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

The Prospectus 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 Daiwa Securities Capital Markets Korea Co., Ltd., Standard Chartered Bank, The Korea Development Bank nor any person who controls either of them nor any director, officer, employee nor agent of it or affiliate of it accepts any liability or responsibility whatsoever in respect of any difference between the Prospectus as distributed to you herewith in electronic format and the hard copy version.

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KAL ABS 15 CAYMAN LIMITED

(incorporated with limited liability under the laws of the Cayman Islands)

U.S.$350,000,000 Secured Floating Rate Notes due 2017

Issue Price: 100%

The U.S.$350,000,000 Secured Floating Rate Notes due 2017 (the "**Notes**") of KAL ABS 15 Cayman Limited (the "**Note Issuer**") will be constituted by a note trust deed (the "**Note Trust Deed**") dated on or about 25 November 2014 among, *inter alios*, the Note Issuer and Citicorp International Limited, as trustee for the holders of the Notes (the "**Note Trustee**"). The Notes are expected to be issued on or about 25 November 2014 (the "**Closing Date**"). The Notes are limited recourse obligations of the Note Issuer and will be secured by, *inter alia*, the U.S.$350,000,000 Variable Rate Bond due 2017 (the "**Bond**") issued by KAL 15 Asset Securitization Specialty Company (the "**Bond Issuer**"), a Korean limited liability company (*yuhanhoesa*) incorporated under the Act Concerning Asset Backed Securitization of Korea and the Korean Commercial Code, to the Note Issuer on the Closing Date.

It is expected that the Notes will, when issued, be assigned a "Aa3" rating by Moody's Investors Service Hong Kong Limited (the "**Rating Agency**"). A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, qualification, suspension or withdrawal at any time by the assigning rating organisation.

Investing in the Notes involves risks. See "Risk Factors" on page 44.

This Prospectus has been approved by the Central Bank of Ireland (the "**Central Bank**"), as competent authority under Directive 2003/71/EC. Such approval relates only to the Notes which are to be admitted to trading on a regulated market for the purposes of Directive 2004/39/EC or which are to be offered to the public in any Member State of the European Economic Area. Application has been made to the Irish Stock Exchange for the Notes to be admitted to the Official List and trading on its regulated market. No assurance can be given that such listing will be obtained on or before the Closing Date, or at all. This document constitutes a prospectus for the purposes of Directive 2003/71/EC.

The transactions relating to the issuance of the Notes are arranged by Daiwa Securities Capital Markets Korea Co., Ltd., Standard Chartered Bank and The Korea Development Bank as the joint lead arrangers and the joint lead managers (the "**Joint Lead Arrangers**" and the "**Joint Lead Managers**").

The Notes have not been and will not be registered under the United States Securities Act of 1933, as amended (the "U.S. Securities Act") or under the securities laws of any state 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 U.S. Securities Act ("Regulation S")) except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act and applicable state securities laws. Accordingly, the Notes are being offered and sold only outside the United States to non-U.S. persons in accordance with Regulation S under the U.S. Securities Act.

Interest on the Notes is payable by reference to successive interest periods (each, an "**Interest Period**"). Interest is payable on the Notes monthly in arrear on the 27th day of each calendar month or, if such day is not a Business Day, the next succeeding Business Day unless that day falls in the next calendar month, in which case the first preceding day which is a Business Day (each, a "**Note Payment Date**"), commencing in January 2015. Interest will accrue on the Principal Amount Outstanding (as defined herein) of the Notes as of the first day of each relevant Interest Period on the basis of the actual number of days elapsed in such Interest Period and a 360 day year at a rate per annum equal to the sum of USD-LIBOR-BBA for one month U.S. dollar deposits (as calculated by the Calculation Agent under the Swap Agreement for the related Interest Period) *plus* a margin of 0.65 per cent.

Unless previously redeemed in full, the Note Issuer will redeem the Notes in full on the Note Payment Date falling in November 2017 (the "**Note Maturity Date**") at their Principal Amount Outstanding together with accrued interest. The Notes will be issued in registered form in the minimum denomination of U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof. The Notes will be exchangeable, and transfers thereof will be registrable, at the offices of Citibank, N.A., London Branch as note registrar (the "**Note Registrar**"). It is expected that the Notes will be delivered through the facilities of Euroclear Bank S.A./N.V. as operator of the Euroclear System ("**Euroclear**") and Clearstream Banking, *société anonyme* ("**Clearstream, Luxembourg**") on or about 25 November 2014.

Joint Lead Arrangers and Joint Lead Managers

Daiwa Securities Capital Markets Korea Co., Ltd	**Standard Chartered Bank**	**The Korea Development Bank**

The date of this Prospectus is 20 November 2014

IMPORTANT NOTICE

Prospective investors should rely only on the information contained in this Prospectus or to which reference is made herein. The Note Issuer has not authorised anyone to provide prospective investors with information that is different. This document may only be used where it is legal to sell the Notes. The information in this Prospectus may only be accurate on the date of this Prospectus.

On the Closing Date, the Note Issuer will use the proceeds of the issue of the Notes to purchase the Bond from the Bond Issuer. The Bond Issuer will use the proceeds of the issue of the Bond to purchase from Korean Air Lines Co., Ltd. (in its various capacities, the "**Depositor**", the "**Servicer**", "**Korean Air**", "**KAL**" or the "**Company**"), a depositor note (the "**Depositor Note**") issued by KAL ABS 15 US Trust, a Delaware trust (the "**Trust**"), pursuant to an Indenture dated 11 November 2014 (the "**Indenture**") between the Trust and Citibank, N.A., as Indenture Trustee ("**Indenture Trustee**").

One Business Day prior to the Closing Date, KAL will sell to the Trust current and future receivables evidencing amounts owed to it in respect of sales of airline tickets through the Visa and MasterCard payment systems and, upon the sale of the Depositor Note to the Bond Issuer, KAL will contribute the Reserve Funding Amount (as defined herein) to the Trust for deposit with the Indenture Trustee. The Bond Issuer, as holder of the Depositor Note, will be entitled to receive certain payments of interest and principal from the Receivables owned by the Trust, as more fully described in "*Transaction Overview—The Trust*". The Bond Issuer will make payments of interest and principal on the Bond on each Bond Payment Date (as defined herein) or on the relevant Mandatory Redemption Payment Date (as defined herein) following and to the extent of receipt of distributions of interest and principal on the Depositor Note on each Trust Distribution Date (as defined herein) or on the relevant Mandatory Redemption Payment Date. The Note Issuer will make payments of interest through the Swap Agreement (as defined herein) and principal on the Notes on each Note Payment Date (as defined below) following receipt of payments of interest and principal on the Bond from the Bond Issuer.

Unless previously redeemed or purchased and cancelled, the Note Issuer will redeem the Notes in full on the Note Payment Date falling in November 2017 (the "**Note Maturity Date**") at their Principal Amount Outstanding together with accrued interest to the Note Maturity Date. However, upon receipt of a redemption notice in respect of the Bond (the "**Bond Redemption Notice**") from the Bond Issuer, the Note Issuer will redeem the Notes, in whole or in part to the extent of funds available therefor in accordance with the priority of payments set forth in the Note Trust Deed on the next succeeding Note Payment Date or on the relevant Mandatory Redemption Payment Date, at their Principal Amount Outstanding on such date together with accrued interest to such date. See "*Terms and Conditions of the Notes*".

The Credit Facility Provider (as defined herein) will grant a credit facility (the "**Credit Facility**") to the Note Issuer enhancing the likelihood of timely payments of interest and principal on the Notes.

It is expected that the Notes will, when issued, be assigned a "Aa3" rating by the Rating Agency. The rating will relate to the timely payments of interest and principal on the Notes. **A security rating is not a recommendation to buy, sell or hold securities, does not address the likelihood or timing of prepayment and may be subject to revision, qualification, suspension or withdrawal at any time by the assigning rating organisation. A revision, qualification, suspension or withdrawal of any rating assigned to the Notes may adversely affect the market price of the Notes.**

Any Definitive Note Certificate (as defined herein) issued in respect of the Notes will bear restrictive legends and will be subject to the restrictions on transfer as described herein.

The Notes are expected to settle in book-entry form through the facilities of Clearstream, Luxembourg and Euroclear on or about the Closing Date against payment therefor in immediately available funds.

The Note Issuer accepts responsibility for all the information included in this Prospectus. To the best of the knowledge and belief of the Note Issuer, the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

The information relating to Visa, MasterCard and USB (each as defined herein) (the "**Account Debtor Information**") has been accurately reproduced from information published by each of them and which is publicly available on their respective websites and in the case of USB, certain information has been accurately reproduced from documents provided by US Bancorp. So far as the Note Issuer is aware and is able to ascertain from information published by each of Visa, MasterCard and USB, no facts have been omitted which would render the reproduced information inaccurate or misleading.

No person is authorised in connection with the issue and sale of the Notes to give any information or to make any representation not contained in this Prospectus and, if given or made, any such information or representation not contained herein must not be relied upon as having been authorised by or on behalf of the Note Issuer, the Bond Issuer, the Depositor, the Servicer, the Joint Lead Arrangers, the Joint Lead Managers, the U.S. Trustee, the Indenture Trustee the Trust, the Note Trustee, the Security Agent (as defined herein), the Agents (as defined herein), the Swap Provider (as defined herein) or the Credit Facility Provider. Neither the delivery of this Prospectus at any time, nor any sale made in connection herewith, will, in any circumstance, create an implication that there has been no change in the affairs of the Note Issuer since the date hereof or that the information contained herein is correct as of any time subsequent to such date.

None of the Joint Lead Arrangers, the Joint Lead Managers, the Initial Subscribers, the U.S. Trustee, the Indenture Trustee, the Trust, the Bond Issuer, the Note Trustee, the Security Agent, the Agents, the Transaction Administrator, the Credit Facility Provider (other than in respect of the Credit Facility Provider Information) or the Swap Provider has separately verified the information contained in this Prospectus. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Joint Lead Arrangers, the Joint Lead Managers, the Initial Subscribers, the U.S. Trustee, the Indenture Trustee, the Trust, the Bond Issuer, the Transaction Administrator, the Note Trustee, the Security Agent, the Agents, the Transaction Administrator, the Credit Facility Provider or the Swap Provider as to the accuracy or completeness of the information contained in this Prospectus or any other information supplied in connection with the Notes. Each person receiving this Prospectus acknowledges that such person has not relied on the Joint Lead Arrangers, the Joint Lead Managers, the Initial Subscribers, the U.S. Trustee, the Indenture Trustee, the Trust, the Bond Issuer, the Note Trustee, the Security Agent, the Agents, the Transaction Administrator, the Credit Facility Provider (other than in respect of the Credit Facility Provider Information) or the Swap Provider nor on any person affiliated with any of them in connection with its investigation of the accuracy of such information or its investment decision.

This Prospectus does not constitute an offer and may not be used for the purpose of an offer to or solicitation by anyone in any jurisdiction or in any circumstances in which such offer or solicitation is not authorised or in which it is unlawful to make such offer or solicitation. No action has been or will be taken to permit a public offering of the Notes in any jurisdiction where action would be required for that purpose. The Notes may not be offered or sold, directly or indirectly, and this Prospectus may not be distributed, in any jurisdiction except in accordance with the legal requirements applicable in such jurisdiction.

Accordingly, the Notes may not be offered or sold, directly or indirectly, and neither this Prospectus nor any part of it nor any other prospectus, form of application, advertisement, other offering material or other information may be issued, distributed or published in any country or jurisdiction except under circumstances that will result in compliance with all applicable laws, orders, rules and regulations.

Each person contemplating making an investment in the Notes must make its own investigation and analysis of the Note Issuer and the terms of the offering including the merits and risks involved, and its own determination of the suitability of any such investment, with particular reference to its own investment objectives and experience and any other factors which may be relevant to it in connection with such investment. 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.

None of the Note Issuer, the Bond Issuer, the Joint Lead Arrangers, the Joint Lead Managers, the Initial Subscribers, the Depositor, the U.S. Trustee, the Indenture Trustee, the Trust, the Note Trustee, the Security Agent, the Agents, the Transaction Administrator, the Swap Provider or the Credit Facility Provider makes any representation to any investor in the Notes regarding the legality of its investment under any applicable laws.

The contents of this Prospectus should not be construed as providing legal, business, accounting or tax advice. Each prospective investor should consult its own legal, business, accounting and tax advisers prior to making a decision to invest in the Notes.

The language of the Prospectus is English. Certain legislative references and technical terms have been cited in their original language in order that the correct technical meaning may be ascribed to them under applicable law.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Percentages in the tables in this Prospectus may not add up to 100 per cent. because of rounding. Any discrepancies in any table between totals and the sums of the amounts listed are due to rounding.

References in this Prospectus to "**KRW**", "**Won**", "**Korean Won**" or "**₩**" are to the lawful currency for the time being of the Republic of Korea ("**Korea**"). References in this Prospectus to "**U.S.$**", "**Dollars**", "**U.S. dollars**", "**$**" or "**USD**" are to the lawful currency for the time being of the United States of America (the "**U.S.**" or the "**United States**"). References in this Prospectus to "**Euro**" or "**€**" are to the lawful currency introduced at the commencement of the third stage of the European Economic and Monetary Union on 1 January 1999 pursuant to the Treaty establishing the European Community as amended by the Treaty on European Union. All references to the "**Government**" herein are references to the Government of Korea.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements in the sections entitled "*Transaction Overview*", "*The Depositor and Servicer*", "*The Receivables*" and elsewhere in this Prospectus constitute "forward-looking statements". Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the success of collections, the actual cash flow generated by the Receivables, the expected amortisation of the Notes and the expected origination of sufficient Receivables by the Depositor to differ materially from the information set forth herein and to be materially different from any future results, performance or financial condition expressed or implied by such forward-looking statements. See "*Risk Factors*".

While all reasonable care has been taken to ensure that the facts stated herein are accurate and that the forward-looking statements, opinions and expectations contained herein are based on fair and reasonable assumptions, the success of collections, the actual cash flow generated by the Receivables, the expected amortisation of the Notes and the expected origination of sufficient Receivables by the Depositor may differ materially from the projections set forth in any forward-looking statements herein. Investors should not place undue reliance on forward-looking statements and are advised to make their own independent analysis and determination with respect to any forecasted periods contained in this Prospectus. No party to the offering undertakes any obligation to revise these forward-looking statements to reflect subsequent events or circumstances.

AVAILABLE INFORMATION

The Note Issuer and the Servicer will furnish to the Note Trustee and holders of the beneficial interests in the Global Note as identified by Euroclear and Clearstream, Luxembourg certain information on a periodic basis. For so long as the Notes are listed on the Irish Stock Exchange, such information will be available during normal business hours on any London Business Day at the registered office for the time being of Citibank, N.A., London Branch as principal paying agent (the "**Principal Paying Agent**").

ARTICLE 122A OF THE CAPITAL REQUIREMENTS DIRECTIVE

Korean Air will retain a material net economic interest of at least 5 per cent. in this transaction in accordance with Article 122(a) ("**Article 122a**") of Directive 2006/48/EC (as amended by Directive 2009/111/EC), referred to as the Capital Requirements Directive ("**CRD 2**"). As at the Closing Date, such interest will comprise an interest in the Depositor Certificate (as defined herein) which is not less than 5 per cent. of the beneficial interests in the Conveyed Assets. Any change to the manner in which this interest is held will be notified to investors. See "*Risk Factors—Other Risks—Regulatory initiatives may result in increased capital requirements and/or decreased liquidity in respect of the Notes*" and "*General Information*" for further information.

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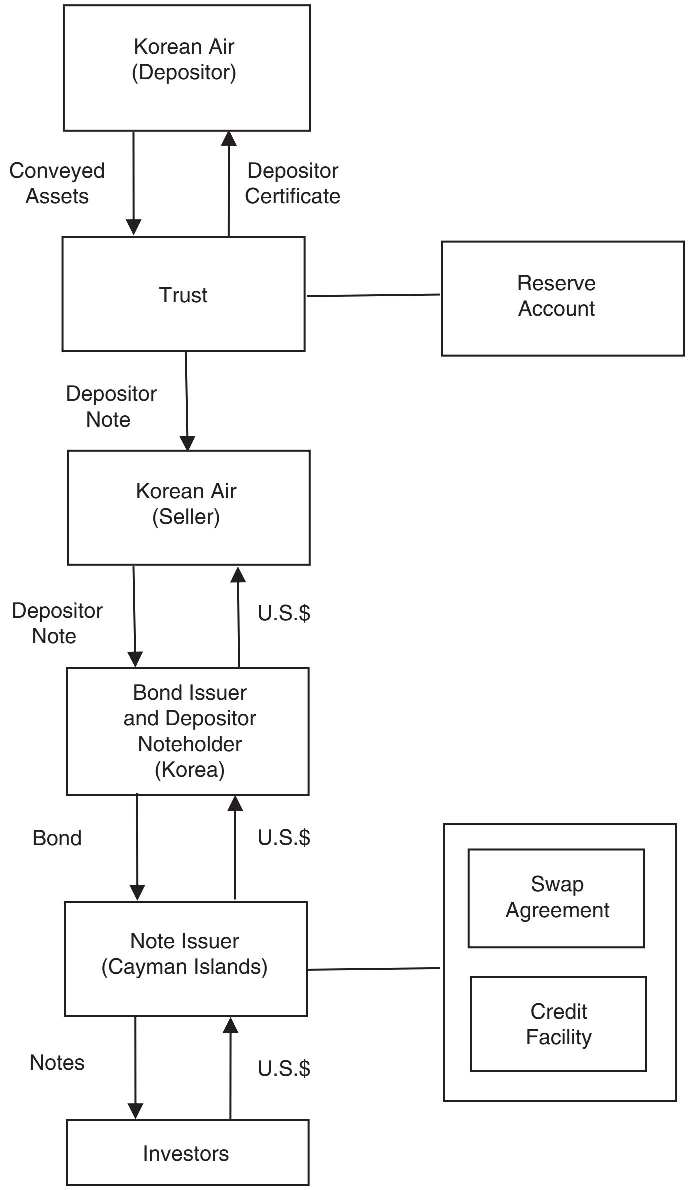
TRANSACTION OVERVIEW

The information set out below is an overview of the principal features of the transaction. As this is an overview, it is qualified in its entirety by reference to the detailed information appearing elsewhere in this Prospectus and the Transaction Documents (as defined herein).



Capitalised terms used in this summary section are defined in the more detailed sections below and in the "**Glossary**".

On the Closing Date, the Note Issuer will apply the gross proceeds of the issue of U.S.$350,000,000 Secured Floating Rate Notes due 2017 to purchase a U.S.$350,000,000 Variable Rate Bond due 2017 from the Bond Issuer. The Bond Issuer will apply the proceeds of the issue of the Bond to purchase the Depositor Note from the Seller.

The Note Issuer will enter into a Credit Facility Deed with The Korea Development Bank in its capacity as the Credit Facility Provider on or about 25 November 2014 in order to support its payment obligations under the Notes. The Note Issuer has entered into a Swap Agreement with The Korea Development Bank in its capacity as Swap Provider, on 20 November 2014 in order to hedge its interest rate exposure under the Notes.

TRANSACTION PARTIES

The Note Issuer

KAL ABS 15 Cayman Limited (the "**Note Issuer**"), an exempted company incorporated with limited liability in the Cayman Islands and managed by the Note Issuer Administrator (as defined below).

The Note Issuer's sole business will be (i) the purchase of the Bond (as defined herein) from the Bond Issuer (as defined below), (ii) the transfer and assignment to the Note Trustee (as defined below) of a security interest in substantially all of the Note Issuer's property and assets (the "**Note Secured Property**"), (iii) the issuance of the Notes (as defined herein) and (iv) the entry into and performance of its obligations under, referred to in, or contemplated by, the Transaction Documents.

The Bond Issuer

KAL 15 Asset Securitization Specialty Company, (the "**Bond Issuer**"), a limited liability special securitisation company (*yuhanhoesa*) incorporated in Korea.

The sole business of the Bond Issuer will be (i) the purchase from KAL of the Depositor Note (as defined herein) issued by the Trust (as defined herein) created under the Indenture (as defined herein) pursuant to a sale and purchase agreement dated on or about 11 November 2014 among, *inter alios*, KAL and the Bond Issuer in its capacity as Depositor Noteholder (the "**Depositor Noteholder**") (the "**Depositor Note Sale and Purchase Agreement**"), (ii) the creation of the Bond Issuer Security (as defined below), (iii) the issuance of the Bond to the Note Issuer and (iv) any other activities permitted pursuant to the Act Concerning Asset Backed Securitisation of Korea (Law No. 5555, 16 September 1998) (the "**ABS Act**"), including entering into agreements necessary for the performance of its obligations under the transaction specified in the securitisation plan registered with the Financial Services Commission of Korea (the "**FSC**").

The Trust

The Trust has been established as a Delaware statutory trust pursuant to a trust agreement dated 11 November 2014 (the "**Trust Agreement**") among the Depositor, the U.S. Trustee and the Trust Administrator. In accordance with a receivables sale and contribution agreement dated 11 November 2014 (the "**Receivables Sale and Contribution Agreement**") between the Depositor and the Trust, KAL will, one Business Day prior to the Closing Date, sell to the Trust the Receivables (as defined herein) and on or before the Closing Date, KAL shall contribute or shall procure that there is contributed to the Trust, the Reserve Funding Amount. Pursuant to an Indenture the Trust will issue the Depositor Note to KAL. The Depositor Certificate will be issued to the Depositor in its capacity as owner of the beneficial interest in the Trust pursuant to the Trust Agreement.

The Depositor

Korean Air Lines Co., Ltd. ("**KAL**", "**Korean Air**", the "**Servicer**" or the "**Depositor**"):

(a) (i) will sell or contribute one Business day prior to 25 November 2014 (the "**Closing Date**") all of its rights, title, interest and benefit (present and future, actual and contingent) in, to and under certain receivables (the "**Receivables**"), owed to the Depositor from time to time under the Merchant Processing Contract (as defined herein) from the Merchant Processor (currently U.S. Bank National Association ("**USB**")) as the Depositor's merchant processor for MasterCard International Inc. ("**MasterCard**") and Visa Inc. and its affiliates, Visa U.S.A. Incorporated and/or Visa

International Services Association ("**Visa**"). The Receivables will be generated in the future as a result of the purchase of airline tickets and related services, paid in U.S. dollars, by customers of the Depositor paying with cards bearing the service mark of either Visa or MasterCard; and

(ii) will contribute or will cause to be contributed on or before the Closing Date U.S.$21,706,171.22 (the "**Reserve Funding Amount**") to fund the Reserve Account (as defined herein);

(b) will agree to deposit additional monies from time to time to the Trust pursuant to the Receivables Sale and Contribution Agreement; and

(c) on or before the Closing Date take receipt of a U.S. dollar denominated certificate (the "**Depositor Certificate**") representing the interest of the Depositor in its capacity as owner of the beneficial interest in the Trust (the "**Depositor Beneficiary**").

The Servicer

The Depositor will act as the servicer (the "**Servicer**") for the Trust in respect of the Receivables (the "**Serviced Assets**"). The Servicer may, in the event of a Servicer Termination Event (as defined herein), be removed as Servicer. See "*—Servicing*".

The Credit Facility Provider

The Korea Development Bank will act as credit facility provider (the "**Credit Facility Provider**") and will enter into a credit facility deed with, *inter alios*, the Note Issuer and the Note Trustee (as defined below) (the "**Credit Facility Deed**") to provide a credit facility (the "**Credit Facility**") in respect of payments of principal and interest on the Notes and the Note Issuer's obligations which rank in priority to, or *pari passu* with, principal and interest in respect of the Notes. See "*—The Notes—Credit Facility*" below.

The U.S. Trustee

Citicorp Trust Delaware, National Association will act as owner trustee of the Trust (the "**U.S. Trustee**") pursuant to the provisions of the Trust Agreement.

The Indenture Trustee

Pursuant to the Indenture, Citibank, N.A. will act as trustee of the Depositor Note and hold the Receivables and other Conveyed Assets pledged by the Trust in trust for the benefit of the Depositor Noteholder (the "**Indenture Trustee**").

The Trust Administrator

Finacity Corporation will act as administrator of the Trust (the "**Trust Administrator**") pursuant to the Trust Agreement.

The Note Trustee

Citicorp International Limited will act as trustee for the holders of the Notes (the "**Note Trustee**"). The Note Trustee will hold the Note Security on behalf of the Noteholders and the other Note Secured Parties and will provide certain administrative services to the Note Issuer in relation to the Note Issuer Obligations (each as defined herein).

The Transaction Administrator, the Bond Issuer Servicer and the Bond Issuer Administrator

The Bond Issuer will appoint Citibank Korea Inc. (the "**Transaction Administrator**") to provide certain administrative services in relation to the payment obligations of the Bond Issuer pursuant to the terms of a transaction administration agreement dated 11 November 2014 between, *inter alios*, the Bond Issuer and the Transaction Administrator (the "**Transaction Administration Agreement**").

Pursuant to and in accordance with an agreement dated 11 November 2014 between Citibank Korea Inc. (the "**Bond Issuer Servicer**") and the Bond Issuer (the "**Bond Issuer Servicing Agreement**"), the Bond Issuer Servicer will provide collection, management and administrative services to the Bond Issuer in relation to the Depositor Note and the collections thereon.

Pursuant to and in accordance with an agreement dated 11 November 2014 between Citibank Korea Inc. (the "**Bond Issuer Administrator**") and the Bond Issuer, (the "**Bond Issuer Administrator Agreement**"), the Bond Issuer Administrator will also provide certain administrative services to the Bond Issuer.

The Agents

The Note Issuer will appoint Citibank, N.A., London Branch as principal paying agent, principal transfer agent, note registrar and reference agent (the "**Principal Paying Agent**", the "**Principal Transfer Agent**", the "**Note Registrar**" and the "**Reference Agent**", respectively), in each case in respect of the Notes, pursuant to the terms of an agency agreement dated on or about the Closing Date (the "**Note Agency Agreement**").

The Note Issuer will appoint Citibank, N.A., London Branch as its account bank (an "**Account Bank**" and, together with the Note Trustee, the Principal Paying Agent, the Principal Transfer Agent, the Note Registrar and the Reference Agent, the "**Note Agents**") in respect of the Note Issuer Account (as defined herein) pursuant to an account bank agreement dated on or about the Closing Date among the Note Issuer Account Bank (as defined herein), the Note Issuer, the Note Trustee and the Credit Facility Provider (the "**Note Issuer Account Bank Agreement**").

The Note Issuer will pay all fees, costs, expenses, indemnities, claims, demands, legal fees, liabilities and other amounts of the Note Agents (the "**Agency Fees**") up to a maximum amount (the "**Agency Fees Maximum Amount**") specified in a fee letter dated on or about the Closing Date and made between the Note Agents and the Note Issuer (the "**Citibank Fee Letter**").

Any Note Agent (except the Note Trustee) may resign its appointment at any time after providing a written notice to the Note Issuer (with a copy to, *inter alios*, the Note Trustee and the Credit Facility Provider) not less than 60 days prior to the effective date of such resignation; *provided that* (a) if such resignation would otherwise take effect less than 30 days before or after the Note Maturity Date or other date for redemption of the Notes or any Note Payment Date in relation to the Notes, it shall not take effect until the 30th day following such date; (b) in the case of the Note Registrar, the Paying Agents or the Reference Agent, such resignation shall not take effect until a successor has been duly appointed and notice of such appointment has been given to, *inter alios*, the Noteholders, the Credit Facility Provider and the Note Trustee and in the case of a Note Agent other than the Note Registrar, to the Note Registrar and, in the case of the Reference Agent, the Swap Provider; and (c) the relevant Note Agent has given prior written notice to the Rating Agency.

The appointment of any Note Agent shall terminate forthwith upon the occurrence of one of a series of events including if (i) a secured party takes possession, or a receiver, manager or other similar officer is appointed, of the whole or any part of the undertaking, assets and revenues of such Note Agent; (ii) such Note Agent admits in writing its insolvency or inability to pay its debts as they fall due; (iii) an administrator or liquidator of such Note Agent or the whole or any part of the undertaking, assets and revenues of such Note Agent is appointed (or application for any such appointment is made); (iv) such Note Agent takes any action for a readjustment or deferment of any of its obligations or makes a general assignment or an arrangement or composition with or for the benefit of its creditors or declares a moratorium in respect of any of its indebtedness; or (v) in the case of a Paying Agent, such Paying Agent is no longer an Eligible Entity.

The Note Issuer may (with the prior written approval of the Controlling Beneficiary) and shall upon the written direction of the Controlling Beneficiary appoint successor Note Agents and shall forthwith give notice of any such appointment to the continuing Note Agents, the Noteholders, the Credit Facility Provider, the Rating Agency, the Note Trustee, the Transaction Administrator and, where such appointment is in relation to the Reference Agent, the Swap Provider.

The Note Issuer will appoint Intertrust SPV (Cayman) Limited as note issuer administrator for the Note Issuer (the "**Note Issuer Administrator**" and together with the Note Agents and the Bond Agents (defined below), the "**Agents**") pursuant to a note administration agreement dated on or about the Closing Date between the Note Issuer and the Note Issuer Administrator (the "**Note Issuer Administrator Agreement**").

The Bond Issuer will appoint Citibank Korea Inc. as its account bank (an "**Account Bank**") in respect of the Bond Issuer Accounts (as defined herein).

The Security Agent (as defined herein), the Bond Issuer Servicer, Citibank Korea Inc. as the bond registrar (the "**Bond Registrar**") and the Bond Issuer Administrator are together referred to as the bond agents (the "**Bond Agents**").

The Swap Provider

The Korea Development Bank will act as swap provider (the "**Swap Provider**") to the Note Issuer pursuant to the terms of the Swap Agreement (as defined herein) in order to hedge interest rate exposure on the Notes. For a description of the Swap Agreement and the Swap Provider, see "*—The Notes—The Swap Agreement*" below.

The Korea Development Bank will act as calculation agent (the "**Calculation Agent**") under the Swap Agreement.

The Controlling Beneficiary

The "**Controlling Beneficiary**" will be either:

(a) the Credit Facility Provider, unless (i) a Drawdown Trigger Event (as defined herein) has occurred and is continuing or (ii) the Credit Facility Provider has failed to make any payment when due under the Credit Facility Deed (or within one Seoul Business Day of the due date if such failure to pay is due to a technical or administrative failure in the banking system generally and is unrelated to the Credit Facility Provider); or

(b) the Note Trustee (acting on the instructions of the Noteholders or otherwise in accordance with the provisions of the Note Trust Deed), if, and for so long as, either of the events specified in paragraphs (a)(i) and (ii) above has occurred and is continuing;

provided that, if at any time there is on deposit in the Note Issuer Account an amount equal to or greater than all principal and accrued interest due and payable on the Notes and all amounts ranking in priority to, or *pari passu* with, all payments on the Notes on the next Note Payment Date or Mandatory Redemption Payment Date (as defined below), the Credit Facility Provider shall be the Controlling Beneficiary notwithstanding the occurrence or continuation of either of the events specified in paragraphs (a)(i) and (ii) above.

"**Mandatory Redemption Payment Date**" means, following the declaration by the Controlling Beneficiary of a Mandatory Redemption Event:

(a) in respect of the payments to be made by the Indenture Trustee pursuant to the Indenture, the second Business Day following the date on which the Mandatory Redemption Amount is transferred to the Indenture Trustee;

(b) in respect of the payments to be made by the Transaction Administrator pursuant to the Transaction Administration Agreement in respect of the Bond, the second Business Day following the date on which the Depositor Note is redeemed in full; or

(c) in respect of the payment to be made by the Note Trustee pursuant to the Note Trust Deed in respect of Notes, the fifth Business Day following the date on which the Bond is redeemed in full.

The Joint Lead Managers, Joint Lead Arrangers and Initial Subscribers

Daiwa Securities Capital Markets Korea Co., Ltd., Standard Chartered Bank and The Korea Development Bank will act as joint lead managers and joint lead arrangers of the offering of the Notes (the "**Joint Lead Managers**" and the "**Joint Lead Arrangers**") and Daiwa Capital Markets Hong Kong Limited, Standard Chartered Bank and The Korea Development Bank will act as initial subscribers of the Notes (the "**Initial Subscribers**") pursuant to a note subscription agreement dated on or about 20 November 2014 (the "**Note Subscription Agreement**"). For a description of the Note Subscription Agreement, see "*Subscription and Sale*".

THE NOTES

The Notes

The Note Issuer will issue the U.S.$350,000,000 Secured Floating Rate Notes due 2017 (the "**Notes**") to investors on the Closing Date. The Notes will be secured by the Note Security. See "*—Note Security*" below.

The Notes will be issued initially in global form (the "**Global Note**") and will be deposited with a common depositary (the "**Common Depositary**") for Euroclear and Clearstream, Luxembourg. Beneficial interests in the Global Note will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear and Clearstream, Luxembourg. The Notes are freely transferable in accordance with their terms and subject to certain restrictions on sales to U.S. persons. See "*Terms and Conditions of the Notes*" and "*Subscription and Sale—United States*". For a description of the Notes, see "*Terms and Conditions of the Notes*".

Issue Price

The Notes will be issued at 100 per cent. of their principal amount.

Ratings

The Notes are expected to be rated "Aa3" by Moody's upon issuance on the Closing Date.

Note Security

Pursuant to the provisions of a trust deed dated on or about the Closing Date and made between, among others, the Note Trustee and the Note Issuer (the "**Note Trust Deed**"), the Note Issuer will grant a security interest (the "**Note Security**") over the Note Secured Property to the Note Trustee to hold for the benefit of the Noteholders, the Agents, the Swap Provider, the Note Issuer Administrator, the Account Bank and the Credit Facility Provider (together, the "**Note Secured Parties**") to secure all amounts owed by the Note Issuer to the Note Secured Parties under the Notes or in connection with the Transaction Documents (together, the "**Note Issuer Obligations**"). For a description of the Note Security, see "*Terms and Conditions of the Notes*".

Interest

Interest will be payable on the Notes monthly in arrear on the 27th day of each month (or, if such day is not a Business Day, the next succeeding day which is a Business Day) (each, a "**Note Payment Date**") commencing in January 2015. "**Business Day**" means (save as otherwise specified in any Transaction Document) a day (other than a Saturday or Sunday) on which commercial banks are open for general business in California, New York, London, Seoul and Hong Kong.

Interest on the Notes will be payable by reference to successive interest periods (each, an "**Interest Period**"). The initial Interest Period will commence on (and include) the Closing Date and end on (but exclude) the initial Note Payment Date. Each successive Interest Period will commence on (and include) a Note Payment Date and end on (but exclude) the next succeeding Note Payment Date.

Interest will accrue on the Principal Amount Outstanding of the Notes as of the first day of each relevant Interest Period (after giving effect to any payment of principal of the Notes made on such day) on the basis of the actual number of days elapsed in such Interest Period and a 360-day year at a rate per annum equal to the sum of USD-LIBOR-BBA (as defined in the Swap Agreement and as calculated by the Calculation Agent, prior to the termination of the Swap Agreement, and as calculated by the Note Trustee, after the termination of the Swap Agreement) for one-month U.S. dollar deposits plus a margin of 0.65 per cent.; *provided that* in relation to the first Interest Period USD-LIBOR-BBA will be determined by way of a linear interpolation of USD-LIBOR-BBA for one month U.S. dollar deposits and USD-LIBOR-BBA for two month U.S. dollar deposits in accordance with the Swap Agreement.

"**Principal Amount Outstanding**" means, on any date, the principal amount of the Notes on the Closing Date less the aggregate amount of all payments of principal in respect of the Notes which have been paid on the Notes after the Closing Date and prior to such date.

Amortisation and Redemption

(A) *Note Maturity*

Unless previously redeemed in full, the Note Issuer will redeem the Notes, to the extent of funds available therefor, in full on the Note Payment Date falling in November 2017 (the "**Note Maturity Date**") at the Note Redemption Amount as at such date.

(B) *Controlled Amortisation Period*

On each Note Payment Date during the Controlled Amortisation Period (as defined below), principal in respect of the Notes is scheduled to be paid in instalments (each, a "**Scheduled Amortisation Amount**") in accordance with the table set out in Note Condition 4 (as defined below) subject to available funds.

"**Controlled Amortisation Period**" means the period from and including the Closing Date until the earliest to occur of: (a) the date on which the Early Amortisation Period (as defined below) commences, (b) the date on which the Enforcement Period (as defined below) commences and (c) the date on which all Note Issuer Obligations have been paid in full.

"**Note Conditions**" means the terms and conditions of the Notes in the form set out in Schedule 2 to the Note Trust Deed as the same may be modified from time to time in accordance with the terms thereof, and any reference to a numbered Note Condition will be construed accordingly.

"**Note Redemption Amount**" means, on any date, an amount equal to the Principal Amount Outstanding of the Notes as at such date plus accrued and unpaid interest thereon to, but excluding, such date.

(C) *Early Amortisation Period/Enforcement Period*

On each Note Payment Date following a Trust Distribution Date (as defined below) that falls in the Early Amortisation Period or the Enforcement Period, principal in respect of the Notes will be repaid, to the extent of funds available therefor in accordance with the priority of payments set forth in the Note Trust Deed and after payment of the Scheduled Amortisation Amount due on such Note Payment Date in inverse order of the amortisation schedule set out in the original amortisation table, in an aggregate principal amount equal to the Principal Amount Outstanding of the Notes as at such date, until the Notes has been redeemed in full at the Note Redemption Amount.

Early Amortisation Events

An "**Early Amortisation Event**" means the occurrence of any of the following events:

(a) a final judgment or judgments (which is not or are not appealable or which has not or have not been stayed pending appeal or as to which all rights of appeal have expired or been exhausted) shall be rendered against the Depositor in excess of KRW10,000,000,000 (or an equivalent amount in another currency) in aggregate and shall not be discharged within thirty days of such final judgment or judgments;

(b) a final judgment or judgments (which is not or are not appealable or which has not or have not been stayed pending appeal or as to which all rights of appeal have expired or been exhausted) shall be rendered against the Note Issuer for amounts not considered by the Controlling Beneficiary to be *de minimis*;

(c) as at any date of determination, 40 per cent. or more by number of the Depositor's scheduled flights for the immediately preceding calendar month on the Routes are cancelled for any reason;

(d) any Collection or payment on the Depositor Note is not made free and clear of, and without deduction or withholding for, any Tax;

(e) any Insolvency Event relating to the Depositor, the Trust, the Bond Issuer, the Note Issuer or the Servicer occurs under the Laws of Korea, the United States, the Cayman Islands or any applicable jurisdiction;

(f) the Merchant Processing Contract is terminated and no Replacement Contract is executed or the Depositor fails to comply with any of its material obligations thereunder;

(g) the occurrence of a Depositor Note Event of Default;

(h) any of the Depositor, the Merchant Processor, the Trust, the Indenture Trustee, the Transaction Administrator or the Servicer fails to make any payment or transfer of funds in accordance with the Transaction Documents, the Depositor Note or the Merchant Processing Contract, subject to any applicable grace periods specified therein;

(i) any of the Bond Issuer, the Note Issuer, the Trust or the Depositor fails to perform or comply with any of its material obligations under the Transaction Documents which failure is incapable of remedy, or, if capable of remedy, continues unremedied for a period of 30 days;

(j) any representation, warranty or certification made by the Bond Issuer, the Note Issuer or the Depositor in the Transaction Documents is or proves to be materially incorrect or misleading when made;

(k) a Servicer Termination Event occurs;

(l) the Controlling Beneficiary determines (in its reasonable discretion) that a Material Adverse Change has occurred in respect of the Servicer, the Depositor or the Trust or that a Material Adverse Effect has occurred in respect of the Conveyed Assets;

(m) the Debt Service Coverage Ratio is equal to or falls below 1.8:1;

(n) a Drawdown Trigger Event has occurred (whether or not a notice of such event has been given by the Credit Facility Provider pursuant to the terms of the Credit Facility Deed);

(o) a Mandatory Redemption Event occurs (whether or not declared by the Controlling Beneficiary); or

(p) the settlement currency of any of the Conveyed Assets ceases to be U.S. dollars.

"**Bond Enforcement Notice**" means the notice delivered by the Transaction Administrator in accordance with Bond Condition 6 upon the written request of the Controlling Beneficiary on the occurrence of a Bond Event of Default.

"**Debt Service Coverage Ratio**" means, on each date of calculation thereof, the ratio of: (a) the aggregate Collections (as defined herein) received in the three immediately preceding Collection Periods; to (b) the aggregate amounts payable in respect of paragraphs (a) to (e) in "*—Application of Funds on Trust Distribution Dates*" below on the three Trust Distribution Dates related to such Collection Periods.

"**Early Amortisation Period**" means the period from and including the date on which an Early Amortisation Event is declared under the Transaction Administration Agreement until the earlier to occur of (a) the date on which the Enforcement Period commences and (b) the date on which the Note Issuer Obligations have been paid in full.

"**Enforcement Date**" means the date on which an Enforcement Notice is delivered.

"**Enforcement Notice**" means either a Bond Enforcement Notice or a Note Enforcement Notice.

"**Enforcement Period**" means the period commencing on the Enforcement Date.

"**Event of Default**" means a Bond Event of Default (as defined below), a Note Event of Default (as defined below) or a Depositor Note Event of Default (as defined below).

"**Governmental Entity**" means any (a) multinational, national, federal, provincial, state, regional, municipal, local or other government, governmental or public department, central bank, court, tribunal, arbitral body, commission, board, bureau or agency, domestic or foreign, (b) any subdivision, agent, commission, board or authority of any of the foregoing or (c) any quasi-governmental or private body exercising any executive, legislative, judicial, administrative, regulatory, expropriation or taxing authority under or for the account of any of the foregoing.

"**Insolvency Event**" means in relation to any Person:

(a) a court, agency or supervisory authority having jurisdiction enters a decree or order for the appointment of a receiver, trustee, examiner, administrator or liquidator for such Person in any insolvency, bankruptcy, corporate reorganisation, composition, examination, readjustment of debt, marshalling of assets and liabilities or similar proceedings, or for the winding up or liquidation of its affairs; or

(b) such Person initiates or consents to the appointment of a receiver, trustee, examiner, administrator or liquidator in any insolvency, bankruptcy, corporate reorganisation, composition, examination, readjustment of debt, marshalling of assets and liabilities or similar proceedings of or relating to such Person or of or relating to substantially all of its property or such Person makes a conveyance or assignment for the benefit of creditors generally (or any class of its creditors) or enters into any composition, restructuring or renegotiation of debt with its creditors generally (or any class of its creditors); or

(c) such Person admits in writing its inability to pay its debts generally as they become due, files a petition for its bankruptcy, composition or corporate reorganisation, makes an assignment for the benefit of any class of its creditors or members, enters into a moratorium involving any of them, or voluntarily suspends payments of its obligations or its liabilities exceed its assets; or

(d) such Person ceases to carry on all or any substantial part of its business, or threatens to do so; or

(e) an application or petition for bankruptcy, composition, corporate reorganisation or insolvency proceedings is filed against such Person and any such petition or application has not been withdrawn or dismissed by the date of declaration of an Early Amortisation Event, Servicer Termination Event or Mandatory Redemption Event; or

(f) such Person becomes a failing company (*busiljinghukiup*) under the Corporate Restructuring Promotion Act of Korea or any similar applicable law; or

(g) any event analogous or having a similar effect to any of the events described in paragraphs (a) to (f) above occurs under the Laws of any relevant jurisdiction.

"**Note Enforcement Notice**" means the notice delivered by the Note Trustee upon the written request of the Controlling Beneficiary in accordance with Note Condition 8 upon the occurrence of a Note Event of Default.

"**Note Issuer Account Bank**" means the bank with which the Note Issuer Account is opened pursuant to the provisions of the Note Trust Deed.

"**Transaction Documents**" means, together, the Receivables Sale and Contribution Agreement, the Trust Agreement, the Indenture, the Servicing Agreement, the Transaction Administration Agreement, the Depositor Note Sale and Purchase Agreement, the Bond Issuer Servicing Agreement, the Bond Issuer Administrator Agreement, the Bond Subscription and Agency Agreement, the Note Agency Agreement, the Note Trust Deed, the Credit Facility Deed, the Note Issuer Administrator Agreement, the Swap Agreement, the Note Subscription Agreement, the Bank Agreements, the Master Definitions Schedule, the Pledge Agreement, the Equity Pledge Agreement, the Security Assignment, the New York Law Security Agreement, the Closing Cashflow Letter Agreement and any other documents or agreements in connection therewith.

"**Trust Distribution Date**" means each date falling seven Business Days prior to each Note Payment Date.

(D) *Mandatory Redemption*

Following the declaration of a Mandatory Redemption Event (as defined below) by the Controlling Beneficiary (*provided that*, in respect of paragraph (a) below, no such declaration by the Controlling Beneficiary shall be required and the occurrence of such event shall be deemed to be the declaration by the Controlling Beneficiary) and upon receipt of notice thereof from the Note Trustee, the Depositor will be obliged to deposit the Mandatory Redemption Amount (as defined below) with the Indenture Trustee on the third Business Day after the date of the notice of such Mandatory Redemption Event is issued by the Note Trustee to the Depositor. The Indenture Trustee will apply the Mandatory Redemption Amount to redeem the Depositor Note, and consequently the Bond, and the Note Issuer will redeem the Notes, in whole, to the extent of funds available therefor in accordance with the priority of payments set forth in "*—Application of Funds on Note Payment Dates*" below, on the date which is seven Business Days following such redemption of the Depositor Note, at the Note Redemption Amount on such date.

A "**Mandatory Redemption Event**" means the occurrence of any of the following events:

(a) the Debt Service Coverage Ratio falls below 1:1 due to a reduction in Collections as a result of a decrease in the generation of Receivables;

(b) the Depositor defaults in the performance of its obligations under the Receivables Sale and Contribution Agreement, the Indenture or the other Transaction Documents;

(c) a change in the Control of the Depositor which is not approved by the Controlling Beneficiary (in writing) and of which prior written notice is given to the Rating Agency;

(d) the Depositor or the Servicer (if Korean Air is the Servicer) breaches materially any of the covenants, representations or warranties given by it in any of the Transaction Documents and such breach, if, in the reasonable opinion of the Controlling Beneficiary, is capable of remedy, is not remedied within seven Seoul Business Days of the date of such breach;

(e) the Receivables Sale and Contribution Agreement, the Trust Agreement, the Indenture or any other Transaction Document or any authorisation, approval or licence delivered or required by any Governmental Entity (as defined above) in connection with the transactions contemplated by the Transaction Documents ceases to be in full force and effect;

(f) any judgment is entered against the Depositor by any court in an amount which, when aggregated with the amount of all other unsatisfied judgments against the Depositor, is likely to have a Material Adverse Effect (as defined below);

(g) as a result of a change of law or regulation of any Governmental Entity or for any other reason, the sale of the Conveyed Assets, or any part thereof, to the Trust or the sale of the Depositor Note by the Seller to the Purchaser is held to be invalid or subject to stay or is challenged by the Depositor or the Seller (as the case may be) or any receiver, liquidator or similar officer of the Depositor or the Seller or is challenged before any Governmental Entity;

(h) the Note Trustee ceases to have a first fixed charge or absolute legal assignment over the Note Secured Property or any part thereof;

(i) any action or administrative proceeding of or before any court or agency with respect to the Depositor is commenced which is likely in the reasonable opinion of the Controlling Beneficiary to have a Material Adverse Effect on the financial condition of, or the air transportation business of, the Depositor;

(j) any Material Adverse Change (as defined below) occurs in respect of the Depositor;

(k) an adverse change in the legal status, business, financial condition, assets or business prospects of the Merchant Processor which, in the reasonable opinion of the Controlling Beneficiary, is material and affects the Merchant Processor's ability to perform its payment obligations under the Merchant Processing Contract;

(l) a Depositor Note Event of Default, a Bond Event of Default or a Note Event of Default occurs other than as a result of the failure of the Merchant Processor to comply with its payment obligations under the Merchant Processing Contract;

(m) at any time following the declaration by the Controlling Beneficiary of an Early Amortisation Event, any of the Depositor, the Servicer, the Bond Issuer or the Note Issuer takes any action or fails to take any action the result of which is, in the reasonable opinion of the Controlling Beneficiary, to deny the Indenture Trustee, the Transaction Administrator or the Note Trustee the ability to control or access the Trust Account, the Bond Issuer Accounts or the Note Issuer Account (each as defined below) respectively;

(n) any default occurs on any indebtedness of the Depositor or any default causes (or permits a holder or a trustee in respect of such indebtedness to cause) the acceleration of principal of such indebtedness in an aggregate amount in excess of KRW12 billion (or the equivalent thereof in any other currency);

(o) an Advance (as defined below) is made under the Credit Facility Deed other than as a result of the failure of the Merchant Processor to comply with its payment obligations under the Merchant Processing Contract;

(p) a Bond Event of Default occurs other than as a result of the failure of the Merchant Processor to comply with its payment obligations under the Merchant Processing Contract;

(q) Visa and/or MasterCard ceases its data processing operations with respect to Visa cards and/or MasterCard cards; and

(r) the Merchant Processing Contract is terminated or the Merchant Processor ceases to be a member of Visa and or MasterCard as a merchant processor; *provided that* the termination of the Merchant Processing Contract or cessation of the Merchant Processor's membership of Visa and or MasterCard shall not constitute a Mandatory Redemption Event if a Replacement Contract which is acceptable to the Controlling Beneficiary is in full force and effect on the date of termination of the relevant Merchant Processing Contract and the relevant Replacement Merchant Processor has executed a Consent and Acknowledgement reasonably acceptable to the Controlling Beneficiary on or before such date.

