,683	(53,307,277)	(45,297,363)
Others		5,888,203	3,332,608	3,394,953	(187,316)	(202,561)
Airport train		433,805,277	-	-	-	6,726,975
Transactions between departments		(3,737,484,770)	(3,737,484,770)	-	-	-
Subsidiaries		801,575,188	393,250,118	541,422,773	(29,892,651)	(14,215,771)
Internal transactions		(229,175,395)	78,045,882	(212,911,658)	(2,453,472)	(7,872,120)
Total	₩	18,512,929,447	13,744,145,837	5,693,642,954	121,583,845	(226,498,817)

1) 2015

(In thousands of  
Korean won)

		Assets	Liabilities	Revenue	Operating income(loss)	Net income(loss)
Passenger	₩	8,363,623,663	8,276,821,328	2,660,585,594	343,734,210	119,460,641
Metro		3,597,315,665	678,242,951	988,665,675	4,302,765	1,912,170
Freight		2,526,282,387	3,841,672,480	476,320,007	(225,895,058)	(325,138,010)
Other multiple		1,784,583,480	276,245,776	53,147,267	40,338,656	104,644,123
Yongsan		3,788,308,852	2,774,389,498	-	(2,380,862)	138,591,110
Entrusted		556,784,277	538,052,223	1,038,954,490	(44,778,414)	(31,851,174)
Others		6,643,709	3,998,730	3,066,000	(585,310)	(746,554)
Airport train		427,504,004	423,916	-	(338,414)	570,767,601
Transactions between departments		(3,182,013,160)	(3,182,013,160)	-	-	-
Subsidiaries		4,854,022,366	3,181,351,798	648,676,425	90,246,487	111,238,936
Internal transactions		(4,524,349,955)	(2,938,999,743)	(353,384,169)	(91,070,132)	(602,482,878)
Total	₩	18,198,705,288	13,450,185,797	5,516,031,289	113,573,928	86,395,965

**51. Discontinued Operation, Continued**

## 1) Income from discontinued operation

*(In thousands of Korean won)*

		<b>2016</b>	<b>2015</b>
Operating revenues	₩	-	156,387,156
Operating expenses		-	(64,920,545)
Other revenue and expenses		-	43,814,962
Income tax expense		-	(19,807,881)
Gain/Loss On Disposition		-	27,857,979
Income from discontinued operation		-	143,331,671
Equity attributable to owners of the Company		-	130,398,617
NCIs	₩	-	12,933,054

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