"**Advance**" means an advance drawn down under the Credit Facility.

"**Bank Agreements**" means, together, the bank agreements dated on or about the Closing Date among: (a) the relevant Account Bank and the Transaction Administrator in respect of the Bond Issuer Accounts (the "**Korean Bank Agreements**"); and (b) the Note Issuer Account Bank Agreement (as defined herein).

"**Control**" means the power to direct the management and policies of a Person, directly or indirectly, whether through the ownership of voting shares, by contract or otherwise.

"**Mandatory Redemption Amount**" means the sum of:

(a) the Required Amount (as defined herein) for the relevant Mandatory Redemption Payment Date; plus

(b) any other accrued fees and expenses payable by the Trust, the Bond Issuer and the Note Issuer up to (and including) the date on which the Notes are scheduled to be redeemed in full in accordance with Note Condition 4(d) and not included in (a) above; less

(c) the aggregate amounts on deposit in the Trust Accounts, the Reserve Account and the Collection Account on the date of the Mandatory Redemption Notice.

"**Material Adverse Change**" means, in respect of any Person, an adverse change in the legal status, business, financial condition, assets or business prospects of that Person which, in the reasonable opinion of the Controlling Beneficiary, is material and affects that Person's ability to perform its obligations under the Transaction Documents.

"**Material Adverse Effect**" means any event or condition which would, in the reasonable opinion of the Controlling Beneficiary, have a material adverse effect on (a) the collectability of the Conveyed Assets, (b) the condition (financial or otherwise), results of operation, businesses or properties of the Depositor or the Servicer, (c) the ability of the Depositor, the Transaction Administrator or the Servicer to perform their respective obligations under the Transaction Documents or (d) the interests of the Depositor Noteholder, the Note Issuer, the Credit Facility Provider or the Noteholders.

"**Merchant Processor**" means USB or, if the USB Contract is terminated or USB ceases to be a member of MasterCard and/or Visa, the Replacement Merchant Processor appointed with the approval of the Controlling Beneficiary.

"**Merchant Processing Contract**" means the USB Contract or, if the USB Contract is terminated, the Replacement Contract which is executed with the approval of the Controlling Beneficiary.

"**Person**" includes any individual, company, corporation, firm, partnership, joint venture, association, organisation, trust, state or agency of a state (in each case, whether or not having separate legal personality).

"**Replacement Contract**" means an agreement between a Replacement Merchant Processor and Korean Air on terms which are acceptable to the Controlling Beneficiary.

"**Replacement Merchant Processor**" means a replacement or successor merchant processor to USB acceptable to the Controlling Beneficiary which has been appointed by Visa and MasterCard to process card transactions on their behalf.

"**Receivables**" means, together: (a) all U.S. dollar-denominated amounts due and to become due in the future by the Merchant Processor under the Merchant Processing Contract from the Business Day preceding the Closing Date or, in respect of any Replacement Contract, from the effective date thereof, until the Trust Dissolution Date and which will be generated in the future as a result of the purchase of airline tickets and related services, paid in U.S. dollars, by customers of Korean Air paying with Cards bearing the service mark of either Visa or MasterCard; (b) all rights of the Depositor against the Merchant Processor, in connection with the amounts specified in (a) above; and (c) all payments on the foregoing and all proceeds of any nature whatsoever regarding the foregoing.

Note Events of Default

If any of the events set out in Note Condition 8 occurs, then the Note Trustee, if so requested in writing by the Controlling Beneficiary, will as soon as practicable (i) declare that an event of default has occurred under the Notes (a "**Note Event of Default**") and (ii) deliver a Note Enforcement Notice to the Note Issuer in accordance with Note Condition 8 declaring that the Notes are, whereupon they will immediately become, immediately due and payable at the Note Redemption Amount without any further action or formality.

Withholding Taxes

All payments in respect of the Notes will be made free and clear of, and without withholding or deduction for or on account of, any present or future Taxes, unless such withholding or deduction is required by Law. In such event, the Note Issuer will withhold or deduct the relevant amount from such payment and will not be obliged to make any additional payments in respect of the Notes. "**Taxes**" means any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of any jurisdiction, including, without limitation, deductions in respect of withholding taxes, stamp registration or other taxes.

Note Issuer Account

On or before the Closing Date, the Note Trustee will establish a U.S. dollar denominated segregated account (the "**Note Issuer Account**") with the Note Issuer Account Bank in the name of the Note Issuer in order to receive, *inter alia*, payments from the Transaction Administrator on each Bond Payment Date (as defined herein) in respect of the Bond. The Note Trustee will apply all funds on deposit in the Note Issuer Account on each Note Payment Date and on any Mandatory Redemption Payment Date, in the order of priority set out in "*—Application of Funds on Note Payment Dates*" below.

Other Currencies

If any payments to be made on any Note Payment Date are to be made in a currency other than U.S. dollars (the "**Other Currency**"), the Note Trustee is authorised to effect all foreign exchange transactions at the prevailing spot rate of exchange available from the Note Issuer Account Bank for the conversion of U.S. dollars into such Other Currency (and, if no exchange rate is available from the Note Issuer Account Bank, at such rate as it is able to obtain) in order to effect the payment in the Other Currency.

Credit Facility

On the Closing Date, the Credit Facility Provider will make available the Credit Facility to the Note Issuer up to a commitment amount of U.S.$362,567,092.50 less the aggregate of (i) the aggregate amount of all Advances (but excluding any amount of interest, additional interest and compounding and any amount deemed to be an Advance) made from time to time and (ii) the aggregate of (x) all amounts paid (in accordance with the provisions of the Note Trust Deed) under paragraphs (a), (b) and (d) of "*—Application of Funds on Note Payment Dates*" on all prior Note Payment Dates and (y) all Fixed Amounts paid on all prior Swap Payment Dates, in each case prior to the date of determination (save to the extent made with the proceeds of an Advance) (the "**Commitment Amount**").

Each advance of all or part of the Commitment Amount (each, an "**Advance**") will be deposited by the Credit Facility Provider into the Note Issuer Account on the date specified in an irrevocable written notice of demand for payment. Interest will accrue from day to day in respect of each Advance until the repayment thereof in full. The obligations of the Credit Facility Provider under the Credit Facility Deed are irrevocable and unconditional and rank at least *pari passu* with all of its other unsecured and unsubordinated obligations.

The Note Issuer will repay the Credit Facility Provider in respect of each Advance and other amounts due under the Credit Facility Deed in accordance with the priority of payments set out in the Note Trust Deed (as set out in "*—Application of Funds on Note Payment Dates*" below). The Note Issuer will pay a fee to the Credit Facility Provider on each Note Payment Date calculated as a percentage of the Commitment Amount (the "**Credit Facility Provider's Fee**"), and the obligations of the Credit Facility Provider under the Credit Facility Deed will remain in full force and effect notwithstanding the non-payment of such fee.

The occurrence of any of the following events will constitute a "**Drawdown Trigger Event**" under the Credit Facility Deed:

(a) the Credit Facility Provider does not pay principal or interest or premium or deposit in any sinking fund payment on any debt securities when due and such failure to pay continues for 30 days; or

(b) the Credit Facility Provider defaults in the performance of or breaches any other covenant (other than a default specified in (a) above and (g) below) in any series of debt securities and such default continues for a period of 60 days after written notice of the default is given to the Credit Facility Provider by the holders of at least 10 per cent. of the aggregate principal amount of the debt securities of any series at the time outstanding; or

(c) External Indebtedness of the Credit Facility Provider in the aggregate principal amount of U.S.$10,000,000 or more either (i) becomes due and payable prior to the due date for payment thereof by reason of default by the Credit Facility Provider or (ii) is not repaid at maturity as extended by the period of grace, if any, applicable thereto, or any guarantee given by the Credit Facility Provider in respect of External Indebtedness of any other person is not honoured when due and called; or

(d) Korea declares a moratorium on the payment of any External Indebtedness (including obligations arising under guarantees) of Korea or Korea becomes liable to repay prematurely any sums in respect of such External Indebtedness (including obligations arising under guarantees) as a result of a default under, or breach of the terms applicable to, such External Indebtedness or such obligations, or Korea ceases to be a member of the International Monetary Fund or the International Bank for Reconstruction and Development or the international monetary reserves of Korea become subject to any lien, charge, mortgage, encumbrance or other security interest or any segregation or other preferential arrangement (whether or not constituting a security interest) for the benefit of any creditor or class of creditors; or

(e) Korea fails to provide the financial support to the Credit Facility Provider stipulated by Article 44 of The Korea Development Bank Act of 1953, as amended (as of the date of the debt securities of any series); or

(f) Korea ceases to control (directly or indirectly) the Credit Facility Provider. For the purpose of this paragraph, "control" means the acquisition or control of a majority of the voting share capital of the Credit Facility Provider or the right to appoint and/or remove all or the majority of the members of the Credit Facility Provider's board of directors or other governing body, whether obtained directly or indirectly, and whether obtained by ownership of share capital, the possession of voting rights, contract or otherwise; or

(g) the Credit Facility Provider is adjudicated or found bankrupt or insolvent or any order is made by a competent court or administrative agency or any resolution is passed by the Credit Facility Provider to apply for bankruptcy or for judicial composition proceedings with its creditors or for the appointment of a receiver or trustee or other similar official in insolvency proceedings in relation to the Credit Facility Provider or a substantial part of the assets of the Credit Facility Provider or the Credit Facility Provider is liquidated, wound up or dissolved or the Credit Facility Provider ceases to carry on the whole or substantially the whole of its business.

Following the occurrence and during the continuation of any Drawdown Trigger Event, the Credit Facility Provider will no longer be the Controlling Beneficiary (other than in the limited circumstances specified in "*—Transaction Parties—The Controlling Beneficiary*" above).

Following the declaration by the Controlling Beneficiary of a Mandatory Redemption Event and upon receipt of notice from the Transaction Administrator that the amount of funds available to the Note Issuer for redemption of the Notes is less than the Note Outstanding Amount (as defined below), the Credit Facility Provider will notify the Note Trustee and the Transaction Administrator in writing as to whether in its sole discretion (if no Drawdown Trigger Event has occurred or the Enforcement Period has not commenced) it will, within the limits of the then available Commitment Amount, make an Advance under the Credit Facility Deed equal to either (a) the amount by which amounts on deposit in the Note Issuer Account are less than the Note Outstanding Amount or (b) the Note Collection Shortfall with respect to the Notes scheduled to be paid on the next succeeding Note Payment Date. If a Drawdown Trigger Event has occurred or the Enforcement Period has commenced (whether or not a Mandatory Redemption Event has been declared), the Credit Facility Provider will, within the limits of the then available Commitment Amount, be obliged to make an Advance equal to the amount by which amounts on deposit in the Note Issuer Account are less than the Note Outstanding Amount.

"**Note Outstanding Amount**" means, with respect to any day on which the Notes are due to be prepaid, the aggregate of: (a) the Principal Amount Outstanding of the Notes as at the immediately preceding Note Payment Date (or, if none, the Closing Date); (b) the highest of the (i) aggregate accrued interest due and payable in respect of the Notes up to (but excluding) such day, (ii) the Fixed Amount due on the next succeeding Swap Payment Date and (iii) the Floating Amount due on the next succeeding Swap Payment Date; and (c) the aggregate of those amounts which are, in accordance with the Note Trust Deed, due and payable in priority to or *pari passu* with the amounts due and payable by the Note Issuer under the Notes.

"**Note Collection Shortfall**" means, with respect to the relevant Note Payment Date, the amount, if positive, of: (i) the aggregate amounts payable from the Note Issuer Account (in accordance with the provisions of the Note Trust Deed) under paragraphs (a), (b), (c) and (d) of "*—Application of Funds on Note Payment Dates*" on such Note Payment Date less (ii) the aggregate amounts on deposit in the Note Issuer Account on such Note Payment Date (after taking into account any amounts actually paid, or scheduled to be paid, from the Note Issuer Account on the related Swap Payment Date in respect of the Fixed Amount and any amounts actually received, or scheduled to be received, into the Note Issuer Account on the related Swap Payment Date in respect of the Floating Amount).

The Swap Agreement

The Note Issuer has entered into an ISDA Master Agreement, together with a schedule and a confirmation on 20 November 2014 (the "**Swap Agreement**"). On the fourth Business Day preceding each Note Payment Date or, as the case may be, a Mandatory Redemption Payment Date (each, a "**Swap Payment Date**"), the Note Issuer will make a fixed payment to the Swap Provider (each, a "**Fixed Amount**") and the Swap Provider will make a floating payment to the Note Issuer (each, a "**Floating Amount**") equal to the interest payable on the Notes on the next Note Payment Date or, as the case may be, the Mandatory Redemption Payment Date.

The Note Issuer will pay certain charges of the Swap Provider (the "**Swap Provider Charges**") pursuant to the Swap Agreement and interest thereon, from and including, the relevant Early Termination Date (as defined in the Swap Agreement) to, but excluding, the date on which such Swap Provider Charges are paid under the Swap Agreement. The Note Issuer will also pay certain additional amounts to the Swap Provider arising as a result of the commencement of the Early Amortisation Period, the Enforcement Period or arising after the Mandatory Redemption Payment Date.

Listing

Application has been made to list the Notes on the Irish Stock Exchange on the Closing Date.

Limited Recourse

Recourse against the Note Issuer, and the liability of the Note Issuer, in relation to its obligations under the Notes will be limited to the Note Secured Property, including the Bond and the amounts from time to time available in accordance with, and in the order of priority set out in, the Note Trust Deed. Noteholders will have no claim or recourse against the Note Issuer in respect of any unsatisfied amounts after the application in accordance with the Note Trust Deed of the funds comprising the Note Secured Property and/or representing the proceeds of realisation thereof, and in such event the Notes and all other outstanding obligations of the Note Issuer will be waived and extinguished. The obligations of the Note Issuer under the Notes and the Transaction Documents are corporate obligations and Noteholders will have no claim or recourse against any shareholder, employee, officer, director or agent of the Note Issuer.

No Petition

Each Note Secured Party will agree in the Transaction Documents to which it is a party that it will not petition a court for, or take any other action or commence any proceedings for, the liquidation, winding-up, bankruptcy or reorganisation of the Note Issuer, or for the appointment of a receiver, administrator, administrative receiver, trustee, liquidator, sequestrator or similar officer of the Note Issuer or of any or all of the Note Issuer's revenues and assets, until one year and one day after the payment in full of all amounts owing in respect of the Notes and all other Note Issuer Obligations.

Governing Law

The Depositor Note Sale and Purchase Agreement, the Bond Issuer Servicing Agreement, the Transaction Administration Agreement, the Korean Bank Agreements and the Bond Issuer Administrator Agreement will be governed by Korean law. The Notes, the Note Trust Deed, the Note Agency Agreement, the Note Issuer Account Bank Agreement, the Bond, the Bond Subscription and Agency Agreement, the Credit Facility Deed and the Swap Agreement will be governed by English law. The Trust Agreement will be governed by Delaware Law. The Indenture, the Depositor Note, the Receivables Sale and Contribution Agreement, the New York Law Security Agreement and the Servicing Agreement will be governed by New York law. The Note Issuer Administrator Agreement will be governed by Cayman Islands law.

THE BOND

The Bond

The Bond Issuer will issue the U.S.$350,000,000 Variable Rate Bond due 2017 (the "**Bond**") outside of Korea to the Note Issuer (as "**Bondholder**") on the Closing Date pursuant to the provisions of a bond subscription and agency agreement dated on or about the Closing Date among, *inter alios*, the Bond Issuer, the Bondholder and the Note Trustee (the "**Bond Subscription and Agency Agreement**"). The Note Issuer will assign all of its rights to the Bond and its other assets to the Note Trustee as security for, *inter alia*, its obligations under the Notes. The Bond will be secured by the Bond Secured Property (as defined below). See "*—Bond Security*" below.

Bond Security

The obligations of the Bond Issuer are secured by the pledge and assignment of the Bond Issuer's assets and equity pursuant to the Pledge Agreement, the Equity Pledge Agreement, the New York Law Security Agreement and the Security Assignment each as defined below (the "**Bond Security**").

Pursuant to a pledge agreement dated the Closing Date between, *inter alios*, the Bond Issuer and the Security Agent (the "**Pledge Agreement**"), the Bond Issuer has granted a pledge in favour of the Bond Secured Parties (as defined below) over all of its rights and title to the following assets in order to secure the Bond Issuer Obligations:

(a) each of the Transaction Administration Agreement, the Bond Issuer Servicing Agreement, the Bond Issuer Administrator Agreement, the Korean Bank Agreements, the Depositor Note Sale and Purchase Agreement and all other agreements and documents delivered or executed in connection therewith (the "**Korean Pledged Documents**");

(b) each of the Bond Issuer Accounts, including all sub-accounts, and all balances, credits, deposits, monies or other sums therein or on deposit or payable or withdrawable therefrom and any interest accrued or payable thereon; and

(c) all of its other property and assets (to the extent permissible by Law).

Pursuant to an equity pledge agreement dated the Closing Date between, *inter alios*, the Bond Issuer and the Equity Pledgors (as defined below) (the "**Equity Pledge Agreement**"), the Equity Pledgors have granted a pledge in favour of the Bond Secured Parties over all of their rights and title to their respective Equity Interests in the Bond Issuer to secure the Bond Issuer Obligations. The authorised equity capital of the Bond Issuer consists of KRW20,000 divided into 200 units of a nominal or par value of KRW100 each of which 200 units have been issued at par and fully paid, with 1 unit being held by the Depositor and 199 units being held by Ounju Jeon (each, an "**Equity Pledgor**" and an "**Equityholder**"). See "*The Bond Issuer—Equity Capital*" and "*—Capitalisation and Indebtedness*".

Citibank Korea Inc. (the "**Security Agent**") will hold the Bond Security as agent for the Bond Secured Parties pursuant to the terms of the Transaction Documents.

Pursuant to, and on the terms set out in, the Security Assignment, the Bond Issuer has assigned to the Bond Secured Parties all of its rights and title to, *inter alia*, the Bond Subscription and Agency Agreement and the Bond to secure the Bond Issuer Obligations.

Pursuant to, and on the terms set out in, the New York Law Security Agreement, the Bond Issuer has pledged and assigned to the Security Agent for the benefit of the Bond Secured Parties, and granted to the Security Agent, for the benefit of the Bond Secured Parties a security interest in, all of the Bond Issuer's rights, title and interest in and to the following property of the Bond Issuer (the "**Collateral**"):

(a) all of the rights, title and interest of the Bond Issuer in the Depositor Note;

(b) all of the Bond Issuer's present and future rights, title, interest and benefit under the Servicing Agreement; and

(c) all proceeds with respect to any of the Collateral.

Each of the Pledge Agreement, the Equity Pledge Agreement, the Security Assignment and the New York Law Security Agreement provide for enforcement of the Bond Security and the exercise of rights generally by the Security Agent (acting at the direction of the Controlling Beneficiary) in relation to the Bond Security upon the service of a Bond Enforcement Notice.

Proceeds of enforcement of the Bond Security will be applied by the Security Agent in the manner and order of priority specified in the Pledge Agreement. See "*—Application of Funds on Bond Payment Dates*".

"**Bond Secured Parties**" means, together, the Note Trustee (in its individual capacity and not as trustee for the benefit of the Noteholders), the Bondholder, the Credit Facility Provider, the Swap Provider, the Calculation Agent, the Agents, the Controlling Beneficiary, the Bond Issuer Administrator and the Account Banks.

Interest

Interest will be payable on the Bond monthly in arrear on the fifth Business Day preceding each Note Payment Date (each, a "**Bond Payment Date**") commencing in January 2015 or, if such day is not a Business Day, the next succeeding Business Day.

Interest on the Bond will be payable by reference to successive interest periods (each, an "**Interest Period**"). The initial Interest Period will commence on (and include) the Closing Date and end on (but exclude) the initial Note Payment Date. Each successive Interest Period will commence on and include a Note Payment Date and end on (but exclude) the next succeeding Note Payment Date or the date on which the Bond is redeemed in full, if earlier.

Bond Interest

Interest will be payable on the Bond in respect of an Interest Period in the sum of the interest amount specified in the table of interest payments (the "**Bond Interest Table**") set out in Bond Condition 2 in respect of such Interest Period.

As a separate obligation, the Bond Issuer agrees to pay to the Bondholder an amount (the "**Bond Additional Amount**") equal to the amount by which the Bond Interest Amount (as defined in Bond Condition 2) with respect to a Bond Payment Date is less than the sum of (A) the aggregate of the amounts payable (in accordance with the provisions of the Note Trust Deed) under paragraphs (a), (b) and (c)(y) of "*—Application of Funds on Note Payment Dates*" on the immediately succeeding Note Payment Date and (B) the Fixed Amount payable on the immediately succeeding Swap Payment Date (prior to the termination of the Swap Agreement) or the Note Interest Amount payable on the immediately succeeding Note Payment Date (after the termination of the Swap Agreement and prior to the effectiveness of any replacement swap agreement).

Amortisation and Redemption

(A) *Bond Maturity*

Unless previously redeemed in full, the Bond Issuer will redeem the Bond, to the extent of funds available therefor, in full on the Bond Payment Date falling in November 2017 (the "**Bond Maturity Date**") at its Bond Redemption Amount (as defined below) as at such date.

"**Bond Redemption Amount**" means, at any date, an amount equal to the Principal Amount Outstanding (as defined below) of the Bond at such date plus accrued and unpaid interest thereon to, but excluding, such date.

"**Principal Amount Outstanding**" means, in relation to the Bond, on any date, the principal amount of the Bond on the Closing Date less the aggregate amount of all payments of principal in respect of the Bond which have been paid on the Bond after the Closing Date to the relevant date.

(B) *Controlled Amortisation Period*

On each Bond Payment Date during the Controlled Amortisation Period, principal in respect of the Bond is scheduled to be paid in instalments (each, a "**Bond Scheduled Amortisation Amount**") in accordance with the schedule set out in Bond Condition 3 subject to available funds.

"**Bond Conditions**" means the terms and conditions of the Bond in the form set out in Schedule 2 to the Bond Subscription and Agency Agreement and any reference to a numbered Bond Condition shall be construed accordingly.

(C) *Early Amortisation Period/Enforcement Period*

On each Bond Payment Date following a Trust Distribution Date that falls in the Early Amortisation Period or the Enforcement Period, principal in respect of the Bond will be repaid, to the extent of funds available therefor in accordance with the priority of payments set forth in the Transaction Administration Agreement (as set out in "*—Application of Funds on Bond Payment Dates*" below) and after payment of the Bond Scheduled Amortisation Amount due on such Bond Payment Date in inverse order of the amortisation schedule set out in the original amortisation table, in an aggregate principal amount equal to the Principal Amount Outstanding of the Bond as at such date, until the Bond has been redeemed in full at the Bond Redemption Amount.

(D) *Mandatory Redemption*

Following the declaration by the Controlling Beneficiary of a Mandatory Redemption Event in respect of the Notes and upon receipt of notice thereof from the Transaction Administrator, the Bond Issuer will redeem the Bond, in whole, to the extent of funds available therefor in accordance with the priority of payments set forth in "*—Application of Funds on Bond Payment Dates*" below, on the relevant Mandatory Redemption Payment Date, at the Bond Redemption Amount on such date.

Bond Events of Default

Bond Condition 6 defines a "**Bond Event of Default**" to include:

(a) default is made in the repayment of any principal amount of the Bond or in the payment of any interest in respect of the Bond;

(b) default is made by the Bond Issuer in the performance or observance of any obligation, condition or provision binding on it under the Transaction Documents to which it is a party (other than any obligation for the payment of any principal or interest on the Bond) and, except where in the opinion of the Controlling Beneficiary such default is not capable of remedy, such default continues for 30 days after written notice delivered by the Security Agent (acting on the written instructions of the Controlling Beneficiary as aforesaid) to the Bond Issuer;

(c) an order is made by any competent court or an effective resolution is passed for the winding-up or dissolution of the Bond Issuer;

(d) (i) the Bond Issuer stops payment of its debts (within the meaning of any applicable bankruptcy law), or is unable to pay its debts as and when they fall due; (ii) the Bond Issuer ceases or, through an official action of its director, or meeting of the Equityholders, of the Bond Issuer, threatens to cease, to carry on all or any substantial part of its business;

(e) one or more final judgments from which no further appeal or judicial review is permissible under applicable Law are awarded against the Bond Issuer in an aggregate amount in excess of KRW10,000,000;

(f) proceedings are initiated against the Bond Issuer under any applicable liquidation, insolvency, composition, re-organisation or other similar laws including, for the avoidance of doubt, presentation to the court of an application for an administration order, or an administrative receiver or other receiver, administrator or other similar official is appointed in relation to the Bond Issuer or in relation to the whole or any substantial part of the undertaking or assets of the Bond Issuer or an encumbrancer takes possession of the whole or any substantial part of the undertaking or assets of the Bond Issuer or a distress, execution, attachment, sequestration, diligence or other process is levied, enforced upon, sued out or put in force against the whole or any substantial part of the undertaking or assets of the Bond Issuer and, in any of the foregoing cases, it will not be discharged, annulled or withdrawn within 14 days or earlier if the relevant court has accepted the applications or petitions for such proceedings;

(g) any decree, resolution, authorisation, approval, consent, filing, registration or exemption necessary for the execution and delivery of the Bond on behalf of the Bond Issuer and the performance of the Bond Issuer's Obligations under the Bond or any of the Transaction Documents is withdrawn or modified or otherwise ceases to be in full force and effect, or it is unlawful for the Bond Issuer to comply with, or the Bond Issuer contests the validity or enforceability of or repudiates, any of its obligations under the Bond, the Bond Subscription and Agency Agreement or any of the other Transaction Documents;

(h) the Bond Issuer initiates or consents to judicial proceedings relating to itself under any applicable liquidation, insolvency, composition, reorganisation or other similar laws or makes a conveyance or assignment for the benefit of its creditors generally (or any class of its creditors) or enters into an arrangement or composition with its creditors generally (or any class of its creditors);

(i) any representation or warranty made by the Bond Issuer in any of the Transaction Documents proves to be incorrect or misleading in any material respect when made;

(j) a Note Event of Default or Depositor Note Event of Default occurs; or

(k) the Bond Security or any part thereof becomes invalid, void or unenforceable.

Upon (i) the declaration of a Bond Event of Default by the Security Agent (acting on the instructions of the Controlling Beneficiary) and (ii) the delivery of a Bond Enforcement Notice to the Bond Issuer by the Security Agent (acting on the instructions of the Controlling Beneficiary), the Enforcement Period will commence with respect to the Bond.

Withholding Taxes

All payments in respect of the Bond will be made free and clear of, and without withholding or deduction for or on account of, any present or future Taxes, unless such withholding or deduction is required by Law. In such event, the Bond Issuer will pay, but only to the extent of funds available therefor in accordance with the priority of payments set forth in the Transaction Administration Agreement, such additional amount as may be necessary in order that the net amount received by the Bondholder in respect of the Bond after such withholding or deduction will equal the amount which would have been received in the absence of such withholding or deduction.

Bond Issuer Accounts

On or before the Closing Date, the Transaction Administrator will establish a U.S. dollar denominated segregated account with Citibank Korea Inc. in the name of the Bond Issuer (the "**Bond Issuer U.S. Dollar Account**") in order to receive payments from the Indenture Trustee on each Trust Distribution Date under the Depositor Note. Payments in respect of the Depositor Note will be paid on each Trust Distribution Date (other than following the declaration of a Mandatory Redemption Event, in which case on the relevant Mandatory Redemption Payment Date) into the Bond Issuer U.S. Dollar Account in order to make payments under the Bond on the next Bond Payment Date or the relevant Mandatory Redemption Payment Date. On or prior to the Closing Date, the Transaction Administrator will also establish a U.S. dollar denominated segregated account and a Korean Won segregated account with Citibank Korea Inc. in the name of the Bond Issuer (the "**Bond Issuer FX Account**" and the "**Bond Issuer Won Account**", respectively, and together with the Bond Issuer U.S. Dollar Account, the "**Bond Issuer Accounts**").

"**Account Bank**" means, (a) Citibank Korea Inc. in respect of the Bond Issuer Accounts, (b) Citibank, N.A., London Branch in respect of the Note Issuer Account and (c) Citibank, N.A., New York Branch in respect of the Trust Accounts, or such other bank that is an Eligible Entity approved by the Controlling Beneficiary in respect of the Bond Issuer Accounts and the Note Issuer Account and such other bank as is provided in the Indenture in respect of the Trust Accounts.

"**Eligible Entity**" means an entity whose foreign currency long-term bank deposit rating is rated at least "A3" by Moody's or such other rating or ratings as may be agreed by Moody's from time to time as would maintain the then current rating of the Notes.

Other Currencies

If any payments which are to be made on any Bond Payment Date are to be made in the Other Currency, the Transaction Administrator is authorised to effect all foreign exchange transactions at the prevailing spot rate of exchange available from the relevant Account Bank for the conversion of U.S. dollars into such Other Currency (and, if no exchange rate is available from the relevant Account Bank, at such rate as it is able to obtain) in order to effect the payment in the Other Currency.

Limited Recourse

Each party to the Transaction Documents will agree that recourse against the Bond Issuer, and the liability of the Bond Issuer, in relation to its obligations under the Bond will be limited to the Bond Secured Property and the amounts from time to time available in accordance with, and in the order or priority set out in, the Transaction Administration Agreement.

No Petition

Each Bond Secured Party will agree in the relevant Transaction Documents that it will not petition a court for, or take any other action or commence any proceedings for, the liquidation, winding-up, bankruptcy or reorganisation of the Bond Issuer, or for the appointment of a receiver, administrator, administrative receiver, trustee, liquidator, sequestrator or similar officer of the Bond Issuer or of any or all of the Bond Issuer's revenues and assets, until one year and one day after the payment in full of all amounts owing in respect of the Bond and of all other obligations of the Bond Issuer.

Registrations

The Bond Issuer will file a Securitisation Plan before the Closing Date and an Asset Transfer Registration on the Closing Date with the FSC, relating to the purchase by the Bond Issuer of the Depositor Note.

THE DEPOSITOR NOTE

The Depositor Note

The Trust will issue the Depositor Note due 2017 (the "**Depositor Note**") to KAL (as "**Depositor Noteholder**") on the Closing Date pursuant to the provisions of the Indenture. Pursuant to the terms of a sale and purchase agreement dated 11 November 2014 (the "**Depositor Note Sale and Purchase Agreement**") the Depositor will sell the Depositor Note to the Bond Issuer. The Bond Issuer will assign all of its rights to the Depositor Note and its other assets to the Security Agent as security for, *inter alia*, its obligations under the Bond.

Depositor Note Interest

Interest will be payable on the Depositor Note monthly in arrear on the seventh Business Day preceding each Note Payment Date (each, a "**Depositor Note Payment Date**") commencing in January 2017 or, if such day is not a Business Day, the next succeeding Business Day.

Interest on the Depositor Note will be payable by reference to successive interest periods (each, an "**Interest Period**"). The initial Interest Period will commence on (and include) the Closing Date and end on (but exclude) the initial Note Payment Date. Each successive Interest Period will commence on and include a Note Payment Date and end on (but exclude) the next succeeding Note Payment Date or the date on which the Depositor Note is redeemed in full, if earlier.

Interest will be payable in respect of the Depositor Note in respect of an Interest Period in the sum of the interest amount specified in the table of interest payments (the "**Depositor Note Interest Table**") set out in Depositor Note Condition 2 in respect of such Interest Period.

As a separate obligation, the Trust agrees to pay to the Depositor Noteholder as interest, an aggregate amount equal to (y) an amount (the "**Senior Depositor Note Additional Amount**") equal to the amount by which the Depositor Note Interest Amount set out in Depositor Note Condition 2 with respect to a Depositor Note Payment Date is less than the sum of the aggregate of the amounts payable (in accordance with the Transaction Administration Agreement) in respect of paragraphs (a) and (b) of "*—Application of Funds on Bond Payment Notes*" on the immediately succeeding Bond Payment Date and (z) an amount (the "**Junior Depositor Note Additional Amount**") equal to the Junior Bond Issuer Obligations payable on the following Bond Payment Date*.*

Amortisation and Redemption

(A) *Depositor Note Maturity*

Unless previously redeemed in full, the Trust will redeem the Depositor Note, to the extent of funds available therefor, in full on the Depositor Note Payment Date falling in November 2017 (the "**Depositor Note Maturity Date**") at the Depositor Note Redemption Amount (as defined below) as at such date.

"**Depositor Note Redemption Amount**" means, at any date, an amount equal to the Principal Amount Outstanding (as defined below) of the Depositor Note at such date plus accrued and unpaid interest thereon to, but excluding, such date.

"**Principal Amount Outstanding**" means, in relation to the Depositor Note, on any date, the principal amount of the Depositor Note on the Closing Date less the aggregate amount of all payments of principal in respect of the Depositor Note which have been paid on the Depositor Note after the Closing Date to the relevant date.

(B) *Controlled Amortisation Period*

On each Depositor Note Payment Date during the Controlled Amortisation Period, principal in respect of the Depositor Note is scheduled to be paid in instalments (as defined below) (each, a "**Depositor Note Scheduled Amortisation Amount**") in accordance with the schedule set out in Depositor Note Condition 3 subject to available funds.

"**Depositor Note Conditions**" means the terms and conditions of the Depositor Note in the form set out in Schedule 4 to the Indenture and any reference to a numbered Depositor Note Condition shall be construed accordingly.

(C) *Early Amortisation Period/Enforcement Period*

On each Depositor Note Payment Date that falls in the Early Amortisation Period or the Enforcement Period, principal in respect of the Depositor Note will be repaid, to the extent of funds available therefor in accordance with the priority of payments set forth in the Indenture and after payment of the Depositor Note Scheduled Amortisation Amount due on such Depositor Note Payment Date in inverse order of the amortisation schedule set out in the original amortisation table, in an aggregate principal amount equal to the Principal Amount Outstanding of the Depositor Note as at such date, until the Depositor Note has been redeemed in full at the Depositor Note Redemption Amount.

(D) *Mandatory Redemption*

Following the declaration by the Controlling Beneficiary of a Mandatory Redemption Event in respect of the Notes and upon receipt of notice thereof from the Transaction Administrator, the Trust will redeem the Depositor Note, in whole, to the extent of funds available therefor in accordance with the priority of payments set forth in "—*Application of Funds on Trust Distribution Dates*" below, on the relevant Mandatory Redemption Payment Date, at the Depositor Note Redemption Amount on such date.

Depositor Note Events of Default

Depositor Note Condition 6 will define a "**Depositor Note Event of Default**" to include:

(a) default is made in the repayment of any principal amount of the Depositor Note or in the payment of any interest in respect of the Depositor Note;

(b) default is made by the Trust in the performance or observance of any obligation, condition or provision binding on it under the Transaction Documents to which it is a party (other than any obligation for the payment of any principal or interest on the Depositor Note and, except where in the opinion of the Controlling Beneficiary such default is not capable of remedy, such default continues for 30 days after written notice delivered by the Depositor Noteholder (acting on the written instructions of the Controlling Beneficiary as aforesaid) to the Trust;

(c) an order is made by any competent court or an effective resolution is passed for the winding-up or dissolution of the Trust;

(d) (i) the Trust stops payment of its debts (within the meaning of any applicable bankruptcy law), or is unable to pay its debts as and when they fall due; or

(ii) the Trust ceases or, through an official action of the U.S. Trustee, threatens to cease to carry on all or any substantial part of its business;

(e) one or more final judgments from which no further appeal or judicial review is permissible under applicable Law are awarded against the Trust in an aggregate amount in excess of U.S.$10,000;

(f) proceedings are initiated against the Trust under any applicable liquidation, insolvency, composition, re-organisation or other similar laws including, for the avoidance of doubt, presentation to the court of an application for an administration order, or an administrative receiver or other receiver, administrator or other similar official is appointed in relation to the Trust or in relation to the whole or any substantial part of the undertaking or assets of the Trust or an encumbrancer takes possession of the whole or any substantial part of the undertaking or assets of the Trust or a distress, execution, attachment, sequestration, diligence or other process is levied, enforced upon, sued out or put in force against the whole or any substantial part of the undertaking or assets of the Trust and, in any of the foregoing cases, it will not be discharged, annulled or withdrawn within 14 days or earlier if the relevant court has accepted the applications or petitions for such proceedings;

(g) any decree, resolution, authorisation, approval, consent, filing, registration or exemption necessary for the execution and delivery of the Depositor Note on behalf of the Trust and the performance of the Trust's obligations under the Depositor Note or any of the Transaction Documents is withdrawn or modified or otherwise ceases to be in full force and effect, or it is unlawful for the Trust to comply with, or the Trust contests the validity or enforceability of or repudiates, any of its obligations under the Depositor Note, the Depositor Note Sale and Purchase Agreement or any of the other Transaction Documents;

(h) the Trust initiates or consents to judicial proceedings relating to itself under any applicable liquidation, insolvency, composition, reorganisation or other similar laws or makes a conveyance or assignment for the benefit of its creditors generally (or any class of its creditors) or enters into an arrangement or composition with its creditors generally (or any class of its creditors);

(i) any representation or warranty made by the Trust in any of the Transaction Documents proves to be incorrect or misleading in any material respect when made; or

(j) a Note Event of Default or a Bond Event of Default occurs.

Upon (i) the declaration of a Depositor Note Event of Default by the Depositor Noteholder (acting on the instructions of the Controlling Beneficiary) and (ii) the delivery of a Depositor Note Enforcement Notice to the Indenture Trustee by the Depositor Noteholder (acting on the instructions of the Controlling Beneficiary), the Enforcement Period will commence with respect to the Depositor Note.

Withholding Taxes

All payments in respect of the Depositor Note will be made free and clear of, and without withholding or deduction for or on account of, any present or future Taxes, unless such withholding or deduction is required by Law. In such event, the Trust will pay, but only to the extent of funds available therefor in accordance with the priority of payments set forth in the Indenture, such additional amount as may be necessary in order that the net amount received by the Depositor Noteholder in respect of the Depositor Note after such withholding or deduction will equal the amount which would have been received in the absence of such withholding or deduction.

THE CONVEYED ASSETS

Description

The Depositor is a Korean airline operating passenger and cargo services to various domestic and international destinations. The Depositor is selling assets arising in connection with the sale of passenger transportation and related services on Korean Air's flights and which are purchased in U.S. dollars by the use of cards bearing the service mark of either Visa or MasterCard.

The assets to be sold or contributed by the Depositor to the Trust pursuant to the Receivables Sale and Contribution Agreement are:

(a) the Receivables, one Business Day prior to the Closing Date; and

(b) the Reserve Funding Amount, on or before the Closing Date.

Additional monies will be contributed by the Depositor to the Trust (i) upon the declaration of a Mandatory Redemption Event, *inter alia*, to redeem the Depositor Note and ultimately to pay all amounts owing under the Notes and (ii) in an amount equal to any Set-off Amount, from time to time in accordance with the provisions of the Receivables Sale and Contribution Agreement. The Receivables, the Collections thereon and the funds and permitted investments credited to the various Trust Accounts and the rights of the Trust under the Receivables Sale and Contribution Agreement and the other Transaction Documents to which it is a party are referred to as the "**Conveyed Assets**").

USB Consent

The Depositor will obtain consent from USB (the "**USB Consent**") in relation to the assignment of the Receivables to the Trust and the pledge of the Receivables to the Indenture Trustee. The Depositor will deliver such USB Consent to the Indenture Trustee one day prior to the Closing Date duly executed by the parties thereto.

SERVICING

Servicing

Pursuant to a servicing agreement dated 11 November 2014 among, *inter alios*, the Servicer, the Trust and the Indenture Trustee (the "**Servicing Agreement**"), the Trust will appoint the Servicer to manage, service, administer and collect the Serviced Assets and Collections thereon in accordance with the terms of the Servicing Agreement.

The Servicer will perform its services in accordance with its administrative procedures and the professional standards of care and practice of a prudent passenger receivables servicer managing, servicing, administering and collecting amounts due in respect of similar passenger receivables and bank accounts in the United States (the "**Industry Standards**") and otherwise in accordance with applicable law.

Servicer Duties

Under the Servicing Agreement, the Servicer will be required to, *inter alia*:

(a) manage, service, administer the Serviced Assets and the Collections thereon and collect amounts due in respect of the Serviced Assets with reasonable care in accordance with Industry Standards and applicable Law;

(b) comply with and perform the other agreements, covenants and obligations on its part set out in the Servicing Agreement and the other Transaction Documents to which it is a party; and

(c) provide a Monthly Servicer Report (as defined below) to the Depositor (if it is not the Servicer), the Trust, the Indenture Trustee, the Depositor Noteholder, the Transaction Administrator, the Bond Issuer Administrator, the Bond Issuer Servicer, the Security Agent, the Note Trustee, the Credit Facility Provider and the Rating Agency in connection with the Serviced Assets.

Monthly Servicer Report

On the 3rd Business Day of each month, the Servicer will be required to prepare and deliver to, *inter alios*, the Depositor (if it is not the Servicer), the Trust, the Indenture Trustee, the Depositor Noteholder, the Transaction Administrator, the Bond Issuer Administrator, the Bond Issuer Servicer, the Security Agent, the Note Trustee, the Credit Facility Provider and the Rating Agency a report pursuant to the provisions of the Servicing Agreement with respect to activity during the immediately preceding calendar month (the "**Monthly Servicer Report**"). The Servicer will also certify in each Monthly Servicer Report that no Servicer Termination Event, Early Amortisation Event, Potential Early Amortisation Event (as defined below) or Mandatory Redemption Event had occurred as of the last day of the monthly collection period (each, a "**Collection Period**") to which such Monthly Servicer Report relates or that such an event has occurred. The Monthly Servicer Report will relate to and include all Collections on the Serviced Assets during the relevant Collection Period.

A "**Potential Early Amortisation Event**" will be defined to mean any condition, event or act which, with the lapse of time and/or the issue, making or giving of any notice, certification, declaration, demand, determination and/or request and/or the taking of any similar action and/or the fulfilment of any similar condition, could constitute an Early Amortisation Event.

Servicer Covenants

The Servicer will covenant with each party to the Servicing Agreement that it will, *inter alia*:

(a) comply at all times with all laws applicable to or in any way affecting the creation and servicing of the Receivables or the transactions contemplated by the Transaction Documents where failure to do so would have a Material Adverse Effect;

(b) execute all such further documents and take all such further actions as may be necessary on the Closing Date or thereafter, in the reasonable opinion of the Trust or the Indenture Trustee, to ensure that the Trust or, as the case may be, the Indenture Trustee has an ownership interest in the Receivables to the extent contemplated by the Transaction Documents and to give effect to the Servicing Agreement;

(c) keep separate and not commingle the Receivables or Collections with any of its assets, except as contemplated by the Servicing Agreement, the Receivables Sale and Contribution Agreement, the Indenture and the Trust Agreement; and

(d) not create or permit to exist any Lien on any Receivables, Collections or other rights contributed pursuant to the Receivables Sale and Contribution Agreement, except as permitted or required under the Transaction Documents.

Servicer Termination Events

The Servicing Agreement will define "**Servicer Termination Event**" to include, *inter alia*:

(a) the Servicer defaults in the payment or deposit on the due date of any payment or deposit due and payable by it under any Transaction Document to which it is a party (other than such default as may be caused by a technical or administrative error and is remedied within three Seoul and New York Business Days), including the Servicer's failure to transfer Collections in accordance with the Servicing Agreement;

(b) the Servicer defaults in the performance or observance of any of its other covenants and obligations under any Transaction Document to which it is a party and (except where such default is incapable of remedy or where no applicable grace period is specified in the relevant Transaction Document) such default continues unremedied for a period of ten Seoul and New York Business Days, and which default is, or is likely in the reasonable opinion of the Indenture Trustee or the Controlling Beneficiary to be, materially prejudicial to the interests of the Depositor Noteholder;

(c) the Servicer (if it is the Depositor) ceases or proposes to cease to carry on its passenger transportation business or a substantial part of such business in the United States;

(d) an Insolvency Event occurs in relation to the Servicer; or

(e) there is a suspension, revocation, termination or withdrawal of any approval, authorisation, consent or licence required by the Servicer to carry out any of its duties or obligations under any Transaction Document to which it is a party and such suspension, revocation, termination or withdrawal is not remedied within ten days thereafter.

Pursuant to the Servicing Agreement, following the occurrence of a Servicer Termination Event which remains unremedied, the Indenture Trustee, which will act in accordance with the Controlling Beneficiary's instructions (including the grant of any waiver of a Servicer Termination Event), may declare that a Servicer Termination Event has occurred and the Trust may terminate the appointment of the Servicer; *provided that* the termination of the appointment shall not become effective until a successor Servicer is appointed and has commenced performance of its services.

The Trust may terminate the appointment of the Servicer if, in the reasonable opinion of the Trust:

(a) the Servicer is in breach of any of its material duties under the Servicing Agreement;

(b) the Servicer is unable to accurately perform its duties under the Servicing Agreement; or

(c) it is necessary to protect the interests of the Certificateholder and/or the Depositor Noteholder.

Upon termination of the Servicer's appointment, the Servicer will be obligated to immediately deliver or make available to such person as the Indenture Trustee directs, *inter alia*, all documents, files and records relating to the Conveyed Assets necessary for the collection thereof or the enforcement of the rights of the Trust therein and all moneys or other assets then held by the Servicer on behalf of any party (other than the Depositor Beneficiary) to any Transaction Document.

THE TRUST

The Trust

The Trust has been formed pursuant to the Trust Agreement for the purpose of the sale and contribution by, or on behalf of, the Depositor of the Conveyed Assets. The Trust Administrator will operate and administer the Trust pursuant to the provisions of the Trust Agreement. The Trust will terminate upon the earlier to occur of, *inter alia*, (i) 30 November 2019 and (ii) the date on which all amounts due under the Depositor Note, the Bond and the Notes have been paid in full and all of the Bond Issuer Obligations and the Note Issuer Obligations have been paid in full; *provided that*, in each case, no amounts are outstanding under the Credit Facility Deed on such date.

The Trust Accounts

On or before the Closing Date, pursuant to the instructions of the Depositor, the Indenture Trustee will establish three segregated U.S. dollar denominated bank accounts in the name of the Indenture Trustee with Citibank, N.A., New York Branch (the "**Collection Account**", the "**Trust Account**" and the "**Reserve Account**" and together the "**Trust Accounts**") for the purpose of, *inter alia*, collecting payments on the Receivables ("**Collections**") and making distributions on the Depositor Note and the Depositor Certificate. The Indenture Trustee will not invest amounts standing to the credit of the Trust Accounts.

Limited Recourse

Recourse against the Trust, and the liability of the Trust, in relation to its obligations under the Depositor Note and the Depositor Certificate will be limited to the Conveyed Assets and the amounts from time to time available in accordance with, and in the order of priority set out in, the Indenture. The holders of the Depositor Note and the Depositor Certificate will have no claim or recourse against the Trust, the U.S. Trustee or the Indenture Trustee in respect of any unsatisfied amounts after the application in accordance with the Indenture of the funds comprising the Conveyed Assets and/or representing the proceeds of realisation thereof, and in such event the Depositor Note and the Depositor Certificate will be waived and extinguished.

The Reserve Account

The Depositor will contribute, or will cause to be contributed, U.S.$21,706,171.22 to the Trust on or before the Closing Date to fund the Reserve Account. The Trust will maintain the Required Reserve Balance on deposit in the Reserve Account at all times. The "**Required Reserve Balance**" means:

(a) if no Event of Default has occurred and no Early Amortisation Event or Mandatory Redemption Event has been declared by the Controlling Beneficiary, the sum of (i) the aggregate Senior Depositor Note Obligations (as defined below) due on the next succeeding two Trust Distribution Dates plus if relevant (ii) the First Trigger Amount (as defined below) plus if relevant (iii) the Second Trigger Amount (as defined below); and

(b) following the occurrence of an Event of Default or the declaration by the Controlling Beneficiary of an Early Amortisation Event or a Mandatory Redemption Event, zero;

provided, however, that in no event shall the aggregate balance on deposit in the Reserve Account and the Trust Account exceed the aggregate amount of all Required Amounts (excluding amounts payable under the Indenture pursuant to paragraph (f) of "*—Application of Funds on Trust Distribution Dates*") payable on the next Trust Distribution Date and each following Trust Distribution Date to and including the Trust Termination Date.

The Indenture Trustee will fund the Reserve Account by transferring amounts from the Trust Account to the Reserve Account up to the Required Reserve Balance on each Trust Distribution Date (in accordance with the order of priority set out in "*—Application of Funds on Trust Distribution Dates*" below) and from the Collection Account to the Reserve Account following the occurrence of a First Trigger or a Second Trigger. To the extent that the First Trigger or Second Trigger has been Cured (as defined below), the Indenture Trustee will transfer the balance on deposit in the Reserve Account in excess of the Required Reserve Balance to the Collection Account.

The Transaction Administrator will notify the Indenture Trustee of the occurrence, continuance or Cure of a First Trigger or a Second Trigger. A "**First Trigger**" will occur and be continuing on any date on which the Debt Service Coverage Ratio is equal to or less than 3:1 but greater than 2.5:1. A "**Second Trigger**" will occur and be continuing on any date on which the Debt Service Coverage Ratio is equal to or less than 2.5:1 but greater than 1.8:1.

"**Cure**" or "**Cured**" means (a) in respect of the First Trigger, the Debt Service Coverage Ratio as calculated and set out in three consecutive Transaction Administrator Reports is greater than 3:1 and (b) in respect of the Second Trigger, the Debt Service Coverage Ratio as calculated and set out in three consecutive Transaction Administrator Reports is greater than 2.5:1.

"**First Trigger Amount**" means either:

(a) following the occurrence of a First Trigger and while it is continuing, an amount equal to the aggregate of all Senior Depositor Note Obligations payable on the next succeeding four Trust Distribution Dates; or

(b) on any date on which a First Trigger has been Cured and no further First Trigger has occurred and is continuing, zero.

"**Agency Fees**" means all fees, costs, expenses, indemnities, claims, demands, legal fees, liabilities and other amounts specified in the Citibank Fee Letter and/or the Bond Issuer Administrator Fee Letter as payable by the Bond Issuer and the Note Issuer in accordance with the provisions of the Transaction Documents to the Bond Agents, the Note Agents, the Account Banks, the Indenture Trustee and any party as may be notified to the Transaction Administrator by either of the Bond Issuer or the Note Issuer from time to time.

"**Bond Issuer Expenses**" means all fees, taxes, filing fees, administrative fees or other fees levied by any Governmental Entity in respect of the Bond Issuer and the service providers to the Bond Issuer.

"**Second Trigger Amount**" means either:

(a) following the occurrence of a Second Trigger and while it is continuing, all amounts payable to the Seller under the Depositor Certificate; or

(b) on any date on which a Second Trigger has been Cured and no further First Trigger or Second Trigger has occurred, zero.

"**Seller**" means Korean Air Lines Co., Ltd. in its capacity as seller of the Depositor Note.

"**Senior Bond Issuer Obligations**" means, in respect of any Bond Payment Date or any relevant Mandatory Redemption Payment Date, the aggregate amounts payable by the Bond Issuer on such date in respect of Bond Issuer Expenses, Agency Fees up to the Agency Fees Maximum Amount and interest and Bond Additional Amounts on the Bond.

"**Senior Depositor Note Obligations**" means, in respect of any Trust Distribution Date or any relevant Mandatory Redemption Payment Date, the aggregate amounts payable on such date in respect of Taxes on the Conveyed Assets, fees and expenses of and indemnities to the Indenture Trustee, the U.S. Trustee and the Trust Administrator, Servicer Fees (if the Servicer is not the Depositor), interest on the Depositor Note, and Depositor Note Additional Amounts and all amounts in respect of principal on the Depositor Note.

Collection Account

All Collections received on behalf of the Trust will be credited by the Indenture Trustee to the Collection Account and transferred to the Trust Account until the Required Amount for the next succeeding Trust Distribution Date is on deposit in the Trust Account.

On the second Business Day after each Collection Date (each a "**Cash Release Date**"), the Indenture Trustee will calculate whether the aggregate amounts on deposit in the Trust Account two Business Days before the relevant Cash Release Date exceed the Required Amount for the next succeeding Trust Distribution Date. The Indenture Trustee will apply any such amounts in excess of the Required Amount (each such amount, a "**Cash Release Amount**") as an advance distribution of principal on the Depositor Certificate on the relevant Cash Release Date if each of the following conditions have been satisfied two Business Days before such Cash Release Date (the "**Cash Release Conditions**"):

(a) no Early Amortisation Event, Potential Early Amortisation Event, Event of Default or Potential Event of Default (as defined below) will have occurred or be continuing and no Mandatory Redemption Event will have been declared on such date; and

(b) if any First Trigger or Second Trigger has occurred or is continuing on such date, the Required Reserve Balance is on deposit in the Reserve Account on such date.

In the event that the Required Amount for any Trust Distribution Date is not on deposit in the Trust Account two Business Days prior to the next succeeding Trust Distribution Date, the Indenture Trustee will transfer amounts to the Trust Account from the Reserve Account until the Required Amount is on deposit in the Trust Account or until the balance on deposit in the Reserve Account is zero.

"**Potential Event of Default**" means any condition, event or act which, with the lapse of time and/or the issue, making or giving of any notice, certification, declaration, demand, determination and/or request and/or the taking of any similar action and/or the fulfilment of any similar condition, could constitute a Note Event of Default for the purposes of the Notes or a Bond Event of Default for the purposes of the Bond or a Depositor Note Event of Default for the purposes of the Depositor Note.

"**Required Amount**" means, in respect of any Trust Distribution Date or any Mandatory Redemption Payment Date in respect of the Depositor Note, all amounts payable by the Trust in respect of paragraphs (a) to (h) in "*—Application of Funds on Trust Distribution Dates*".

Withholding Tax

Upon imposition of any withholding or other applicable Taxes on any payment on the Depositor Note, such payment will be increased by an amount sufficient to result in receipt by the Depositor Noteholder of a net amount equal to the payment that would have been received absent such Taxes.

Other Currencies

If any payments to be made on any Trust Distribution Date are to be made in the Other Currency, the Trust is authorised to effect all foreign exchange transactions at the spot rate of exchange obtained from the Account Bank for the conversion of U.S. dollars into such Other Currency (and, if no exchange rate is available from the relevant Account Bank, at such rate as it is able to obtain) in order to effect the payment in the Other Currency.

THE DEPOSITOR

Depositor Representations and Warranties

The Depositor will represent and warrant in the Receivables Sale and Contribution Agreement, *inter alia*, that:

(a) it is a corporation duly organised and validly existing under the Laws of Korea, with full power, authority and legal right to own its properties and conduct its business and to execute, deliver and perform its obligations under the Transaction Documents to which it is, or to which it becomes a party; it is a foreign air carrier under the United States Federal Aviation Act of 1958, as amended, and the designated office in the United States upon which service of process may be made is in Los Angeles, California;

(b) it is duly qualified to do business in each jurisdiction in which it conducts its business and has obtained all licences and approvals required for the conduct of such business in such jurisdictions;

(c) the execution, delivery and performance of the Transaction Documents to which it is, or to which it becomes a party has been duly authorised by all necessary action on its part and all actions, conditions and things required by the Laws of Korea and the United States in connection therewith have been taken, fulfilled and done;

(d) all actions necessary to ensure the legality and enforceability or admissibility in court of the Transaction Documents to which it is, or to which it becomes a party in Korea and the United States have been taken;

(e) the execution and delivery of the Transaction Documents to which it is, or to which it becomes a party, the exercise of its rights set out herein and therein, the performance of the transactions contemplated hereby and thereby and the fulfilment of the terms hereof and thereof will not conflict with, violate or result in any breach of any of the terms and provisions of, or constitute (with or without notice or lapse of time or both) a default under, (i) any indenture, contract, agreement, mortgage, deed of trust or other instrument to which either it is a party or by which it or any of its properties are bound or (ii) any requirement of Law applicable to it;

(f) there are no litigation, arbitration or administrative proceedings except as disclosed in writing prior to the date of Receivables Sale and Contribution Agreement or investigations pending or, to the best of its knowledge, threatened against it before any court, regulatory body, administrative agency or other tribunal or Governmental Entity which relates to the transactions contemplated by Merchant Processing Contract or the Transaction Documents to which it is, or to which it becomes a party;

(g) all necessary approvals, licences, authorisations, consents, orders or other actions of, or registration or declarations with, any Person or of or with any Governmental Entity required in connection with (i) the execution and delivery of the Transaction Documents to which it is, or to which it becomes a party, (ii) the performance by it of the transactions contemplated by the Transaction Documents to which it is, or to which it becomes a party and the fulfilment by it of the terms hereof and thereof and (iii) the operation of the Routes have been obtained and have not been withdrawn and it has satisfied all Korean, U.S. and international Laws to allow it to operate and continue to operate the Routes and to conduct its business generally;

(h) its obligations under the Transaction Documents to which it is, or to which it becomes a party rank at least *pari passu* with all of its other unsecured and unsubordinated indebtedness;

(i) it is not in breach or default under any other agreement to which it is a party or which is binding on it or any of its assets to an extent or in a manner which is likely to have a Material Adverse Effect;

(j) no event has occurred on or prior to the Closing Date which adversely affects its operations or which affects its ability to perform the transactions contemplated by the Merchant Processing Contract or the Transaction Documents to which it is, or to which it becomes a party;

(k) it is solvent, has adequate capital to conduct its business, its total liabilities do not exceed its total assets, it has not suspended payments of its indebtedness other than such indebtedness which is contested by the Depositor in good faith, it is able to pay its debts generally, no petition has been filed by it or against it under the Debtor Rehabilitation and Bankruptcy Act of Korea and the Corporate Restructuring Promotion Act of Korea and, after giving effect to the transactions contemplated in the Transaction Documents to which it is, or to which it becomes a party and within the reasonably foreseeable future, it shall not be rendered insolvent, shall have adequate capital to conduct its business, its total liabilities shall not exceed its total assets, it shall not have suspended payments of its indebtedness, it shall be able to pay its debts generally, no petitions shall be filed by it or against it under the Debtor Rehabilitation and Bankruptcy Act of Korea; and

(l) it has not taken any corporate action and, to the best of its knowledge, no other steps have been taken or proceedings been started or threatened against it for bankruptcy, composition, corporate reorganisation, relief under bankruptcy or insolvency Laws, suspension of payments or the appointment of a receiver, trustee or similar officer of it or any or all of its assets.

Depositor Covenants

The Depositor will covenant in the Receivables Sale and Contribution Agreement, *inter alia*, that it shall not:

(a) except as contemplated by the Transaction Documents, pledge, sell, assign or transfer to any other Persons the Conveyed Assets or pledge, sell, assign or transfer any right to receive income in respect thereof or grant, create, incur, assume or suffer to exist any Lien on the Conveyed Assets;

(b) set off any amounts owed by it under the Transaction Documents against amounts owed to it;

(c) agree to any payment with respect to the Conveyed Assets to be made other than in U.S. dollars (otherwise than with the approval of the Controlling Beneficiary and the Indenture Trustee) or to any account other than to the Trust Account or such other account notified by the Indenture Trustee to it from time to time (otherwise than with the prior written consent of the Controlling Beneficiary);

(d) amend or agree to or permit any amendment of or cancel the Merchant Processing Contract without the prior written consent of the Indenture Trustee (acting on the instructions of the Controlling Beneficiary), the Controlling Beneficiary and the Depositor Noteholder (such consent not to be unreasonably withheld) and prior written notice to the Rating Agency unless any such amendment does not relate to, directly or indirectly, or adversely affect the Receivables or the rights of the Trust in relation to the Receivables;

(e) permit the ratio of its Adjusted Debt (as defined below) (with respect to itself and its consolidated Subsidiaries (as defined below)) to its Shareholder's Equity (as defined below) to exceed 10:1, as evidenced by its latest available audited annual financial statements; and

(f) permit the ratio of EBITDAR (as defined below) to Interest Expense (as defined below) to be lower than 1.1, as evidenced by its latest available audited annual financial statements.

"**Adjusted Debt**" means, as of any date of determination, with respect to the Depositor, the aggregate of (a) short-term borrowings, (b) bonds, (c) long-term borrowings, (d) long-term obligations under instalment purchases, (e) long-term obligations under capital lease, (f) guaranteed loans, (g) asset-backed securitisation loans and (h) the sum of the operating rentals due under aircraft operating leases for the immediately succeeding twelve month period multiplied by seven.

"**EBIT**" means, for any period, operating income from continuing operations of the Depositor as determined in accordance with or K-IFRS (and in any event excluding extraordinary gains) for such period.

"**EBITDAR**" means, for any period, EBIT for the Depositor, plus the amount of non-cash charges, including non-cash charges for depreciation and amortisation and rental payments, of the Depositor for such period.

"**IFRS**" means the International Financial Reporting Standards.

"**Interest Expense**" means, with respect to any period, interest expense (whether cash or accretion) and rental payments of the Depositor during such period determined in accordance with K-IFRS (excluding, for the avoidance of doubt, interest income) and shall include, in any event, interest expense with respect to indebtedness of the Depositor.

"**K-IFRS**" means the Korean International Financial Reporting Standards.

"**Shareholder's Equity**" means, as of any date of determination, the shareholders' equity, as reflected on the last available audited annual balance sheet of the Depositor.

"**Subsidiary**" means, with respect to any Person, any corporation of which more than 50 per cent. of the outstanding capital stock having ordinary voting power to elect a majority of the board of directors of such corporation (irrespective of whether at the time the capital stock of any other class or classes of such corporation will or might have voting power upon the occurrence of any contingency) is at the time directly or indirectly owned by such Person.

APPLICATION OF FUNDS

Application of Funds on Trust Distribution Dates

On each Trust Distribution Date relating to a Collection Period and on any Mandatory Redemption Payment Date, all amounts on deposit in the Trust Account shall, to the extent such sums are available, be applied in or towards the satisfaction of the following amounts in the following order of priority (and in each case only and to the extent that payment or provisions of a higher priority have been made in full):

(a) *first*, to pay any Taxes with respect to the Conveyed Assets;

(b) *second*, *pro rata* and *pari passu* to the Indenture Trustee, the U.S. Trustee and the Trust Administrator, to pay all fees and expenses and other amounts including indemnity payments, accrued due and payable on such distribution date under the Trust Fee Letter and the other Transaction Documents but, in the case of indemnity payments, only to the extent such payments have not been paid by the Depositor and have been outstanding for at least 30 days;

(c) *third*, to the Servicer (if the Servicer is not KAL), to pay the Servicer Fees due or accrued due and payable on such Trust Distribution Date;

(d) *fourth*, to the Depositor Noteholder, to pay any interest and any Senior Depositor Note Additional Amount, in each case due and/or accrued due but unpaid on the Depositor Note on such Trust Distribution Date;

(e) *fifth*, to the Depositor Noteholder, to pay (x) any Depositor Note Scheduled Amortisation Amounts due and/or accrued due but unpaid on the Depositor Note on such Trust Distribution Date and (y) following the occurrence of an Event of Default or the declaration by the Controlling Beneficiary of an Early Amortisation Event or a Mandatory Redemption Event, the aggregate Principal Amount Outstanding under the Depositor Note;

(f) *sixth*, unless an Event of Default has occurred or a Mandatory Redemption Event or an Early Amortisation Event has been declared by the Controlling Beneficiary, to the Reserve Account until the balance on deposit therein equals the Required Reserve Balance;

(g) *seventh*, to the Depositor Noteholder, to pay as Junior Depositor Note Additional Amounts either an amount equal to the Junior Bond Issuer Obligations payable on the immediately following Bond Payment Date or Mandatory Payment Date in relation to the Bond;

(h) *eighth*, to the Servicer (if KAL is the Servicer), to pay the Servicer Fees due and accrued due and payable on such distribution date (if the Servicer is the Depositor) and all accrued and unpaid Servicer Fees for any prior distribution date and any accrued and unpaid Servicing Expenses; and

(i) *ninth*, the balance to the Depositor, as holder of the Depositor Certificate.

Application of Funds on Bond Payment Dates

All amounts on deposit in the Bond Issuer Accounts on each Bond Payment Date (or with respect to paragraphs (b), (c) and (d) below, the Designated FX Account) and on a Mandatory Redemption Payment Date will, to the extent of such sums, be applied in or towards the satisfaction of the following amounts in the following order of priority (and in each case only and to the extent that payment or provisions of a higher priority have been made in full):

(a) *first*, *pro rata* and *pari passu*, (x) to pay all Bond Issuer Expenses and (y) to the Bond Agents and to the Account Banks, to pay the Agency Fees up to the Agency Fees Maximum Amount payable on such payment date;

(b) *second*, to the Bondholder, to pay any interest and any Bond Additional Amounts due and/or accrued due but unpaid on the Bond on such payment date;

(c) *third*, to the Bondholder, to pay (x) any Bond Scheduled Amortisation Amounts due and/or accrued due but unpaid on the Bond on such payment date and (y) following the occurrence of an Event of Default or the declaration by the Controlling Beneficiary of an Early Amortisation Event or a Mandatory Redemption Event, the aggregate Principal Amount Outstanding under the Bond;

(d) *fourth*, *pro rata* and *pari passu*, (x) to the Bondholder, to pay an amount equal to the Junior Bond Issuer Obligations payable on the immediately following Bond Payment Date or, as the case may be, Mandatory Redemption Payment Date in respect of the Notes and (y) to the Bond Agents, to pay the balance of any Agency Fees due, or accrued due but unpaid, on such date; and

(e) *fifth*, the balance, to the Bond Issuer U.S. Dollar Account.

Application of Funds on Note Payment Dates

All amounts on deposit in the Note Issuer Account on each Note Payment Date and on a Mandatory Redemption Payment Date (including any amounts received under the Credit Facility Deed and the Swap Agreement) will, to the extent of such sums, be applied in or towards the satisfaction of the following amounts in the following order of priority (and in each case only and to the extent that payment or provisions of a higher priority have been made in full):

(a) *first*, *pro rata* and *pari passu*, (x) to the Note Agents, to pay the Agency Fees up to the Agency Fees Maximum Amount and (y) to pay all Note Issuer Expenses;

(b) *second*, to the Credit Facility Provider, to pay the Credit Facility Provider's Fee due, and/or accrued due but unpaid, on such payment date;

(c) *third*, *pro rata* and *pari passu*, (x) to the Noteholders to pay any interest due and/or accrued due on the Notes but unpaid on such payment date and (y) to the Swap Provider to pay any Senior Swap Charges due, and/or accrued due but unpaid, on such payment date;

(d) *fourth*, *pro rata* and *pari passu*, to the Noteholders to pay (w) any Scheduled Amortisation Amounts due and/or accrued due but unpaid on the Notes on such payment date, (x) following the declaration by the Controlling Beneficiary of an Early Amortisation Event, all other amounts due, and/or accrued due but unpaid, under Note Condition (4)(c), (y) following the commencement of the Enforcement Period or the occurrence of a Drawdown Trigger Event, the aggregate Principal Amount Outstanding under the Notes or (z) following the declaration by the Controlling Beneficiary of a Mandatory Redemption Event, either the aggregate Principal Amount Outstanding of the Notes or (at the sole discretion of the Credit Facility Provider *provided that* no Drawdown Trigger Event has occurred and the Enforcement Period has not commenced) the Scheduled Amortisation Amounts due on the Notes on such payment date;

(e) *fifth,* to the Swap Provider to pay any Junior Swap Charges and Swap Additional Amounts due or accrued due and payable on such payment date;

(f) *sixth*, to the Credit Facility Provider, to repay any Advances made and any other amounts due but unpaid (including accrued interest thereon) under the Credit Facility Deed payable on such payment date;

(g) *seventh*, to the Note Agents to pay the balance of the Agency Fees due and/or accrued due but unpaid on such payment date; and

(h) *eighth*, the balance, to the Note Issuer Account.

"**Agency Fees Maximum Amount**" means, on any Bond Payment Date or Note Payment Date, the maximum amount in U.S. dollars specified in the Citibank Fee Letter (as defined herein).

"**Junior Bond Issuer Obligations**" means, in respect of any Bond Payment Date or any relevant payment date following the declaration by the Controlling Beneficiary of a Mandatory Redemption Event, the aggregate amounts payable by the Bond Issuer on such date in respect of Junior Note Issuer Obligations and any Agency Fees due and/or accrued due to the Bond Agents in excess of the Agency Fees Maximum Amount.

"**Junior Note Issuer Obligations**" means, in respect of any Note Payment Date or any relevant payment date following the declaration by the Controlling Beneficiary of a Mandatory Redemption Event, the aggregate amounts payable by the Note Issuer on such date in respect of Junior Swap Charges and the Swap Additional Amounts and repayments of Advances and other amounts due but unpaid under the Credit Facility Deed and any Agency Fees due and/or accrued due to the Note Agents in excess of the Agency Fees Maximum Amount.

"**Junior Swap Charges**" means any Swap Charges which are not Senior Swap Charges.

"**Note Issuer Expenses**" means all fees, taxes, filing fees, administrative fees or other fees levied by any Governmental Entity or any Rating Agency in respect of the Note Issuer or the Notes and the fees payable to the Note Issuer Administrator under the Note Issuer Administrator Agreement.

"**Senior Swap Charges**" means any Swap Charges payable under the Swap Agreement to the Swap Provider where the relevant Termination Event (as defined in the Swap Agreement) occurred as a result of an Illegality or a Tax Event (as defined in the Swap Agreement) or for any reason other than an Event of Default under the Swap Agreement where the Swap Provider is the Defaulting Party (as defined in the Swap Agreement) or a Termination Event under the Swap Agreement where the Swap Provider is the sole Affected Party (as defined in the Swap Agreement).

"**Servicer Fees**" means the capped fees of the Servicer set out in the Servicing Agreement or, if a Successor Servicer is performing the Services, the fee negotiated at the time of such appointment and payable to the Servicer or Successor Servicer, as the case may be, in accordance with the provisions of the Servicing Agreement and the Indenture.

"**Servicing Expenses**" means certain costs and expenses of the Servicer payable in accordance with the provisions of the Servicing Agreement.

"**Successor Servicer**" means a successor servicer nominated by the Indenture Trustee in accordance with the provisions of the Servicing Agreement.

"**Swap Additional Amounts**" is defined in the Swap Agreement.

"**Swap Charges**" means any amounts payable by the Note Issuer under Section 6(e) of the Swap Agreement and interest thereon, from and including, the relevant Early Termination Date (as defined in the Swap Agreement) to, but excluding, the date such amount is paid under Section 6(d)(ii) of the Swap Agreement.

RISK FACTORS

The following is a summary of certain aspects of the offering of the Notes about which prospective investors should be aware but is not intended to be exhaustive. Prospective investors should carefully consider the following factors together with the detailed information set out elsewhere in this Prospectus before deciding to invest in the Notes and seek independent tax, legal and other relevant advice as to the structure and viability of making an investment in the Notes.

Risks Relating to the Notes

There is currently no secondary market for the Notes and there may be limited liquidity for Noteholders

The Notes comprise a new issue of securities for which there is no current public market. No assurance can be given that a secondary trading market for the Notes will develop, or, if a secondary trading market does develop, that it will provide Noteholders with liquidity of investment or that such liquidity will be sustained. The market value of the Notes may fluctuate depending on factors including, among others:

(a) prevailing interest rates;

(b) the rating of the Credit Facility Provider;

(c) the condition of the Korean airline industry;

(d) political and economic developments in the United States and Korea; and

(e) market conditions for similar securities.

Consequently, any sale of Notes by Noteholders in any secondary market which may develop may be at a discount from the original purchase price of such Notes. Application has been made to list the Notes on the Irish Stock Exchange. The Note Issuer does not intend to apply for listing of the Notes on any stock exchange other than the Irish Stock Exchange.

The Note Issuer has no operating history

The Note Issuer is a special purpose vehicle and has no operating history and no material assets other than the Bond. The Note Issuer will not engage in any business activity other than the issuance of the Notes, certain activities conducted in connection with the payment of amounts in respect of the Notes and other activities incidental or related to the foregoing. Income derived from the Bond will be the Note Issuer's principal source of funds.

The Notes are limited recourse obligations of the Note Issuer

The Note Conditions will provide that recourse against the Note Issuer in relation to its obligations under the Notes and all other obligations under the Transaction Documents will be limited to amounts from time to time available for such obligations in accordance with the Note Trust Deed. If such amounts are insufficient to pay in full all amounts due under the Notes after payment of all amounts having priority over the Notes, the Noteholders will have no further claim against the Note Issuer in respect of any unpaid amounts and the liability of the Note Issuer with respect to such unpaid amounts will be extinguished.

None of the equityholders, officers, directors or incorporators of the Note Issuer, the Joint Lead Arrangers, the Joint Lead Managers, the Initial Subscribers, the U.S. Trustee, the Indenture Trustee, the Security Agent, the Transaction Administrator, the Swap Provider, the Credit Facility Provider and the Note Trustee, any of their respective Affiliates or any other person or entity (other than the Note Issuer) will be obligated to make payments on the Notes.

Noteholders must rely on payments received by the Note Issuer under the Bond, the Credit Facility Deed and the Swap Agreement for the payment of interest on and principal of the Notes and no assurance can be given that such amounts will be sufficient to pay all amounts due on the Notes.

If the Credit Facility Provider or the Swap Provider is unable or fails to perform their respective obligations under the Credit Facility Deed or the Swap Agreement, the Note Issuer's ability to make timely and complete payments on the Notes could be adversely affected

The payments on the Notes will depend on payments being received by the Note Issuer under the Bond, which will depend on payments being received by the Bond Issuer under the Depositor Note which, in turn, will depend on the Collections. If the cashflow generated from the Collections is not sufficient for the Trust to meet its payment obligations on the Depositor Note in full and on a timely basis, the Bond Issuer will not have sufficient funds to make payments under the Bond and, accordingly, the Note Issuer will not have sufficient funds to make payments on the Notes and the Credit Facility Provider will be required to make payments under the Credit Facility Deed for application in and towards the interest and principal amounts ranking senior thereto in accordance with the provisions of the Credit Facility Deed.

The Credit Facility will be limited to the Commitment Amount, which will be U.S.$362,567,092.50 less the aggregate of (i) the aggregate amount of all Advances (but excluding any amount of interest, additional interest and compounding and any amount deemed to be an Advance) made from time to time and (ii) the aggregate of (x) all amounts paid under paragraphs (a), (b) and (d) of "*Transaction Overview—Application of Funds—Application of Funds on the Note Payment Dates*" on all prior Note Payment Dates and (y) all Fixed Amounts paid on all prior Swap Payment Dates, in each case prior to the date of determination (save to the extent made with the proceeds of an Advance). See "*Transaction Overview—Credit Facility*".

There can be no assurance that the Commitment Amount of the Credit Facility will be sufficient to enable the Note Issuer to meet its obligations in full or that the Credit Facility Provider will or can meet its payment obligations under the Credit Facility.

Payments of interest with respect to the Bond are payable at a variable rate whereas payments of interest with respect to the Notes are payable at a floating rate. The Note Issuer has entered into an interest rate swap agreement with the Swap Provider under which the Swap Provider will make U.S. dollar floating rate payments to the Note Issuer in exchange for U.S. dollar fixed rate payments by the Note Issuer not greater than the variable rate payments made with respect to the Bond. No assurance can be given that the Swap Provider will comply with its obligations under the Swap Agreement.

If the Swap Agreement is terminated and not replaced, the Note Issuer may have insufficient funds to make payments on the Notes.

Since the rating on the Notes depends on the rating of the Credit Facility Provider and the Swap Provider, and since Noteholders must depend on payments by the Credit Facility Provider under the Credit Facility (and payments by the Swap Provider under the Swap Agreement), prospective investors should conduct their own investigation of the Credit Facility Provider and the Swap Provider. The obligations of the Credit Facility Provider under the Credit Facility are unsecured and do not constitute a guarantee of interest on or principal of the Notes.

In the absence of the Credit Facility and the Swap Agreement, Noteholders will have recourse only to the Note Security for the payment of interest on and principal of the Notes and no assurance can be given that the Note Security will be sufficient to pay all amounts due on the Notes.

Withholding taxes under the Notes

All payments in respect of the Notes will be made free and clear of, and without withholding or deduction for, any present or future Taxes, unless such withholding or deduction is required by law. Neither the Note Issuer nor the Credit Facility Provider shall be obliged to make any additional payments as a result of the imposition of such withholding taxes on the Notes. Any amount which the Note Issuer is obliged to withhold or deduct from payments in respect of the Notes on account of Tax will not be secured by the Credit Facility Provider. The Note Issuer has, however, received an undertaking from the Governor-in-Council of the Cayman Islands that, for a period of twenty years from the date of the undertaking, no law imposing, among others, any withholding tax shall apply to the Note Issuer or its operations. See "*Taxation—Cayman Islands Taxation*".

The rating on the Notes may be changed at any time and may adversely affect the market price of the Notes

It is a condition to the issuance of the Notes that the Notes be rated "Aa3" by the Rating Agency upon issuance. The rating addresses the full and timely payment of interest and the timely repayment of principal on or before the maturity date in accordance with the terms and conditions of the Notes. The rating of the Notes will be based primarily on the rating of the Credit Facility Provider, assessment of relevant structural features of the transaction and the likelihood of the payment of interest and principal on the Notes in a full and timely manner. A rating is not a recommendation to purchase, hold or sell the Notes. No assurance can be given that a rating will remain in effect for any given period of time or that a rating will not be lowered or withdrawn entirely by an assigning rating agency in the future if, in its judgment, circumstances in the future so warrant, such as the insolvency of the Credit Facility Provider. Any decline in the financial position of the Credit Facility Provider or the Note Issuer may impair the ability of the Note Issuer to make payments to the Noteholders under the Notes and/or result in the rating of the Notes being lowered, suspended or withdrawn entirely. If the rating initially assigned to the Notes is subsequently lowered or withdrawn for any reason, no person or entity will be obligated to provide any additional credit enhancement with respect to the Notes and the Credit Facility Provider's obligations under the Credit Facility will not be affected. Any reduction or withdrawal of a rating may have an adverse effect on the liquidity and market price of the Notes. Any reduction or withdrawal of a rating will not constitute a Note Event of Default or an event requiring the Note Issuer to redeem any Notes.

The Notes are subject to mandatory redemption under certain circumstances

Upon the declaration by the Controlling Beneficiary of a Mandatory Redemption Event, the Note Issuer will be obliged to redeem the Notes, in whole but not in part, on the relevant Mandatory Redemption Payment Date at the Note Redemption Amount and the Bond Issuer will be obliged to redeem the Bond. If a Mandatory Redemption Event is declared (which includes a breach of any of the warranties with respect to any Conveyed Assets), the Depositor will be required to convey to the Trust monies in an amount equal to the Mandatory Redemption Amount, such amount being sufficient to redeem fully the Depositor Note on or before the second Business Day following any such additional conveyance. Such additionally conveyed monies shall be credited on such date to the Trust Account and will be used for redemption of the Depositor Note. No assurance can be given that the Depositor will have sufficient funds to convey to the Trust such additional monies. The obligations of the Depositor are unsecured. Upon the declaration by the Controlling Beneficiary of a Mandatory Redemption Event, the Notes may be redeemed other than on a Note Payment Date.

The Depositor Note will be redeemed and therefore the Bond and therefore the Notes will be redeemed to the extent of funds received from the Depositor with respect to the Mandatory Redemption Amount. Failure by the Depositor to contribute the Mandatory Redemption Amount in full to the Trust will result ultimately in a drawing under the Credit Facility (subject to the available Commitment Amount). However in that event the Credit Facility Provider will have the option at its sole discretion of making an advance under the Credit Facility equal to either: (i) the amount by which amounts on deposit in the Note Issuer Account are less than the Note Outstanding Amount; or (ii) the amount by which amounts on deposit in the Note Issuer Account are less than the aggregate amount of the next scheduled payment of interest and principal with respect to the Notes and all amounts which are due and payable in priority to, or *pari passu* with, interest and principal with respect to the Notes as at the next following Note Payment Date; *provided that*, if a Drawdown Trigger Event has occurred, the Credit Facility Provider shall make within the limits of the then available Commitment Amount an Advance equal to the amount by which amounts on deposit in the Note Issuer Account are less than the Note Outstanding Amount.

No investigation has been made in respect of the Note Issuer, the Bond Issuer or the Note Security or the Bond Security

No investigation, and limited searches and enquiries, have been made by or on behalf of the Note Issuer, the Joint Lead Arrangers, the Joint Lead Managers, the Initial Subscribers and the Credit Facility Provider, and no investigations, searches and enquiries have been made by or on behalf of the Agents, in respect of the Note Issuer, the Bond Issuer, the Note Security or the Bond Security. The Agents shall not be bound or concerned to make any investigation into the creditworthiness of any party in respect of the Note Security or the Bond Security, the validity of any of such party's obligations under or in respect of the Note Security or the Bond Security or any of the terms of the Note Security or the Bond Security.

U.S. source withholding taxes

Under provisions of U.S. law commonly referred to as "**FATCA**", the Note Issuer may be subject to a 30 per cent. withholding tax on its income from US sources and, beginning 1 January 2017, on the gross proceeds from the sale, maturity, or other disposition of certain of its assets that generate US-source income. However, on 29 November 2013, the Cayman Islands and the United States signed an intergovernmental agreement ("**IGA**") governing FATCA. Under the terms of the IGA, the Note Issuer generally will be responsible for collecting information about U.S. persons and certain others that own its debt and equity interests, including the Notes, and providing such information to the Cayman Islands Tax Information Authority (the "**TIA**"), and otherwise complying with the requirements of the IGA and Cayman Islands authorities that implement the IGA as a matter of local law. The TIA will then pass on such information to the U.S. Internal Revenue Service, as required by the IGA. Provided the Note Issuer complies with its obligations under the IGA and the Cayman Islands implementing authorities, the Note Issuer generally will not be subject to withholding under FATCA, either on payments it makes or receives. The Note Issuer will endeavour to comply with these requirements and expects it will be able to do so.

Nevertheless, the Cayman Islands implementation process is not yet complete, and it is thus uncertain whether the Note Issuer will be able to comply with all of these requirements. Moreover, the IGA provides that the United States and the Cayman Islands will develop an alternative approach to address "foreign passthru payments". It is unclear what approach will be taken, and it is possible, for example, that entities such as the Note Issuer will be required to withhold on payments that are treated as foreign passthru payments as early as 1 January 2017.

Whilst the Notes are in global form and held within Euroclear Bank or Clearstream, Luxembourg (together, the "**ICSDs**"), it is expected that FATCA will not affect the amount of any payments made under, or in respect of, the Notes by the Note Issuer, any paying agent and the common depositary, given that each of the entities in the payment chain from (but excluding) the Note Issuer to (but including) the ICSDs is a major financial institution whose business is dependent on compliance with FATCA and that any alternative approach introduced under an IGA will be unlikely to affect the Notes.

If an amount in respect of U.S. withholding tax were to be deducted or withheld from interest, principal or other payments on the Notes as a result of FATCA, none of the Note Issuer, any paying agent or any other person would, pursuant to the terms and conditions of the Notes be required to pay additional amounts as a result of the deduction or withholding. As a result, investors may receive less interest or principal than expected.

Risks Relating to the Receivables

Servicing and Ongoing Contributions

Under the Servicing Agreement, the Depositor as Servicer is responsible for the management, servicing and administration of the Receivables. USB has consented to the assignments of the Receivables and has agreed to make payments with respect to the Receivables directly to the Collection Account under the Indenture.

In connection with the contribution of money following the declaration by the Controlling Beneficiary of a Mandatory Redemption Event, if the Depositor is declared bankrupt or is subject to bankruptcy or corporate rehabilitation proceedings or is otherwise in financial difficulties: (i) at any time during the period in which it is obligated to contribute such amounts pursuant to the Receivables Sale and Contribution Agreement, there is a risk that the trustee appointed in such proceedings or other creditors of the Depositor could void such obligation; and (ii) at the time of or after remitting money to the Trust, there is a risk that the trustee appointed in such proceedings or other creditors of the Depositor could avoid or rescind such payment and demand the Trust to return such moneys to the Depositor. In such event, the Trust would be treated as an unsecured creditor of the Depositor. In addition, the payments of distributions under the Indenture and, in turn, the payments on the Depositor Note, the Bond and ultimately the Notes, may be adversely affected.

Sale and Security Interests over the Receivables and other Conveyed Assets

The transfer of the Receivables (both current and future) and the other Conveyed Assets (including the Reserve Funding Amount) by KAL to the Trust is documented under the Receivables Sale and Contribution Agreement as an absolute sale, assignment and/or contribution, and these Conveyed Assets are pledged under the Indenture to secure the Depositor Note. KAL and the Trust will take appropriate steps, including the grant of a "backup" security interest in the Conveyed Assets, the filing of financing statements in the State of California against KAL and the State of Delaware against the Trust, on or prior to the Closing Date, to perfect the ownership and security interests of the Trust and the Indenture Trustee in the Conveyed Assets. The steps described above will be taken in order to effect either an absolute sale of the Conveyed Assets to the Trust, or create and perfect a security interest in the Conveyed Assets in favour of the Trust and the Indenture Trustee. Although such steps will be taken and U.S. counsel to the Joint Lead Arrangers will render an opinion as to the enforceability of the sale provisions of the agreement and as to the validity and perfection of such security interests, there can be no assurance that, in the event a U.S. bankruptcy court or a receiver asserting jurisdiction over KAL as debtor or its property as part of a bankruptcy estate or receivership, such authority could come to a different conclusion, in which case the Conveyed Assets may be subject to the control and claims of such bankruptcy estate or receivership and the creditors thereof, but in all cases subject to the perfected lien of the Indenture Trustee on behalf of the Depositor Noteholder. See "*Certain Legal Considerations—U.S. Legal Considerations*".

Under Korean law, and in the event KAL is the subject of a Korean insolvency proceeding, Korean counsel to the Joint Lead Arrangers has advised that they are not aware of any court precedents as to whether the sale of Conveyed Assets pursuant to the Trust Agreement could be cancelled or avoided under the Korean Civil Code or the Act on Debtor Rehabilitation and Bankruptcy of Korea. Korean counsel to the Joint Lead Arrangers will opine that, subject to certain assumptions and qualifications set forth in their opinion, the sale of the Conveyed

Assets by the Depositor to the Trust pursuant to the Trust Agreement would not be set aside or avoided under the Korean Civil Code or the Act on Debtor Rehabilitation and Bankruptcy of Korea. There can be, however, no assurance that a Korean court would not decide otherwise.

True Sale of the Depositor Note

Korean counsel to the Joint Lead Arrangers will opine that the transfer of the Depositor Note under the Depositor Note Sale and Purchase Agreement constitutes or will constitute a sale of such Depositor Note by the Depositor to the Bond Issuer rather than the grant of a security interest in such Depositor Note so that such Depositor Note would not be a part of the Depositor's bankruptcy estate or assets of the Depositor in the event that the Depositor is in an insolvency proceeding under the Act on Debtor Rehabilitation and Bankruptcy of Korea.

It should be noted that the above statement is based on certain facts that are and/or will be represented and warranted as correct by KAL under the Receivables Sale and Contribution Agreement and the Depositor Note Sale and Purchase Agreement. No assurance can be made as to the accuracy of such facts, representations and warranties. A breach of those representations and warranties may affect the true sale nature of the Depositor Note.

Generation of Receivables

Payments on the Depositor Note, and therefore the Notes, depend primarily upon the continued operation of Korean Air's passenger transportation business on flights operated by Korean Air from the U.S. (the "**Routes**"). Any significant reduction in Korean Air's provision of passenger air transportation services, whether resulting from health events, competition, financial condition, market conditions, political events, labour actions or otherwise, would have an adverse impact on the generation of Receivables and, consequently, the making of required payments on the Depositor Note, the Bond and consequently the Notes. See "*The Receivables*".

Korean Air as Servicer of the Receivables

Under the Servicing Agreement, Korean Air has been appointed as the Servicer and has agreed to service, manage and administer the Receivables (the "**Serviced Assets**") and the Collections thereon in accordance with the terms of the Servicing Agreement. There can be no assurance that Korean Air will continue to operate as Servicer under the Servicing Agreement, or that any successor Servicer will be able to carry out its duties to the same level of efficiency as Korean Air. In the event that the Servicer or a successor Servicer is obliged to take any legal action, such action would be required to be conducted through a qualified lawyer or licensed servicer.

USB may set-off amounts due by the Depositor against amounts due by USB to the Depositor

USB may set-off (without limitation or restriction) amounts owed by the Depositor to USB against amounts owed by USB to the Depositor ("**USB Set-off**"). This right of set-off is not restricted by the Consent and Acknowledgement. See "*The USB Contract—U.S. Bank National Association—Merchant Processor for Visa and MasterCard—Chargebacks*" and "*—Security Interest over Deposit*". Any exercise by USB of this right of set-off with respect to amounts due under Receivables could result in reduced payments with respect to the Depositor Note and therefore to the Note Issuer having insufficient funds to meet its obligations under the Notes. The Depositor is obliged, under the Receivables and Sale and Contribution Agreement, to contribute to the Trust additional U.S. dollars in an amount equal to the USB Set-off. No assurance can be given that the Depositor will have sufficient funds to contribute to the Trust such additional U.S. dollars. To the extent that the Note Issuer has insufficient funds to comply with its obligations under the Notes, the Note Issuer will be allowed to make a drawing under the Credit Facility to the extent of such insufficiency up to the Commitment Amount.

Payments on the Depositor Note will depend on the continued existence of a Merchant Processor

The USB Contract is subject to termination in certain circumstances. See "*The USB Contract—U.S. Bank National Association—Merchant Processor for Visa and MasterCard—Termination of USB Contract*". In the event that the USB Contract is terminated, Korean Air will have to find an alternative merchant processor. No assurance can be given that such a replacement merchant processor acceptable to the Controlling Beneficiary will be found or that, if found, they will execute a form of consent and acknowledgement reasonably acceptable to the Controlling Beneficiary. If no replacement merchant processor can be found, there will be a delay in the payment of the Receivables to the Trust Account. This could result in a shortfall in payments under the Depositor Note and the Bond. To the extent that the Note Issuer has insufficient funds to comply with its obligations under the Notes, the Note Issuer will be allowed to make a drawing under the Credit Facility to the extent of such insufficiency up to the Commitment Amount.

Risks Relating to the Airline Industry

Industry Conditions and Price Competition

Airline profit levels are highly sensitive to, and during recent years have been severely impacted by, changes in fuel costs, fare levels, customer demand, market conditions, political events and health events or otherwise. Customer demand and yields, for both cargo and passengers, have been affected by, among other things, the general state of the economy, international events and actions taken by airlines with respect to fares.

Korean Air estimates that, in 2013 it had 10 per cent. of the air passenger transportation business within (which is any flight between North America and the Asia region via the Pacific Ocean, according to the 58th edition of World Air Transport Statistics as published by IATA in 2014. In addition to its flight frequency, Korean Air believes that its marketing strategies and relationships with ARC Agents will ensure that its market share will be protected.

No assurance can be given that competition will not intensify further or that Korean Air will maintain its current market share or continue to operate the U.S. routes at all. In addition, factors outside the control of Korean Air could impact passenger fares in the future including significant industry-wide tariff and/or discounts as well as global economic and health problems.

Aircraft Fuel

Fuel costs (including any applicable taxes) comprise a significant portion of any airline's costs. Korean Air is vulnerable to the movement of international crude oil prices and it currently hedges approximately 30 per cent. of its annual fuel consumption. The remaining 70 per cent. of its annual jet fuel consumption is procured in spot transactions at the then prevailing market price. Korean Air also recovers some of its increased costs through use of a fuel surcharge scheme. See "*The Depositor and Servicer—Risk Management*". However, its hedging policy may not fully protect the Company from significant increases in the price of jet fuel in the short- or long-term or may limit the benefit the Company could derive from significant decreases in the price of jet fuel.

The Company's reliance on international sources for jet fuel is exacerbated by the fact that Korea imports 100 per cent of its crude oil requirements. The Company cannot predict the development of either short- or long-term jet fuel prices or the availability of fuel. In the event of a fuel supply shortage resulting from a disruption of oil imports or otherwise, higher fuel prices and, consequently, a curtailment of the Company's scheduled services may result. In addition, all fuel costs are U.S. dollar denominated and therefore subject to the effects of currency exchange fluctuations.

Regulatory Matters

The availability of international routes to Korea's airlines is regulated by treaties and related agreements between the Government and foreign governments and the allocation of such available routes between Korea's airlines is regulated by the Ministry of Land, Infrastructure and Transport (the "**MOLIT**"). The MOLIT has established regulatory policies intended to promote controlled growth, which Korean Air believes will be beneficial to the development of the Korean airline industry. The regulatory framework within which Korean Air operates can, however, limit its flexibility to respond to market conditions, competition or changes in its cost structure and the implementation of specific MOLIT policies could adversely affect its operations.

High Operating Leverage

The airline industry is characterised by a high degree of operating leverage. The expenses of each flight, particularly labour and fuel costs, do not vary proportionately with the amount of cargo or the number of passengers carried, while revenues generated from a particular flight are directly related to the amount of cargo and/or the number of passengers carried and the pricing structure of the flight. Accordingly, a decrease in the amount of cargo and/or the number of passengers carried would result in a disproportionately greater decrease in profits. See "*The Receivables*".

External Factors

The airline industry has recovered significantly from external factors, such as the terrorist attacks in the United States on 11 September 2001, the Iraq war and the Serve Acute Respiratory Syndrome ("**SARS**") outbreak in 2003. In addition, the global economic financial crisis in 2008 and the spread of H1N1 virus in 2009 caused a decrease in airline traffic globally.

No assurance can be given that similar events will not occur in the future or that other events will not occur which will have a material adverse impact on the world economy and air traffic (in particular, on the Routes) and therefore on the generation of Receivables and ultimately on payments of the Notes.

Risks Relating to the U.S. and Korea

The U.S. Economy

The airline industry is particularly sensitive to changes in economic conditions, which affect customer travel patterns and related revenues. Since July 2007, significant adverse developments in the U.S. sub-prime mortgage sector have created significant disruption and volatility in financial markets globally. The ensuing contraction of liquidity, diminished credit availability, deteriorations in asset values, increase in bankruptcies, rising unemployment rates and declining consumer and business confidence caused an overall downturn in the global economy, particularly with respect to the U.S. Unfavourable U.S. economic conditions during the global economic downturn drove changes in travel patterns and resulted in reduced spending for both leisure and business travel. For some consumers, leisure travel was an expendable discretionary expense. Businesses were able to forego air travel by using communication alternatives such as videoconferencing and the Internet or were more likely to purchase less expensive tickets to reduce costs, which can result in a decrease in average revenue per seat. Unfavourable economic conditions also hampered the ability of airlines to raise fares to counteract increased fuel, labour, and other costs. While U.S. economic conditions improved beginning in 2010, much uncertainty remains. A return to unfavourable economic conditions, or even an increase in economic uncertainty, could adversely affect the generation of Receivables and thereby negatively affect the cash flow available to make payments on the Notes. To the extent that the Note Issuer has insufficient funds to comply with its obligations under the Notes, the Note Issuer will be allowed to make a drawing under the Credit Facility to the extent of such insufficiency up to the Commitment Amount.

Risks Relating to Korea

Korean Air, as the Originator, is incorporated in Korea and a substantial part of the Servicer's operations are located in Korea. As a result, the Originator, the Servicer and the Bond Issuer are subject to political, economic, legal and regulatory risks specific to Korea.

The legal system in Korea is not as well established or transparent as in the United States or Western Europe, and in particular the legal rights of creditors or other parties are in many cases not clear, well established or consistently enforced. In particular, the ABS Act is a relatively new body of legislation in relation to which Korean judicial consideration has not been given in many cases yet.

Events outside Korea also impact the financial markets and the economy in Korea. Events related to the terrorist attacks in the United States that took place on 11 September 2001, recent developments in the Middle East, including the conflict in Libya and revolutions in Tunisia and Egypt in 2011, higher oil prices, the worldwide financial market crisis resulting from the U.S. sub-prime mortgage crisis in 2007, the impact on the Japanese economy of the earthquakes and tsunami that recently occurred in the northeast part of Japan, the general weakness of the global economy, as evidenced by the recent events in Greece, and other parts of the European Union, and the outbreak of epidemic diseases (such as severe acute respiratory syndrome, or SARS, and the avian flu) in Asia and other parts of the world have increased the uncertainty of global economic prospects in general and may continue to adversely affect the Korean economy for some time. Any future deterioration of the Korean and global economy could adversely affect the Originator's business, financial condition and results of operations.

Developments that could hurt Korea's economy in the future include:

- further deterioration of the fiscal crisis in Europe, downgrades in the sovereign or other credit ratings of the United States and other countries, instability in the value of major currencies and continuing difficulties in the housing and financial sectors in the United States and elsewhere and the resulting adverse effects on the global financial markets;

- continuing difficulties in the housing and financial sectors in the United States and elsewhere and the resulting adverse effects on the global financial markets;

- financial problems relating to Korean conglomerates known as chaebols, or their suppliers, and their potential adverse impact on Korea's financial sector, including as a result of recent investigations relating to unlawful political contributions and corporate accounting fraud or irregularities by chaebols;

- loss of investor confidence arising from corporate accounting irregularities and corporate governance issues of certain chaebols;

- a slowdown in consumer spending and the overall economy;

- an unanticipated deterioration of consumer credit quality;

- uncertainty and volatility in real estate prices arising, in part, from the Government's policy-driven tax and other regulatory measures;

- failure of restructuring of large troubled companies, including troubled credit card companies and financial institutions;

- adverse changes or volatility in foreign currency reserve levels, commodity prices (including oil prices), exchange rates (including depreciation of the U.S. dollar or Japanese yen), interest rates and stock markets;

- increased reliance on exports to service foreign currency debts, which could cause friction with Korea's trading partners;
- adverse developments in the economies of countries such as the United States, China and Japan to which Korea exports, or in emerging marketing economies in Asia or elsewhere that could result in a loss of confidence in the Korean economy;
- the economic effects of any pending or future free trade agreements;
- the continued emergence of China, to the extent its benefits (such as increased exports to China) are outweighed by its costs (such as competition in export markets or for foreign investment and the relocation of the manufacturing base from Korea to China);
- geopolitical uncertainty and risk of further terrorist attacks around the world;
- social and labour unrest or declining consumer confidence or spending resulting from lay-offs, increasing unemployment and lower levels of income;
- a recurrence of severe acute respiratory syndrome, or SARS, or the widespread outbreak of any similar contagion, in Asia and other parts of the world;
- a decrease in tax revenues and a substantial increase in the Government's expenditures for unemployment compensation and other social programmes that, together, lead to an increased government budget deficit;
- political uncertainty or increasing strife among or within political parties in Korea;
- a deterioration in economic or diplomatic relations between Korea and its trading partners or allies, including such deterioration resulting from trade disputes or disagreements in foreign policy;
- hostilities involving oil producing countries in the Middle East and any material disruption in the supply of oil or increase in the price of oil resulting from those hostilities;
- an increase in the level of tensions or an outbreak of hostilities between North Korea and Korea and/or the United States;
- any economic instability and ramifications caused in the event of reunification of Korea and North Korea and a transition period that follows; and
- any other developments that have a material adverse effect in the global economy, such as an act of war, a terrorist act or a breakout of an epidemic such as SARS, Ebola virus disease, avian flu or swine flu or natural disasters such as the earthquake and tsunami in Japan in March 2011 and the resulting leakage of nuclear materials, and the related disruptions in the economies of Japan and other countries.

Any developments that could adversely affect Korea's economic recovery will likely also to have a material adverse effect on the Originator's operations (including its passenger transportation business) and potentially the generation of Receivables.

Labour unrest may increase if the Korean economy experiences a downturn and may disrupt the operations of the Servicer and its ability to service the Receivables

A downturn in the Korean economy, as well as the associated increase in the number of corporate restructurings and bankruptcies, may cause large-scale layoffs and increased unemployment in Korea. Increased unemployment may lead to social unrest and substantially increase the Government's expenditure for unemployment compensation and other costs for social programmes. No assurance can be given that layoffs will not occur in the near future or that labour unrest will not occur. Increasing unemployment and continuing labour unrest could disrupt the operations of the Servicer and its ability to service the Receivables and could affect the cashflow of the Collections and financial matters in Korea generally. These results would be likely to have an adverse effect on Korean economic conditions and on the Note Issuer's ability to make payments due under the Notes.

Increased tensions between Korea and North Korea may have a material adverse effect on the market value of the Notes

Relations between Korea and the Democratic People's Republic of Korea ("**North Korea**") have been tense throughout Korea's modern history. The level of tension between Korea and North Korea has fluctuated and may increase abruptly as a result of current and future events. In recent years, there have been heightened security concerns stemming from North Korea's nuclear weapon and long-range missile programmes and increased uncertainty regarding North Korea's actions and possible responses from the international community.

Following two nuclear tests by North Korea, the United Nations Security Council passed, on 12 June 2009, a resolution to impose tougher sanctions on North Korea, such as a mandatory ban on arms exports. In response, North Korea announced that it would produce nuclear weapons and take "resolute military actions" against the international community. In November 2010, North Korea carried out an attack on the border with Korea on the west coast of the Korean peninsula, killing two Korean soldiers and two civilians as well as causing substantial property damage. The Government condemned North Korea for the act and vowed stern retaliation should there be further provocation.

Relations between North Korea and Korea continued to deteriorate in 2011. On 17 December 2011, North Korean officials announced that Kim Jong-il, the North Korean ruler, had died. Shortly after his death, his third son, Kim Jong-eun, was named head of the North Korean government and military.

Kim Jong-eun has continued to develop North Korea's nuclear weapons systems. In 2012, North Korea was criticised by the international community for conducting rocket launches under the premise of placing a satellite in orbit. These launches were viewed by the international community as a veiled attempt by North Korea to further develop its long-range ballistic missile programme. As a result, on 22 January 2013, the United Nations Security Council unilaterally passed a resolution condemning the recent rocket launches and expanding existing sanctions against North Korea (the "**2013 UN Resolution**").

Tensions between North Korea and Korea and the international community further escalated following the 2013 UN Resolution, with North Korea conducting its third nuclear test in February 2013. On 30 March 2013, North Korea declared a "state of war" against Korea and severed all communications with Korea and the U.S. On 24 June 2013, the President of the United States extended the existing U.S. national emergency with respect to North Korea for a further year as a result of the "unusual and extraordinary" threats posed to U.S. national security and its economy by the "existence and risk of proliferation of weapons-usable fissile material on the Korean Peninsula and the actions and policies" of the government of North Korea.

While tensions seem to have stabilised in recent months, there continues to be increased uncertainty about the future of North Korea's relationship with Korea and the international community and the implications for the economic and political stability of the region. There can be no assurance that the level of tension on the Korean peninsula will not escalate in the future. Any further increase in tension, which may cause high-level contacts between Korea and North Korea to break down or military hostilities to occur, could have a material adverse effect on the Originator and the Bond Issuer and in particular the results of their respective operations. This in turn could adversely affect the market value of the Notes and the ability of the Note Issuer to make payments under the Notes promptly when due, if at all.

In addition, North Korea's economy faces severe challenges and reunification of the two Koreas could occur in the future. Reunification may entail a significant economic commitment by Korea, which in turn may have a material adverse effect on the Korean economy.

Any further increase in tension or reunification of the two Koreas could have a material adverse effect on the Originator's operations and the market price of the Notes.

Other Risks

The Bond Issuer has no operating history

The Bond Issuer is a newly-formed entity and has no operating history and no material assets other than the Depositor Note. The Bond Issuer will not engage in any business activity other than the issuance of the Bond, certain activities conducted in connection with the payment of amounts in respect of the Bond and other activities incidental or related to the foregoing. Income derived from the Depositor Note will be the Bond Issuer's principal source of funds.

Limited recourse obligations of the Bond Issuer

The Bond Conditions will provide that recourse against the Bond Issuer in relation to its obligations under the Bond and all other obligations under the Transaction Documents will be limited to amounts from time to time available for such obligations in accordance with the Transaction Administration Agreement. If such amounts are insufficient to pay in full all amounts due under the Bond after payment of all amounts having priority over the Bond, the Note Issuer will have no further claim against the Bond Issuer in respect of any unpaid amounts and the liability of the Bond Issuer with respect to such unpaid amounts shall be extinguished.

None of the equityholders, officers, directors or incorporators of the Bond Issuer, the Joint Lead Arrangers, the Joint Lead Managers, the Initial Subscribers, the U.S. Trustee, the Indenture Trustee, the Transaction Administrator, the Swap Provider and the Security Agent, any of their respective Affiliates or any other person or entity (other than the Bond Issuer) will be obligated to make payments on the Bond. In the absence of the Credit Facility, the Note Issuer must rely on payments received in respect of the Bond for the payment of interest on and principal of the Notes and no assurance can be given that such payments will be sufficient to pay all amounts due on the Notes.

Transfers of the Bond prohibited in certain circumstances

Under the Financial Investment Services and Capital Markets Act of Korea and the Regulations on Issuance, Public Disclosure, etc. of Securities of Korea, a transfer of the Bond by the Note Issuer to a Korean Resident (as such term is defined in the Foreign Exchange Transaction Act of Korea, currently an individual who has an address or a place of residence in Korea or a legal entity which has its main office in Korea) within one year of the date of its issuance would necessitate a filing of a securities registration statement by the Bond Issuer with the Financial Services Commission of Korea. If the Bond Issuer breaches such prohibition, it may be subject to sanctions by the Financial Services Commission of Korea. Each of the Note Issuer and the Note Trustee have covenanted in the Bond Subscription and Agency Agreement and the Note Trust Deed that it will not transfer the Bond to a Korean Resident within one year of the Closing Date. This may restrict the actions which the Note Trustee may take upon enforcement of the Note Security.

Withholding Taxes under the Bond

All payments in respect of the Bond will be made free and clear of, and without withholding or deduction for, any present or future Taxes (including Taxes imposed by Korea or the United States), unless such withholding or deduction is required by law. In that event, the Bond Issuer is obliged to gross up and otherwise compensate the Bondholder for the lesser amounts that the Bondholder will receive as a result of the imposition of such Taxes. Income derived from the Depositor Note will be the Bond Issuer's only source of funds. No assurance can be given that such funds will be sufficient to enable the Bond Issuer to make such gross-up or compensation payments in full or at all. To the extent that the Bond Issuer fails to gross up, in part or at all, the Note Issuer will be able to make a drawing under the Credit Facility to the extent of such shortfall up to the Commitment Amount.

Forward-looking statements are mere reflections of current expectations and are not meant to be guarantees

Included in this Prospectus are various forward-looking statements, including statements regarding the Bond Issuer's, the Note Issuer's and the Depositor's expectations and projections for future operating performance and business prospects. The words "believe", "expect", "anticipate", "estimate", "project" and similar words identify forward-looking statements. In addition, all statements other than statements of historical facts included in this Prospectus are forward-looking statements. These statements are forward-looking and reflect current expectations of the relevant party. Although such parties believe that the expectations reflected in the forward-looking statements are reasonable, they can give no assurance that such expectations will prove to be correct. They are subject to a number of risks and uncertainties, including changes in the economic and political environments in Korea. In light of the many risks and uncertainties surrounding Korea, investors should keep in mind that such parties cannot guarantee that the forward-looking statements described in this Prospectus will prove to be correct. All subsequent written and oral forward-looking statements attributable to such companies or persons acting on behalf of such companies are expressly qualified in their entirety by the reference to these risks.

Korean Air is currently subject to certain anti-competition claims, and may become involved in other costly and time-consuming legal proceedings or investigations, which could negatively affect its results of operations

From time to time, Korean Air is involved in various legal proceedings in relation to its business activities, including with respect to claims of antitrust violations. For example, Korean Air was previously involved in investigations and proceedings related to alleged price fixing for air transportation involving the U.S. Department of Justice, the European Union (the "**EU**"), the Australia Competition and Consumer Commission, the New Zealand Commerce Commission, the Korean Fair Trade Commission and currently pending settlement with private litigants in the U.S. See "*The Depositor and Servicer—Legal Proceedings*".

These investigations and legal proceedings are time-consuming and subject to inherent uncertainties as to their outcomes and ramifications for Korean Air's business, and may result in substantial monetary penalties, fines or judgments. Depending on future developments, Korean Air may be required to make allowances in connection with such lengthy and costly investigations and proceedings prior to their resolution, which could result in Korean Air recognising significant expenses in the event its insurance coverage against such claims eventually proves inadequate. Further, any investigations or legal proceedings to which Korean Air is or may be subject could require substantial involvement of Korean Air's management and divert management attention from Korean Air's business and operations, and also constitute a reputational risk for the Company.

Certain significant differences exist between K-IFRS, US GAAP and IFRS which might be material to the financial information presented in this Prospectus

The audited financial statements of Korean Air included in this Prospectus have been prepared in accordance with K-IFRS.

Significant differences exist between K-IFRS, US GAAP and IFRS which might be material to the financial information herein.

In making an investment decision, investors must rely upon their own examination of Korean Air the terms of this offering and the financial information included in this Prospectus. Investors should consult their own professional advisors for an understanding of the differences between K-IFRS, US GAAP and IFRS and how those differences might affect the financial information included herein.

The Volcker Rule prohibits certain relationships with "covered funds"

Pursuant to the U.S. Dodd-Frank Act, the United States prudential regulators have passed a final rule entitled "Prohibitions and Restrictions on proprietary trading, and certain interests in, and relationships with, hedge funds and private equity funds" known informally as the "Volcker Rule". The Volcker Rule prohibits banking entities from holding ownership interests and having other relationships with "covered funds", which essentially are entities which utilise the exemptions from the U.S. Investment Company Act of 1940 (the "**Investment Company Act**") available under Section 3(c)(1) (less than 100 holders of the entity's securities) or Section 3(c)(7) (holders of securities restricted to "qualified purchasers"). Although there can be no assurance that the U.S. prudential regulators will agree since the Volcker Rule is new, the offering of the Notes is intended to qualify for the exemption for securitisations under Rule 3a-7 of the Investment Company Act. By satisfying the exemption under Rule 3a-7, the Note Issuer would not be considered a "covered fund," and the Volcker Rule's prohibitions on investments by U.S. banking entities (including investments by the foreign branch of a U.S. bank that may otherwise be eligible to purchase the Notes as part of their initial distribution) would not apply. Foreign branches of U.S. banking entities should consult with their legal advisers prior to acquiring any Notes.

Regulatory initiatives may result in increased regulatory capital requirements and/or decreased liquidity in respect of the Notes

EEA regulated credit institutions should be aware of Article 122a of the CRD 2 (and any implementing rules in relation to a relevant jurisdiction) which applies, in general, to newly issued securitisations after 31 December 2010, including the Notes. Article 122a restricts an EEA regulated credit institution (including its consolidated entities) from investing in a securitisation unless the originator, sponsor or original lender in respect of that securitisation has explicitly disclosed to the EEA regulated credit institution that it will retain, on an ongoing basis, a net economic interest of not less than 5 per cent. in that securitisation as contemplated by Article 122a. Article 122a also requires an EEA regulated credit institution to be able to demonstrate that it has undertaken certain due diligence in respect of, amongst other things, the economic interest it has acquired and the underlying exposures and that procedures have been established for such due diligence to be conducted on an on-going basis. Failure to comply with one or more of the requirements set out in Article 122a may result in the imposition of a penal capital charge with respect to the investment made in the securitisation by the relevant investor.

Relevant investors are required to independently assess and determine the sufficiency of the information described in this Prospectus and in any servicer's report and/or investor reports made available and/or provided in relation to the securitisation for the purpose of complying with Article 122a and none of the Note Issuer, the Joint Lead Arrangers, the Joint Lead Managers, the Initial Subscribers nor any other party to the Transaction Documents makes any representation that the information described above is sufficient in all circumstances for such purposes. Investors who are uncertain as to the requirements that will need to be complied with in order to avoid the additional regulatory capital charges for non-compliance with Article 122a and any implementing rules in a relevant jurisdiction should seek guidance from their regulator.

Article 122a of the CRD 2 and any other changes to the regulation or regulatory treatment of the Notes for some or all investors may negatively impact the regulatory position of individual investors and, in addition, have a negative impact on the price and liquidity of the Notes in the secondary market.

Compliance with EU Regulation CRA3

Prospective investors are responsible for ensuring that an investment in the Notes is compliant with all applicable investment guidelines and requirements and in particular any requirements relating to ratings. In this context, prospective investors should note the provisions of Regulation 462/2013 (EU) which amends Regulation (EC) 1060/2009 on Credit Rating Agencies (together, "**CRA3**") which became effective on 20 June 2013. CRA3 addresses the use of credit ratings for regulatory purposes and requires, among other things, issuers or related third parties intending to solicit a credit rating of a structured finance instrument (as defined in CRA3) to appoint at least two credit rating agencies to provide credit ratings independently of each other.

The Note Issuer is incorporated in the Cayman Islands and the Notes will be listed on the Irish Stock Exchange. Prospective investors are required to independently assess and determine the relevance of CRA3 and, as the case may be, whether the Notes and the investors' investment in the Notes are in compliance with the requirements under CRA3.

USE OF PROCEEDS

The gross proceeds of the issue of the Notes (which, for the avoidance of doubt, shall be equal to the net proceeds), amounting to U.S.$350,000,000, will be applied by the Note Issuer on the Closing Date in subscribing for the Bond from the Bond Issuer. The Bond Issuer will use the proceeds of the issuance of the Bond to purchase the Depositor Note from Korean Air. Korean Air will bear the fees, commissions and expenses of the Joint Lead Arrangers and all other initial transaction costs and will use the net proceeds from the sale of the Depositor Note to repay existing indebtedness and for general corporate purposes.

RATING OF THE NOTES

The Conveyed Assets and the arrangements for the protection of the Noteholders in the light of the risks involved have been reviewed by Moody's Investors Service Hong Kong Limited (the "**Rating Agency**" or "**Moody's**"). It is a condition of the issuance of the Notes that the Notes are assigned a rating of not less than "Aa3" by the Rating Agency.

A rating is not a recommendation to buy, sell or hold securities, does not address the likelihood or timing of prepayment, if any, or the receipt of default interest and may be subject to revision, qualification or withdrawal at any time by the assigning rating organisation.

The credit rating of the Notes included or referred to in this Prospectus will be treated for the purposes of Regulation (EC) No. 1060/2009 on credit rating agencies (the "**CRA Regulation**") as having been issued by the Rating Agency upon registration pursuant to the CRA Regulation. The EU-based offices of the Rating Agency are established in the European Union and are registered under the CRA Regulation.

The Rating Agency is not established in the European Union and is not registered for the purposes of the EU Regulation on Credit Rating Agencies (Regulation (EC) No. 1060/2009), as amended. The credit rating of the Notes included or referred to in this Prospectus was issued by one of the affiliates of Moody's Investors Service Ltd. (One Canada Square, Canary Wharf, London E 14 5FA, UK) outside the EU and is endorsed by Moody's Investors Service Ltd. in accordance with Article 4 paragraph 3 of the CRA Regulation. Further information on the EU endorsement status and on the office of Moody's Investors Service Ltd. that issued the Credit Rating is available on www.moodys.com.

SUMMARY OF PROVISIONS RELATING TO NOTES IN GLOBAL FORM

The Notes will be initially in the form of a Global Note which is deposited on or around the Closing Date with the Common Depositary for Euroclear and Clearstream, Luxembourg.

The Global Note will become exchangeable in whole, but not in part, for Notes in definitive certificated form ("**Definitive Note Certificates**") in minimum denominations of U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof at the request of the holder of the Global Note against presentation and surrender of the Global Note to the Note Registrar if either Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so (an "**Exchange Event**").

Whenever the Global Note is to be exchanged for Definitive Note Certificates, the Note Issuer will procure the prompt delivery (free of charge to the holder) of such Definitive Note Certificates, duly authenticated, in an aggregate principal amount equal to the principal amount of the Global Note to the holder of the Global Note against the surrender of the Global Note at the Specified Office of the Note Registrar within 30 days of the occurrence of the relevant Exchange Event.

In addition, the Global Note will contain provisions which modify the Terms and Conditions of the Notes as they apply to the Global Note. The following is a summary of certain of those provisions:

Payments: All payments in respect of a Global Note will be made against presentation and (in the case of payment of principal in full with all interest accrued thereon) surrender of a Global Note at the Specified Office of any Paying Agent and will be effective to satisfy and discharge the corresponding liabilities of the Note Issuer in respect of the Notes. A record of each payment made on a Global Note, distinguishing between any payment of interest and principal will be endorsed on such Global Note by the Principal Paying Agent to which such Global Note was presented for the purpose of making such payment and such record will be prima facie evidence that the payment in question has been made.

Notices: Notwithstanding Note Condition 15, while any of the Notes are represented by a Global Note and the Global Note is deposited with the Common Depositary for Euroclear and Clearstream, Luxembourg, notices to Noteholders may be given by delivery of the relevant notice to Euroclear and Clearstream, Luxembourg and, in any case, such notices will be deemed to have been given to the Noteholders in accordance with Condition 15 on the date of delivery to Euroclear and Clearstream, Luxembourg.

Transfers: For so long as the Notes are represented by the Global Note, the Notes will be transferable in accordance with the rules and procedures for the time being of Euroclear, or, as the case may be, Clearstream, Luxembourg and the Note Issuer, the Principal Paying Agent and the Note Trustee may treat each person who is for the time being shown in the records of Euroclear or of Clearstream, Luxembourg as the holder of a particular principal amount of the Notes (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the principal amount of the Notes standing to the account of any person will be conclusive and binding for all purposes) and as the holder of such principal amount of such Notes for all purposes, other than with respect to the payment of interest and repayment of principal on such Notes, the right to which will be vested solely in the holder of the relevant Global Note and in accordance with its terms.

Meetings: The holder of the Global Note will be treated as being two persons for the purposes of any quorum requirement of, or the right to demand a poll at, a meeting of holders of the Notes and, at any such meeting, as having one vote in respect of each U.S.$1 principal amount of the Notes for which the Global Note may be exchanged.

TERMS AND CONDITIONS OF THE NOTES

KAL ABS 15 Cayman Limited (the "**Note Issuer**") has issued the U.S.$350,000,000 Secured Floating Rate Notes due 2017 (the "**Notes**") pursuant to resolutions of the board of directors of the Note Issuer passed on 6 November 2014 and 19 November 2014. The Notes are constituted by a trust deed (the "**Note Trust Deed**") dated on or about 25 November 2014 (the "**Closing Date**") between, *inter alios*, the Note Issuer and Citicorp International Limited (the "**Note Trustee**") and are secured by the security described below. The following terms and conditions of the Notes are subject to the detailed provisions of the Note Trust Deed and the Note Agency Agreement (as defined below).

The holders of the Notes (the "**Noteholders**" or "**Holders**") are entitled to the benefit of and deemed to have notice of the provisions of: (a) the Note Trust Deed; (b) the note agency agreement dated on or about the Closing Date between, *inter alios*, Citibank, N.A., London Branch (the "**Principal Paying Agent**", the "**Principal Transfer Agent**", the "**Note Registrar**" and the "**Reference Agent**"), the Note Issuer and the Note Trustee (the "**Note Agency Agreement**"); (c) the note issuer administrator agreement dated on or about the Closing Date between, *inter alios*, Intertrust SPV (Cayman) Limited (the "**Note Issuer Administrator**") and the Note Issuer (the "**Note Issuer Administrator Agreement**"); (d) the bank agreement dated on or about the Closing Date between, *inter alios*, Citibank, N.A., London Branch (an "**Account Bank**"), the Note Issuer and the Note Trustee (the "**Note Issuer Account Bank Agreement**"); (e) a fee letter dated on or about the Closing Date signed by, *inter alios*, the Note Trustee (the "**Citibank Fee Letter**") (together, the "**Note Transaction Documents**") and (f) the master schedule of definitions, interpretation and construction clauses dated 11 November 2014 signed by, *inter alios*, the Transaction Administrator, the Note Trustee and the Note Issuer (the "**Master Definitions Schedule**"). Copies of the Note Transaction Documents and the Master Definitions Schedule will be available for inspection at the Specified Office of the Principal Paying Agent and at the registered office of the Note Issuer.

Capitalised terms used in these terms and conditions of the Notes (the "**Note Conditions**") and not otherwise defined herein bear the meaning ascribed to them in the Master Definitions Schedule.

The holders shown in the records of Euroclear and Clearstream, Luxembourg of book-entry interests in the Notes are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Note Trust Deed, the Note Agency Agreement and other Transaction Documents applicable to them.

1. **Form, Denomination and Title**

(a) ***Form***: The Notes are in fully registered form and will be evidenced by either certificates in global form ("**Global Note Certificates**") or certificates in definitive form ("**Definitive Note Certificates**") (each a "**Note Certificate**") in substantially the forms contained in the Note Trust Deed. Notwithstanding any other provision herein contained, so long as any of the Notes are evidenced by Global Note Certificates, each holder of a beneficial interests in such Notes will be bound by, and will be deemed to have agreed to, the rules and procedures of the clearing system through which transfers of, and payments of principal of, interest on or other payments (if any) in respect of, such Notes are made.

(b) ***Title***: Title to the Notes will pass by registration of the interest of the transferee in the register (the "**Note Register**") which the Note Issuer will procure to be kept by the Note Registrar. In these Note Conditions, the "**Holder**" of a Note means the person in whose name such Note is for the time being registered in the Note Register (or, in the case of a joint holding, the first named thereof) and "**Noteholder**" will be construed accordingly. Whilst the Notes are held in global form, the registered owner of the Notes shall be the common depositary for Euroclear and Clearstream, Luxembourg (the "**Common**

Depositary") and the Holder of such Note shall be the person in whose name such Note is for the time being registered in the Note Register. The Holder of each Note will (except as otherwise required by law) be treated as the absolute owner of such Note for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing on the Note Certificate relating thereto (other than the endorsed form of transfer) or any notice of any previous loss or theft of such Note Certificate) and no person will be liable for so treating such Holder.

(c) ***Denominations***: The denomination of the Notes is U.S.$200,000 and integral multiples of U.S.$1,000 thereafter.

(d) ***Transfers***: Transfers of interests in the Notes may only be made in accordance with the legend set forth on the face of the relative Note Certificate. Subject to paragraph (g) below, a Note may be transferred upon surrender of the relevant Note Certificate, with the form of transfer endorsed on it duly completed and executed, at the Specified Office of the Note Registrar or any Transfer Agent, together with such evidence as the Note Registrar or (as the case may be) such Transfer Agent may reasonably require to prove the title of the transferor and the authority of the individuals who have executed the form of transfer. The Note Registrar will register the transfer in question and a new Note Certificate will be issued to the transferee. In the case of a transfer of part only of the Notes evidenced by a Note Certificate, the original principal amount of both the part transferred and the balance not transferred must be of authorised denominations, and a new Note Certificate in respect of the balance not transferred will be issued to the transferor. Notwithstanding the foregoing, so long as any Notes are evidenced by Global Note Certificates, transfers of beneficial interests therein will be made in accordance with the rules of the relevant clearing system as from time to time in effect. All transfers of Notes and entries on the Note Register are subject to the detailed regulations concerning the transfer of Notes scheduled to the Note Agency Agreement. The Note Issuer may amend such regulations with the approval of the Paying Agents, the Transfer Agents, the Note Registrar and the Note Trustee. No transfer of Notes will be effective unless and until entered on the Note Register.

(e) ***Delivery of Note Certificates***: Each new Note Certificate to be issued upon a transfer of Notes will, within seven business days of receipt by the Note Registrar of the form of transfer, be mailed by uninsured mail at the risk of the Holder entitled to the Notes to the address specified in the form of transfer. Where only some of the Notes in respect of which a Note Certificate is issued are to be transferred or redeemed, a new Note Certificate in respect of the Notes not so transferred or redeemed will, within seven business days of deposit or surrender of the original Note Certificate with or to the Note Registrar, be mailed by uninsured mail at the risk of the Holder of the Notes not so transferred or redeemed to the address of such Holder appearing on the Note Register. For the purposes of this Note Condition 1(e), "**business day**" means any day on which banks are open for business in the place of the Specified Office of the Note Registrar.

(f) ***Registration of Note Certificates***: Registration of a transfer of Notes will be effected without charge by or on behalf of the Note Issuer or the Note Registrar, but upon payment (or the giving of such indemnity as the Note Issuer or the Note Registrar may reasonably require) in respect of any tax or other governmental charges which may be imposed in relation to it.

(g) ***Closed Period***: No Noteholder may require the transfer of a Note to be registered during the period of 15 days ending on the due date for any payment of any amount on the Notes.

(h) ***Regulations Concerning Transfers and Registration:*** All transfers of Notes and entries on the Note Register will be made in accordance with the provisions of the Note Agency Agreement.

(i) ***Charges on New Note Certificates***: The issue of new Note Certificates on transfer will be effected without charge by the Note Issuer, the Note Registrar or the Transfer Agents but otherwise at the cost of the transferees who will pay (or give such indemnity as the Note Registrar or relevant Transfer Agent may require in connection with such transfers) any tax or other duty or whatever nature which may be levied or imposed in connection with such transfers.

2. **Status and Security**

(a) ***Status***: The Notes constitute direct, general, limited recourse, unconditional and unsubordinated obligations of the Note Issuer, secured in accordance with the provisions of the Note Trust Deed, as described in paragraph (b) below. The Notes will at all times rank *pari passu* among themselves and at least *pari passu* with all other present and future, direct, general, unsubordinated and unsecured obligations of the Note Issuer, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.

(b) ***Security***: The obligations of the Note Issuer to the Noteholders under the Notes are secured by the Note Security (as defined below) pursuant to the provisions of the Note Trust Deed. Under the Note Trust Deed, the Note Issuer has granted in favour of the Note Trustee:

   (i) an absolute assignment by way of first fixed security of all its rights, title, interest and benefit (present and future, actual and contingent) in, to and under each Transaction Document to which it is a party, including in each case, without limitation, all its rights to receive payment of any amounts which may become payable to the Note Issuer thereunder, its security interest in the Bond Secured Property and all payments received by the Note Issuer thereunder, all rights to serve notices and/or make demands thereunder and/or to take such action as is required to cause payments to become due and payable thereunder, all rights of action in respect of any breach thereof, and all rights to claim and receive damages or obtain other relief in respect thereof;

   (ii) a charge by way of first fixed charge of all its rights, title, interest and benefit (present and future, actual and contingent) in, to and under all sums of money which may now be or hereafter are from time to time standing to the credit of the Note Issuer Account and any other bank account (other than the bank account referred to in paragraph (iv) below) in which the Note Issuer may at any time acquire any right, title or interest or benefit, together with all interest accruing from time to time thereon and the debts represented thereby;

   (iii) an absolute assignment by way of first fixed security of all its rights, title, interest and benefit (present and future, actual and contingent) in, to and under the Bond and all other contracts, deeds and documents, present and future, to which the Note Issuer is or may become a party;

(iv) a charge by way of first fixed charge of all its rights, title, interest and benefit (present and future, actual and contingent) in and to all other assets and property that it has acquired or may acquire (other than the proceeds of the Note Issuer's share capital, the U.S.$250 transaction fee and the bank account where such amounts are deposited); and

(v) a charge by way of first floating charge of the whole of its undertaking and all of its property and assets, whatsoever and wheresoever situate, present and future (other than the proceeds of the Note Issuer's share capital, the U.S.$250 transaction fee and the bank account where such amounts are deposited) to the extent not otherwise effectively charged by way of fixed charge or otherwise effectively assigned as security under this Note Condition 2(b).

The Note Trustee (in its capacity as trustee for the benefit of the Noteholders and not in its individual capacity), the Noteholders, the Note Agents, the Note Issuer Administrator, the Account Bank in respect of the Note Issuer Account, the Swap Provider and the Credit Facility Provider (together, the "**Note Secured Parties**") have, through the Note Trustee, the benefit of the above described security interests (the "**Note Secured Property**") to secure sums due to each of them pursuant to the Notes and the Note Transaction Documents to which they are a party.

The Note Secured Parties have the benefit of the security (the "**Note Security**") given by the Note Issuer to the Note Trustee pursuant to the Note Trust Deed.

(c) ***Assumption***: The Note Trustee will be entitled to assume (without enquiry), for the purpose of exercising any power, trust, authority, duty or discretion under or in relation to these Note Conditions or any of the Transaction Documents, that such exercise will not be materially prejudicial to the interests of the Noteholders if the Rating Agency has confirmed that its then current rating of the Notes would not be adversely affected by such exercise and if the Controlling Beneficiary has consented to such exercise in writing.

3. **Interest**

(a) ***Accrual of Interest***: The Notes will bear interest from and including the Closing Date to (but excluding) the earlier to occur of (i) the Note Maturity Date and (ii) the date on which the Principal Amount Outstanding of the Notes is zero in accordance with Note Condition 4. Interest will cease to accrue on each Note from the due date for redemption thereof unless, upon due presentation of such Note, payment of principal is improperly withheld or refused or default is otherwise made in payment thereof. In such event, interest will continue to accrue in accordance with this Note Condition 3 (as well after as before judgment) up to, but excluding, the date on which, upon further presentation thereof, payment in full of the relevant amount is made or (if earlier) the seventh day after the date upon which notice is duly given to the Holder of such Note (in accordance with Note Condition 15) that, upon further presentation thereof being duly made, such payment will be made; *provided that* such payment is in fact made.

(b) ***Note Payment Dates and Interest Periods***: Interest will be payable on the Notes monthly in arrear on the 27th day of each month (or, in respect of the month of November 2017, the 20th day of such month), commencing in January 2015 (each, a "**Note Payment Date**") or, as the case may be, on the Mandatory Redemption Payment Date in respect of the Notes. If a payment is due on a day which is not a Business Day, such payment will be made on the next succeeding day which is a Business Day unless that day falls in the next calendar month, in which case the first preceding day which is a Business Day. Interest on the Notes will be payable by reference to successive interest periods (each, an "**Interest Period**"). The initial Interest Period will commence on (and include) the Closing Date and end on (but exclude) the initial Note Payment Date. Each successive

Interest Period will commence on and include a Note Payment Date and end on (but exclude) the next succeeding Note Payment Date or, as the case may be, on the Mandatory Redemption Payment Date in respect of the Notes. A "**Business Day**" means a day (other than a Saturday or Sunday) on which commercial banks are open for general business in California, New York, London, Seoul and Hong Kong or, if otherwise specified, in any one or more of such locations.

(c) ***Note Rate of Interest***: The rate of interest (the "**Note Rate of Interest**") payable in respect of the Notes in respect of an Interest Period will be the sum of:

(i) one month USD-LIBOR-BBA (as defined in the Swap Agreement) as determined by the Calculation Agent (as defined in the Swap Agreement) in accordance with the provisions of the Swap Agreement prior to the termination of the Swap Agreement, and as determined by the Note Trustee in accordance with the Note Trust Deed after the termination of the Swap Agreement; and

(ii) a margin of 0.65 per cent. per annum.

The USD-LIBOR-BBA in respect of the first Interest Period will be determined by way of a linear interpolation of the one month USD-LIBOR-BBA and the two month USD-LIBOR-BBA by the Calculation Agent in accordance with the Swap Agreement.

Interest in respect of any Interest Period which ends on the Mandatory Redemption Payment Date in respect of the Notes which does not fall on the 27th day of the relevant month will be determined by way of linear interpolation as calculated by the Calculation Agent in accordance with the Swap Agreement.

(d) ***Determination of Interest Amounts***: The Reference Agent will, as soon as practicable after the Interest Determination Date in relation to each Interest Period, calculate the amount of interest (the "**Note Interest Amount**") payable in respect of each Note for such Interest Period. The Note Interest Amount will be calculated by applying the Note Rate of Interest for such Interest Period to the Principal Amount Outstanding of such Note as at the first day of such Interest Period (after giving effect to any payment of principal of such Note made on such day), multiplying the product by the actual number of days elapsed in such Interest Period divided by 360 and rounding the resulting figure downward, if necessary, to the nearest Dollar.

(e) ***Publication***: The Reference Agent will cause each Note Rate of Interest and Note Interest Amount determined by it, together with the relevant Note Payment Date, to be notified to the Note Issuer, the Credit Facility Provider, the Paying Agents, the Note Trustee, the Security Agent, the U.S. Trustee, the Indenture Trustee. the Transaction Administrator, the Swap Provider, the Rating Agency and each stock exchange (if any) on which the Notes are then listed as soon as practicable after such determination but in any event not later than two Business Days after the relevant Interest Determination Date. Notice thereof will also promptly be given to the Noteholders in accordance with Note Condition 15. The Reference Agent will be entitled to recalculate any Note Interest Amount (on the basis of the foregoing provisions) without notice in the event of an extension or shortening of the relevant Interest Period.

(f) ***Certificates to be Final***: All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Note Condition 3 by the Reference Agent will (in the absence of manifest error) be binding on the Transaction Administrator, the Credit Facility Provider, the Swap Provider, the Note Issuer, the Note Agents and the Noteholders and (subject as aforesaid) no liability to any such person will attach to the Reference Agent or (in the circumstances referred to in paragraph (g) below) the Note Trustee in connection with the exercise or non-exercise by it of its powers, duties and discretions for such purposes.

(g) ***Failure of Calculation Agent or Reference Agent***: If the Calculation Agent fails at any time to determine a Note Rate of Interest or the Reference Agent fails at any time to calculate a Note Interest Amount as aforesaid, the Note Trustee may determine such Note Rate of Interest in accordance with this Note Condition 3 and such determinations and/or calculations made by the Note Trustee will be deemed to have been made by the Calculation Agent or Reference Agent, as the case may be.

(h) ***Limited Recourse***: The Note Issuer's liability to make payments in respect of interest on the Notes may only be satisfied in accordance with Note Condition 17.

4. **Amortisation and Redemption**

(a) ***Redemption on Maturity***: Unless previously redeemed in full, the Note Issuer will redeem the Notes, to the extent of funds available therefor in accordance with the priority of payments set forth in the Note Trust Deed in full on the Note Payment Date falling in November 2017 (the "**Note Maturity Date**") at the Note Redemption Amount as at such date. The "**Note Redemption Amount**" means, on any date, an amount equal to the Principal Amount Outstanding of the Notes as at such date plus accrued and unpaid interest thereon to, but excluding, such date.

(b) ***Controlled Amortisation Period***: On each Note Payment Date following a Trust Distribution Date that falls in the Controlled Amortisation Period, principal in respect of the Notes will be paid in the following scheduled instalments (each, a "**Scheduled Amortisation Amount**") with the principal payment in respect of each Note being rounded down to the nearest dollar.

Table 1
Scheduled Amortisation Amount

Note Payment Date Falling in:	Scheduled Amortisation Amount (U.S.$)
January 2015	10,000,000
February 2015	10,000,000
March 2015	10,000,000
April 2015	10,000,000
May 2015	10,000,000
June 2015	10,000,000
July 2015	10,000,000
August 2015	10,000,000
September 2015	10,000,000
October 2015	10,000,000
November 2015	10,000,000
December 2015	10,000,000
January 2016	10,000,000
February 2016	10,000,000
March 2016	10,000,000
April 2016	10,000,000
May 2016	10,000,000
June 2016	10,000,000
July 2016	10,000,000
August 2016	10,000,000
September 2016	10,000,000
October 2016	10,000,000
November 2016	10,000,000
December 2016	10,000,000
January 2017	10,000,000
February 2017	10,000,000
March 2017	10,000,000
April 2017	10,000,000
May 2017	10,000,000
June 2017	10,000,000
July 2017	10,000,000
August 2017	10,000,000
September 2017	10,000,000
October 2017	10,000,000
November 2017	10,000,000
Total	350,000,000

(c) ***Early Amortisation Period***: On each Note Payment Date following an Trust Distribution Date that falls in the Early Amortisation Period or the Enforcement Period, principal in respect of the Notes will be repaid, to the extent of funds available therefor in accordance with the priority of payments set forth in the Note Trust Deed and after payment of the Scheduled Amortisation Amount that would have been due on such Note Payment Date if the Controlled Amortisation Period were continuing, in the inverse order of the amortisation schedule set out in Table 1 above, in an aggregate principal amount equal to the Principal Amount Outstanding of the Notes as at such date, until the Notes have been redeemed in full at the Note Redemption Amount.

(d) ***Mandatory Redemption***: Following the declaration by the Controlling Beneficiary of a Mandatory Redemption Event and receipt of notice thereof from the Note Trustee, the Note Issuer will, on the instructions of Note Trustee (acting on the instructions of the Credit Facility Provider), either (i) redeem the Notes on the date which is five Business Days following the date on which the Bond is redeemed following such Mandatory Redemption Event, in whole at the Note Redemption Amount on such date or (ii) redeem the Notes in accordance with the Scheduled Amortisation Amounts set out in Table 1 above in each case to the extent of funds available therefor in accordance with the priority of payments set forth in the Note Trust Deed on such date; *provided that* the Credit

Facility Provider may only instruct the Note Trustee to instruct the Note Issuer to redeem the Notes in accordance with paragraph (ii) above if the amount received with respect of the Bond is less than the amount required to repay in full the Notes and pay any amounts ranking in priority to or *pari passu* with the Notes.

(e) ***No Purchase by Note Issuer***: The Note Issuer will not be permitted to purchase any of the Notes.

(f) ***Cancellation***: All Notes redeemed in full will be cancelled by the Paying Agents to whom such Notes are presented for redemption or surrender, and may not be resold or reissued.

5. **Payments**

(a) ***Payments***: Payments of principal and interest on the Notes will be made to the person in whose name the Note is registered in the Note Register (or to the first-named of joint holders) by electronic funds transfer to the registered account of each Noteholder or by cheque; *provided that* the Principal Paying Agent will have received the required funds in full from the Note Issuer in accordance with the terms of the Note Agency Agreement. If Definitive Note Certificates have been issued, payments of the final amount due in respect of principal will only be made upon evidence of delivery of the Definitive Note Certificates to a Paying Agent. So long as any Notes are evidenced by Global Note Certificates, payments of principal and interest in respect thereof will be made in accordance with the rules and procedures of the Principal Paying Agent, or the relevant clearing system, as the case may be, from time to time in effect.

(b) ***Registered Account and Registered Address***: For the purposes of this Note Condition 5, a Noteholder's "**registered account**" means the U.S. dollar account maintained by or on behalf of it with a bank in New York details of which appear on the Note Register on the close of business on the record date which is the Clearing System Business Day immediately prior to the due date for payment, where "**Clearing System Business Day**" means Monday to Friday (inclusive) in each week except 25th December and 1st January, and a Noteholder's "**registered address**" means its address appearing on the Note Register at that time.

(c) ***Payments Subject to Fiscal Laws***: All payments in respect of the Notes are subject in all cases to any applicable fiscal or other laws and regulations.

(d) ***Payments on Business Day***: Where payment is to be made by electronic funds transfer to a Noteholder's registered account, payment instructions (for value on the due date or, if that date is not a Business Day, for value on the next Business Day) will be initiated and, where payment is to be made by cheque, the cheque will be mailed on the due date for payment (or if that date is not a Business Day, on the next Business Day) or, in the case of a payment of the final amount due in respect of principal on the relevant Note, on the Business Day on which the relevant Definitive Note Certificate is surrendered at the Specified Office of the Paying Agents or Note Registrar.

(e) ***No Payment for Delay***: Noteholders will not be entitled to any interest or other payment for any delay after the due date in receiving the amount:

(i) if the Noteholder is late in surrendering its Definitive Note Certificate (if required to do so);

(ii) if a cheque mailed in accordance with paragraph (d) above arrives after the due date for payment; or

(iii) if the due date is not a Business Day.

(f) ***Specified Offices of Paying Agents and Note Registrar***: The initial Paying Agents and the initial Note Registrar and their respective initial Specified Offices are set out at the end of each Note Certificate. The Note Issuer may, subject to the provisions of the Note Transaction Documents, vary or terminate the appointment of any of the Paying Agents or of any other Note Agent and appoint additional or other Note Agents. Notice of any such termination or appointment and of any changes in their Specified Offices will be given to the Noteholders in accordance with Note Condition 15.

(g) ***Unpaid Amount***: If the amount of principal or interest, if any, which is due on the Notes is not paid in full, the Note Registrar will annotate the Note Register with a record of the amount of principal or interest, if any, in fact paid.

(h) ***Partial Payments***: If a Paying Agent makes a partial payment in respect of any Note, the Note Issuer will procure that the amount and date of such payment are noted on the Note Register and, in the case of partial payment upon presentation of a Note Certificate, that a statement indicating the amount and the date of such payment is endorsed on the relevant Note Certificate.

6. **Covenants**

The Note Issuer will covenant in the Note Trust Deed that other than as set out in the Note Transaction Documents or with the consent in writing of the Controlling Beneficiary at the relevant time, and until the Release Date, it will, *inter alia*:

(a) not engage in any business or activity or do anything whatsoever except:

  (i) enter into and perform its obligations under the Transaction Documents, the notes and any agreements contemplated by any of the foregoing;

  (ii) enforce any of its rights, whether under any of the documents referred to in sub-paragraph (i) above or otherwise;

  (iii) at all times comply with any direction given by the Note Trustee; and

  (iv) perform any act incidental to or necessary in connection with the above sub-paragraphs;

(b) not create any Liens (including, without limitation, rights of set-off or counterclaim), except those security interests contemplated in the Note Trust Deed;

(c) not have any subsidiaries (other than in connection with the substitution of the principal debtor under the Notes as described in the Note Trust Deed);

(d) not, subject to paragraphs (a), (b) and (c) above, dispose of or otherwise deal with any of its property or other assets or any part thereof or interest therein (including without limitation its rights in respect of the agreements referred to in Clauses 5.2(a)(i) and (iii) of the Note Trust Deed);

(e) not pay any dividend or make any other distribution to its shareholders;

(f) not issue any shares (other than such equity as is already in issue on the Closing Date) or any right, security or instrument convertible into, or exercisable or exchangeable for, any shares;

(g) not purchase, own, lease or otherwise acquire any real property (including office premises or like facilities) and/or movable property (including obligations or securities);

(h) not consent to any variation of, or exercise any powers of termination, consent or waiver pursuant to, the Notes, the Transaction Documents, or any other agreement relating to the issue of the Notes or any related transactions;

(i) not consolidate or merge with any other legal entity or convey or transfer its properties or assets substantially as an entirety to any person or legal entity or commingle assets with those of any other entity;

(j) not amend or alter its constitutive documents;

(k) not exercise any voting rights in respect of any Notes held or beneficially owned by it;

(l) not take any action permitting the Note Security not to constitute a valid first priority security interest over the Note Secured Property;

(m) not open or have an interest in any account whatsoever with any bank or other financial institution (other than the Note Issuer Account and any account referred to in Clause 5.2(a)(iv) of the Note Trust Deed); and

(n) not have any employees.

7. **Taxation**

All payments of principal and interest in respect of the Notes by the Note Issuer will be made without withholding or deduction for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of any authority in any applicable jurisdiction having power to tax, unless such withholding or deduction is required by law. If any such withholding or deduction is required by law, the Note Issuer or the Paying Agents (as the case may be) will make such payments in accordance with Note Condition 5 after such withholding or deduction has been made and will account to the relevant authorities for the amount so required to be withheld or deducted. Neither the Note Issuer nor any of the Paying Agents will be obliged to make any additional payments to the holders of the Notes in respect of such withholding or deduction.

8. **Note Events of Default**

The Note Trustee will, if so requested in writing by the Credit Facility Provider (if the Credit Facility Provider is the Controlling Beneficiary) or, if the Credit Facility Provider is not the Controlling Beneficiary or if a default has occurred under paragraph (a) below, by or pursuant to an Extraordinary Resolution (as defined in the Note Trust Deed) of the Noteholders, (subject, in each case, to being indemnified and/or secured to its satisfaction; *provided that* the indemnity obligations of the Credit Facility Provider in the Note Trust Deed will be deemed to constitute a satisfactory indemnity if the Credit Facility Provider is the Controlling Beneficiary and no security will be necessary) promptly give notice (a "**Note Enforcement Notice**") to the Note Issuer at any time on or after the occurrence of any of the following events (each, a "**Note Event of Default**") declaring the Notes to be immediately due and repayable at the Note Redemption Amount whereupon the Notes will accordingly immediately become due and repayable at the Note Redemption Amount without any further action or formality:

(a) default is made in the repayment of any principal amount of any of the Notes or in the payment of any interest in respect of any of the Notes;

(b) default is made by the Note Issuer in the performance or observance of any obligation, condition or provision binding on it under the Transaction Documents to which it is a party (other than any obligation for the payment of any principal or interest on the Notes) and, except where in the opinion of the Controlling Beneficiary such default is not capable of remedy, such default continues for 30 days after written notice delivered by the Note Trustee (acting on the written instructions of the Controlling Beneficiary as aforesaid) to the Note Issuer;

(c) an order is made by any competent court or an effective resolution is passed for the winding-up or dissolution of the Note Issuer;

(d) (i) the Note Issuer stops payment of its debts (within the meaning of any applicable bankruptcy law), or is unable to pay its debts as and when they fall due; or (ii) the Note Issuer ceases or, through an official action of the board of directors, or meeting of the shareholders, of the Note Issuer, threatens to cease, to carry on all or any substantial part of its business;

(e) one or more final judgments from which no further appeal or judicial review is permissible under applicable law are awarded against the Note Issuer in an aggregate amount in excess of U.S.$10,000;

(f) proceedings are initiated against the Note Issuer under any applicable liquidation, insolvency, composition, re-organisation or other similar laws including, for the avoidance of doubt, presentation to the court of an application for an administration order, or an administrative receiver or other receiver, administrator or other similar official is appointed in relation to the Note Issuer or in relation to the whole or any substantial part of the undertaking or assets of the Note Issuer or an encumbrancer takes possession of the whole or any substantial part of the undertaking or assets of the Note Issuer or a distress, execution, attachment, sequestration, diligence or other process is levied, enforced upon, sued out or put in force against the whole or any substantial part of the undertaking or assets of the Note Issuer and, in any of the foregoing cases, it will not be discharged, annulled or withdrawn within 14 days or earlier if the relevant court has accepted the applications or petitions for such proceedings;

(g) any decree, resolution, authorisation, approval, consent, filing, registration or exemption necessary for the execution and delivery of the Notes on behalf of the Note Issuer and the performance of the Note Issuer's Obligations under the Notes or any of the Transaction Documents is withdrawn or modified or otherwise ceases to be in full force and effect, or it is unlawful for the Note Issuer to comply with, or the Note Issuer contests the validity or enforceability of or repudiates, any of its obligations under the Notes, the Note Trust Deed or any of the other Transaction Documents;

(h) the Note Issuer initiates or consents to judicial proceedings relating to itself under any applicable liquidation, insolvency, composition, reorganisation or other similar laws or makes a conveyance or assignment for the benefit of its creditors generally (or any class of its creditors) or enters into an arrangement or composition with its creditors generally (or any class of its creditors); or

(i) any representation or warranty made by the Note Issuer in any of the Transaction Documents proves to be incorrect or misleading in any material respect when made.

The Note Issuer will provide written confirmation to the Note Trustee on each anniversary of the Closing Date that, as far as it is aware, no Note Event of Default or other matter which is required to be brought to the attention of the Note Trustee has occurred.

9. **Enforcement**

(a) ***Enforcement Proceedings***: If the Credit Facility Provider is not the Controlling Beneficiary, or in relation to the exercise of any Note Trustee Excluded Rights, whether or not the Credit Facility Provider is the Controlling Beneficiary:

(i) the Note Trustee may, at any time at its discretion and without notice, take such proceedings and/or other action as it may think fit against the Note Issuer or any other person to enforce its obligations under the Notes and the other Note Transaction Documents and, after the Note Security has become enforceable, take such action as it may think fit to enforce the Note Security; and

(ii) the Note Trustee will not be bound to take any such proceedings or action or give any such directions as are referred to in sub-paragraph (i) above, unless so directed in writing by the Majority Noteholders (provided in each case that the Note Trustee is indemnified and/or secured to its satisfaction).

If the Credit Facility Provider is the Controlling Beneficiary, the Note Trustee will only take any such proceedings or action as are referred to above (except in relation to the exercise of any Note Trustee Excluded Rights) if so directed in writing by the Credit Facility Provider; *provided that* the Note Trustee is indemnified and/or secured to its satisfaction and *provided further that* so long as no Drawdown Trigger Event shall have occurred and be continuing, the indemnity obligations of the Credit Facility Provider under the Note Trust Deed will be deemed to constitute a satisfactory indemnity, and no security will be necessary.

(b) ***Limitation on Noteholders***: Enforcement of the Note Security will be the only remedy against the Note Issuer available to the Credit Facility Provider or the Note Trustee for the repayment of any sums due in respect of the Notes. No Noteholder will be entitled to proceed directly against the Note Issuer or enforce the Note Security unless the Credit Facility Provider is not the Controlling Beneficiary and the Note Trustee, having become bound so to enforce the Note Security, fails to do so within a reasonable period and such failure will be continuing.

(c) ***Following Note Enforcement Notice***: Following the service of a Note Enforcement Notice, all amounts received by the Note Trustee under this Note Condition 9 will be applied in accordance with Clause 8 of the Note Trust Deed.

(d) ***Credit Facility Provider as Controlling Beneficiary***: For so long as the Credit Facility Provider is the Controlling Beneficiary and subject always to the provisions of these Note Conditions and the Note Transaction Documents:

(i) the Note Trustee has agreed to exercise its rights in relation to the Note Secured Property (except the Note Trustee Excluded Rights) only with the prior consent of, or at the direction of, the Credit Facility Provider;

(ii) the Credit Facility Provider will have the sole right, power and authority (and none of the other Note Secured Parties will have such right, power or authority) to control and/or direct and/or veto any actions or inactions of the Note Trustee and to direct the exercise of any of the rights of the Note Secured Parties (other than in relation to a Basic Terms Modification (as defined below) and the Note Trustee Excluded Rights) and to waive any breach by any party under any Note Transaction Document or the occurrence of an Early Amortisation Event or a Note Event of Default;

(iii) the Credit Facility Provider may exercise or direct in writing the exercise of, and the Note Trustee will exercise at the written instructions of the Credit Facility Provider, the rights of the Note Secured Parties in respect of the Note Secured Property without regard to the interests of any of the Note Secured Parties; and

(iv) if, at any time, whilst any Note Issuer Obligations are or may be outstanding, any Noteholder receives from the Note Secured Property a payment or distribution in cash or in kind of, or on account of, the Note Issuer Obligations, whether before or after any winding-up, liquidation or reorganisation of the Note Issuer, which is not permitted under the Note Trust Deed, it will hold all amounts so received on trust for the Note Trustee (to the extent possible under applicable law) and will forthwith (in any event) pay any and all such amounts to the Note Trustee.

(e) ***Assumption***: The Note Trustee will be entitled to assume that the Credit Facility Provider is the Controlling Beneficiary, unless it has been informed in writing otherwise by the Credit Facility Provider, or has actual knowledge that a Drawdown Trigger Event has occurred and is continuing or that the Credit Facility Provider has failed to make an Advance under the Credit Facility Deed. If the Note Trustee has been informed or has actual notice that the Credit Facility Provider is no longer the Controlling Beneficiary, the Note Trustee will as soon as practicable thereafter notify the Noteholders in accordance with Note Condition 15 and the Rating Agency.

10. **Indemnification of the Note Trustee**

(a) ***Indemnity***: Subject to the provisions of the Transaction Documents, the Note Trustee is entitled to be indemnified by the Note Issuer and relieved from responsibility and from taking enforcement proceedings or enforcing or directing enforcement of the Note Security unless indemnified to its satisfaction (subject to the provisions of the Note Trust Deed); *provided that* so long as no Drawdown Trigger Event will have occurred and be continuing, the indemnity obligations of the Credit Facility Provider under the Note Trust Deed will be deemed to constitute a satisfactory indemnity, and no security will be necessary.

(b) ***Business Transactions***: The Note Trustee is entitled to enter into business transactions with any of the Note Secured Parties or any other person without accounting to the Noteholders for any profit resulting therefrom.

(c) ***Note Trustee not Responsible for Loss***: The Note Trustee will not be responsible for any loss, expense or liability which may be suffered as a result of, *inter alia*, the Note Trust Deed or any deeds or documents relating thereto or to the Notes being held by any banker, banking company or any company whose business includes undertaking the safe custody of deeds or documents or with any lawyer or firm of lawyers on behalf of the Note Trustee.

(d) ***Note Agents not Agents of Noteholders***: In acting under the Note Agency Agreement and in connection with the Notes, the Note Agents act solely as agents of the Note Issuer and (to the extent provided therein) the Note Trustee and do not assume any obligations towards or relationships of agency or trust with or for any of the Noteholders.

11. **Meetings of Noteholders**

(a) ***Convening Meetings***: The Note Trust Deed contains provisions for convening meetings of Noteholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of these Note Conditions or the provisions of any of the Note Transaction Documents. Subject as provided in the Note Trust Deed, the Note Issuer is entitled to receive notice of and to attend meetings of the Noteholders.

(b) ***Quorum***: The quorum at any meeting of the Noteholders for passing an Extraordinary Resolution will be one or more persons being or representing Noteholders holding at least 50 per cent. of the then Principal Amount Outstanding of the Notes or, at any adjourned meeting, one or more persons being or representing Noteholders whatever the aggregate

Principal Amount Outstanding of the Notes so held or represented by such persons(s), except that, at any meeting the business of which relates to a Basic Terms Modification, the necessary quorum for passing an Extraordinary Resolution will be one or more persons being or representing Noteholders holding at least 75 per cent. or, at any such adjourned meeting, 25 per cent., of the then Principal Amount Outstanding of the Notes for the time being.

(c) ***Basic Terms Modification***: A "**Basic Terms Modification**" means any modification to any Note Transaction Document or other Transaction Document which would:

(i) change any date fixed for payment of principal or interest in respect of the Notes, to reduce the amount of principal or interest payable on any date in respect of the Notes or to alter the method of calculating the amount of any payment in respect of the Notes on redemption or maturity or the date for any such payment;

(ii) effect the exchange or sale of the Notes for or the conversion of the Notes into or the cancellation of the Notes in consideration of shares, stock, notes, bonds and/or other obligations and/or securities of the Note Issuer or any other company formed or to be formed, or for or into or in consideration of cash, or partly for or into or in consideration of such shares, stock, notes, bonds and/or other obligations and/or securities as aforesaid and partly for or into or in consideration of cash;

(iii) change the currency in which amounts due in respect of the Notes are payable;

(iv) change the quorum required at any meeting of the Noteholders or the majority required to pass an Extraordinary Resolution;

(v) amend paragraph 5.2 of Schedule 3 to the Note Trust Deed or the provisos to paragraph 6 of Schedule 3 to the Note Trust Deed, Clause 8 to the Note Trust Deed or this Note Condition 11;

(vi) alter the priority of the Note Security or the priority of the application of any proceeds of enforcement of the Note Security under the Note Trust Deed;

(vii) modify any provision of the Credit Facility Deed unless, in the opinion of the Note Trustee, such modification is not materially prejudicial to the interests of the Noteholders;

(viii) approve the release or termination of the Credit Facility Deed (other than pursuant to the provisions of the Note Trust Deed) or to approve the substitution of another entity in place of the Credit Facility Provider; or

(ix) modify the provisions of paragraphs (c), (d) or (e) of Note Condition 9, the definitions of "**Controlling Beneficiary**" or "**Drawdown Trigger Event**" set out in the Master Definitions Schedule, or any other provision which has the effect of restricting or limiting the rights of the Credit Facility Provider to direct or instruct the Note Trustee to take any action under or in connection with the Note Conditions or any Transaction Document or to give any notice, consent or approval for the purposes of the Note Conditions or any Transaction Document, unless in any such case, in the opinion of the Note Trustee, such modification would not be materially prejudicial to the interests of the Noteholders; *provided that*, no such modification will have any effect unless made with the consent of the Credit Facility Provider.

No Basic Terms Modification may (i) change the Credit Facility Provider's obligations under the Credit Facility Deed without the Credit Facility Provider's written consent or (ii) in any way reduce the Credit Facility Provider's rights as Controlling Beneficiary or (iii) take effect until written notification has been given to the Rating Agency in respect thereof.

(d) ***Extraordinary Resolution***: An Extraordinary Resolution passed at any meeting of Noteholders will be binding on all Noteholders whether or not they are present at the meeting. The majority required for an Extraordinary Resolution will be 67 per cent. of the votes cast on the resolution.

12. **Modification and Waivers**

(a) ***Note Trustee's Power to Modify and Waive***: Subject to the conditions and qualifications set forth in the Note Trust Deed, the Note Trustee may without the consent of the Noteholders, but, if the Credit Facility Provider is the Controlling Beneficiary, always and only on the written instructions of the Credit Facility Provider, with prior notice to the Rating Agency, and, in the event of any material modification, with prior notice to, and the consent of, the Irish Stock Exchange, concur with the Note Issuer or any other relevant parties in making:

(i) any modification of these Note Conditions or any of the Note Transaction Documents (other than a Basic Terms Modification) which in the sole opinion of the Note Trustee it may be proper to make; *provided that* the Note Trustee is of the opinion that such modification will not be materially prejudicial to the interests of the Noteholders;

(ii) any modification of these Note Conditions or any of the Note Transaction Documents which, in the sole opinion of the Note Trustee, is to correct a manifest error or is of a formal, minor or technical nature; or

(iii) any waiver or authorisation of any breach or proposed breach of these Note Conditions or any of the Note Transaction Documents if, in the sole opinion of the Note Trustee, such modification, waiver or authorisation is not materially prejudicial to the interests of the Noteholders.

Any such modification, waiver or authorisation will be binding on all Noteholders and each other Note Secured Party and, if the Note Trustee so requires, notice thereof will be given by the Note Issuer to the Noteholders in accordance with Note Condition 15 as soon as practicable thereafter.

(b) ***Note Trustee not Liable for Consequences***: Where the Note Trustee is required in connection with the exercise of its powers, trusts, authorities, duties and discretions to have regard to the interests of the Noteholders, it will have regard to the interests of the Noteholders as a class and, in particular but without prejudice to the generality of the foregoing, the Note Trustee will not have regard to, or be in any way liable for, the consequences of such exercise for individual Noteholders resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory. In connection with any such exercise, the Note Trustee will not be entitled to require, and no Noteholder will be entitled to claim, from the Note Issuer or any other person any indemnification or payment in respect of any tax consequences of any such exercise upon individual Noteholders.

13. **Replacement of Note Certificates**

If any Note Certificate is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the Specified Office of the Note Registrar and the Transfer Agent (together, the "**Replacement**

Agents") upon payment by the claimant of the expenses incurred in connection therewith and on such terms as to evidence and indemnity as the Note Issuer, the Credit Facility Provider and/or the Replacement Agent may reasonably require. Mutilated or defaced Note Certificates must be surrendered to the Note Registrar before replacements will be issued.

14. **Substitution of Principal Debtor**

The Note Trustee may agree, without the consent of the Noteholders (if the Credit Facility Provider is the Controlling Beneficiary), but with the prior written consent of the Credit Facility Provider and the Irish Stock Exchange to the substitution of any person in place of the Note Issuer as principal debtor under the Note Transaction Documents and the Notes; *provided that* written notification has been given to the Rating Agency and any such substitution will be binding on the Noteholders. Such substitution will be subject to the relevant provisions of the Note Trust Deed and to such amendments thereof as the Note Trustee may deem appropriate.

15. **Notices**

(a) ***Valid Notices***: Any notice to Noteholders will be deemed to have been duly given if such notice is published in a leading English language daily newspaper having general circulation in London (which is expected to be the Financial Times) and, for so long as the Notes are listed on the Irish Stock Exchange, by publication on the website of the Irish Stock Exchange. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the first date on which publication is made in the manner referred to above. A copy of each notice given in accordance with this Note Condition 15 will be provided to the Rating Agency and, for so long as the Notes are listed on the Irish Stock Exchange and the rules of that exchange so require, the Irish Stock Exchange.

(b) ***Notices while in Global Form***: For so long as the Notes are represented by a Global Note and such Global Note is held on behalf of Euroclear and/or Clearstream, Luxembourg, notices to Noteholders may be given by delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg (as the case may be) for communication to the relevant accountholders rather than by publication as required by paragraph (a) above. Any notice delivered to Euroclear and/or Clearstream, Luxembourg shall be deemed to have been given to Noteholders on the seventh day after the day on which such notice was delivered to Euroclear and/or Clearstream, Luxembourg (as the case may be). So long as the Notes are listed on the Irish Stock Exchange, notices will also be published by publication on the website of the Irish Stock Exchange or otherwise in accordance with paragraph (a) above.

(c) ***Other Methods of Notice***: The Note Trustee shall be at liberty to approve an alternative method of giving notice to Noteholders if, in its opinion, such alternative method is reasonable having regard to market practice then prevailing and to the requirements of the Irish Stock Exchange and *provided that* notice of such other method is given to the Noteholders in such manner as the Note Trustee shall require.

16. **Prescription**

Claims for payment of principal and interest will not be enforceable unless a Note is presented for payment within a period of ten years in respect of principal, or five years in respect of interest, from the payment dates relating thereto.

17. **Limited Recourse and No Petition**

(a) ***Limited Recourse***: The Noteholders agree that, notwithstanding the covenant in Clause 3.1 of the Note Trust Deed in respect of payment of the Note Issuer Obligations, any other provision of the Note Trust Deed or any other Note Transaction Document which imposes on the Note Issuer an obligation at any time to make any payment to any Noteholder, the rights of recourse of the Noteholders against the Note Issuer, and the liability of the Note Issuer, will be limited to the amounts from time to time available in accordance with, and in the order of priorities set out in, the Note Trust Deed. Accordingly, no Noteholder will have any claim or recourse against the Note Issuer in respect of any amount which is or remains, or will remain, unsatisfied when no further amounts are receivable or recoverable in respect of the Note Secured Property and all funds comprising the Note Secured Property and/or representing the proceeds of realisation thereof have been applied in accordance with the provisions of the Note Trust Deed, and any unsatisfied amounts will be waived and extinguished; *provided that*, for the avoidance of doubt, such extinguishment will not in any way affect the other obligations of the Note Issuer to the Noteholders pursuant to any other Note Transaction Documents. Additionally, the Noteholders acknowledge the limited recourse provisions relating to the Bond Issuer contained in the Transaction Documents and the Note Issuer's agreement and acceptance of such limited recourse provisions.

(b) ***No Petition***: Each Noteholder further undertakes to the Note Issuer that it will not petition a court for, or take any other action or commence any proceedings for, the liquidation, winding-up or reorganisation of the Note Issuer, or for the appointment of a receiver, administrator, administrative receiver, trustee, liquidator, sequestrator or similar officer of the Note Issuer or of all or any of the Note Issuer's revenues and assets, until one year and one day after the unconditional and irrevocable payment and discharge in full of all sums outstanding and owing in respect of the Notes and all other Note Issuer Obligations; *provided that*, nothing in this paragraph (b) will:

(i) prevent the Note Trustee (acting on the written instructions of the Controlling Beneficiary) from initiating any such action as aforesaid for the purpose of enforcing the Note Issuer Obligations or from obtaining a declaratory judgment as to the obligations of the Note Issuer under the Note Transaction Documents owed to any Noteholder (*provided that* no action is taken to enforce or implement such judgment); or

(ii) prevent any Noteholder to the Note Transaction Documents from lodging a claim in any action as aforesaid which is initiated by any Person (other than the Note Trustee acting on the written instructions of the Controlling Beneficiary).

18. **Contracts (Rights of Third Parties) Act 1999**

No person will have any right to enforce any term or condition of any Note under the Contracts (Rights of Third Parties) Act 1999.

19. **Governing Law**

These Note Conditions, the Notes and the Note Transaction Documents (other than the Note Issuer Administrator Agreement) and any non-contractual obligation arising out of or in connection with these Note Conditions, the Notes and the Note Transaction Documents (other than the Note Issuer Administrator Agreement) are each governed by, and will be construed in accordance with, English law. The Note Issuer has irrevocably submitted to the jurisdiction of the English courts for all purposes in connection with such documents and has designated a person in England to accept service of any process on its behalf.

The Note Issuer Administrator Agreement is governed by and will be construed in accordance with Cayman Islands law.

THE RECEIVABLES

Overview

The receivables are U.S. dollar amounts which are owed to Korean Air from time to time under the Merchant Processing Contract (as defined herein) from the Merchant Processor (currently U.S. Bank National Association ("**USB**")) as Korean Air's merchant processor for MasterCard International Inc. ("**MasterCard**") and Visa U.S.A. Incorporated and/or Visa International Incorporation ("**Visa**") (the "**Receivables**"). The Merchant Processing Contract and the Receivables are governed by the laws of the State of Minnesota, U.S.A. The Receivables will be generated in the future as a result of the purchase of airline tickets and related services (which, in addition to passenger transportation, include the transport of pets and excess baggage charges but exclude air freight, air cargo and in-flight purchases of goods) ("**Airline Tickets**") paid in U.S. dollars by customers of Korean Air paying with Cards bearing the service mark of either Visa or MasterCard.

Korean Air currently sells Airline Tickets in the United States through the following distribution channels:

(a) a network of approximately 20,000 travel agents accredited by the Airlines Reporting Corporation ("**ARC**") across the United States (the "**ARC Agents**"); and

(b) a network of Korean Air's district branch ticketing offices ("**Ticketing Offices**") and airport ticketing desks ("**Airport Counters**") located in Anchorage, Atlanta, Chicago, Dallas, Honolulu, Houston, Las Vegas, Los Angeles, New York, San Francisco, Seattle and Washington as well as Korean Air's website and Korean Air's call centre (collectively, the "**Direct Sales Network**").

Each of the ARC Agents and the Direct Sales Network (together, the "**Sales Network**") accept cash, cheques (excluding personal cheques) and Cards as a form of payment for sales of Airline Tickets.

The Receivables are generated from direct and indirect sales of Airline Tickets. Direct sales of Airline Tickets are effected through the Direct Sales Network and indirect sales are those generated by ARC Agents. Sales made by the ARC Agents are reported via ARC to Korean Air's regional headquarters in Los Angeles (the "**U.S. Regional Headquarters**"). The majority of Airline Tickets are sold indirectly through ARC Agents.

The Receivables may include U.S. dollar payments for services provided by other parties. For example, a Receivable will be created when an airline ticket is charged on a Card and such ticket encompasses a flight segment on Korean Air and a flight segment on a different airline. If such a ticket is issued in the name of Korean Air, a Receivable will be created for the entire cost of the ticket (including all segments flown on other airlines) and will be payable to Korean Air under the Merchant Processing Contract. Korean Air will remain liable for payments to other airlines in respect of any segments flown on such other airlines. If the ticket is not issued in the name of Korean Air, no Receivable will be created.

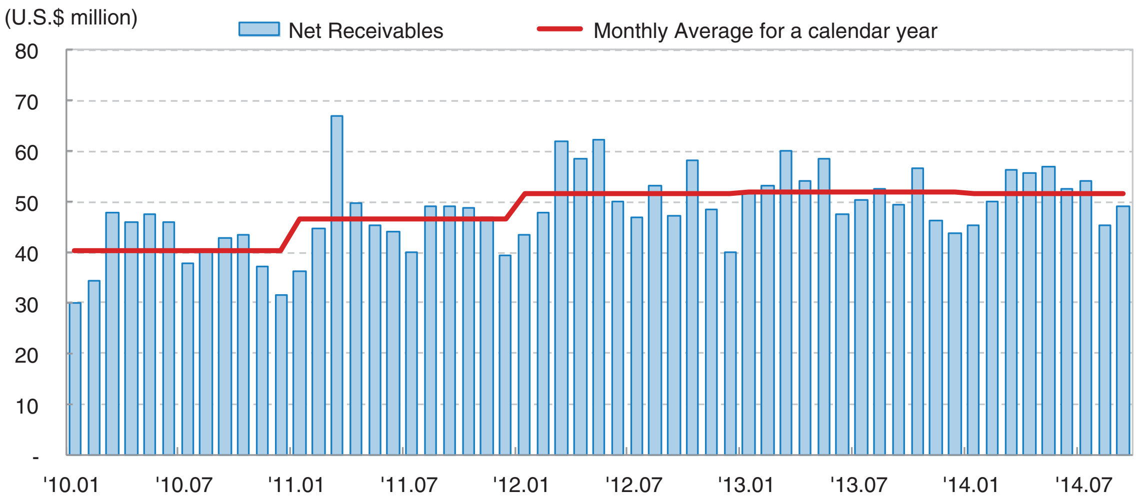
Historical Receivables Levels

Concurrent with an overall growth in the volume of Card usage in the United States, a rise in traffic on the Routes, combined with Korean Air maintaining its market share on such Routes, Korean Air has experienced a steady growth in its total Receivables levels.

The Receivables from Cards, net of all discounts, fees, refunds, charge-backs, sales agent commissions and credit card commissions, have increased by 29 per cent. from U.S.$484 million in 2010 to U.S.$624 million in 2013. The table and figure set forth below shows the net

Receivables payments made to Korean Air for the past four calendar years and the nine-month period ended 30 September 2014 on an annual and a monthly basis. Historically, the Receivables from Cards accounted for approximately 55 per cent. of total sales made by the U.S. Regional Headquarters.

Figure 1
Net Monthly Receivables[1]
(January 2010 — September 2014) (in U.S.$)



[1] Net of all deductions including refunds, discounts, charge-backs, sales agent commissions and credit card commissions.

Table 1
Net Receivables[1] from Cards
(in U.S.$ thousands)

Year	Month	Net Receivables	Monthly Average for a calendar year	Annual Receivables
2010	Jan	30,018	40,395	
	Feb	34,316	40,395	
	Mar	47,800	40,395	
	Apr	46,076	40,395	
	May	47,494	40,395	
	Jun	45,814	40,395	
	Jul	37,660	40,395	
	Aug	40,535	40,395	
	Sep	42,769	40,395	
	Oct	43,576	40,395	
	Nov	37,123	40,395	
	Dec	31,557	40,395	484,738
2011	Jan	36,400	46,704	
	Feb	44,588	46,704	
	Mar	66,918	46,704	
	Apr	49,839	46,704	
	May	45,424	46,704	
	Jun	44,032	46,704	
	Jul	39,952	46,704	
	Aug	48,949	46,704	

Year	Month	Net Receivables	Monthly Average for a calendar year	Annual Receivables
	Sep	49,224	46,704	
	Oct	48,897	46,704	
	Nov	46,891	46,704	
	Dec	39,328	46,704	560,442
2012	Jan	43,427	51,509	
	Feb	47,949	51,509	
	Mar	62,036	51,509	
	Apr	58,356	51,509	
	May	62,181	51,509	
	Jun	49,998	51,509	
	Jul	46,889	51,509	
	Aug	53,298	51,509	
	Sep	47,269	51,509	
	Oct	58,331	51,509	
	Nov	48,466	51,509	
	Dec	39,909	51,509	618,109
2013	Jan	52,045	52,008	
	Feb	53,027	52,008	
	Mar	60,205	52,008	
	Apr	54,041	52,008	
	May	58,450	52,008	
	Jun	47,506	52,008	
	Jul	50,469	52,008	
	Aug	52,484	52,008	
	Sep	49,367	52,008	
	Oct	56,608	52,008	
	Nov	46,145	52,008	
	Dec	43,750	52,008	624,097
2014	Jan	45,244	51,715	
	Feb	50,105	51,715	
	Mar	56,355	51,715	
	Apr	55,755	51,715	
	May	56,802	51,715	
	Jun	52,690	51,715	
	Jul	53,995	51,715	
	Aug	45,247	51,715	
	Sep	49,240	51,715	465,433

[1] Net of all deductions including refunds, discounts, charge-backs, sales agent commissions and credit card commissions.

[2] The monthly average and the sum of receivables for the year of 2014 are between January and September.

Source: Information provided by Korean Air.

Generation and Servicing of Receivables

(a) *Airline Ticket Sales in the United States*

Receivables arise and are settled through a detailed process involving the airline and travel agent industries. The ticketing process begins with a customer purchasing an Airline Ticket through Korean Air's Sales Network. Airline Tickets are purchased by customers either with cash, cheques or Cards.

If the customer uses a Card to purchase an Airline Ticket, the sales agent will calculate the cost and appropriate taxes due on such Airline Ticket and make an imprint of Card on the voucher. Authorisation for the use of such Card for the purchase of the Airline Ticket is then obtained either electronically or by telephone, in accordance with the terms of the Merchant Processing Contract. Upon receipt of the necessary authorisation, the voucher for the Airline Ticket and a copy of the Card voucher is given to the customer. See "*The USB Contract*".

A Receivable is generated when an Airline Ticket is sold through the Sales Network to a customer paying with a Card. Korean Air receives payment for the Receivable when the Merchant Processor pays Korean Air the face amount of the charge, less certain deductions, in U.S. dollars in the United States.

Korean Air's U.S. Regional Headquarters serves as the U.S. accounting office for all Card transactions. In the case of indirect sales through ARC Agents, the processing of the charge forms and the invoicing of the Merchant Processor is presently done solely through ARC.

(b) *Airline Ticket Sales by ARC Agents*

ARC was established by its member airlines to provide reporting, settlement and related services in connection with the sales of transportation services by authorised travel agencies in the United States on behalf of participating carriers ("**ARC Carriers**"). Korean Air is an ARC Carrier. The shareholders of ARC are the passenger carriers of the Air Transport Association ("**ATA**"). More than 170 airlines and railroads around the world currently distribute and settle through ARC's system.

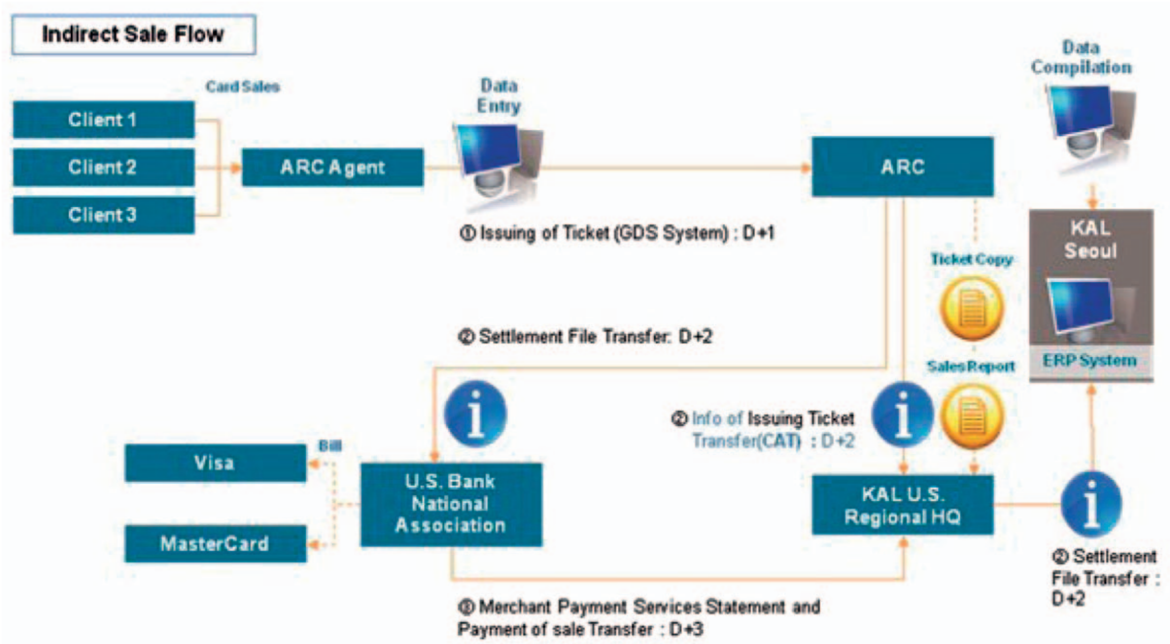
Each time an ARC Agent issues a ticket, the name of the appropriate ARC Carrier is imprinted on it to identify the carrier to which the funds for that ticket are to be forwarded. ARC manages a centralised reporting, processing and settlement system for such tickets. Sales information regarding the Airline Tickets sales are captured by ARC and each ARC Agent is required to submit a weekly sales report to ARC. For Card sales, ARC will send on a daily basis all Card charges to the appropriate card issuer or merchant processor with an accompanying computer-generated invoice. The card issuer or merchant processor then pays each ARC Carrier directly for such billings less applicable adjustments.

ARC does not assume the credit risk of non-payment by the ARC Agents, and, although tickets purchased from travel agencies with a Card are reported through ARC, the obligation to pay ARC Carriers remains with the card companies or merchant processors who may have acquired such receivables.

All Card sales are reported via Interactive Agent Reporting Processing ("**IAR**") of which electronic credit card billing ("**ECCB**") system is a component.

ECCB is a system designed to process, on a daily basis, credit transactions prior to ARC processing the transactions in IAR. This is accomplished using electronic sales records received daily from each of the major Global Distribution Systems ("**GDSs**"). ARC receives, on a daily basis, electronic sales records for transactions issued by ARC accredited travel agencies. Electronic ticketing records are provided to ARC by the major GDSs, e.g., Galileo-Apollo, Sabre, Amadeus, and Worldspan. Electronic sales records are gathered and assembled to form Card billing files that are transmitted to ECCB participating card contractors and bankcard processors. Transmissions occur daily and generally include transactions issued the day prior. Subsequent to the billing of ECCB transactions, ARC reconciles information from transactions received in agents' weekly sales reports to that which was electronically billed. If the transaction data does not match that which was included in a transaction's corresponding electronic billing record, a refund is issued to the appropriate card contractor or bankcard processor and the transaction is re-billed according to the billing data processed in the agent's weekly sales report. All transactions electronically billed through ECCB will either be "confirmed" or refunded within two weeks following the close of the sales week within which they were issued. The following diagrams show how Receivables generated through ARC Agents are processed.

Figure 2
Receivables Processing through ARC Agents

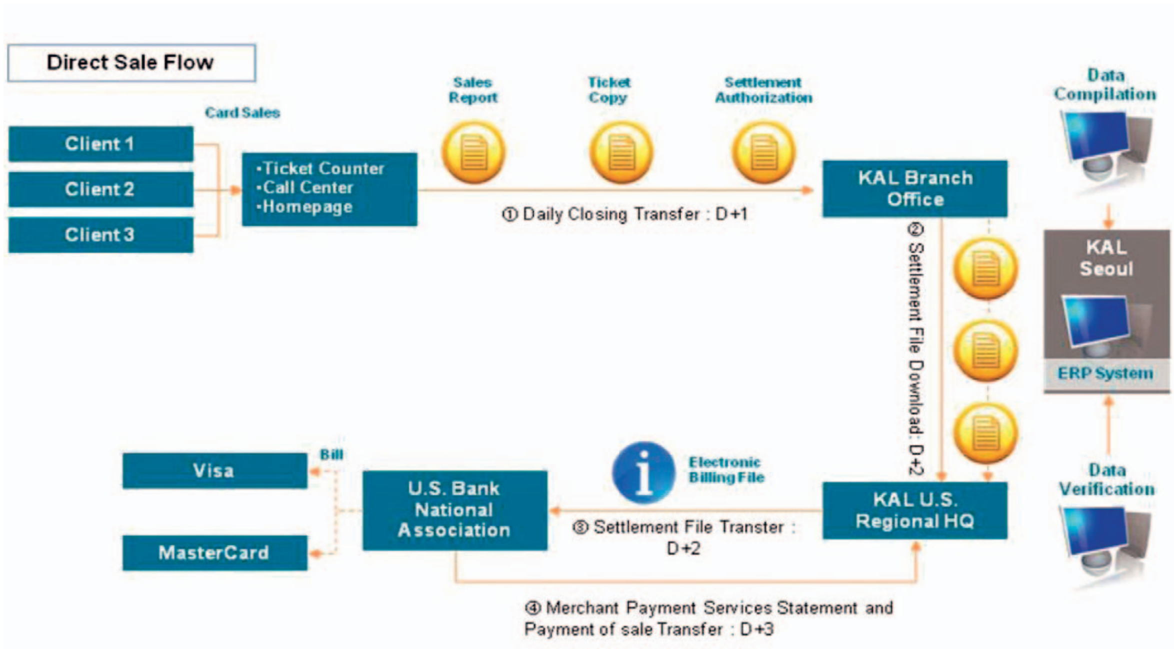


Source: Information provided by Korean Air.

(c) *Airline Ticket Sales by Ticketing Offices and Airport Counters*

Korean Air also sells Airline Tickets through its Ticketing Offices in Los Angeles and New York as well as at Airport Counters at Anchorage, Atlanta, Chicago, Dallas, Honolulu, Houston, Las Vegas, Los Angeles, New York, San Francisco, Seattle, and Washington. For Airline Tickets purchased with a Card at Korean Air's Ticketing Offices, Korean Air's Head Office automatically captures the billing information on a daily basis while monies or cheques received for the cash sales are deposited into Korean Air's bank account. Sales information is then entered into Korean Air's revenue accounting system, ERP. The remainder of the receiving process is identical to the procedure described above. The following diagram shows how Receivables generated through the Direct Sales Network are processed.

Figure 3
Receivables Processing by Direct Sales Network



Source: Information provided by Korean Air.

(d) *Company Audit*

Upon receipt of the sales report (from the Direct Sales Network or summary reports from ARC), the Airline Ticket purchases are audited by Seoul Headquarters to ensure that the proper charge was applied on each Airline Ticket and that all sales, cash receipts and receivables are recorded. Subsequently, Korean Air verifies that all receivables are paid to Korean Air and initiates collection procedures with respect to any receivables that are not paid.

(e) *Merchant Processor Settlement Process*

The Merchant Processor will wire the amounts invoiced (net of discount fees, refunds and chargebacks) to Korean Air's bank account on the next business day following submission of the billing file.

The period from the date an Airline Ticket is charged on a Card to the date that amounts are paid by the Merchant Processor for such Airline Ticket sale is 4 days for direct sales through Korean Air's Ticketing Offices and Airport Counters, and also 4 days for sales by the ARC Agents.

For the purposes of this transaction, Korean Air will instruct the Merchant Processor to remit all Receivables by direct wire transfer to the Collection Account.

General

Korean Air Lines Co., Ltd ("**Korean Air**" or the "**Company**") was incorporated by the Government on 19 June 1962 under the name Korean National Airline Corporation with registration number 110111-0108484. Korean Air was listed on the Korean Stock Exchange through an initial public offering of 400,000 shares on 18 March 1966 before being sold to the Hanjin Group (the "**Group**"), whose core business is transportation. In August 2013, the Company's investment business was spun-off into a new holding company within the Group, Hanjin KAL Co., Ltd. ("**Hanjin KAL**"). Korean Air is the largest company within the Group measured in terms of assets. Excluding guarantees arising from previous financing transactions, Korean Air and the other Group companies have each managed their financial affairs independently since the Asian financial crisis of 1997. Korean Air is listed on the Korean Stock Exchange and its most recent annual reports are available on its internet website: www.koreanair.com. Investors in Korean Air include domestic and foreign individuals as well as institutions.

As of the end of August 2014, Korean Air had a fleet of 146 aircraft, with passenger and cargo routes to 125 cities in 45 countries. According to IATA, Korean Air was one of the world's top 15 international airlines in terms of revenue passenger-kilometres on scheduled flights and the fourth largest international cargo airline in terms of scheduled freight tonne-kilometres flown on international routes in 2013. Korean Air generates revenues primarily through passenger business and cargo business, which together constituted approximately 93.5 per cent. of its total sales volume between 1 January 2013 and 31 December 2013. Korean Air's other businesses include aerospace business, catering business, hotel/limousines business, and in-flight sales.

Korean Air's headquarters and registered office are at 1370 Gonghang-dong, Gangseo-gu, Seoul 157-712, Korea and its telephone number is (822) 2656-3942. Korean Air does not currently have an international credit rating.

Group Organisation

History of the Group

The Group was set up by Mr. Choong Hoon Cho in 1945. The Group's core business is land, sea and air transportation and currently consists of 48 domestically incorporated companies, of which six are publicly listed on the Korea Stock Exchange. The Group also has significant overseas operations and as of 30 June 2014 had a total of 64 overseas subsidiaries.

Hanjin Group reorganised its entities and separated its non-logistics business from the Group in 2005. As a result, Hanjin Group consists of two major business units: air transportation and shipping. Financial services (Meritz Securities and Oriental Fire & Marine Insurance) and the shipbuilding and construction businesses (Hanjin Heavy Industries and Construction,) became independent from the Group with no significant cross shareholding or interests although some companies still bear the name of Hanjin. Korean Air is a core entity of Hanjin Group, representing 47 per cent. of revenue for the year ended 31 December 2013.

After the completion of the reorganisation, Hanjin Group ranked 10th among Korean Chaebols in terms of combined assets at the end of 2013.

The two major business units' responsible CEOs are as shown in the table below. Mr. Y.H. Cho has been the chairman of the aviation group since 1999 and has been the chairman of the shipping group since April 2014. Mr Y.H. Cho became the Group Chairman in February 2003 after the founder Mr. C.H. Cho passed away in November 2002.

Table 3 below shows the management of each of the sub-groups and their principal operating companies.

Table 3
Management of Hanjin Sub-Groups
(as at 30 June 2014)

Sub-group	Chairman	President	Principal Operating Companies
Aviation	Y. H. Cho (Apr 1999)	C. H. Chi (Jan 2010)	Korean Air, Hanjin Transportation, Jin Air, Korea Airport Service, Hanjin Travel, KAL Hotel Network, Air Total Service, Jungseok Enterprise, TOPAS, Cybersky, TRAXON, Uniconverse, Hanjin Information Systems & Telecommunication
Shipping	Y. H. Cho (Apr 2014)	T. S. Suk (Dec 2013)	Hanjin Shipping Holdings, Hanjin Shipping, Hanjin New Port, Cyberlogitec, Hanjin Ship Management, HJLK

Source: Information provided by Korean Air.

The Spin-off

On 22 March 2013 and 28 June 2013, the Company's board of directors and shareholders, respectively, approved resolutions to spin-off its investment business and to establish a new holding company, Hanjin KAL, for the purpose of completing the spinoff. Hanjin KAL was subsequently incorporated under the laws of Korea on 1 August 2013. Post-spin-off, Hanjin KAL solely focuses on the management of its subsidiaries and investment in new businesses, whereas the Company continues to operate its air transportation business and related businesses. The spin-off allows the Company to focus on its core businesses, thereby enhancing efficiency in operations and expediting its business development.

Sale of S-Oil shares

Hanjin Energy Co., of which Korean Air owns a 96.59 per cent. share as of 30 June 2014, bought S-Oil Corporation shares in 2007. On 2 July 2014, the board of directors of Hanjin Energy Co., Korean Air's subsidiary, approved resolutions to sell its stake in S-Oil Corporation for approximately KRW2.0 trillion (constituting 9.3 per cent. of Korean Air's total assets as of 30 June 2014) to Aramco Overseas Company B.V., S-Oil's largest shareholder. On 11 August 2014, Hanjin Energy Co. and Aramco Overseas Company B.V. signed a Stock Purchase Agreement for approximately KRW2.0 trillion. Disposal of stock will be made immediately following receipt of all approvals from the relevant government authorities. The Company will use the proceeds for financial improvements of Korean Air. While the announced sale date was 27 August 2014, the sale will not be completed until certain anti-competition filings have been made in the relevant jurisdictions.

Hanjin Shipping

Hanjin Shipping, one of largest shipping companies in Korea and one of the world's top ten container carriers operating approximately 60 liner and tramper services around the world transporting over 100 million tons of cargo annually, was established in 1949. Recently, due to the contraction of the marine transportation market caused by the world economic recession, Hanjin Shipping suffered a liquidity crisis.

To relieve Hanjin Shipping's liquidity crisis, KAL, a member of the Hanjin group, lent Hanjin Shipping a total of KRW250 billion between October and December 2013.

In June 2014, KAL also injected capital into Hanjin Shipping in an amount of KRW400 billion. As a result of this injection of capital, as of 30 June 2014, KAL's equity share of Hanjin Shipping is 33.2 per cent.

The Company has no plans to provide further financial support to Hanjin Shipping in the future.

Management and Shareholders

At present, Korean Air has 13 registered directors, of whom seven are external directors. Table 4 below sets out the name, office and business experience of each director.

Table 4
Korean Air's Registered Directors

Name and Position	Term of Office and Business Experience
Yang-Ho Cho Chairman	Chairman of Korean Air since May 1999. President & CEO (February 1992 to May 1999). Senior Vice President of General Affairs & Personnel and Planning/Purchasing/System (February 1984 — January 1989). Managing Vice President of Purchase and Maintenance (February 1980 — January 1984). Director since August 1979. Named Chairman of Hanjin Group in February 2003. Vice-Chairman of The Federation of Korean Industries (FKI) since 1996. Honorary consulate-general to Ireland in Korea since 1995. Board of Trustees of the University of Southern California since 1997. Chairman of the Korea-French High Level Businessmen's Club since 2000. Currently on IATA Board of Governors
Chang-Hoon Chi Chief Operating Officer and President	President and COO since January 2010. Regional Manager of the Passenger Sales office in Seoul (January 2004 to December 2004). Vice President of Regional Headquarters in China (January 2005). Managing Vice President of Cargo Business Division (January 2008). Managing Vice President of Cargo Business Division & NAVOI Project (June 2008). Executive Vice President of Cargo Business Division & NAVOI Project (July 2009)
Sang-Kyoon Lee Chief Finance Officer/ Executive Vice President	CFO since Dec 2007, Executive Vice President of Corporate Finance Division since 2010, Senior Vice President of Corporate Finance Division in 2007-2009, Managing Vice President of Accounting Department in 2005-2006, Managing Vice President of Finance Department in 2000-2003
Tae-Hee Lee General Counsel	Director since 1976. Senior Partner at Lee & Ko until January 2009
Oh-Soo Park External Director	Director since 2000. Professor of Business and Administration in Seoul National University
Sok-Woo Lee External Director/Audit Committee	Director since 2007. Attorney at Doore Law Firm
Yong-Seuk An External Director	Director since 2014. Attorney at Lee & Ko Firm
Yun-Woo Lee External Director/Audit Committee	Director since 2009. Chairman FLC
Jung-Taik Hyun External Director/Audit Committee	Director since 2010. Professor of International Trade in In-ha University

Name and Position	Term of Office and Business Experience
Seung-Yu Kim External Director	Director since 2012. Representative, Smart Microcredit Bank
Joo-Seuk Lee External Director	Director since 2012. Adviser, Law offices of Kim & Chang
Hyun-Ah Cho Vice President	Director since 2012. Senior Vice President Hotel, Catering & In-Flight Sales Business Division
Won-Tae Cho Vice President	Director since 2012. Senior Vice President Corporate Strategy & Planning Division

Source: Information provided by Korean Air.

Korean Air's shareholders since 2008 are listed in Table 5 below.

Table 5
Korean Air's Shareholders

Shareholder	2009	2010	2011	2012	2013	2014.2Q
Mr. Yang-Ho Cho and Family	11.14%	10.57%	9.93%	9.99%	10.06%	10.06%
Hanjin KAL Corp	0.00%	0.00%	0.00%	0.00%	6.76%	6.76%
Korean Air Treasury Stock	6.17%	6.07%	6.07%	6.07%	0%	0%
Hanjin Transportation	9.90%	9.72%	9.72%	9.72%	9.69%	9.69%
Mirae Asset Global Investments Co., Ltd.	3.95%	0.32%	1.05%	0.10%	—	—
Inha University Foundation[2]	2.71%	2.67%	2.71%	2.71%	3.93%	3.93%
Jungseok Foundation[2]	1.96%	1.92%	1.96%	1.96%		
UBS Hana Asset Management	1.38%	0.10%	0.58%	0.48%	—	—
National Pension Co.	4.67%	7.94%	9.62%	8.73%	6.17%	7.50%
KTB Asset Management[1]	1.27%	0.91%	—	—	—	—
Others	56.51%	59.78%	58.36%	60.24%	63.39%	60.04%
Total	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

1 Korean Air does not aggregate the shareholding of corporate entities with less than 20,000 shares. KTB Asset Management's holding shares since 2011 were less than 20,000 and as a result its shareholding percentage is not reflected.

2 Inha University Foundation and Jungseok Foundation merged together in October 2013.

Source: Information provided by Korean Air.

Employees and Labour Relations

As at 30 June 2014, Korean Air had approximately 20,582 employees, including pilots and flight attendants.

Korean Air has three labour unions: two flight crew unions, Korean Air Pilot Union ("**KPU**") and New Korean Air Pilot Union ("**KAPU**"), and one union for non-flight crew staff, Korean Air Labour Union ("**KALU**"). Among the current employees of Korean Air, approximately 59 per cent. are KALU members and approximately 53.6 per cent. and 32.8 per cent. of total Korean flight crew members are KPU and KAPU members, respectively. KALU and the flight crew union which holds the majority of the members as of 1 April each year has the right to negotiate salary and employee welfare related matters with the management. The salary agreements between the unions and Korean Air generally last for one year, with effect from 1 April each year, and the collective agreements, which generally cover other welfare matters of the employees such as working hours and working environment, usually last for two years.

KPU has had disagreements with management over flight allowances, working hours and conditions and called a four-day strike in December 2005. Except for the strike in 2005, KALU, KPU and KAPU have maintained good relationships with Korean Air management.

Table 6 below shows changes in wages and benefits for staff since 2005.

Table 6
Changes in Wages and Benefits

Year	Percentage Change in Wages	Benefits
2013	0.0%	Safety Incentive : 100%*
2012	4.0%	Safety Incentive: 100%*
2011	4.1%	None
2010	5.4%	Safety Incentive: 100%*
2009	0.0%	None
2008	0.0%	None
2007	3.2%	Production Incentive: 100%* / Safety Incentive: 50%*
2006	5.2%	Production Incentive: 100%*
2005	0.0%	Production Incentive: 100%* / Profit Sharing: 200%* / Safety Incentive: 50%*

* As a percentage of monthly salary.

Source: Information provided by Korean Air.

Funding and Long-Term Liabilities

Korean Air funds its aircraft acquisition either through foreign export credit agencies (including the Export-Import Bank of the United States, COFACE of France, Hermes Kreditversicherung-AG of Germany, and Export Credit Guarantee Department of the United Kingdom) or other global and domestic financial institutions.

The Korea Development Bank ("**KDB**") is Korean Air's main creditor bank in respect of secured lending, including mortgages and aircraft leases. Operational funds have recently been, and Korean Air believes will continue to be in the foreseeable future, obtained through various funding sources including the issuance of Korean bonds, asset backed securities and commercial paper.

A substantial portion of Korean Air's property, aircraft and equipment has been pledged as collateral for long-term debt. In addition, a certain portion of long-term debt is guaranteed by Group affiliates.

Pursuant to certain guidelines on the rationalisation of the Korean marine industry and the shipbuilding industry, Korean Air has assumed certain fixed and suspended liabilities and assets of Hanjin Shipping Co., Ltd. ("**Hanjin Shipping**") and Hanjin Heavy Industries & Construction Co., Ltd. ("**HHIC**"). Korean Air assumed guaranteed liabilities from Hanjin Shipping which are payable in equal instalments over 20 years (with a five year grace period) from 2003 to 2017. As of 30 June 2014, the aggregate outstanding amount of such liabilities is KRW24.3 billion.

Korean Air has issued asset-backed securities and asset-backed loans since December 2001 using receivables generated from Korea and, in September 2003, Korean Air issued its first off-shore asset-backed securities. As of 30 June 2014, Korean Air has issued and managed asset-backed securities and asset-backed loans with receivables generated from Korea, Japan, and United States without any defaults.

Group Guarantees

As of 30 June 2014, Korean Air had provided financial guarantees in an aggregate amount of approximately KRW298 billion, U.S.$20 million and CNY3 million to Group affiliates, compared with KRW298 billion and U.S.$20 million as of 31 December 2013.

Table 7 below shows financial guarantees provided by Korean Air to Group affiliates and unrelated companies.

Table 7
Korean Air's Exposure under Guarantees

Beneficiary	Currency[1]	2013.12.31	2014.2Q
Hanjin Transportation Co., Ltd.	KRW	20,144	20,144
Korean Airport Service Co., Ltd.	KRW	25,411	25,411
Jungseok Enterprise Co., Ltd.	KRW	13,512	13,512
Hanjin Heavy Industries & Construction Holdings Co., Ltd.	KRW	8,629	8,629
Hanjin International Corporation	KRW	230,000	230,000
	USD	—	—
Grandstar Cargo International Airlines Co., Ltd	USD	20,223	20,302
	CNY	—	2,940
Total	KRW	297,696	297,696
	USD	20,223	20,223
	CNY	—	2,940

[1] Unit: KRW million, U.S.$ thousand, CNY thousand.

Source: Information provided by Korean Air.

Government Support

The Korean civil aviation industry is subject to a high degree of regulation by MOLIT and is governed by the Aviation Law of Korea. The aviation industry is also subject to the Convention on International Civil Aviation Organisation. Regulations issued or implemented by the MOLIT encompass virtually every aspect of airline operations, including the approval of the establishment of airlines, domestic and international route allocations, licensing of pilots, operational safety standards, aircraft acquisitions, aircraft airworthiness certification, aircraft registration standards, aircraft maintenance, air traffic control and standards for airport operations.

The main goal of the MOLIT is to prepare a foundation that will allow safe and convenient air travel and at the same time enhance Korea's aviation industry so as to become a leading aviation country of the 21st century. The MOLIT is planning to conclude strategic air services liberalisation agreements with major countries e.g., China and Japan and to continue route expansion to support expansion of the national carriers. It also aims to take on a greater role in the air transport community through active cooperation with International Civil Aviation Organisation as well as with other countries throughout the world. In 2012 MOLIT concluded "open skies" agreements with Panama, Paraguay and Hong Kong.

Description of Fleet

As of 31 August 2014, Korean Air had a total of 146 aircraft, of which 120 are passenger aircraft and 26 are cargo aircraft. The average age of Korean Air's fleet was 9.3 years. Based on its fleet modernisation plan, Korean Air will take delivery of new aircraft from Boeing and Airbus over the next several years. Korean Air is the first Asian airline to acquire Boeing's B747-8. The B747-8F cargo aircraft were introduced in 2012, and B747-8I passenger aircraft are expected to be introduced in 2015. Two more B747-8F cargo aircraft are expected to be added to the fleet between 2014 and 2015 and also a total of ten 747-8I passenger aircraft are expected to be added to the fleet between 2015 and 2017. In addition, Korean Air has received ten A380 aircraft since 2011. The A380 aircraft are next generation eco-friendly high-tech aircraft that consume less fuel, with a noise level and exhaust gases emission lower compared to other large aircraft. The A380s have been assigned to long-haul routes with high demand, such as Los Angeles, New York and Paris. Currently, Korean Air only operates three types of freighter — B747-400F, B747-8F, B777-F in its cargo fleet.

Table 8
Fleet Profile
(as of 31 August 2014)

Aircraft Type	Total	Owned[1]	Operating Lease
B747-400	14	14	—
B777-300/300ER	16	15	1
B777-200ER	18	17	1
B737-800	17	1	16
B737-900/900ER	22	18	4
A380-800	10	10	—
A330-200	8	8	—
A330-300	15	14	1
Total Passenger	**120**	**97**	**23**
B747-400F	17	15	2
B747-8F	5	5	—
B777-F	4	4	—
Total Cargo	**26**	**24**	**2**
TOTAL	**146**	**121**	**25**

1 Includes aircraft subject to financial leases.

Source: Information provided by Korean Air.

Flight Safety

Korean Air completed its fourteenth consecutive fatal-accident-free year of operation in 2013. Safety has always been a top priority and core value in Korean Air and Korean Air will continuously strive to improve operational safety and to be known as one of the world's safest airlines.

In support of this, Korean Air established the integrated Safety Management IT System named "SafeNet" in October 2009. Through SafeNet, Korean Air established company-wide standardisation of safety data management by (a) encouraging active safety reporting by all employees, (b) identifying, analysing and correcting any safety hazard before it becomes an issue and (c) accumulating and utilising safety data. The Korean Air's CorporateSafety, Security and Compliance Department supports the SafeNet system by (i) anticipating and identifying systemic trends, (ii) coordinating and suggesting appropriate, scientifically-based countermeasures targeted at mitigating human-induced error, (iii) eliminating human-induced error wherever possible and (iv) ensuring that management control exists over all critical safety processes, including a well-designed system of procedural controls.

In 2009, Korean Air also introduced the Human Factors Analysis & Classification System ("**HFACS**"), developed by US experts in 2000, to efficiently manage human-incurred errors that cause 70 per cent. of flight safety issues. HFACS is a model which classifies human errors into four categories and Korean Air uses this model to find and analyse the fundamental reasons for non-conforming or safety issues for employees in quality control and safety and security related departments.

In January 2005, Korean Air became the first carrier in Korea and among the SkyTeam member airlines to obtain an IATA Operational Safety Audit ("**IOSA**") certificate which is known as an internationally recognised aviation safety certification authorised by IATA. In September 2006, Korean Air received a first renewal audit for the IOSA certification, which is effective for two years, and passed the comprehensive audit without a single adverse finding documented in 758 check items in eight operational disciplines. The eight areas of IOSA are Organization and Management System, Flight Operations, Operational Control and Flight Dispatch, Aircraft Engineering and Maintenance, Cabin Operations, Aircraft Ground Handling, Cargo Operations and Operational Security. In September 2008, Korean Air received the second renewal audit and passed without a single adverse finding documented in 914 check items in the eight operational disciplines described above. This audit was conducted through a documentation audit to verify whether or not the IOSA's criteria are reflected in Korean Air's policies, processes and procedures and through an implementation audit to check whether or not Korean Air has adhered to such policies, processes and procedures. The audit has been conducted based on the 2nd edition of IOSA Standards Manual, which is more comprehensive and in-depth than the previous edition as a result of continual improvement and amendments by IOSA of its standards in a move to implement more rigorous guidelines for the airline industry. In September 2010, Korean Air received the third renewal audit and passed without a single adverse finding. The latest audit was completed in October 2012 and KAL once again passed all 946 check items. As a result, the expiration date of KAL's IOSA Registry was extended to 21 January 2015.

In addition to strengthening flight safety, Korean Air's Flight Operational Quality Assurance ("**FOQA**") animation programme has been up-graded and FOQA animation programme irregularities have been intensively controlled. This animation programme provides realistic displays by using high-resolution satellite airport photographs and topographical maps and enables realistic safety management. In October 2010, Korean Air introduced a new FOQA animation programme to prepare FOQA animation programme analysis capability for the new fleet (A380 and B787), improve flight data analysis process with the new programme, enhance FOQA risk management link with SafeNet, and expand analysis capability for Maintenance Operational Quality Assurance & Fuel management.

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

Maintenance

As part of its policy on flight safety, Korean Air places great importance on aircraft maintenance. With over 40 years of experience, Korean Air continuously improves and modernises its aircraft maintenance technology. Its Maintenance & Engineering Division is dedicated to the maintenance of civil aircraft and engines and performs line and heavy maintenance for all types of aircraft operated by Korean Air including B747-400 (passenger and cargo), B777, B737, A380, A330, A300-600, B747-8F and B777-F (new version cargo aircraft). In addition, engine overhaul maintenance is performed for most engine types operated by Korean Air, such as PW4056 (B747-400), PW4090 (B777), CFM56-7B (B737), PW4168 (A330) and PW4158 (A300-600). Aircraft heavy maintenance bases are located at Gimpo, Incheon and Gimhae airport. The engine maintenance centre is located at Bucheon city near the Gimpo maintenance base at Seoul. The 2.5 bay hangars at each of the Gimpo and Incheon maintenance bases can conduct maintenance activities for aircraft types equivalent to two Boeing 747 and one Airbus A300 aircraft simultaneously. The maintenance base at Gimhae airport has specialised facilities for Boeing 747 aircraft heavy maintenance. Also, aircraft painting work for all Korean Air's aircraft is performed at a paint hangar at Gimhae airport.

For its operational performance, Korean Air has received numerous awards from both Boeing and Airbus. In 2012, Korean Air was awarded the "Top Operational Excellence Award" from Airbus for two aircraft types, the A330 in June and the A380 in December. Korean Air won the same award for the A300-600 in October 2011.

In 2004, Korean Air commenced a "Maintenance, Repair and Overhaul" ("**MRO**") business for overseas commercial airlines. Korean Air performed aircraft heavy maintenance, including cabin upgrade modification and fuselage painting, for United Airlines from 2005 to 2010, and has performed engine heavy maintenance for Thai Airways since 2008. In aircraft line maintenance, Korean Air is supporting almost 30 airlines, including Delta Air Lines, Air France-KLM and China Eastern Airlines. Other MRO services, such as component repair and pooling and training, are provided for a number of other customers. In 2012, Korean Air recorded U.S.$61 million sales in the MRO business. Major customers for Korean Air's MRO business include Thai Airways, Jin Air and Pratt & Whitney, which together comprise 80 per cent. of the Company's total MRO sales in 2013. Other MRO customers include Uzbekistan Airways and other domestic customers.

Strategic Alliances

SkyTeam

In order to enhance its competitiveness against other airline alliances, Korean Air founded a global alliance ("**SkyTeam**") together with Delta Air Lines, Air France and AeroMexico on 22 June 2000. Today, SkyTeam has 20 member airlines and the member airlines in the alliance aim to develop a shared system for managing revenue and expenses, co-operate on frequent flyer schemes, share airport facilities and lounges, resources and information technology and provide a seamless service around the world.

SkyTeam is the world's 2nd largest airline alliance in terms of number of passengers and number of member airlines, serving 1,064 destinations in 178 countries with approximately 15,723 daily flights via a global network of hubs and destination cities. As at the date hereof, SkyTeam Cargo is also the world's first global cargo alliance, providing more than 13,400 daily flights to over 170 countries. At present, SkyTeam is focusing on customer products such as mileage sharing and ticket redemption among members' frequent flyer programs and a global distribution system which prioritises the display of alliance members' schedules on the systems of alliance members' agents.

Korean Air views the SkyTeam alliance as an important revenue source through a wide range of code sharing and networks. The overall revenue benefit from this source is estimated by Korean Air to be approximately U.S.$202 million in 2013 from code share flights, lounge sharing, and mileage sharing and a cost saving benefit of approximately U.S.$2.8 million in 2013 from areas such as joint cargo operations and joint purchase of spare parts.

Other Alliances

Code Sharing and Bilateral Agreements

In addition to SkyTeam, Korean Air maintains cooperative relationships with other airlines.

Codesharing is an operation under which an airline's flights can be marketed by a non-operating (code-sharing) airline, thereby allowing two or more carriers to sell seats on one aircraft. Codesharing allows the non-operating airline to offer convenient, seamless flight services to its customers by expanding the number of destinations covered through the use of other airlines' flight services. Most of Korean Air's Codeshare Agreements are Free Flow Codeshare, where the marketing carrier sells seats on the operating carrier's flights from the operating carrier's inventory but takes no inventory risk.

Korean Air has a number of code sharing agreements with other airlines in which each airline agrees to freely sell and/or swap seats with the other using the same code. For instance, Korean Air can sell a Korean Air ticket using a Korean Air code for a flight which is operated by a Delta Air Lines flight crew on a Delta Air Lines aircraft.

The Government has actively negotiated for increased bilateral agreements with governments of other countries including China and Japan, in order to create the legal framework for the establishment of air links between Korea and other countries to enable Korea's airlines to diversify their markets. Each bilateral air services agreement that the Government enters into sets out the number of flights each country has permitted for each of its airlines between certain destinations on a weekly or monthly basis. As of 30 June 2014, Korea is a party to air services agreements with approximately 94 countries.

As of 30 June 2014, Korean Air had code share arrangements with 29 airlines on approximately 125 routes which are operated by Korean Air, and approximately 180 routes which are operated by other airlines.

The code-share arrangements comprise bilateral code-sharing arrangements with 15 members of the SkyTeam alliance and 14 non-member airlines such as LAN Airlines, Hawaiian Airlines, West Jet, Alaska Airlines, Emirates Airlines, Ethihad Airways, Uzbekistan Airways, Hainan Airlines, Shanghai Airlines, MIAT Mongolian Airlines, Japan Airlines, Malaysian Airlines, Myanmar Airways International and Air Tahiti Nui.

Table 9
Korean Air Passenger Alliances
(as of 30 June 2014)

Route	Airline	Type of Alliance
Americas	Delta Air Lines	"Free Flow" codeshare
	Aeromexico	"Free Flow" codeshare
	Hawaiian Airlines	"Free Flow" codeshare
	Alaska Airlines	"Free Flow" codeshare
	LAN Airlines	"Free Flow" codeshare
	WestJet	"Free Flow" codeshare
Europe	Air France	"Seat Swap" / "Free Flow" codeshare
	Alitalia	"Block Seat" codeshare
	KLM Royal Dutch Airlines	"Seat Swap" / "Free Flow" codeshare
	Czech Airlines	"Block Seat" / "Free Flow" codeshare
	Aeroflot	"Free Flow" codeshare
	Uzbekistan Airways	"Free Flow" codeshare
Middle East	Emirates Airlines	"Block Seat" codeshare
	Etihad Airways	"Free Flow" codeshare
	Saudi Airlines	"Free Flow" codeshare
Africa	Kenya Airways	"Free Flow" codeshare
Japan	Japan Airlines	"Free Flow" codeshare
China	China Eastern	"Free Flow" codeshare
	China Southern	"Free Flow" codeshare
	MIAT Mongolian	"Free Flow" codeshare
	Xiamen Airlines	"Free Flow" codeshare
	Shanghai Airlines	"Free Flow" codeshare
	China Airlines	"Seat Swap" codeshare
	Hainan Airlines	"Free Flow" codeshare
Southeast Asia	Garuda Indonesia	"Block Seat" codeshare
	Malaysian Airlines	"Free Flow" codeshare
	Vietnam Airlines	"Free Flow" codeshare
	Myanmar Airways International	"Block Seat" codeshare
Oceania	Air Calédonie International	"Free Flow" codeshare

"Seat Swap" Codeshare: A specific number of seats (space) are mutually exchanged between the partners at the same value, and each partner makes sales under its own code.

"Block Seat" Codeshare: The operating carrier allocates a block to the marketing carrier and sales are made from that allocated block.

Source: Information provided by Korean Air.

Passenger Services

Korean Air's passenger services currently extend to 114 cities (12 domestic and 102 international) in 41 countries as of 31 August 2014. In 2013, passenger services experienced a decrease in sales driven by a decrease in demand from Japan caused by a weak Japanese Yen, intensified competition between carriers and a delay in economic recovery. Total revenues from the passenger services decreased by 6 per cent compared with those in 2012.

Table 10 shows Korean Air's passenger route structure.

Table 10
Passenger Routes
(as of 31 August 2014)

Destination	Routes	Destination Cities
Domestic	12	Seoul, Incheon, Pusan, Jeju, Gwangju, Daegu, Yeosu, Ulsan, Jinju, Gunsan, Cheongju, Wonju
Japan	15	Tokyo, Osaka, Nagoya, Fukuoka, Akita, Kagoshima, Niigata, Sapporo, Okayama, Aomori, Oita, Nagasaki(1), Hakodate(1), Komatsu, Shizuoka(1)
China	25	Beijing, Changsha, Dalian, Guangzhou, Hangzhou, Hong Kong, Huangshan, Jinan, Kunming, Nanjing, Mudanjiang, Qingdao, Shanghai, Shenyang, Shenzhen, Taipei, Tianjin, Ulaanbaatar, Urumqi, Weihai, Wuhan, Xian, Xiamen, Yanji, Zhengzhou
Southeast Asia.	22	Bangkok, Bali, Cebu, Chiangmai, Colombo, Da Nang, Guam, Hanoi, Ho Chi Minh City, Jakarta, Kathmandu, Kota Kinabalu, Kuala Lumpur, Malé, Manila, Mumbai, Palau, Phnom Penh, Phuket, Siem Reap, Singapore, Yangon
Oceania	4	Sydney, Brisbane, Auckland, Nadi
Americas	14	L.A., New York, Chicago, San Francisco, Atlanta, Dallas, Seattle, Washington D.C., Honolulu, Las Vegas, São Paulo, Vancouver, Toronto, Houston
Europe/Middle East/ CIS/ Africa	22	Paris, Frankfurt, London, Zurich, Amsterdam, Rome, Milan, Madrid, Nairobi, Prague, Vienna, Cairo(1), Dubai, Tel Aviv, Istanbul, Moscow, Riyadh, Jeddah, Vladivostok, St. Petersburg, Tashkent, Irkutsk
Total	114	

1 These routes are temporarily not in operation.

Source: Information provided by Korean Air.

Table 11 shows Korean Air's passenger revenue breakdown by route.

Table 11
Passenger Revenue Composition by Route

Passenger	2009	2010	2011	2012	2013
Domestic	9.40%	8.40%	7.70%	7.20%	7.2%
International	90.60%	91.60%	92.30%	92.80%	92.8%
Japan	15.20%	15.30%	14.70%	13.70%	10.5%
China	8.90%	10.10%	11.00%	11.20%	12.3%
Southeast Asia	12.40%	13.30%	15.00%	15.70%	17.6%
Oceania	6.30%	5.50%	4.50%	4.50%	4.2%
North America	32.90%	32.70%	32.70%	32.60%	32.3%
Europe/Middle East/CIS/Africa .	14.90%	14.70%	14.40%	15.10%	15.9%

Source: Information provided by Korean Air.

Korean Air operates scheduled flights to 15 cities in Japan and one flight from Osaka to Guam and one flight from Tokyo to Honolulu (the "**Japan Routes**"). Korean Air provides not only Incheon-Japan routes but also Gimpo-Japan routes. In 2012 and 2013, the revenues from the Japan Routes recorded KRW1,046.6 billion and KRW762.5 billion, which constituted 13.7 per cent. and 10.5 per cent. of total passenger revenue, respectively.

In China, Korean Air provides scheduled flights to 25 cities set out in Table 10 (the "**China Routes**"). The China Routes recorded KRW854.0 billion and KRW892.6 billion of revenue, which accounted for 11.2 per cent. and 12.3 per cent. of total passenger revenue, in 2012 and 2013 , respectively. The primary factor for the growth in revenue was the increase in demand for international travel from China and the appreciation of the Renminbi against KRW.

Korean Air operates scheduled flights to 22 cities in Southeast Asia including Thailand, Singapore, the Philippines, Indonesia, Malaysia, India, Vietnam, Nepal, Myanmar, Sri Lanka, Maldives and Cambodia (the "**Southeast Asia Routes**") and recorded KRW1,202.6 billion and KRW1,273.8 billion in revenue, which constituted 15.7 per cent. and 17.6 per cent. of total passenger revenue, in 2012 and 2013, respectively.

Korean Air also operates scheduled flights to 14 cities in the United States, Brazil and Canada (the "**Americas Routes**"). The Americas Routes recorded KRW2,497.0 billion and KRW2,338.6 billion in revenue, which constituted 32.6 per cent. and 32.3 per cent. of total passenger revenue, in 2012 and 2013, respectively.

Korean Air operates scheduled flights to 22 cities in Europe, the Middle East, the Commonwealth of Independent States and Africa (the "**Europe/Africa Routes**"). The Europe/Africa Routes recorded KRW1,160.7 billion and KRW1,149.5 billion in revenue, which constituted 15.1 per cent. and 15.9 per cent. of total passenger revenue, in 2012 and 2013, respectively.

Korean Air operates scheduled flights to Fiji, Australia and New Zealand (the "**Oceania Routes**"). The Oceania Routes recorded KRW340.8 billion and KRW303.7 billion in revenue, which constituted 4.5 per cent. and 4.2 per cent. of total passenger revenue, in 2012 and 2013, respectively.

The key statistics for Korean Air's international passenger services are compiled by standards commonly used in the airline industry: revenues, available-seat-kilometres ("**ASKs**"), revenue-passenger-kilometres ("**RPKs**"), load factor and yield. ASKs are a measure of the number of seats made available for sale multiplied by the distance flown in kilometres on a route. RPKs are a measure of the number of revenue-paying passengers multiplied by the distance flown in kilometres on a route. Load factor is a measure of the rate of utilisation of Korean Air's capacity and is calculated by dividing RPKs by ASKs. Yield is a measure of the revenue from each RPK and is measured by dividing revenues by RPKs. Table 12 below shows Korean Air's international passenger service statistics since 2012 measured by revenues, ASKs, RPKs, load factor and yield.

Table 12
International Passenger Service Statistics as of 31 December 2013

Description (KRW)	2013	2012	Year-on-Year (%)
Revenues (billion)	6,721	7,102	-5.4%
ASKs (million)	85,597	84,494	1.3%
RPKs (million)	65,933	66,202	-0.4%
Load Factor (%)	77.0%	78.4%	-1.7%
Yield (KRW/KM)	101.9	107.3	-5.0%
Yield (U.S.$¢)	10.353	10.021	3.3%

1 Rate used to convert in 2012 U.S.$ to KRW is U.S.$1 = KRW1,153.
2 Rate used to convert in 2013 U.S.$ to KRW is U.S.$1 = KRW1,055.
Source: Information provided by Korean Air.

Risk Management

In order to create a more stable business environment by minimising or eliminating the risk associated with volatility of fuel prices, foreign exchange rates and interest rates, Korean Air has focused on risk management since 2001 and will continue to actively manage risks.

Jet Fuel Price: Korean Air's fuel hedging strategy is the use of a mix of basic hedge and additional hedge. It intends to hedge regularly 25 per cent. of its fuel consumption regardless of market condition ("**Basic Hedge**"). Currently Korean Air has hedged 20 to 30 per cent. of its fuel consumption. In addition to the Basic Hedge, Korean Air may enter into an additional hedge of up to 50 per cent. of its fuel consumption if market conditions are favourable compared to an historical price level ("**Additional Hedge**").

Currency: Korean Air tries to minimise its currency risk via natural hedging of the balance sheet. For example, Korean Air has increased its Won, Chinese Renminbi and Yen denominated borrowings to match the currency of its cash balances. Korean Air hedges up to 50 per cent. of its currency exposure.

Interest Rate: Korean Air hedges its interest rate risk by increasing fixed rate financing. Korean Air's strategy is to keep its fixed rate debt portion at around 50 per cent. of its total debt. However, proportion between fixed and floating rate debt differs by currencies: more than 50 per cent. of U.S. dollar denominated debt is floating rate whereas the majority of Won denominated debt is at a fixed rate. As of 30 June 2014, 12.0 per cent. of U.S. dollar debt, 89.6 per cent. of Won debt and 26.0 per cent. of Japanese Yen debt were on a fixed rate basis.

Insurance

Korean Air currently has an insurance policy arranged by AON in respect of its all aircraft (the "**Insurance Policy**"). The insurance coverage is provided by a syndicate of insurers in the international market. The maximum coverage for hull insurance under the Insurance Policy is U.S.$350 million per aircraft and an aggregate maximum coverage for liability under any one accident is U.S.$2.25 billion per aircraft. The deductible amount for each claim in respect of a Boeing 747, Boeing 777, Airbus A300, Airbus A380 or Airbus A330 aircraft is U.S.$1 million and is U.S.$750,000 in respect of Boeing 737 aircraft. In addition to hull insurance and third party war liability, the Insurance Policy insures Korean Air for liabilities connected with employees, passengers and cargo on board each aircraft and general third party liability.

Impact of External Factors on Korean Air's Business

2013 marked the start of a renewed upturn of the air transport industry cycle, after having seen a slowdown from the 2010 peak during the previous two years. Air travel demand accelerated slightly and air cargo markets reversed the shrinkage of the previous year, reflecting a broader rise of growth in major economies. Airlines continued to show a more cautious approach, adding capacity at a slower pace than the growth of demand; load factors improved further. Since jet fuel prices fell a little and yields were stable, breakeven load factors declined. As a result the airline profit cycle also turned upward last year, having declined in the previous two years. According to IATA, in 2013, world scheduled passenger traffic, measured in revenue passenger-kilometres ("**RPK**"), increased by 5.7 per cent. compared to 2012. International markets had an increment of 6.1 per cent. while domestic markets also increased by 5.2 per cent. In line with the traffic upward trend, seat capacity expressed as available seat kilometres ("**ASK**") increased by 5.5 per cent. and 4.8 per cent. on international and domestic routes respectively. With these increments, the passenger load factor has also increased to 79.7 per cent. on total services. IATA estimates that world scheduled cargo traffic, measured as freight tonne-kilometres ("**FTK**") increased by 1.8 per cent. in 2013 compared to 2012. International freight traffic, which accounts for almost 86 per cent. of the total FTKs, increased by 1.6 per cent., while domestic freight traffic increased by 2.9 per cent. In this airline industry climate, Korean Air transported 23,396,000 passengers and 1,450,000 tons of cargo transportation in 2013. Korean Air is ranked 15th in international traffic in terms of passenger—kilometres and 4th in terms of freight tonne—kilometres.

Besides economic and political factors, environmental responsibility has been highlighted in the global airline industry. Since 2012, airlines flying in and out of Europe have been subject to regulations for limiting CO_2 emissions. Airlines are required to purchase credits for their CO_2 emissions in excess of regulatory standards through the emissions trading scheme. Korean Airlines has developed a comprehensive internal procedure that encompasses monitoring, reporting and verification. Korean Air's IT systems are consistently updated to maintain accurate and consistent control of its CO_2 emissions.

Marketing and Advertising

In addition to safety considerations, customer service is a key area of focus for Korean Air. Korean Air actively advertises its flight services in Korea, Japan and the United States on television channels, on the internet, in newspapers and magazines.

Since 2009, Korean Air has received the awards shown in Table 13 below.

Table 13
Awards

Date	Award
December 2013	World Travel Awards 2013 World's Most Innovative Airline
December 2012	World Travel Awards 2012 World's Most Innovative Airline and World's Excellence in Service
September 2011.	World Travel Awards 2011 Asia-Australia Region — Asia's Leading Airline First Class Voyage Travel Annual Award 2011 — Best Asian Airline
June 2011.	National Geographic Traveler 2011 Golden List Award — Best Northeast Asian Airline
May 2011	World Travel Awards 2011 — Best In-Flight Meal
April 2011.	Economist Customer-Loving Brand Award — Best in Airline Industry
March 2011	Korea Advertisers Association Customer-Selected Good Commercial Award — Good Commercial Awards in Magazine Section & Internet Section
January 2011	Global Traveller Magazine Tested Awards — Best First Class Seat Design, Best Airport Service Travel & Leisure Magazine — Most Eco-Friendly Airline

Date	Award
December 2010	Global Times: Top 3 International Airline Most Preferred by Chinese Global Traveler: Best Business Class Seat Design & Best Airport Staff/Gate Agent Business Traveler: Best Business Class to Asia & Best Asian Airline & Best Airline Advertising Campaign
November 2010	PAX International: Asia's Best In-Flight Meal Service Airline EtQ User Conference: 2010 Excellence Innovation Award Travel + Leisure: World Top 10 Airline
October 2010	World Travel Awards: Asia's Leading Airline for First Class Condé Nast Traveler: 2010 Global Awards Top 7
September 2010	Economist: Korean Economy Leader Awards
August 2010.	Smart Travel Asia: 10 Best Airlines in the World
June 2010	Executive Travel: Best Frequent Flyer Program in Asia
March 2010	National Geographic Traveler: Best Top 3 International Carrier
April 2009.	Global Times China: Most Reliable Foreign Airline in China
October 2009	Travel + Leisure China: Most Preferred Airline

Source: Information provided by Korean Air.

Korean Air's frequent flyer programme, SKYPASS, was introduced in 1984 as the first frequent flyer programme in Asia. SKYPASS is designed to retain and enhance customer loyalty by offering awards and services to frequent travellers for their continued patronage. SKYPASS members can earn mileage by flying on Korean Air, members of SkyTeam and other airlines that participate in the programme. Mileage can also be earned by using services of other participants in the programme, such as credit card companies, hotels and car rental companies. SKYPASS mileage can be redeemed for free or upgraded travel on Korean Air or other participating airlines and for other non travel-awards. As of 30 June 2014, SKYPASS had approximately 21 million members.

Legal Proceedings

As of 30 June 2014, various claims, lawsuits and complaints arising from airline service operations are pending against Korean Air. Korean Air's management believes that the Company has adequate insurance coverage against these claims and that the ultimate outcome of these cases will not have any material adverse effect on the financial performance and position of Korean Air.

With regard to the alleged antitrust violation relating to Korean Air and other parties colluding on price fixing of air cargo services, Korean Air made a plea to the United States Department of Justice in August 2007 for the payment of fines totalling U.S.$300 million to be paid in annual instalments. Accordingly, Korean Air made payments of U.S.$150 million in fines since 2007, and the rest will be paid between 2014 and 2016 under an agreement with United States Department of Justice. The amounts of U.S.$50 million and U.S.$100 million are included in non-trade payables and non-current non-trade payables, respectively, as of 30 June 2014.

Korean Air settled with the plaintiff to pay U.S.$115 million in the class action lawsuit filed with the U.S. courts. Korean Air made payments of U.S.$50 million for the six months ended 30 June 2014, and the amounts of U.S.$40 million and U.S.$25 million are included in non-trade payables and noncurrent non-trade payables, respectively. In addition, Korean Air recognises the vouchers redeemable for passenger flight tickets amounting to U.S.$26 million as a provision.

In connection with the antitrust violation that has been mentioned above, various other parties that have also filed lawsuits against Korean Air are still awaiting the results of claimed damages from the United States and Canada District Courts. As of 30 June 2014, Korean Air cannot reasonably estimate the potential loss from this proceedings.

VISA, MASTERCARD AND USB

Information relating to Visa and MasterCard set forth in this section were extracted from their respective official websites, which is publicly accessible. Information relating to US Bancorp set forth in this section were extracted from documents provided by US Bancorp and the official website of US Bancorp, which is publicly accessible.

Description of Visa

Visa Inc. ("**Visa**") is a global payments technology company that connects consumers, businesses, financial institutions and governments around the world, enabling them to use digital currency instead of cash and checks. Visa and its wholly-owned consolidated subsidiaries, including Visa U.S.A. Inc., Visa International Service Association, Visa Worldwide Pte. Limited, Visa Canada Corporation, Inovant LLC and CyberSource Corporation, operate one of the world's most advanced processing networks. Visa provides financial institutions with payment processing platforms that encompass consumer credit, debit, prepaid and commercial payments, and facilitates global commerce through the electronic transfer of value and information among financial institutions, merchants, consumers, businesses and government entities. Visa does not issue cards, extend credit, or determine the interest rates or other fees consumers will be charged on Visa-branded cards, which are the independent responsibility of Visa's issuing clients.

The concept of the Visa programme began in 1958 when Bank of America launched the BankAmericard programme in California. In 1966, Bank of America began licensing the trademarks and administering the programme among its licensees. As the success of the BankAmericard programme grew, National BankAmericard Inc. ("**NBI**") was formed in 1970 to license the marks and administer the programme in the United States. In 1974, IBANCO was formed to license the marks and administer the programme outside of the United States. In 1976, the name BankAmericard was changed to Visa; NBI and IBANCO became Visa USA and Visa International, respectively; and ownership of the marks was transferred from Bank of America to Visa. In order to respond to industry dynamics and enhance Visa's ability to compete, Visa undertook a reorganisation in October 2007. In March 2008, Visa completed its initial public offering and its shares began trading on the New York Stock Exchange.

For the 12 months ending 30 September 2013, total worldwide transaction volume on Visa card including payments and cash transactions was U.S.$6.9 trillion. As of 30 June 2013, Visa's financial institution clients numbered at around 14,600. As of 31 March 2011, the number of Visa cards in circulation was 2.1 billion.

Description of MasterCard

MasterCard Incorporated and its consolidated subsidiaries, including MasterCard International Incorporated ("**MasterCard International**" and together with MasterCard Incorporated, "**MasterCard**" or the "**Company**"), is a technology company in the global payments industry that connects consumers, financial institutions, merchants, governments and businesses worldwide, enabling them to use electronic forms of payment instead of cash and cheques. The Company facilitates the processing of payment transactions including authorisation, clearing and settlement, and delivers related products and services. A typical transaction on the Company's network involves four participants in addition to the Company: cardholder, merchant, issuer (the cardholder's financial institution) and acquirer (the merchant's financial institution). The Company's customers encompass a vast array of entities, including financial institutions and other entities that act as "issuers" and "acquirers", as well as merchants, governments, telecommunication companies and other businesses. The Company does not issue cards, extend credit, determine or receive revenue from interest rates or other fees charged to cardholders by issuers, or establishment the "merchant discount" rate charged in connection with the acceptance of cards and other devices that carry MasterCard's brands.

Interbank Card Association ("**ICA**"), was formed in 1966 to develop uniform standards for credit card services and facilitate the use of credit cards outside a member bank's geographic area. In 1969, ICA acquired the exclusive rights to the Master Charge name for use by ICA's members. In 1979, the Master Charge name was changed to MasterCard. In 2002, MasterCard merged with Europay International to create MasterCard International and converted from a membership association to a private share corporation. In 2006, MasterCard transitioned to a new corporate governance and ownership structure and began trading on the New York Stock Exchange. In the same year, MasterCard introduced a new corporate name, MasterCard Worldwide.

The gross dollar volume of purchases and cash transactions made on MasterCard-branded cards in 2013 increased 14 per cent., on a local currency basis, to approximately $4.1 trillion. Processed transactions grew from 34.2 billion to 38.6 billion. As of 31 March 2014, MasterCard's customers had issued approximately 2 billion MasterCard and Maestro-branded cards.

Description of U.S. Bank National Association

U.S. Bancorp, headquartered in Minneapolis, Minnesota, is a diversified financial services holding company and the parent company of U.S. Bank National Association, the fifth-largest commercial bank in the nation as of 31 December 2013.

U.S. Bancorp was founded in 1863 under national Charter #24 and employs more than 67,000 people. U.S. Bancorp was incorporated in Delaware in 1929 and operates as a financial holding company and a bank holding company under the Bank Holding Company Act of 1956. U.S. Bancorp provides a full range of financial services, including lending and depository services, cash management and trust and investment management services. It also engages in credit card services, merchant and ATM processing, mortgage banking, trust and investment management, insurance, brokerage and leasing activities.

U.S. Bancorp's banking subsidiary is engaged in the general banking business, principally in domestic markets. The subsidiary, with U.S.$271 billion in deposits at 31 December 2013, provides a wide range of products and services to individuals, businesses, institutional organisations, governmental entities and other financial institutions.

Payment Services includes consumer and business credit cards, stored-value cards, debit cards, corporate and purchasing card services, consumer lines of credit and merchant processing.

U.S. Bancorp offers merchant processing and card issuance for a wide variety of cards, companies, government agencies and agent banks. USB's subsidiary Elavon is a leading global payment provider of merchant acquiring services, providing integrated payment processing to more than a million merchants through relationships with financial institutions, associations and other partners.

THE USB CONTRACT

U.S. Bank National Association — Merchant Processor for Visa and MasterCard

Korean Air has accepted Visa and MasterCard cards as a form of payment for Airline Tickets since entering into a contract with U.S. Bank National Association (previously known as First Bank National Association) ("**USB**") which, as amended from time to time, has been in effect since 1 March 1993 (the "**USB Contract**") and covers all Visa and MasterCard card transactions originated by or on behalf of Korean Air which are settled in U.S. dollars. The following is a summary of the main terms of the USB Contract.

Honouring of Cards

The USB Contract provides that Korean Air will use reasonable efforts to cause all business organisations which have been duly authorised by Korean Air to perform the functions of a travel agent on its behalf ("**Agents**" and each an "**Agent**") in the United States and, at Korean Air's option, elsewhere to permit cardholders to charge Airline Tickets to any valid Visa or MasterCard card (each a "**Card**") in accordance with the terms and conditions of the USB Contract and the operating regulations of Visa and MasterCard (each a "**Card Association**") as amended or supplemented from time to time (the "**Operating Regulations**"). Korean Air will be responsible for (i) any failure by an Agent in performing the applicable provisions of the USB Contract; and (ii) settlement of sale slips which are used to evidence Airline Tickets purchased through the use of a Card and credit slips which are used to evidence a refund or adjustment of a purchase made through the use of a Card.

Before honouring a Card, Korean Air or an Agent will (i) examine the format of each Card for authenticity and, by checking the effective date and expiration date of each Card, confirm that the Card has become effective and has not expired; and (ii) check with the relevant Card issuer whether there is sufficient credit available for the transaction ("**Authorisation**"). Korean Air or an Agent will obtain Authorisation from the relevant Card issuer. Authorisation verifies that the Card number is valid, the Card has not been reported lost or stolen at the time of the transaction and confirms that the amount of credit or funds requested for the transaction is available. Korean Air and Agents will also comply with specific regulations in respect of transactions made by mail, telephone, automated ticket machine or internet.

Each Card sale is evidenced by a sales slip. Each sales slip will include on its face, inter alia: (i) the Authorisation code; (ii) the total amount of Airline Tickets purchased by the cardholder; (iii) the date of the transaction; and (iv) the passenger's name. Each sales slip will be signed by the cardholder, with certain exceptions described below.

Purchases may also be made using a Card by mail, telephone, automated machine or over the internet. In these circumstances a sales slip is also completed including the effective date and expiration date of the Card as obtained from the cardholder. Korean Air or an Agent must obtain an Authorisation code for all such Card transactions. Special security measures must be complied with where internet purchases are made through an internet payments service.

Submission of Charges

Korean Air and the Agents may submit sale slips or credit slips physically to USB or, in lieu of physical delivery, either through the use of magnetic tape or electronically within timeframes set out in the USB Contract. Korean Air will retain all original sale slips and credit slips for at least two years from the transaction date of the related slips, subject to USB's retrieval request. Alternatively, Korean Air or USB may retain the physical copies for no more than 180 days subject to retaining microfilmed or microfiched copies for at least three years.

Payment of Accounts

On each Business Day and to the extent funds are available for remittance to Korean Air, USB will deposit to the designated account of Korean Air (and, after the Closing Date, to the account of the Trust) the total amount of Net Activity.

"**Net Activity**" means, on any day on which funds are to be remitted to Korean Air, (i) the aggregate amount of sales slips submitted by Korean Air prior to the date of such remittance plus (ii) the amount of any adjustments due to Korean Air plus (iii) the amount of any credit slips or chargebacks in favour of Korean Air.

Chargebacks

USB may chargeback to Korean Air the amount of any charges paid by USB on account of any return of a previously processed sales slips or credit slips as a result of, primarily, (i) any violation of the Operating Regulations; or (ii) failure of Korean Air to provide services to any holder of a Card.

Termination of USB Contract

The USB Contract will automatically be renewed for successive terms of one year from 1 January in each year *provided that* USB may at any time give to Korean Air 90 days written notice of termination; *provided further that* the USB Contract will not be renewed if Korean Air gives written notice to USB no later than 90 days prior to the then current term of the USB Contract of its intention of termination.

The USB Contract will also be terminated at an earlier date if either party commits a material default in the performance of its obligations under the USB Contract and will fail or refuse to remedy or commence to remedy such default within 15 days after receipt of written notice by the other party specifying the nature of such default. The other party may terminate the USB Contract on giving a 24-hour written notice after such 15-day period upon the occurrence of certain material defaults *provided that* USB may terminate the USB Contract without prior notice if commencement of any bankruptcy, reorganisation, debt arrangement or other proceeding under any applicable law occurs with respect to Korean Air. Other material defaults by Korean Air will include the imposition, or an attempted imposition, of a lien in favour of any party other than USB on the Deposit (as defined below) or any portion of the Deposit or any property of Korean Air which is subject to the lien or security interest of USB.

Security Interest over Deposit

Under the USB Contract, USB is entitled, upon the occurrence of one of a series of triggers (which are generally related to Korean Air's financial condition), to withhold funds from Net Activity and place these funds on deposit (the "**Deposit**") to protect USB from financial exposure to Korean Air. Korean Air has granted to USB a first priority security interest over the Deposit. At the date of this Prospectus, the amount of the Deposit is zero.

THE NOTE ISSUER

General

KAL ABS 15 Cayman Limited (the "**Note Issuer**") was incorporated in the Cayman Islands as an exempted limited liability company on 8 October 2014. The registration number of the Note Issuer is 292548. The Note Issuer has been incorporated for an indefinite period. The registered office of the Note Issuer is at the offices of Intertrust SPV (Cayman) Limited, 190 Elgin Avenue, George Town, Grand Cayman KY1-9005, Cayman Islands, telephone number: +345-943-3100. The authorised share capital of the Note Issuer is U.S.$50,000 divided into 50,000 ordinary shares of U.S.$1 each, of which 250 ordinary shares are fully paid up and held by Intertrust SPV (Cayman) Limited (the "**Share Trustee**"). The Share Trustee holds the 250 shares on trust ultimately for charitable purposes pursuant to a Declaration of Trust dated 11 November 2014. The Note Issuer is not a subsidiary of, and its management and general operations are not controlled by the Joint Lead Arrangers.

The Note Issuer is a special purpose vehicle established for the purpose of issuing asset backed securities.

Principal Activities

The Note Issuer has not engaged, since its incorporation, in any activities other than those incidental to its incorporation, the authorisation, execution and issue of the Notes, and the documents and matters referred to or contemplated in this Prospectus to which it is or will be a party and matters which are incidental or ancillary to the foregoing. The objects of the Note Issuer are set out in Clause 3 of its Memorandum and Articles of Association. As an exempted company, the Note Issuer may not trade in the Cayman Islands with any person except in furtherance of the business of the Note Issuer carried on outside the Cayman Islands. The Note Issuer will covenant to observe certain restrictions on its activities which are described in Note Condition 6.

The Note Issuer has, and will have, no assets other than the sum of U.S.$250 representing the issued and paid-up share capital, such fees (as agreed) payable to it in connection with the issue of, borrowing under, purchase, sale or entering into of the Transaction Documents and any Note Secured Property. The Note Issuer will establish a bank account with Citibank, N.A., London Branch for the purposes of holding its share capital and any fees paid to it and by it.

Directors

The Directors of the Note Issuer are as follows:

Name	Principal Occupation
Ferona Bartley-Davis	Business person/Employee of the Note Issuer
Christina McLean	Business person/Employee of the Note Issuer

The business address of the Directors is the same as the registered office of the Note Issuer at 190 Elgin Avenue, George Town, Grand Cayman KY1-9005, Cayman Islands.

Intertrust SPV (Cayman) Limited of 190 Elgin Avenue, George Town, Grand Cayman KY1-9005, Cayman Islands is the administrator of the Note Issuer. Its duties include the provision of certain management, administrative and related services. The Note Issuer Administrator may retire at any time upon giving not less than three months' notice in writing of such retirement to the Note Issuer, the Note Trustee and the Rating Agency; provided that such retirement may not take effect until a replacement Note Issuer Administrator has been appointed with the approval of the Note Trustee (acting upon the instructions of the Majority Investor) in accordance with the terms of the Note Issuer Administrator Agreement. The Note Issuer Administrator may be removed from office upon the Note Issuer giving not less than one month's notice of such removal with the prior written approval of the Note Trustee or without notice in circumstances, inter alia, where an insolvency event has occurred or the Note Issuer Administrator has been negligent or fraudulent or there has been wilful misconduct on its part.

Financial Statements

The financial year of the Note Issuer runs from 1 January to 31 December. Since the date of its incorporation, no financial statements of the Note Issuer have been prepared.

Annual Notice to Note Trustee

The Note Issuer is required to provide written confirmation to the Note Trustee on an annual basis in accordance with Note Condition 8 that, as far as it is aware, no Note Event of Default or other matter which is required to be brought to the attention of the Note Trustee has occurred.

Global Intermediary Identification Number

The Note Issuer has applied to register with the IRS to obtain a Global Intermediary Identification Number (for the purposes of the US IGA) and expects to receive the same on or about the Closing Date.

THE BOND ISSUER

General

KAL 15 Asset Securitization Specialty Company (the "**Bond Issuer**") was incorporated and registered in Korea (under registration number 104-86-57473) as a Korean securitisation specialty company (a limited liability company (*yuhanhoesa*) under the ABS Act and the Korean Commercial Code) on 4 November 2014. The registered office of the Bond Issuer is at Cheonggyecheon-ro 24 (Da-dong), Jung-gu, Seoul, Korea, 100-180 and its telephone number is (822) 2656-3958.

The Bond Issuer is a special purpose vehicle and has no prior operating experience. The Bond Issuer does not have any subsidiaries nor any employees.

None of the Security Agent, the Joint Lead Arrangers or the Joint Lead Managers owns, directly or indirectly, any of the share capital of the Bond Issuer.

Principal Activities

The principal objects of the Bond Issuer are set out in Clause 3 of its Memorandum and Articles of Association and are, amongst other things, to carry out activities pursuant to the ABS Act and will include entering into agreements necessary for the performance of the obligations under the transaction specified in the Securitisation Plan filed with the Financial Services Commission (the "**FSC**").

The Bond Issuer has not engaged, since its incorporation, in any material activities other than those incidental to its incorporation, the authorisation, execution and issue of the Bond, the purchase of the Depositor Note and the matters contemplated in this Prospectus and the Transaction Documents and the authorisation, execution, delivery and performance of the Transaction Documents to which it is a party and matters which are incidental or ancillary to the foregoing.

Director

The sole director of the Bond Issuer is Ounju Jeon, whose address is 208-704 (Sangok-dong, Hyundai Apartment), 91, Annam-ro, Bupyeong-gu, Inchoen Metropolitan City, Korea. There are no conflicts of interest between Ounju Jeon's private interests and other duties and her duties to the Bond Issuer.

Equity Capital

The authorised equity capital of the Bond Issuer consists of KRW20,000 divided into 200 units of a nominal or par value of KRW100 par value each. 200 units have been issued at par, are fully-paid with 1 unit being held by the Depositor and 199 units by Ounju Jeon.

Capitalisation and Indebtedness

The capitalisation of the Bond Issuer as at the date of this Prospectus, adjusted for the Bond to be issued on the Closing Date, is as follows:

Capitalisation and Indebtedness Statement of the Bond Issuer

	As at 20 November 2014
	(KRW)
Equity Capital	
200 units of KRW20,000 issued and fully paid	20,000
Total Equity Capital	**20,000**
Loan Capital	
Bond	383,950,000,000[1]
Total Loan Capital	**383,950,000,000**
Total Capitalisation	**383,950,000,000**

1 Rate used to convert U.S. dollars to KRW is U.S.$1 = KRW1,097.

Note: Other than as described above, there has been no material change in the capitalisation of the Bond Issuer as at the date hereof.

As of the Closing Date, the Bond will be held by the Note Issuer.

Save as disclosed elsewhere in this Prospectus, at the date of this Prospectus the Bond Issuer has no borrowings or indebtedness in the nature of borrowings (including loan capital issued, or created but unused), term loans, liabilities under acceptances or acceptance credits, mortgages, charges or guarantees or other contingent liabilities.

There are no other outstanding loans or subscriptions, allotments or options in respect of the Bond Issuer.

There has been no material adverse change in the financial position of the Bond Issuer since the date of its incorporation.

Financial Year

The financial year of the Bond Issuer runs from 1 January to 31 December. The first financial year of the Bond Issuer will end on 31 December 2014. There has been no material change in the activities of the Bond Issuer since its incorporation and no financial statements have been made up as at the date of the registration document.

THE TRUST AND THE U.S. TRUSTEE

The Trust has been formed as a statutory trust in accordance with the laws of Delaware and the provisions of the Trust Agreement by and between, *inter alios*, the Depositor, the U.S. Trustee and the Trust Administrator.

The Trust is governed by the Trust Agreement. Pursuant to, and in accordance with, the Trust Agreement, the U.S. Trustee will act as owner trustee of the Trust. The Trust Administrator will have certain administrative duties with respect to the operation of the Trust and the Depositor Certificate. Other parties will have obligations with respect to the operation of the Trust, including the Depositor, the Servicer, the Indenture Trustee and the Transaction Administrator.

The Trust will dissolve upon the earlier to occur of (a) 30 November 2019 and (b) the date on which all amounts due under the Depositor Note, the Bond and the Notes have been paid in full and all of the Bond Issuer Obligations and the Note Issuer Obligations have been irrevocably paid in full; *provided that*, in each case, no amounts are outstanding under the Credit Facility Deed.

The U.S. Trustee is Citicorp Trust Delaware, National Association, a United States national banking association.

If at any time the U.S. Trustee will be legally unable to act, has a bankruptcy petition filed against it or consents to the filing of a bankruptcy petition on its behalf, or is adjudged bankrupt or insolvent, or a receiver of the U.S. Trustee or of its property will be appointed, or any public officer takes charge or control of the U.S. Trustee or of its property or affairs for the purpose of rehabilitation, conservation or liquidation, then the Controlling Beneficiary, may remove the U.S. Trustee.

*The Korea Development Bank ("**KDB**") assumes no responsibility or liability for the payment by the Note Issuer of any sum due on any of the Notes, by the Bond Issuer of any sum due on the Bond, or by the Trust of any sum due on the Depositor Note and assumes no liability for making any payments whatsoever under or with respect to the transactions contemplated by this Prospectus or any of the documents referred to herein, other than as explicitly and expressly contemplated in the Credit Facility Deed. The Korea Development Bank is entitled to receive fees under the terms of the Credit Facility Deed.*

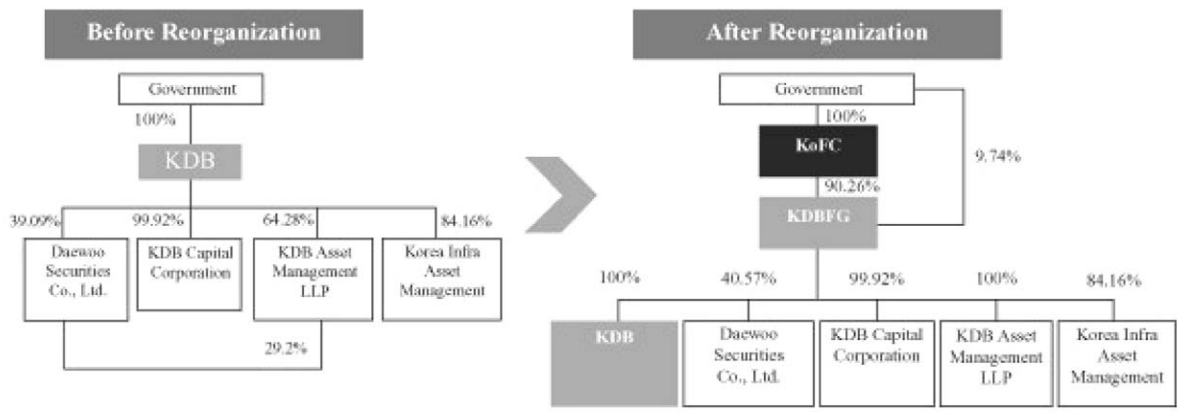
Overview

The Korea Development Bank (the "**Credit Facility Provider**") was established in 1954 as a government-owned financial institution pursuant to The Korea Development Bank Act, as amended (the "**KDB Act**"). Since its establishment, it has been the leading bank in Korea with respect to the provision of long-term financing for projects designed to assist the nation's economic growth and development. The Government indirectly owns all of the paid-in capital of the Credit Facility Provider. The registered office of the Credit Facility Provider is located at 14, Eunhaeng-ro, Yeoungdeungpo-gu, Seoul, Korea.

In June 2008, the Financial Services Commission announced the Government's preliminary plan for the privatisation of the Credit Facility Provider and, in May 2009, the KDB Act was amended to facilitate such privatisation. The preliminary plan reflected the Government's intention to nurture a more competitive corporate and investment banking sector and trigger reorganisation and further advancement of the Korean financial industry.

To implement the privatisation of the Credit Facility Provider, the Government established KDB Financial Group (the "**KDBFG**"), a financial holding company, and Korea Finance Corporation ("**KoFC**"), a public policy financing vehicle, in October 2009, by spinning off a portion of its assets, liabilities and equity. In the spin-off, the interests owned by the Credit Facility Provider in Daewoo Securities Co., Ltd., KDB Asset Management Co., Ltd. and KDB Capital Corp. were transferred to KDBFG, and the equity holdings of the Credit Facility Provider in certain government-controlled companies, including Korea Electric Power Corporation, or KEPCO, and certain companies under restructuring programmes, including Hyundai Engineering & Construction Co., Ltd., were transferred to KoFC. The Government transferred its ownership interest in the Credit Facility Provider to KDBFG in exchange for all of KDBFG's share capital on 24 November 2009. As of the date of this Prospectus, KoFC, which is wholly owned by the Government, owns 90.26 per cent of KDBFG's share capital and the Government directly owns 9.74 per cent of KDBFG's share capital. KDBFG owns 100.0 per cent of the share capital of the Credit Facility Provider.

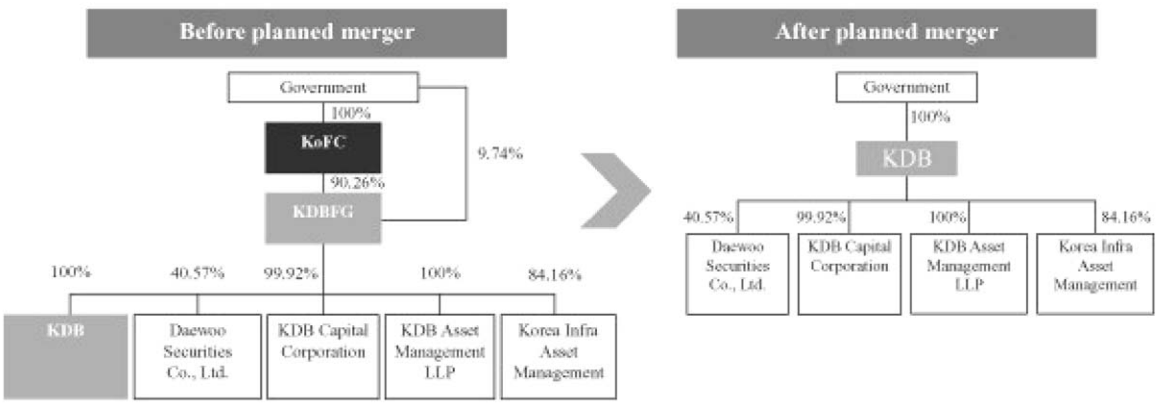
The following diagram shows the ownership structure of the Credit Facility Provider before and after the spin-off and the share transfer.



In April 2013, in light of continued uncertainties surrounding the global economy and the prolonged effects of the global financial crisis that commenced in the second half of 2008 on the Korean economy, as well as certain overlap of financial policy roles among different Government-owned banks and financial corporations, the Government launched a task force (the "**Task Force**") to consider the reorganisation of the financial policy roles of Government-owned banks and financial corporations, including the Government's plan for the privatisation the Credit Facility Provider. The Task Force, composed of representatives from various government branches responsible for overseeing such Government-owned entities as well as members of the academia, held a series of closed meetings, considered various reorganisation options with respect to policy financing functions and reported their findings to the Financial Services Commission. In August 2013, pursuant to the findings of the Task Force, the Financial Services Commission announced the Government's plan to reorganise Government-owned policy banks and financial corporations in order to streamline their overlapping functions and reinforce their policy financing roles for start-ups and small- and medium-sized enterprises, new growth industries and overseas projects. The plan called for, among other things, (i) the merger of KoFC and KDBFG into the Credit Facility Provider and the transfer of KoFC's overseas assets of approximately ₩2 trillion to The Export-Import Bank of Korea, or KEXIM, (ii) the sale of the Credit Facility Provider's subsidiaries that do not have policy financing roles, including KDB Capital Corporation and KDB Asset Management LLP and (iii) the gradual reduction of the Credit Facility Provider's retail banking services.

In May 2014, the National Assembly amended the KDB Act to largely reflect the plan announced by the Financial Services Commission and halt our privatisation and streamline the financial policy roles among Government-owned banks and financial corporations in order to better respond systematically to rapidly changing domestic and international economic conditions. Under the amended KDB Act, which is expected to be effective on 1 January 2015, the public policy financing role will be consolidated and strengthened, and KDBFG and KoFC (together with its subsidiaries) will be merged into the Credit Facility Provider in order to utilise the rich experience and expertise of the Credit Facility Provider in public policy financing, and the Credit Facility Provider will take over KoFC's role of providing public policy financial support to Korean companies, including managing and operating the Financial Market Stabilization Fund established pursuant to the Act on the Structural Improvement of the Financial Industry of Korea enacted in 2009, while KEXIM will take over KoFC's overseas finance business. As a newly merged entity, the Credit Facility Provider will have an authorised share capital of up to ₩30 trillion.

The following diagram shows the ownership structure of the Credit Facility Provider before and after the planned merger is effected under the amended KDB Act.



While the Government has halted its plan for the privatisation of the Credit Facility Provider, it may consider privatisation of its subsidiaries subject to market conditions. In addition, the implementation of the Government's plans, including its merger plan, may be delayed or changed depending on a variety of factors, such as domestic and international economic conditions, and the timing discussed above is subject to change. There can be no assurance that such plans will be implemented as contemplated or that the contemplated merger will be implemented at all.

The primary purpose of the Credit Facility Provider, as stated in the KDB Act, the KDB Decree and its Articles of Incorporation, is to "furnish funds in order to expedite the development of the national economy". The Credit Facility Provider makes loans available to major industries for equipment, capital investment and the development of high technology, as well as for working capital.

As of 30 June 2014, the Credit Facility Provider had ₩104,256.6 billion of loans outstanding (including loans for facility development, loans for working capital, inter-bank loans, private loans, off-shore loan receivables, loans borrowed from overseas financial institutions, bills bought in foreign currencies, advance payments on acceptances and guarantees and other loans without adjusting for allowance for possible loan losses, present value discounts and deferred loan fees), total assets of ₩148,847.2 billion and total equity of ₩16,585.8 billion, as compared to ₩98,119.8 billion of loans outstanding, ₩143,607.5 billion of total assets and ₩16,346.1 billion of total equity as of 31 December 2013. For the six months ended 30 June 2014, the Credit Facility Provider recorded interest income of ₩2,365.9 billion, interest expense of ₩1,397.1 billion and net income of ₩289.1 billion, as compared to ₩2,389.1 billion of interest income, ₩1,523.4 billion of interest expense and ₩266.5 billion of net loss for the six months ended 30 June 2013.

Currently, the Government indirectly holds all of the paid-in capital of the Credit Facility Provider. In addition to contributions to such capital, the Government provides direct financial support for the financing activities of the Credit Facility Provider, in the form of loans or guarantees. The Government, through KDBFG, the sole shareholder of the Credit Facility Provider, has the power to elect or dismiss the Chairman and Chief Executive Officer of the Credit Facility Provider, members of its board of directors and auditor. Pursuant to the KDB Act, the Financial Services Commission has supervisory power and authority over matters relating to the general business of the Credit Facility Provider including, but not limited to, capital adequacy and managerial soundness.

The Government supports the operations of the Credit Facility Provider pursuant to Article 44 of the KDB Act. Article 44 provides that "the annual net losses of the Korea Development Bank shall be offset each year by the reserve, and if the reserve be insufficient, the deficit shall be replenished by the Government". As a result of the KDB Act, the Government is generally responsible for the operations of the Credit Facility Provider and is legally obligated to replenish any deficit that arises if its reserve, consisting of its surplus and capital surplus items, is insufficient to cover its annual net losses. In light of the above, if the Credit Facility Provider had insufficient funds to make any payment under any of its obligations, the Government would take appropriate steps, such as by making a capital contribution, by allocating funds or by taking other action, to enable the Credit Facility Provider to make such payment when due. The provisions of Article 44 do not, however, constitute a direct guarantee by the Government of the obligations of the Credit Facility Provider under debt securities or guarantees, and the provisions of the KDB Act, including Article 44, may be amended at any time by action of the National Assembly. Under the amended KDB Act, which is expected to come into effect on 1 January 2015, Article 44 under the current KDB Act will be restated as Article 32 without any amendment.

In January 1998, the Government amended the KDB Act to:

(1) subordinate the borrowings of the Credit Facility Provider from the Government to other indebtedness incurred in its operations;

(2) allow the Government to offset any deficit that arises if the reserve of the Credit Facility Provider fails to cover its annual net losses by transferring Government-owned property, including securities held by the Government, to the Credit Facility Provider; and

(3) allow direct injections of capital by the Government without prior National Assembly approval.

The Government amended the KDB Act in May 1999 and the KDB Decree in March 2000, to allow the Financial Services Commission to supervise and regulate the Credit Facility Provider in terms of capital adequacy and managerial soundness.

In March 2002, the Government amended the KDB Act to enable the Credit Facility Provider, among other things, to:

(1) obtain low-cost funds from The Bank of Korea and from the issuance of debt securities (in addition to already permitted Industrial Finance Bonds), which funds may be used for increased levels of lending to small- and medium-sized enterprises;

(2) broaden the scope of borrowers to which the Credit Facility Provider may extend working capital loans to include companies in the manufacturing industry, enterprises which are "closely related" to enhancing the corporate competitiveness of the manufacturing industry and leading-edge high-tech companies; and

(3) extend credits to mergers and acquisitions projects intended to facilitate corporate restructuring efforts.

In July 2005 and May 2009, the Government amended Article 43 of the KDB Act. The revised Article 43 provides that:

(1) the annual net profit of the Credit Facility Provider, after adequate allowances are made for depreciation in assets, shall be distributed as follows:

  (i) forty per cent. or more of the net profit shall be credited to reserve, until the reserve amounts equal the total amount of paid-in capital; and

  (ii) any net profit remaining following the apportionment required under subparagraph (i) above shall be distributed in accordance with the resolution of the Board of Directors of the Credit Facility Provider and the approval of its shareholders;

(2) accumulated amounts in reserve may be capitalised; and

(3) any distributions made in accordance with paragraph (1)(ii) above may be in the form of cash dividends or dividends in kind, provided that any distributions of dividends in kind must be made in accordance with applicable provisions of the KDB Decree.

In February 2008, the Government further amended the KDB Act, primarily to transfer most of the Government's supervisory authority over the Credit Facility Provider from the Ministry of Strategy and Finance (formerly the Ministry of Finance and Economy) to the Financial Services Commission.

In May 2009, the Government amended the KDB Act to facilitate the privatisation of the Credit Facility Provider. The amendment provided for, among other things:

(1) the preparation for the transformation of the Credit Facility Provider from a special statutory entity into a corporation, including the application of the Banking Act as applicable;

(2) the expansion of the operation scope of the Credit Facility Provider that enables it to engage in commercial banking activities, including retail banking;

(3) the provision of government guarantees for the mid-to-long term foreign currency debt outstanding of the Credit Facility Provider at the time of initial sale of the Government's stake in KDBFG (subject to the National Assembly's authorisation of the Government guarantee amount) and possible guarantees for the foreign currency debt of the Credit Facility Provider incurred for the refinancing of such mid-to-long term foreign currency debt with the government guarantee during the period when the Government owns more than 50% of the shares of the Credit Facility Provider; and

(4) the establishment of KDBFG and KoFC and application of the Financial Holding Company Act to KDBFG.

In May 2014, the Government and the National Assembly amended the KDB Act, which will come into effect on 1 January 2015, to streamline the financial policy roles among Government-owned banks and financial corporations in order to better respond systematically to rapidly changing domestic and international economic conditions by merging KDBFG and KoFC into the Credit Facility Provider. The amended KDB Act provides, among others, that:

(1) the Government will halt its plan for the privatisation of the Credit Facility Provider;

(2) public policy financing will be consolidated and strengthened through the newly merged entity;

(3) the Credit Facility Provider will comprehensively succeed to the properties, rights and obligations of KDBFG and KoFC upon the consummation of the merger;

(4) the bonds issued by KDBFG and the policy bank bonds issued by the KoFC shall be deemed as the industrial financial bonds issued by the Credit Facility Provider;

(5) the business engaged in by KoFC in accordance with the Korea Finance Corporation Act or other laws and decrees will be continuously performed by the Credit Facility Provider; and

(6) the repayment of the principal of and interest on foreign currency debt (with an original maturity of one year or more at the time of issuance) incurred by KoFC and the Credit Facility Provider before this amended KDB Act comes into force shall be guaranteed by the Government at the time of initial sale by the Government of its equity interest in the Credit Facility Provider, subject to the approval by the National Assembly.

The amended KDB Act is expected to be effective on 1 January 2015.

Capitalisation

As of 30 June 2014, the authorised capital of the Credit Facility Provider was ₩15,000 billion and capitalisation was as follows:

	30 June 2014[1] (billions of won) (unaudited)
Long-term debt[2, 3]:	
Won currency borrowings	₩ 4,074.2
Industrial finance bonds	40,100.4
Foreign currency borrowings	6,215.4
Total long-term debt	50,390.0
Capital:	
Issued capital	9,281.9
Capital surplus	44.4
Retained earnings[4]	6,996.5
Accumulated other comprehensive income	263.2
Total capital	16,585.8
Total capitalisation	₩66,975.8

1 Except as disclosed in this Prospectus, there has been no material adverse change in the capitalisation of the Credit Facility Provider since 30 June 2014.

2 The Credit Facility Provider has translated borrowings in foreign currencies into Won at the rate of ₩1,014.4 to U.S.$1.00, which was the market average exchange rate, as announced by the Seoul Money Brokerage Services Ltd., on 30 June 2014.

3 As of 30 June 2014, the Credit Facility Provider had contingent liabilities totalling ₩7,309.7billion under outstanding guarantees issued on behalf of its clients.

4 Includes regulatory reserve for bad loans of ₩1,306.9 billion as of 30 June 2014. Under Korean IFRS, if the provision of the Credit Facility Provider for possible loan losses is deemed insufficient for regulatory purposes, it will compensate for the difference by recording a regulatory reserve for possible loan losses, which will be deducted from retained earnings.

Business

Purpose and Authority

Since its establishment, the Credit Facility Provider has been the leading bank in Korea in providing long-term financing for projects designed to assist the nation's economic growth and development.

Under the KDB Act, the KDB Decree and its Articles of Incorporation, the primary purpose of the Credit Facility Provider is to "furnish funds for the expansion of the national economy". Since the Credit Facility Provider serves the public policy objectives of the Government, it does not seek to maximise profits. The Credit Facility Provider does, however, strive to maintain a level of profitability to strengthen its equity base and support growth in the volume of its business.

Under the KDB Act, the Credit Facility Provider may:

(1) carry out activities necessary to accomplish the expansion of the national economy, subject to the approval of the Financial Services Commission;

(2) provide loans or discount notes;

(3) subscribe to, underwrite or invest in securities;

(4) guarantee or assume indebtedness;

(5) raise funds by accepting demand deposits and time and savings deposits from the general public, issuing securities, borrowing from the Government, The Bank of Korea or other financial institutions, and borrowing from overseas;

(6) execute foreign exchange transactions, including currency and interest swap transactions;

(7) provide planning, management, research and other support services at the request of the Government, public bodies, financial institutions or enterprises; and

(8) carry out other businesses incidental to the foregoing (subject to the approval of the Financial Services Commission).

Government Support and Supervision

The Government owns indirectly all of the paid-in capital of the Credit Facility Provider. On 20 February 2000, the Government contributed ₩100 billion in cash to such capital. On 29 December 2000, the Credit Facility Provider reduced its paid-in capital by ₩959.8 billion to offset its expected net loss for the year. To compensate for the resulting deficit under the KDB Act, on 20 June 2001, the Government contributed ₩3 trillion in the form of shares of common stock of KEPCO to the capital of the Credit Facility Provider. On 29 December 2001, the Government contributed ₩50 billion in cash to the capital of the Credit Facility Provider. On 13 August 2003, the Government contributed ₩80 billion in cash to the capital of the Credit Facility Provider to support its existing fund for facilitating Korea's regional economies. On 30 April 2004, the Government contributed ₩1 trillion in the form of shares of common stock of KEPCO and Korea Water Resources Corporation to the capital of the Credit Facility Provider to support its lending to small- and medium-sized companies and to compensate for its contribution to LG Card Ltd. in the form of loans, cash injections and debt-for-equity swaps. On 19 December 2008, the Government contributed ₩500 billion in the form of shares of common stock of Korea Expressway Corporation to the capital of the Credit Facility Provider and, in January 2009, the Government contributed ₩900 billion in cash to the capital of the Credit Facility Provider, in each case to bolster its capital base in order to stabilise the Korean financial market by supporting small- and medium-sized enterprises and providing increased liquidity to corporations. In October 2009, the paid-in capital of the Credit Facility Provider decreased by ₩400.0 billion in connection with the establishment by the Government of KDBFG and KoFC by spinning off a portion of the assets, liabilities and equity of the Credit Facility Provider (including paid-in capital). In March 2010, the Government, through KDBFG, made a further capital contribution of ₩10 billion in cash to the capital of the Credit Facility Provider. In December 2013, the Government contributed ₩10 billion in cash to the capital of the Credit Facility Provider. The Government contributed ₩20 billion in cash to the capital of the Credit Facility Provider in February 2014. Taking into account these capital contributions and reduction, as of 31 July 2014, total paid-in capital of the Credit Facility Provider was ₩9,281.9 billion compared to ₩9,261.9 billion as of 31 December 2013.

In addition to capital contributions, the Government directly supports the financing activities of the Credit Facility Provider by:

(1) lending the Credit Facility Provider funds to on-lend;

(2) allowing the Credit Facility Provider to administer Government loans made from a range of special Government funds;

(3) allowing the Credit Facility Provider to administer some of The Bank of Korea's surplus foreign exchange holdings; and

(4) allowing the Credit Facility Provider to receive credit from The Bank of Korea.

The Government also supports the operations of the Credit Facility Provider pursuant to Articles 43 and 44 of the KDB Act. Article 43 provides that "40% or more of the annual net profit of The Korea Development Bank shall be transferred to reserve, until the reserve amounts equal the total amount of paid-in capital" and that accumulated amounts in reserve may be capitalised. Article 44 provides that "the net losses of The Korea Development Bank shall be offset each fiscal year by the reserve, and if the reserve be insufficient, the deficit shall be replenished by the Government". Under the amended KDB Act, which will come into effect on 1 January 2015, Article 43 and Article 44 under the current KDB Act will be restated as Article 31 and Article 32, respectively, without any amendment.

As a result of the KDB Act, the Government is generally responsible for the operations of the Credit Facility Provider and is legally obligated to replenish any deficit that arises if its reserve, consisting of its surplus and capital surplus items, is insufficient to cover its annual net losses. In light of the above, if the Credit Facility Provider had insufficient funds to make any payment under any of its obligations, the Government would take appropriate steps, such as by making a capital contribution, by allocating funds or by taking other action, to enable the Credit Facility Provider to make such payment when due. The provisions of Article 44 do not, however, constitute a direct guarantee by the Government of the obligations of the Credit Facility Provider under debt securities or guarantees and the provisions of the KDB Act, including Article 44, may be amended at any time by action of the National Assembly. Under the amended KDB Act, which will come into effect on 1 January 2015, Article 44 under the current KDB Act will be restated as Article 32 without any amendment.

The Government closely supervises the operations of the Credit Facility Provider in the following ways:

(1) the Government, through KDBFG, the sole shareholder of the Credit Facility Provider, has the power to elect or dismiss the Chairman and Chief Executive Officer of the Credit Facility Provider, members of its Board of Directors and Auditor;

(2) within three months after the end of each fiscal year, the Credit Facility Provider must submit its financial statements for the fiscal year to the Financial Services Commission;

(3) the Financial Services Commission has broad authority to require reports from the Credit Facility Provider on any matter and to examine the books, records and other documents of the Credit Facility Provider. On the basis of the reports and examinations, the Financial Services Commission may issue any orders deemed necessary to enforce the KDB Act;

(4) the Financial Services Commission must approve the operating manual of the Credit Facility Provider, which sets out the guidelines for all principal operating matters;

(5) the Financial Services Commission may supervise the operations of the Credit Facility Provider to ensure managerial soundness based upon the KDB Decree and the Bank Supervisory Regulations of the Financial Services Commission and may issue orders deemed necessary for such supervision; and

(6) the Credit Facility Provider may amend its Articles of Incorporation only with the approval of the Financial Services Commission.

In addition, the conditions of the IMF aid package stated that domestic banks in Korea, including the Credit Facility Provider, should undergo external audits from internationally recognised accounting firms. Accordingly, the Credit Facility Provider has had its annual financial statements for years commencing 1998 audited by an external auditor.

Pursuant to its most recently approved programme of operations, the Credit Facility Provider expects to support the reform and restructuring of Korea's economic and industrial structure, including financing of promising small- and medium-sized enterprises, providing export finance and encouraging investments in infrastructure necessary to promote consumer demand and industrial reorganisation.

THE SWAP PROVIDER

On or before the Closing Date, the Note Issuer will enter into an interest rate swap agreement (the "**Swap Agreement**") with The Korea Development Bank with its principal office at 14 Eunhaeng-ro, Yeoungdeungpo-gu, Seoul, Korea (the "**Swap Provider**").

As of the date of this Prospectus, the foreign currency long-term senior unsecured debt rating and the foreign currency short-term debt rating of The Korea Development Bank is "Aa3/Stable" and "P-1" by the Rating Agency.

The Swap Agreement is governed by English law and is documented on a standard form published by the International Swaps and Derivatives Association, Inc. ("**ISDA**") as modified by the schedule thereto and including the related confirmation.

The Swap Agreement is intended to provide a hedge against mismatches between the rate of interest received by the Note Issuer under the Bond and the rate of interest payable under the Notes.

KOREAN FOREIGN EXCHANGE CONTROLS AND SECURITIES REGULATIONS

General

In the past, the Foreign Exchange Management Act (Law No. 4447, 27 December 1991), as amended, and the Presidential Decree and regulations thereunder (collectively the "**Foreign Exchange Management Laws**") regulated investment in Korean securities by non-residents and issuance of securities outside Korea by Korean companies. With effect from 1 April 1999, the Foreign Exchange Management Laws were abolished and the Foreign Exchange Transaction Act (Law No. 5550, 16 September 1998), as amended, and the Presidential Decree and regulations thereunder (collectively the "**FETL**") were enacted. Under the FETL, many restrictions on foreign exchange transactions have been reduced and many currency and capital transactions have been liberalised. Although non-residents may invest in Korean securities only to the extent specifically allowed by such laws or otherwise permitted by the Ministry of Strategy and Finance (the "**MOSF**"), many approval requirements have been relaxed. The FSC has also adopted, pursuant to its authority under the Financial Investment Services and Capital Markets Act, regulations that restrict investment by foreigners (as defined therein) in Korean securities. However, Korean law does not limit the right of non-residents to hold securities issued pursuant to the FETL outside Korea.

With effect from 1 January 2006, the FETL was amended to further liberalise foreign exchange transactions. In accordance therewith, certain transactions that previously required approval from the Bank of Korea or MOSF now require only a report to the Bank of Korea or MOSF, although such report will have to be accepted by the Bank of Korea or MOSF, as applicable.

Under the FETL, if the Government deems that (a) it is necessary in the event of natural disasters or the outbreak of any wars or conflict of arms or the occurrence of grave and sudden changes in domestic/foreign economic circumstances or other situations equivalent thereto, the MOSF may temporarily suspend payments, or the receipt of payments, on the whole or part of transactions to which the FETL applies or imposes an obligation on the transaction parties to safekeep or deposit with or sell to, certain governmental agencies, the Bank of Korea, the Foreign Exchange Equalization Fund or financial institutions, the means of payment of the transaction (including any gold, non-negotiable gold coins or other gold products), or (b) the international balance of payments and international finance are confronted or are likely to be confronted with serious difficulty or the movement of capital between Korea and foreign jurisdictions causes or is likely to cause a serious obstruction to the conduct of currency policies, exchange rate policies and other macroeconomic policies, the MOSF may take action to require any person who intends to perform capital transactions (which include, among other things, the generation, alteration or extinction of claims from contracts of deposit, trust, the lending of money, the acquisition of securities, etc.) to obtain permission or to require any person who performs capital transactions to deposit part of the payment acquired in such transactions with the Bank of Korea, the Foreign Exchange Equalization Fund or financial institutions, in each case subject to certain limitations thereunder.

Government Review of the Issuance of the Bond and Authorisation for Payments on the Bond

In order for the Bond Issuer to issue the Bond to a non-resident, the Bond Issuer is required to file a prior report of the issuance to the MOSF through the Designated FX Bank. There are certain other regulatory reports that are required under the FETL in connection with the execution, delivery and performance of the Transaction Documents by the parties thereto.

Under the FSC's Regulations on Securities Issuance and Disclosure, the transfer of the Bond to a Korean resident (as defined in the FETL) is prohibited during the first year of their issuance except as otherwise permitted by applicable Korean law and regulations.

CERTAIN LEGAL CONSIDERATIONS

The following is a summary of certain U.S., Korean and Cayman Islands legal issues relevant to Noteholders. The following summary is not intended to be exhaustive. Prospective investors should consider the nature of an investment in notes of this type and the political and legal environment of Korea and the Cayman Islands and should make such further investigations as they, in their sole discretion, deem appropriate.

U.S. Legal Considerations

Sale of Receivables; Security Interests

The transfer of the Receivables (both current and future) and the other Conveyed Assets (including the Reserve Funding Amount) by KAL to the Trust is documented under the Receivables Sale and Contribution Agreement as an absolute sale, assignment and/or contribution, and these Conveyed Assets are pledged under the Indenture to secure the Depositor Note. KAL and the Trust will take appropriate steps, including the grant of a "backup" security interest in the Conveyed Assets, the filing of Uniform Commercial Code financing statements in the State of California against KAL and the State of Delaware against the Trust, on or prior to the Closing Date, to perfect these ownership and security interests of the Trust and Indenture Trustee in the Conveyed Assets. The steps described above will be taken in order to effect either an absolute sale of the Conveyed Assets to the Trust, or create and perfect a security interest in the Conveyed Assets in favour of the Trust and the Indenture Trustee. Such steps will be taken and U.S. counsel to the Joint Lead Arrangers will render an opinion as to the enforceability of the sale provisions of the agreement under New York law (subject to bankruptcy laws and equitable principles) and as to the validity and perfection of such security interests.

Certain Bankruptcy Considerations

In the event of financial difficulties, KAL would most likely be subject to the insolvency laws of Korea. However, in the event a U.S. bankruptcy court or a receiver asserting jurisdiction over KAL as debtor or its property as part of a bankruptcy estate or receivership, such authority could attempt to make the Receivables and their proceeds property of the estate or receivership on a number of grounds, including avoidance as fraudulent transfers, recharacterisation of the transfers as pledges under a secured loan and the substantive consolidation of the assets and liabilities of the Trust (including the Receivables and the Depositor Note) with KAL's estate. If such attempts are successful, and even if ultimately unsuccessful, the Conveyed Assets and/or payments on the Depositor Note may be subject to the control and claims of such bankruptcy estate or receivership and the creditors thereof. Nonetheless, in all cases such third-party claims would be subject to the perfected liens of the Trust and the Indenture Trustee on behalf of the Depositor Noteholder. In structuring the transactions contemplated by this Prospectus, the Trust has taken steps, such as covenants to maintain its separateness from KAL, that are intended to make it unlikely that the voluntary or involuntary application for bankruptcy relief by KAL, under the United States Bankruptcy Code will result in consolidation of the assets and liabilities of the Trust with those of the Depositor.

However, delays in payments on the Notes and possible reductions in the amount of those payments could occur if:

(a) a court were to conclude that the transfers to the Trust were made with the intent to hinder, delay or defraud KAL's creditors or when KAL was insolvent and it did not receive fair consideration for the Receivables, that the transfers to the Trust were not true sales or absolute assignments but rather pledges to secure a borrowing by KAL, or if the assets and liabilities of the Trust should be consolidated with those of the Depositor in the event of the application of applicable Insolvency Laws to the Depositor;

(b) a bankruptcy filing was made by or against the Trust; or

(c) an attempt were to be made to litigate any of the foregoing issues.

Korean Legal Considerations

Enforcement of English or U.S. Judgments in Korea

A monetary judgment duly obtained in the courts of England or the United States will be recognised by Korean courts without a re-examination of the merits of the case if:

(a) such judgment was finally and conclusively given by a court having valid jurisdiction in accordance with the international jurisdiction principles under Korean law and applicable treaties;

(b) the Bond Issuer, the Depositor, the Trust or the Equityholder, as the case may be, received service of process, other than by publication or similar means, in sufficient time to enable such party to prepare its defence in conformity with the laws of England, as applicable (or in conformance with the laws of Korea if it were made to the Depositor, the Equityholder or the Bond Issuer, as the case may be, in Korea), or responded to the action without being served with process;

(c) recognition of such judgment is not contrary to the public policy of Korea; and

(d) (i) judgments of the Korean courts are accorded reciprocal treatment under the laws of England or the United States, as the case may be, (ii) judgments of the courts of Korea in England or the United States, as the case may be, are not treated in a manner which is considerably prejudicial to their recognition and their treatment is substantially the same as treatment by the courts of Korea of the judgments obtained in England or the United States, as the case may be, in material respects.

The ABS Act

The Depositor Note will be sold by the Depositor to the Bond Issuer pursuant to the Depositor Note Sale and Purchase Agreement and in accordance with the Act Concerning Asset Backed Securitisation of Korea ("**ABS Act**"). Under the ABS Act, the Bond Issuer is required to register a plan of asset securitisation and the Depositor is required to register the sale of the Depositor Note, respectively, with the FSC.

Under the ABS Act, the sale of the Depositor Note will be perfected against third parties on the date of registration of such sale with the FSC.

Korean counsel to the Joint Lead Arrangers, subject to certain assumptions, has advised that (i) the sale by the Depositor to the Bond Issuer pursuant to the Depositor Sale and Purchase Agreement of the Depositor Note on the Closing Date is a legal, valid and binding sale of the Depositor Note by the Depositor to the Bond Issuer on the Closing Date and (ii) the sale of the Depositor Note to the Bond Issuer on the Closing Date will be perfected against third parties upon registration of such sale with the FSC in accordance with the ABS Act.

Insolvency Laws

Consolidated Insolvency Act

On 2 March 2005, the National Assembly of Korea passed the Act on Debtor Rehabilitation and Bankruptcy (the "**Consolidated Insolvency Act**") which combines and amends the Bankruptcy Act, the Act on Individual Debtor Rehabilitation, the Corporate Reorganisation Act and the Composition Act. The Consolidated Insolvency Act became effective from 1 April 2006, and contains, among others, the following:

1. provisions applicable to rehabilitation pursuant to Chapter 2 Proceedings, which are based on the Corporate Reorganisation Act and expand the scope of eligible applicants for Chapter 2 Proceedings to all types of legal entities, including corporations, and unincorporated foundations or associations, as well as individuals;

2. provisions applicable to bankruptcy proceedings, which are based on the Bankruptcy Act;

3. provisions applicable to individual rehabilitation pursuant to Chapter 4 Proceedings, which are based on the Act on Individual Debtor Rehabilitation and are applicable only to certain individual debtors who earn wages or business income with debts of no more than a certain specified amount; and

4. provisions applicable to international insolvency proceedings, which have been newly introduced.

Under the Consolidated Insolvency Act, the petitioner must specify which procedure it wishes to use.

For a debtor that has filed for a bankruptcy proceeding under the Consolidated Insolvency Act, after the court issues an order preserving the debtor's assets, a receiver will be appointed to liquidate the assets of the debtor and to distribute the proceeds to its unsecured creditors on a pro rata basis. Secured creditors remain free to exercise their interests under the bankruptcy proceedings.

On the other hand, the goal of Chapter 2 Proceedings and Chapter 4 Proceedings is to rehabilitate insolvent companies or, as the case may be, individuals. Whilst in a Chapter 2 Proceeding secured creditors will not be able to enforce their security outside such Chapter 2 Proceeding, secured creditors in a Chapter 4 Proceeding will be able to enforce their security interests notwithstanding such Chapter 4 Proceeding (a) unless the court issues an order to suspend or prohibit such exercise during the period after the filing of the petition for the Chapter 4 Proceeding but before the court decides to commence the Chapter 4 Proceeding, or (b) once the court decides to commence the Chapter 4 Proceeding, only after the earlier of (i) the court's approval of the repayment plan or (ii) the final decision by the court to discontinue such Chapter 4 Proceeding.

The Consolidated Insolvency Act makes it easier for the court to avoid the debtor's transactions with certain shareholders or equityholders of the debtor ("**specially related persons**"), by presuming that the specially related persons acted knowingly in such transactions. In addition, under the previous law, transactions made by debtors for, or relating to, the grant of security or the extinguishment of obligations within 60 days before the suspension of payment, without the obligation to do so, may be avoided. However, the Consolidated Insolvency Act extends this 60 day period to one year in the case of transactions with specially related persons. Further, under the current law, gratuitous or equivalent acts performed by the debtor within six months before the suspension of payment, etc. may be avoided, and the Consolidated Insolvency Act also extends this six-month period to one year with regard to transactions with specially related persons.

Chapter 2 Proceedings

A Chapter 2 Proceeding (*i.e.*, the rehabilitation proceeding) is designed for use by an insolvent debtor which desires to rehabilitate itself. This proceeding is tightly controlled by the court so that most of the material actions or decisions of the debtor may be taken or made only with the approval of the court.

One of the most significant changes effected through the Consolidated Insolvency Act with respect to Chapter 2 Proceedings in comparison with corporate reorganisation proceedings under the Corporate Reorganisation Act is that all types of legal entities, including joint stock companies, limited liability companies and unincorporated foundations or associations, as well as individuals, can rehabilitate pursuant to Chapter 2 Proceedings, whereas under the Corporate Reorganisation Act, only joint stock companies were subject to reorganisation proceedings. Although individual debtors can rehabilitate pursuant to Chapter 2 Proceedings, since this is a new feature of the Consolidated Insolvency Act, it is not clear how frequently and on what criteria the court will apply such procedures to individual debtors. In addition, although under the Corporate Reorganisation Act, a limited liability company such as the Bond Issuer has not been subject to corporate reorganisation proceedings because it is not a joint stock company, it will be subject to Chapter 2 Proceedings under the Consolidated Insolvency Act due to the expansion of eligible debtors as described above.

Another significant change is that, although the Consolidated Insolvency Act maintains the previous system of appointing a permanent receiver in Chapter 2 Proceedings, it provides that, in principle, the debtor itself or, in cases where the debtor is a company, its own representative, and not a third party, should be elected as the receiver with certain exceptions whereas the Corporate Reorganisation Act used to replace the incumbent management with the receiver appointed by the court. Further, the Consolidated Insolvency Act, unlike the Corporate Reorganisation Act, permits a legal entity to be appointed as the receiver of the rehabilitation proceeding, in which case this legal entity shall designate one of its directors to exercise the rights and powers conferred to it as the receiver and shall report such designation to the court.

Under the Consolidated Insolvency Act, the debtor may file a petition to the court for Chapter 2 Proceedings in the case where (a) debts cannot be repaid without causing material damage to the continuance of the debtor's business or (b) any events leading to bankruptcy of the debtor may arise. If the debtor is a joint stock company or a limited liability company, (i) a creditor who has claims in an amount of not less than 10 per cent. of the debtor's paid-in capital or (ii) a shareholder or equityholder who holds shares or equity interests of not less than 10 per cent. of the debtor's paid-in capital may also apply for the Chapter 2 Proceedings. If the debtor is not a joint stock company or a limited liability company, a creditor who has claims in the amount of not less than KRW50 million or an equityholder who holds equity interests of not less than 10 per cent. of the debtor's equity interest can apply for Chapter 2 Proceedings.

When a debtor itself or its creditor or equityholder satisfying the above requirements applies for a Chapter 2 Proceeding, the court may, upon request from interested parties or in its sole discretion, but after hearing the opinion of the management committee, issue a preservation order against individual assets of the debtor, and may issue an injunction against bankruptcy proceedings or enforcement proceedings initiated by its secured or unsecured creditors. Further, if the Court determines that the object of the Chapter 2 Proceedings may not be achieved through individual asset preservation orders, it may issue a comprehensive injunction against enforcement proceedings initiated by creditors against the assets of the debtor. If a comprehensive injunction is issued, enforcement proceedings that are already in progress will be suspended, and the court may cancel such enforcement proceedings upon the request of the debtor or, as the case may be, the receiver, if deemed necessary for the continuance of the debtor's business. However, if the court determines that a creditor may sustain unjust damages as a result of such comprehensive injunction, the court may revoke the injunction for that particular creditor upon the request of such creditor.

When a petition for a Chapter 2 Proceeding is filed, the court is required within one month of the date of petition to determine whether to commence a Chapter 2 Proceeding. Once the commencement of the Chapter 2 Proceeding is declared, most claims against the debtor that arose prior to such commencement date are automatically stayed, while claims arising after such commencement date are generally not subject to the Chapter 2 Proceeding. Also, the court will appoint a permanent receiver, who has the power to conduct all of the debtor's business and manage all of the debtor's properties, subject to court supervision.

The Consolidated Insolvency Act strengthens the role of the committee of creditors by mandating its composition, unless the debtor is a small- or medium-sized enterprise or an individual, and granting the committee the right to nominate an auditor and to request investigation of the debtor company's business status after the approval of the rehabilitation plan.

As a general rule, any creditor whose claim against the debtor arose prior to the commencement of a Chapter 2 Proceeding, whether secured or unsecured, may not enforce such claims other than as provided for in the rehabilitation plan adopted at the meeting of interested parties and approved by the court. The rehabilitation plan may alter or modify the rights of creditors or shareholders. Accordingly, there can be no assurance that the rights of the creditors, whether secured or unsecured, will not be adversely affected by a Chapter 2 Proceeding. Further, a creditor who intends to participate in the rehabilitation plan must file its claim with the court within the period fixed by the court.

Under a Chapter 2 Proceeding, creditors are classified into three basic categories: (i) creditors with unsecured rehabilitation claims, (ii) creditors with secured rehabilitation claims and (iii) creditors with claims for common benefits. The former two categories of creditors are subject to Chapter 2 Proceedings and generally may not receive payment or repayment for their respective claims other than as provided in the rehabilitation plan. Creditors with claims for common benefits are not subject to the rehabilitation plan, and include, among others, those creditors whose claims either arose after the commencement of a Chapter 2 Proceeding (subject to certain exceptions) or those creditors whose claims were approved by the court during the preservation period.

In order to encourage mergers and/or acquisitions of insolvent companies, the Consolidated Insolvency Act relaxes the requirements for approval of rehabilitation plans contemplating liquidation, by requiring the approval of the creditors representing four-fifths of the outstanding amount of secured claims, whereas the Corporate Reorganisation Act required unanimous consent of all secured creditors. However, in case of rehabilitation plans contemplating the continuance of the debtor's business including, without limitation, merger, spin-off or business transfer, the consent of the creditors representing not less than three-fourths of the amount of secured rehabilitation claims and of the creditors representing not less than two-thirds of the unsecured rehabilitation claims is required. For approval of all types of rehabilitation plans, the consent of the shareholders having not less than half of the voting rights is also required.

If the debtor fails to perform its payment obligations in accordance with the rehabilitation plan, affected creditors are not permitted to initiate lawsuits or enforce their security interests. Instead, they (or the receiver of the company) may only request the court to amend the rehabilitation plan. However, if such amendment could have an adverse effect on creditors with rehabilitation claims or shareholders of the company, the court may amend the rehabilitation plan only by obtaining an affirmative vote at a meeting of interested parties. If it becomes apparent, either before or after the court approves the rehabilitation plan, that the debtor cannot be rehabilitated, the court may, at its sole discretion or upon request by the receiver or a creditor with a rehabilitation claim, issue an order to discontinue the Chapter 2 Proceeding.

Once a Chapter 2 Proceeding is discontinued and if the court determines the debtor is insolvent, the court must declare the debtor bankrupt and must initiate the bankruptcy proceeding against the debtor. The compulsory declaration of bankruptcy in Chapter 2 Proceedings will be limited to those cases where a final decision has been made to terminate the Chapter 2 Proceedings after the approval of the rehabilitation plan.

A declaration of bankruptcy is optional in cases of:

(i) the dismissal of a petition for the commencement of Chapter 2 Proceedings;

(ii) the non-approval of a rehabilitation plan; and

(iii) an order to terminate Chapter 2 Proceedings before the approval of the rehabilitation plan.

If the bankruptcy proceedings are initiated, unsecured rehabilitation claims are characterised as general liquidation claims, and creditors with unsecured rehabilitation claims will be paid pursuant to the bankruptcy proceedings. Creditors with secured rehabilitation claims, on the other hand, may immediately enforce their security interest once the rehabilitation proceeding is discontinued, *provided, however, that* if the terms of the secured claim is amended by the rehabilitation plan, such claim may only be enforced in accordance with such amendment and the original terms shall not be revived.

Bankruptcy Proceedings

The bankruptcy proceeding is a court administered process designed to liquidate an insolvent debtor's assets and formally begins upon an adjudication by the court that the debtor is indeed "bankrupt". The court will make its determination as to whether grounds for bankruptcy exist based on the written pleadings and oral argument of the petitioner. The adjudication of bankruptcy also has the effect of automatically staying all unsecured creditors from executing their claims against the bankruptcy estate.

The receiver appointed by the court will be vested with the exclusive right to manage and dispose of the bankruptcy estate, and to conduct an investigation and assessment of the bankruptcy estate. The Consolidated Insolvency Act, unlike the Bankruptcy Act, permits a legal entity to be appointed the receiver of the bankruptcy proceeding. If a legal entity is appointed the receiver, it shall designate one of its directors to exercise the right and power conferred to it as receiver and shall report such designation to the court. After reviewing the reports prepared by the receiver, the creditors will have a meeting and vote on a resolution deciding whether to continue or discontinue the debtor business and the manner of safeguarding the bankruptcy estate.

Subject to certain statutory limitations and approval by the inspection commissioners, the receiver has the power to liquidate the bankruptcy estate, and to determine the manner and timing of such liquidation. The receiver distributes the proceeds from the liquidation of the bankruptcy estate to the creditors in proportion to their claims. The distribution proceeds in several stages. Claims entitled to distribution are differentiated according to the priority of claims. Bankruptcy creditors are classified as follows, in accordance with their priorities: (i) secured creditors, who have the right to proceed against their securities on the same terms as would be available if the debtor were not in bankruptcy; (ii) creditors with estate claims, which include costs of judicial proceeding, tax claims, wages and payment of severance, management expenses incurred in connection with management, liquidation and distribution of the bankruptcy estate, and other claims arising from administration of the bankruptcy estate; (iii) creditors with other statutorily preferred claims (including policyholders' claims against an insurance company to the extent of the amount equal to the relevant reserves); (iv) general claims; and (v) less preferred claims.

Chapter 4 Proceedings

A Chapter 4 Proceeding (*i.e.*, the individual rehabilitation proceeding) is available to persons (a) who are unable, or are likely to become unable, to repay debts when they become due, (b) who are considered to have the ability to earn consistent wage income or business income in the future and (c) whose debt amount is no more than (i) KRW1 billion in case of debts secured by mortgage, pledge, chonsei-kwon and certain other preferential rights, and (ii) KRW500 million in case of any other debts. Only debtors, and not creditors, will be able to apply for Chapter 4 Proceedings. When a debtor files a petition for a Chapter 4 Proceeding, the court may suspend or prohibit bankruptcy proceedings, compulsory execution, provisional attachment, establishment or enforcement of security or the repayment of claims until the court decides whether to commence the Chapter 4 Proceeding. The court must make such decision within a month after the filing of the petition.

After the commencement order is issued by the court, any bankruptcy proceedings, Chapter 2 Proceeding or actions mentioned above are automatically suspended or prohibited. In addition, after the commencement order is issued by the court, the establishment or enforcement of security interests is automatically suspended or prohibited until the earlier of the date (a) when the repayment plan is approved or (b) when the approved Chapter 4 Proceeding is later finally determined to be discontinued. Subject to the automatic suspension or prohibition as described above, secured creditors have the right to enforce their security interest on the same terms as would be available if the debtor was not in Chapter 4 Proceedings. In principle, the debtor retains management and disposal rights over his/her assets even after the issuance of a commencement order for the Chapter 4 Proceedings. The debtor must submit a list of creditors at the time of application, and any claim that is not disputed by the relevant creditor will be settled as indicated on the list of creditors. Claims that are disputed by creditors will be settled through a court decision. The debtor must, in principle, submit a repayment plan within 14 days of the application, and the rehabilitation period must not exceed five years from the commencement of repayment. The Consolidated Insolvency Act shortens such repayment period to a maximum of five years as the maximum repayment period of eight years under the Act on Individual Debtor Rehabilitation was considered too severe.

The repayment plan must be approved by the court and the court may order its amendment. One important requirement for approval is that the total amount of repayment must not be less than the amount that creditors would have received in a bankruptcy proceeding, unless creditors consent to the court's approval despite the failure of the individual debtor's repayment plan to meet such requirement. The Consolidated Insolvency Act sets out a list of claims that have priority in payment to the claims listed in the list of creditors (such as expenses for the Chapter 4 Proceedings, certain taxes, salaries for the debtor's employees, etc) in the same manner as set out in the Act on Individual Debtor Rehabilitation. Once the debtor completes repayment in accordance with the repayment plan, the court will issue an acquittal order for the debtor.

International Insolvency Proceedings

The representative in a foreign insolvency proceeding (*i.e.*, a person or entity recognised by the applicable court as the receiver or representative in the foreign insolvency proceeding) may file with the Korean court for approval of such foreign insolvency proceeding. Once the foreign insolvency proceeding is approved by the Korean court, the representative in such proceeding may apply for insolvency proceedings in Korea or participate in the insolvency proceeding that is already in progress in Korea. On the other hand, the receiver or bankruptcy trustee in the insolvency proceeding in Korea may, for purposes of such proceeding, take actions in foreign jurisdictions to the extent permitted by the applicable laws.

Corporate Restructuring Promotion Act

The old Corporate Restructuring Promotion Act (Act No. 10684) expired on 31 December 2013, and on 23 December 2013, the National Assembly of Korea passed the new Corporate Restructuring Promotion Act (Act No. 12155) (the "**CRPA**"), which was enacted on 1 January 2014 and will remain in effect until 31 December 2015. The CRPA restricts certain creditor financial institutions' ability to enforce security interests given by a company which may not be able to repay its borrowings without external financial support or additional borrowings (other than borrowings in the ordinary course of business) (a "**Failing Company**"), and is intended, among other things, to promote the corporate restructuring of Korean companies by market mechanisms.

The following is a summary of the CRPA, which would apply to creditor financial institutions specified in the CRPA (the "**Creditor Financial Institutions**") which provide credit to a company having not less than KRW50 billion of credit provided by Creditor Financial Institutions. Under the CRPA, the definition of a Creditor Financial Institution includes the branches of foreign financial institutions in Korea, but overseas offices of foreign financial institutions are not Creditor Financial Institutions as defined under the CRPA.

Under the CRPA, the main creditor bank specified in the CRPA (the "**Main Creditor Bank**") of a Failing Company is required to notify the Failing Company if it determines that such company is a Failing Company. Upon receipt of such notice from the Main Creditor Bank, the Failing Company may petition the Main Creditor Bank for the commencement of one of the following actions, attaching a business plan:

(a) assumption of joint management of the Failing Company by a committee of the Creditor Financial Institutions (a "**Creditor Committee**");

(b) assumption of joint management of the Failing Company by a committee of the creditor banks (a "**Creditor Bank Committee**"); or

(c) assumption of management of the Failing Company by the Main Creditor Bank.

The Main Creditor Bank is then required to convene a Creditor Committee or a Creditor Bank Committee (except where the assumption of management of the Failing Company by the Main Creditor Bank has been petitioned) to determine whether it will commence the actions or not, within seven days of receipt of the petition. Even if one of the above actions has been commenced, the Failing Company or Creditor Financial Institution may petition for rehabilitation proceedings under the Consolidated Insolvency Act. If the court issues a commencement order for rehabilitation of the Failing Company, the above actions shall be deemed to have ceased.

Under the CRPA, in the event that the Main Creditor Bank of the Failing Company calls for a meeting of the Creditor Committee, the Main Creditor Bank is required to notify the Governor of the FSC. Upon receipt of such notice, the Governor of the FSC may require the Creditor Financial Institutions to grant a moratorium on the enforcement of claims (including the enforcement of security interest) until the first meeting of the Creditor Committee (which should be held within seven days of the notice of the meeting). In addition, during the first meeting of the Creditor Committee, Creditor Financial Institutions representing at least 75 per cent. of the outstanding credit to the Failing Company may declare a moratorium for up to three months if an investigation of the Failing Company's financial status is necessary or up to one month if such investigation is not necessary (which may be extended by an additional month).

If the Creditor Committee cannot agree on the moratorium period or if the corporate repayment plan is not approved by the date the moratorium period ends, the Creditor Committee's management of the Failing Company shall be deemed to have terminated. The Creditor Committee can approve the rescheduling of the debt owed by the Failing Company or provide new credit to it with the approval of Creditor Financial Institutions representing not less than 75 per cent. of the outstanding secured claims, as well as the approval of Creditor Financial Institutions representing not less than 75 per cent. of all outstanding credit. A Creditor Financial Institution whose outstanding credit to the Failing Company is less than 5 per cent. of the total outstanding credit may be excluded from the Creditor Committee, but not against its will.

A Creditor Financial Institution which has not participated in the relevant Creditor Committee meeting or has opposed the resolutions of the Creditor Committee in respect of the commencement of the management of the Failing Company by the Creditor Committee or the rescheduling of claims or provision of new credit may, within seven days of such resolution, request the Creditor Financial Institutions that have approved the relevant resolutions to purchase its claims against the Failing Company. The Creditor Financial Institutions that have approved the relevant resolutions shall purchase such claims within six months or may request Korea Asset Management Corporation, Korea Deposit Insurance Corporation or other financial institutions under the Depositor Protection Act or any other person who wishes to purchase such claims. The purchase of such claims by any of Korea Asset Management Corporation, Korea Deposit Insurance Corporation or any such other financial institution shall require the consent of the opposing Creditor Financial Institutions.

The purchase price and terms of the purchase shall be determined by negotiation of the Creditor Committee and the opposing Creditor Financial Institutions. If no such agreement is reached, then such matters shall be determined by the coordination committee established under the CRPA.

Cayman Islands Legal Considerations

The Note Issuer has been advised by its Cayman Islands counsel, Walkers, that, although there is no statutory enforcement in the Cayman Islands of judgments obtained in England or the United States, a judgment obtained in a foreign court (other than certain judgments of a superior court of any state of the Commonwealth of Australia) will be recognised and enforced in the courts of the Cayman Islands without any re-examination of the merits at common law, where the judgment (a) is final and conclusive, (b) is one in respect of which the foreign court had jurisdiction over the defendant according to Cayman Islands conflict of law rules, (c) is either for a liquidated sum not in respect of penalties or taxes or a fine or similar fiscal or revenue obligations or, in certain circumstances, for in personam non-money relief, and (d) was neither obtained in a manner, nor is of a kind enforcement of which is contrary to natural justice or the public policy of the Cayman Islands. Such judgement would be recognised and enforced in the courts of the Cayman Islands by an action commenced on the foreign judgment in the Grand Court of the Cayman Islands.

A Cayman Islands' court may stay proceedings if concurrent proceedings are being brought elsewhere.

TAXATION

The following summary is a general description of certain Korean, the United States, Cayman Islands, United Kingdom, European Union and Irish tax considerations relating to the purchase, ownership and disposition of the Notes is based upon laws, regulations, rulings and decisions in effect as of the date of this Prospectus, all of which are subject to change (possibly with retroactive effect). The summary does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to purchase, own or dispose of the Notes and does not purport to deal with the consequences applicable to all categories of investors, some of which may be subject to special rules. Persons considering the purchase of the Notes should consult their own tax advisor concerning the application of Korean, the United States, Cayman Islands, United Kingdom, European Union and Irish tax laws to their particular situations as well as any consequences of the purchase, ownership and disposition of the Notes arising under the laws of any other taxing jurisdiction.

Korean Taxation

The information provided below does not purport to be a complete summary of Korean tax law and practice currently applicable. Prospective investors should consult with their professional advisors.

The taxation of a non-Korean corporation such as the Note Issuer depends on whether the non-Korean corporation has a "**permanent establishment**" (as defined under Korean law) in Korea to which the relevant Korean source income is attributable or with which the relevant Korean source income is effectively connected. Non-Korean corporations without a permanent establishment in Korea are taxed in the manner described below. Non-Korean corporations with a permanent establishment in Korea are taxed in accordance with different rules.

Tax on Interest

In principle, interest on the Bond paid to a non-Korean corporation such as the Note Issuer by a Korean company is subject to withholding of Korean corporate income tax at the rate of 14 per cent. unless reduced or exempted by relevant laws or tax treaties. In addition, local corporate income tax should be withheld at the rate of 10 per cent. of the corporate income tax (raising the total tax rate to 15.4 per cent.) under the Local Tax Law of Korea (the "**LTL**"). Tax rates may be reduced or exempted by applicable tax treaties, conventions or agreements between Korea and the jurisdiction of the recipient who is the beneficial owner of the interest income.

The Special Tax Treatment Control Law of Korea (the "**STTCL**") exempts interest on bonds denominated in a foreign currency (excluding payments to a Korean corporation or resident or permanent establishment of a non-resident individual or a non-Korean corporation) issued by a Korean company from Korean corporate income tax; *provided that* the offering of such bonds is deemed to be an overseas issuance under the STTCL. Although interest on the Bond paid to a non-Korean corporation such as the Note Issuer by a Korean company is not exempted from local corporate income tax under the Special Local Tax Treatment Control Law of Korea (the "**SLTTCL**"), it is likely that such interest income would not be subject to withholding of the local corporate income tax, because such local corporate income tax is required to be withheld at the rate of 10 per cent. of the withheld corporate income tax under the LTL and there would be no withholding of corporate income tax on such interest income under the STTCL.

Tax on Capital Gains

The Corporate Tax Law of Korea excludes from Korean corporate income tax gains made by a non-Korean corporation without a permanent establishment in Korea from the sale of bonds to a non-resident or non-Korean corporation (unless the sale is to the permanent establishment in Korea of the non-resident or non-Korean corporation). The local corporate income tax is also eliminated under the LTL.

In addition, capital gains earned by a non-Korean corporation from the transfer of foreign currency denominated bonds taking place outside of Korea are exempt from Korean corporate income tax by virtue of the STTCL; *provided that* the issuance of such bonds is deemed to be an overseas issuance under the STTCL. Although such capital gains are not exempt from local corporate income tax under the SLTTCL, it is likely that such capital gains would not be subject to withholding of the local corporate income tax, because such local corporate income tax is required to be withheld at the rate of 10 per cent. of the withheld corporate income tax under the LTL and there would be no withholding of corporate income tax under the STTCL.

If a sale of bonds issued by a Korean company where the seller is a non-Korean corporation is not exempted under Korean tax laws or applicable tax treaties, gains made on such sale are subject to Korean taxation at the lesser of 11 per cent. (including local corporate income tax) of the gross realisation proceeds or (subject to the production of satisfactory evidence of the acquisition costs and certain transaction costs) 22 per cent. (including local corporate income tax) of the gain made.

Unless the seller can claim the benefit of an exemption of tax under an applicable treaty or in the absence of the seller producing satisfactory evidence of its acquisition cost and certain direct transaction costs in relation to the securities being sold, the purchaser or any other designated withholding agents of the bonds, as applicable, must withhold an amount equal to 11 per cent. of the gross realisation proceeds.

Stamp Tax and Securities Transaction Tax

No stamp, registration, or similar taxes are payable in Korea on the Transaction Documents; provided that such documents are executed outside of Korea. If certain Transaction Documents are executed in Korea, a stamp duty ranging from KRW100 to KRW350,000 would be imposed on each original document. No securities transaction tax will be imposed on the transfer of the Bond.

Tax Treaties

At the date of this Prospectus, Korea does not have a tax treaty with the Cayman Islands.

United States Taxation

In the opinion of Jones Day, special tax counsel to the Arranger although no regulations, rulings or judicial precedents address the characterisation for U.S. federal income tax purposes of securities having substantially the same terms as the Depositor Note: (i) the Depositor Note will not be characterised as equity in the Trust for U.S. federal income tax purposes and (ii) the Trust will not be classified as an entity separate from Korean Air for U.S. federal income tax purposes. The parties to the Trust Agreement will agree, and each holder of the Depositor Note also will agree, by acceptance of such Depositor Note, to treat such Depositor Note as debt (and not as equity in the Trust) for U.S. federal income tax purposes. There is no assurance that the U.S. Internal Revenue Service ("**IRS**") will agree with such opinions. If the IRS successfully asserts that the Depositor Note is equity in the Trust for U.S. federal income tax purposes, the Trust could be classified as a partnership for U.S. federal income tax purposes, with the Depositor Note being treated as a partnership interest in such partnership. In such case, part or all of the return on the Depositor Note could be subject to a 30 per cent. U.S. withholding tax. If the Bond Issuer, as holder of the Depositor Note, or if the Note Issuer were taxable in the United States or subject to withholding tax, U.S. taxes on the taxable income of the Bond Issuer or the Note Issuer (potentially including a branch profits tax and a corporate income tax) would reduce available funds to the Bond Issuer and the Note Issuer and ultimately could result in a reduction in payments that otherwise would be made on the Notes. The following discussion assumes that the Depositor Note will not be characterised as equity in the Trust for U.S. federal income tax purposes.

In general, payments of interest to non-U.S. persons are generally subject to U.S. federal income tax at a rate of 30 per cent. (or a reduced or zero rate under the terms of an applicable income tax treaty between the United States and the non-U.S. holder 's country of residence), collected by means of withholding by the payor. Payments of interest on the Depositor Note, however, are expected to qualify as "portfolio interest", and thus, subject to the exceptions described in next paragraph below, be exempt from U.S. federal income and withholding tax if the parties comply with requirements of the Internal Revenue Code of 1986, as amended (the "**Code**") and the Treasury Regulations promulgated thereunder, to keep the Depositor Note in registered form and require the paying agent to receive a statement certifying that the beneficial owner of the obligation is not a U.S. person.

The portfolio interest exemption will not apply to the extent a non-U.S. holder of a Note:

- owns, actually or constructively, shares of Korean Air stock representing at least 10 per cent. of the total combined voting power of all classes of Korean Air stock entitled to vote within the meaning of Section 871(h)(3) of the Code;
- is a "controlled foreign corporation" that is related directly, indirectly or constructively to Korean Air through stock ownership;
- is a bank whose receipt of interest on a note is described in Section 881(c)(3)(A) of the Code; or
- is engaged in the conduct of a trade or business in the United States to which such interest payments are effectively connected, and, generally, if an income tax treaty applies, such interest payments are attributable to a U.S. permanent establishment maintained by the non-U.S. holder.

In addition to the above, investors should note that the Notes could be treated as equity in a "passive foreign investment company" for U.S. federal income tax purposes with consequences to investors who are subject to U.S. taxation on such income or have substantial shareholders who are subject to U.S. taxation on such income.

Prospective investors should consult their own tax advisors regarding the foregoing.

U.S. Foreign Account Tax Compliance Withholding

Under provisions of U.S. law commonly referred to as "**FATCA**", the Note Issuer may be subject to a 30 per cent. withholding tax on its income from US sources and, beginning 1 January 2017, on the gross proceeds from the sale, maturity, or other disposition of certain of its assets that generate US-source income. However, on 29 November 2013, the Cayman Islands and the United States signed an intergovernmental agreement ("**IGA**") governing FATCA. Under the terms of the IGA, the Note Issuer generally will be responsible for collecting information about U.S. persons and certain others that own its debt and equity interests, including the Notes, and providing such information to the Cayman Islands Tax Information

Authority (the "**TIA**"), and otherwise complying with the requirements of the IGA and Cayman Islands authorities that implement the IGA as a matter of local law. The TIA will then pass on such information to the U.S. Internal Revenue Service, as required by the IGA. Provided the Note Issuer complies with its obligations under the IGA and the Cayman Islands implementing authorities, the Note Issuer generally will not be subject to withholding under FATCA, either on payments it makes or receives. The Note Issuer will endeavour to comply with these requirements and expects it will be able to do so.

Nevertheless, the Cayman Islands implementation process is not yet complete, and it is thus uncertain whether the Note Issuer will be able to comply with all of these requirements. Moreover, the IGA provides that the United States and the Cayman Islands will develop an alternative approach to address "foreign passthru payments". It is unclear what approach will be taken, and it is possible, for example, that entities such as the Note Issuer will be required to withhold on payments that are treated as foreign passthru payments as early as 1 January 2017.

Whilst the Notes are in global form and held within Euroclear Bank or Clearstream, Luxembourg (together, the "**ICSDs**"), it is expected that FATCA will not affect the amount of any payments made under, or in respect of, the Notes by the Note Issuer, any paying agent and the common depositary, given that each of the entities in the payment chain from (but excluding) the Note Issuer to (but including) the ICSDs is a major financial institution whose business is dependent on compliance with FATCA and that any alternative approach introduced under an IGA will be unlikely to affect the Notes.

If an amount in respect of U.S. withholding tax were to be deducted or withheld from interest, principal or other payments on the Notes as a result of FATCA, none of the Note Issuer, any paying agent or any other person would, pursuant to the terms and conditions of the Notes be required to pay additional amounts as a result of the deduction or withholding. As a result, investors may receive less interest or principal than expected.

FATCA IS PARTICULARLY COMPLEX AND ITS APPLICATION TO THE NOTE ISSUER, THE NOTES AND THE HOLDERS IS SUBJECT TO CHANGE. EACH HOLDER OF NOTES SHOULD CONSULT ITS OWN TAX ADVISER TO OBTAIN A MORE DETAILED EXPLANATION OF FATCA AND TO LEARN HOW FATCA MIGHT AFFECT EACH HOLDER IN ITS PARTICULAR CIRCUMSTANCE.

Cayman Islands Taxation

The following is a general discussion of certain Cayman Islands tax considerations for prospective investors in the Notes. The discussion is based upon present law and interpretations of present law, both of which are subject to prospective and retroactive changes. The discussion does not consider any investor's particular circumstances and it is not intended as tax advice. Each prospective investor is urged to consult its tax adviser about the tax consequences of an investment in the Notes under the laws of the Cayman Islands, the United States, Korea, jurisdictions from which the Note Issuer may derive its income or conduct its activities, and jurisdictions where the investor is subject to taxation.

Withholding Tax

No withholding tax is payable in the Cayman Islands in respect of payments of principal and interest on the Notes.

Stamp Duty

No stamp duties or similar taxes or charges are payable under the laws of the Cayman Islands in respect of the execution and issue of the Notes unless they are executed in or brought within (for example, for the purposes of enforcement) the jurisdiction of the Cayman Islands, in which case stamp duty of 0.25 per cent. of the face amount thereof may be payable on each Note (up to a maximum of 250 Cayman Islands dollars ("**CI$**") (U.S.$305) unless stamp duty of CI$500 (U.S.$610) has been paid in respect of the entire issue of Notes. The above conversions of Cayman Islands dollars to U.S. dollars have been made on the basis of U.S.$1.22 to CI$1.00. The holder of any Notes (or the legal personal representative of such holder) whose Notes are brought into the Cayman Islands may in certain circumstances be liable to pay stamp duty imposed under the laws of the Cayman Islands in respect of such Notes. Certificates evidencing registered Notes, to which title is not transferable by delivery, will not attract Cayman Islands stamp duty. However, an instrument transferring title to a registered Note, if brought to or executed in the Cayman Islands, would be subject to nominal Cayman Islands stamp duty.

Income Tax; Capital Gains Tax; Estate Duty

The Cayman Islands currently have no income, corporation or capital gains tax and no estate duty, inheritance tax or gift tax.

Tax Status of the Note Issuer

The Note Issuer has been incorporated under the laws of the Cayman Islands as an exempted company and, as such, has applied for and obtained an undertaking from the Governor in Cabinet of the Cayman Islands in the following form:

"CAYMAN ISLANDS GOVERNMENT
The Tax Concessions Law
(2011 Revision)
Undertaking as to Tax Concessions

In accordance with Section 6 of the Tax Concessions Law (2011 Revision) the Governor in Cabinet undertakes with:

"KAL ABS 15 CAYMAN LIMITED (the **"Company")**

(a) that no Law which is hereafter enacted in the Islands imposing any tax to be levied on profits, income, gains or appreciations shall apply to the Company or its operations; and

(b) in addition, that no tax to be levied on profits, income, gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable:

  (i) on or in respect of the shares debentures or other obligations of the Company; or

  (ii) by way of the withholding in whole or in part of any relevant payment as defined in Section 6(3) of the Tax Concessions Law (2011 Revision).

These concessions shall be for a period of TWENTY years from 21 October 2014."

European Union Savings Directive on the Taxation of Saving Income

On 3 June 2003, the Council of the European Union adopted Council Directive 2003/48/EC regarding the taxation of savings income (as amended by an EU Council Directive adopted by the European Council on 24 March 2014) (the "**Savings Directive**"). The Savings Directive is applied by EU Member States since 1 July 2005.

According to the Savings Directive, EU Member States are required to provide to the tax authorities of other EU Member States details of payments of interest or other certain types of income paid by a paying agent within its jurisdiction to an individual resident in another EU Member State or to certain other types of entity or legal arrangement established in such EU Member State (the "**Disclosure of Information Method**").

However, throughout a transitional period, certain EU Member States (Austria, Luxembourg), as well as certain associated or dependent territories to the EU and certain jurisdictions, which have signed an agreement with EU Member States (Switzerland, Liechtenstein, Jersey, former Netherlands Antilles, San Marino, Monaco, and Andorra) to apply similar measures to those included in the Savings Directive, will withhold an amount on interest payments ("**Tax Withholding Method**") instead of using the Disclosure of Information Method, except if the beneficiaries of the interest payments opt for the Disclosure of Information Method.

The rate of such withholding tax is 35 per cent. since 1 July 2011. Such transitional period will end if and when the European Community enters into agreements on exchange of information upon request with several jurisdictions (Switzerland, Liechtenstein, former Netherlands Antilles, San Marino, Monaco and Andorra). The withholding tax will not, however, apply if the beneficiary of the income (i) expressly authorises the paying establishment to declare the payments or (ii) provides a certificate issued in his name by the competent tax authorities allowing him to benefit from an exemption from withholding tax.

Other associated or dependent territories to the EU have committed to provide automatic exchange of information (Aruba, Anguilla, the Cayman Islands, Montserrat, British Virgin Islands, Guernsey, Isle of Man, Turks and Caicos Islands; Jersey intends to move to the automatic information exchange as from 1 January 2015).

In connection with the amendment of the Savings Directive, dated 24 March 2014, Austria and Luxembourg have agreed to replace the currently applied Tax Withholding Method by the Disclosure of Information Method as from 1 January 2015 (Luxembourg) and 1 January 2017 (Austria).

Prospective holders of the Notes should consult their own tax advisers in relation to the consequences of the proposed amendments to the Saving Directive associated with subscribing for, purchasing, holding and disposing of the Notes.

SUBSCRIPTION AND SALE

General

Pursuant to a note subscription agreement dated 20 November 2014, among the Joint Lead Arrangers, the Joint Lead Managers, the Depositor, the Credit Facility Provider, the Note Issuer and the Bond Issuer (the "**Note Subscription Agreement**"), the Note Issuer has agreed to issue and sell to Daiwa Capital Markets Hong Kong Limited, Standard Chartered Bank and the Korea Development Bank as Initial Subscribers of the Notes (the "**Initial Subscribers**"), at 100 per cent. of their principal amount less underwriting commission. The Note Issuer, the Bond Issuer, the Depositor and the Credit Facility Provider have given certain representations and warranties to the Joint Lead Managers in the note subscription agreement, and have agreed to indemnify the Joint Lead Managers against certain liabilities in connection with the offer and sale of the Notes.

Each Initial Subscriber proposes to offer the Notes initially at the offering price on the cover page of this Prospectus.

Each purchaser of Notes must comply with all applicable laws and regulations in force in any jurisdiction in which it offers or sells Notes or possesses or distributes this Prospectus or any part of it and must obtain any consent, approval or permission required by it for the purchase, offer or sale 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 or sales and neither the Note Issuer, the Joint Lead Arrangers nor the Joint Lead Managers will have any responsibility therefor.

Each of the Joint Lead Arrangers and the Joint Lead Managers has agreed to comply with all applicable laws and regulations in each country or jurisdiction in which it purchases, offers, sells or delivers Notes or has in its possession or distributes such offering material, in all cases at its own expense.

No action has been taken by the Note Issuer or the Joint Lead Managers that would, or is intended to, permit a public offer of the Notes in any country or jurisdiction where any such action for that purpose is required. Accordingly, each of the Joint Lead Arrangers and the Joint Lead Managers has undertaken that it will not, directly or indirectly, offer or sell any Notes or distribute or publish any prospectus, form of application, advertisement or other document or information in any country or jurisdiction except under circumstances that will, to the best of its knowledge and belief, result in compliance with any applicable laws and regulations and all offers and sales of Notes by it will be made on the same terms.

Without prejudice to the foregoing, the Note Issuer will have no responsibility for, and each of the Joint Lead Arrangers and the Joint Lead Managers will obtain any consent, approval or permission required by it for the subscription, offer or sale by it of the Notes or possession or distribution by it of this Prospectus or any other offering material under the laws and regulations in force in any jurisdiction to which it is subject to or in or from which it makes any subscription, offer or sale in relation to the Notes.

The Joint Lead Managers are not obliged to facilitate trading in the Notes (or beneficial interests therein) and any such activities, if commenced, may be discontinued at any time, for any reason, without notice. If the Joint Lead Managers do not facilitate trading in the Notes (or beneficial interests therein) for any reason, there can be no assurance that another firm or person will do so. Pursuant to the underwriting arrangements between the Joint Lead Managers and the Note Issuer, the Joint Lead Managers is required to purchase the Notes for its own account to the extent that accepted orders are insufficient to place the entire amount of the Notes.

The Joint Lead Managers and their respective affiliates may also engage in investment or commercial banking and other dealings in the ordinary course of business with the Depositor or its affiliates, including the extension of credit facilities, from time to time and may receive fees and commissions for these transactions. In addition to the transactions noted above, the Joint Lead Managers and its affiliates may, from time to time after completion of the offering of the Notes, engage in other transactions with, and perform services for, the Depositor or their respective affiliates in the ordinary course of their business. The Joint Lead Managers or their respective affiliates may purchase the Notes for its own account or enter into secondary market transactions or derivative transactions relating to the Notes, including, without limitation, purchase, sale (or facilitation thereof), stock borrowing or credit or equity-linked derivatives such as asset swaps, repackagings and credit default swaps, at the same time as the offering of the Notes. Such transactions may be carried out as bilateral trades with selected counterparties and separately from any existing sale or resale of the Notes to which this Prospectus relates (notwithstanding that such selected counterparties may also be a purchaser of the Notes). As a result of such transactions, the Joint Lead Managers or their respective affiliates may hold long or short positions relating to the Notes. The Joint Lead Managers or their respective affiliates may also purchase Notes for asset management and/or proprietary purposes but not with a view to distribution or may hold Notes on behalf of clients or in the capacity of investment advisors. While the Joint Lead Managers and their respective affiliates have policies and procedures to deal with conflicts of interests, any of the above transactions may cause the Joint Lead Managers or their respective affiliates or clients or counterparties to have economic interests and incentives which may conflict with those of an investor in the Notes. The Joint Lead Managers may receive returns on such transactions and has no obligation to take, refrain from taking or cease taking any action with respect to any such transactions based on the potential effect on a prospective investor in the Notes.

If a jurisdiction requires that the offering be made by a licensed broker or dealer and the Joint Lead Managers or any affiliate of the Joint Lead Managers is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by that Joint Lead Manager or its affiliate on behalf of the Note Issuer in such jurisdiction.

United States

The Notes have not been, and will not be, registered under the United States Securities Act of 1933, as amended (the "**U.S. Securities Act**") or the state securities law of any state of the United States. Each of the Joint Lead Arrangers, the Joint Lead Managers and the Note Issuer agrees that they will not offer or sell the Notes within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the U.S. Securities Act), except in accordance with Regulation S or pursuant to an exemption from, or in a transaction not subject to the registration requirements of the U.S. Securities Act.

Each of the Joint Lead Arrangers, the Joint Lead Managers, the Initial Subscribers and the Note Issuer has represented and agreed that, except as permitted by the preceding paragraph, it will not offer, sell or deliver the Notes (i) as part of their distribution at any time or (ii) otherwise, until 40 days after the later of the commencement of the offering and the Closing Date, within the United States or to, or for the account or benefit of, U.S. persons and it will have sent to each distributor, dealer or other person receiving a selling concession or similar fee to which it sells the Notes in reliance to Regulation S during such distribution compliance period, a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons. In addition, until 40 days after the later of the commencement of the offering and the Closing Date, any offer or sale of the Notes within the United States by any broker/dealer/distributor (whether or not it is participating in this offering), may violate the registration requirement of the Securities Act. Terms used in the preceding paragraph and in this paragraph have the meanings given to them by Regulation S under the U.S. Securities Act.

Each holder of the Notes will be deemed to have represented that such holder is aware that the sale of such Notes to it is being made in reliance on the exemption from registration provided by Regulation S and understands that the Note Certificates will bear the following legend:

THIS NOTE HAS NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT") OR THE STATE SECURITIES LAW OF ANY STATE OF THE UNITED STATES, AND, ACCORDINGLY, MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES EXCEPT AS SET FORTH IN THE FOLLOWING SENTENCE. BY ITS ACQUISITION HEREOF, THE HOLDER (1) REPRESENTS THAT IT IS ACQUIRING THE NOTES REPRESENTED HEREBY IN AN OFFSHORE TRANSACTION IN COMPLIANCE WITH REGULATION S UNDER THE SECURITIES ACT, (2) AGREES THAT, PRIOR TO THE DATE THAT IS 40 DAYS AFTER THE LATER OF THE COMMENCEMENT OF THE OFFERING AND THE CLOSING DATE, IT WILL NOT RESELL OR OTHERWISE TRANSFER THE NOTES REPRESENTED HEREBY EXCEPT (A) OUTSIDE THE UNITED STATES IN AN OFFSHORE TRANSACTION IN COMPLIANCE WITH RULE 904 UNDER THE SECURITIES ACT OR (B) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT AND (3) AGREES THAT IT WILL DELIVER TO EACH PERSON TO WHOM THE NOTES REPRESENTED HEREBY ARE TRANSFERRED A NOTICE SUBSTANTIALLY TO THE EFFECT OF THIS LEGEND. AS USED HEREIN, THE TERMS "OFFSHORE TRANSACTION", AND "UNITED STATES" HAVE THE MEANINGS GIVEN TO THEM BY REGULATION S UNDER THE SECURITIES ACT.

United Kingdom

Each of the Joint Lead Arrangers, the Joint Lead Managers and the Initial Subscribers has represented and agreed that:

(a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000 (the "**FSMA**")) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Note Issuer or the Credit Facility Provider; and

(b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

Japan

Each of the Joint Lead Arrangers, the Joint Lead Managers and the Initial Subscribers has represented, warranted and agreed that none of the Notes have been nor will be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25, 13 April 1948), as amended (the "**FIEA**"). Each of the Joint Lead Arrangers, the Joint Lead Managers and the Initial Subscribers has further agreed that it will not offer or sell any Notes, directly or indirectly, in Japan to, or for the benefit of, any resident of Japan (which term as used herein means any persons resident in Japan, including any corporation or other entity organised under the laws of Japan) or to others for re-offering or resale, directly or indirectly, in Japan or to a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEA and any other applicable laws, regulations and ministerial guidelines of Japan.

Korea

Each of the Joint Lead Arrangers, the Joint Lead Managers and the Initial Subscribers has represented and agreed that Notes subscribed by it will be subscribed by it as principal, and that it will not directly or indirectly offer, sell or deliver any Notes in Korea or to any resident of Korea, or to others for re-offering or re-sale directly or indirectly in Korea or to any resident of Korea, except as otherwise permitted by applicable Korean laws and regulations. Each of the Joint Lead Arrangers, the Joint Lead Managers and the Initial Subscribers has undertaken that it will ensure that any securities dealer to whom it sells Notes will agree that he is purchasing such Notes as principal and that he will not re-offer or re-sell any Notes directly or indirectly in Korea or to any resident of Korea, except as aforesaid.

Cayman Islands

Each of the Joint Lead Arrangers, the Joint Lead Managers and the Initial Subscribers has represented, warranted and agreed that the public in the Cayman Islands have not and will not be invited to subscribe for the Notes.

Ireland

Each of the Joint Lead Arrangers, the Joint Lead Managers and the Initial Subscribers has represented and agreed that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell in Ireland any Notes other than to persons whose ordinary business it is to buy or sell shares or debentures whether as principal or agent and it has complied with, and will comply with all applicable provisions of the Companies Act, 1963 to 2003 of Ireland and the Irish Investment Intermediaries Act, 1995 (as amended) with respect to anything done by it in relation to the Notes in, from or otherwise involving Ireland.

Singapore

Each of the Joint Lead Arrangers, the Joint Lead Managers and the Initial Subscribers has acknowledged that this Prospectus has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each of the Joint Lead Arrangers, the Joint Lead Managers and the Initial Subscribers has represented, warranted and agreed that it has not offered or sold any Notes or caused such Notes to be made the subject of an invitation for subscription or purchase and will not offer or sell such Notes or cause such Notes to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Prospectus or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of such Notes, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the "**SFA**"), (ii) to a relevant person pursuant to Section 75(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.

Note:

Where the Notes are subscribed or purchased under Section 275 of the SPA 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:

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

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

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

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

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

Any person who may be in doubt as to the restrictions set out in the SFA or the laws, regulations and directives in each jurisdiction in which it subscribes for, purchases, offers, sells or delivers the Notes or any interest therein or rights in respect thereof and the consequences arising from a contravention thereof should consult his own professional advisers and should make his own inquiries as to the laws, regulations and directives in force or applicable in any particular jurisdiction at any relevant time.

Hong Kong

Each of the Joint Lead Arrangers, the Joint Lead Managers and the Initial Subscribers has, severally and not jointly, represented and agreed that:

(a) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Notes other than (i) to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong (the "**SFO**") and any rules made under that Ordinance; or (ii) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong and which do not constitute an offer to the public within the meaning of the Companies Ordinance (Cap. 622) of Hong Kong; 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 Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the SFO and any rules made under that Ordinance.

GENERAL INFORMATION

(a) The issue of the Notes has been duly authorised by resolutions of the Board of Directors of the Note Issuer passed on 6 November 2014 and 19 November 2014. The issue of the Bond has been authorised by a resolution of the Equityholders of the Bond Issuer passed on 5 November 2014. The Credit Facility will be duly authorised by the Credit Facility Provider on or before the Closing Date.

(b) Application has been made to list the Notes on the Irish Stock Exchange.

(c) The Notes have been accepted for clearance through Clearstream, Luxembourg and Euroclear with the following Common Code and ISIN number:

Common Code and ISIN Number of the Notes

	Notes
Common Code:	114048534
ISIN:	XS1140485340

(d) Since their respective dates of incorporation, there are no governmental, litigation or arbitration proceedings against or affecting the Note Issuer or the Bond Issuer nor is the Note Issuer or the Bond Issuer aware of any pending or threatened proceedings of such kind, which may have, or have had, in the recent past, a significant effect on the Note Issuer's or the Bond Issuer's financial position or profitability.

(e) Since 31 December 2013, there has been (i) no material adverse change in the prospects of Korean Air and (ii) no significant change in the financial or trading position of Korean Air.

(f) Korean Air is not, and has not been, involved in any litigation, arbitration or administrative proceedings which, if adversely decided, may have, or has had during the 12 months preceding the date of this Prospectus, a significant effect on its financial position nor is aware that any such proceedings are pending or threatened.

(g) The business address of each director of the Depositor is the registered office of Korean Air. As at the date of this Prospectus, the Note Issuer is not aware of any potential conflicts of interest between the duties of the directors of the Depositor and their private interests and/or other duties.

(h) Neither the Note Issuer nor the Bond Issuer has commenced operations or published any audited financial statements to date. The Note Issuer is not required under Cayman Islands law to prepare annual financial statements or have its financial statements audited. The Bond Issuer is not required under Korean law to prepare annual financial statements or have its financial statements audited. However, if published, such financial statements will be available free of charge during usual business hours at the registered office of the Bond Issuer. The Bond Issuer will not publish any interim financial statements.

(i) Korean Air will retain a material net economic interest of at least 5 per cent. in the securitisation in accordance with Article 122a of CRD 2. As at the Closing Date, such interest will be comprised of an interest in the Depositor Certificate which, in aggregate, is not less than 5 per cent. of the beneficial interest in the Trust. Any change to this manner in which this interest is held will be notified to investors.

(j) Each prospective investor is required to independently assess and determine the sufficiency of the information described above and in this Prospectus generally for the purposes of complying with Article 122a of CRD 2 and none of the Note Issuer, nor the Joint Lead Arrangers or the Joint Lead Managers or the other parties to the Transaction Documents make any representation that the information described above or in this Prospectus is sufficient in all circumstances for such purposes. In addition each prospective Noteholder should ensure that they comply with the implementing provisions in respect of Article 122a of CRD 2 in their relevant jurisdiction. Investors who are uncertain as to the requirements which apply to them in respect of their relevant jurisdiction, should seek guidance from their regulator.

(k) As at the date of this Prospectus, Korean Air's external independent auditor is Deloitte Anjin LLC located at 9/F, One IFC, 23 Yoido-dong, Youngdeungpo-gu, Seoul, Korea. Deloitte Anjin LLC is a member of The Korean Institute of Certified Public Accountants. The consolidated financial statements of Korean Air as of and for the years ended December 31, 2012 and 2011 included in this Prospectus have been audited by KPMG Samjong Accounting Corp., independent auditors, located at 10th Floor, Gangnam Finance Center, 737 Yeoksam-dong, Gangnam-gu, Seoul, Korea, as stated in their reports appearing herein. KPMG Samjong Accounting Corp. is a member of The Korean Institute of Certified Public Accountants. Their audit report states that their opinion is based on their audits and the report of other auditors. The consolidated financial statements of Korean Air for the year ended 31 December 2013 have been audited by Deloitte Anjin LLC.

(l) For so long as the Notes are listed on the Irish Stock Exchange:

(i) executed copies of the following documents in electronic form will be available for inspection by the Noteholders during usual business hours at the Specified Office of the Principal Paying Agent and at the registered office of the Note Issuer:

(A) the Note Trust Deed;

(B) the Note Agency Agreement;

(C) the Note Issuer Administrator Agreement;

(D) the Trust Agreement;

(E) the Indenture;

(F) the Receivables Sale and Contribution Agreement;

(G) the Servicing Agreement;

(H) the Transaction Administration Agreement;

(I) the Master Schedule of Definitions, Interpretation and Construction Clauses;

(J) the Depositor Note Sale and Purchase Agreement;

(K) the Bond Issuer Administrator Agreement;

(L) the Bond Subscription and Agency Agreement;

(M) the Bond Issuer Servicing Agreement;

(N) the Credit Facility Deed;

(O) the Swap Agreement;

(P) the Bank Agreements;

(Q) the Equity Pledge Agreement;

(R) the Pledge Agreement;

(S) the Security Assignment; and

(T) the New York Law Security Agreement.

(ii) copies of the following documents will, when published, be available free of charge in physical form during usual business hours, at the Specified Offices of the Principal Paying Agent and at the registered office of the Note Issuer:

(A) the constitutional documents of the Note Issuer;

(B) the most recent published audited financial statements of the Note Issuer (if any);

(C) the constitutional documents of the Bond Issuer;

(D) the most recent published audited financial statements of the Bond Issuer (if any);

(E) the most recently published annual audited consolidated financial statements and quarterly unaudited consolidated interim financial statements of the Depositor; and

(F) the restated charter and by-laws of the Depositor.

(m) Any references to websites and website addresses do not form part of this Prospectus.

(n) The amount of expenses related to the admission of trading of the Notes is expected to be approximately €4,940.

(o) After the Closing Date, so long as the Notes are outstanding, the Note Trustee will be provided with monthly reports by the Servicer and the Transaction Administrator in accordance with the Servicing Agreement and the Transaction Administration Agreement, respectively. These reports will provide information in respect of the relevant reporting period on, among other things, the amount of Receivables collected during the relevant period and whether or not an Early Amortisation Event, a Servicer Termination Event, an Event of Default, a Potential Event of Default or a Mandatory Redemption Event has occurred. Information will also be provided with respect to payments due on the Bond Payment Dates and the Note Payment Dates. Electronic copies of such reports will be available for inspection by the Noteholders during usual business hours at the Specified Offices of the Principal Paying Agent and at the registered office of the Note Issuer.

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(*) The Company decided to spin off its investment business unit on March 22, 2013, which constituted a discontinued operation. The consolidated financial statements as of and for the year ended December 31, 2012 presented for comparative purpose in the consolidated financial statements as of and for the years ended December 31, 2013 and 2012 have been restated in accordance with Korean International Reporting Standards 1105 Non-current Assets Held for Sale and Discontinued Operations to separately present the discontinued operations. The consolidated financial statements as of and for the years ended December 31, 2012 and 2011 have not been restated to separately present the discontinued operations.

Independent Auditors' Report

English Translation of a Report Originally Issued in Korean

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

We have audited the accompanying consolidated financial statements of Korean Air Lines Co., Ltd. and subsidiaries (the "Group"). The financial statements consist of the consolidated statement of financial position as of December 31, 2013, and the related consolidated statement of comprehensive (loss) income, consolidated statement of changes in shareholders' equity and consolidated statement of cash flows, all expressed in Korean won, for the year ended December 31, 2013.The Company's management is responsible for the preparation and fair presentation of the consolidated financial statements and our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the Republic of Korea. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company and its subsidiaries as of December 31, 2013, and the results of its operations, changes in its retained earnings and shareholders' equity, and its cash flows for the year then ended December 31, 2013, in conformity with Korean International Financial Reporting Standards ("K-IFRS").

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

Emphasis of Matters

As stated in the Note 47 to the accompanying consolidated financial statements, the 2012 consolidated statement of comprehensive income presented for comparative purpose have been retrospectively adjusted to separately present the results of discontinued operations. The 2012 consolidated financial statements, before the retrospective adjustments described in Note 47, were audited by other auditor whose report dated March 11, 2013 expressed an unqualified audit opinion on those financial statements.

Deloitte Anjin LLC

March 13, 2014

Notice to Readers

This report is effective as of March 13, 2014, 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 accompanying consolidated financial statements and may result in modifications to the auditors' report.

KOREAN AIR LINES CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

AS OF DECEMBER 31, 2013 AND 2012 (Unaudited)

		Korean won		Translation into U.S. dollars (Note 2)	
ASSETS	NOTES	2013	2012 (Unaudited)	2013	2012 (Unaudited)
		(In millions)		(In thousands)	
CURRENT ASSETS:					
Cash and cash equivalents	5,6,42	₩ 1,126,825	₩ 1,465,499	$ 1,067,777	$ 1,388,704
Short-term financial instruments	42	53,162	114,171	50,377	108,188
Current portion of investment in direct financing leases	11,42	7,730	-	7,325	-
Trade and other receivables	7,42,44	1,157,402	921,708	1,096,751	873,408
Current portion of AFS financial assets	8,16,42,43	3,000	-	2,843	-
Current portion of held-to-maturity investments	3,9,16,42	9,374	8,574	8,882	8,124
Inventories	10	464,302	493,644	439,971	467,776
Income tax refunded		3,697	7,730	3,504	7,325
Current portion of financial derivative assets	28,42,43	4,893	45,593	4,637	43,204
Other current assets	20,23	309,447	306,299	293,232	290,249
Assets held for sale	21	-	1,904	-	1,805
Total current assets		3,139,832	3,365,122	2,975,299	3,188,783
NON-CURRENT ASSETS:					
Long-term financial instruments	6,42	1,256	1,963	1,190	1,860
Long-term trade and other receivables	7,42,44	192	487	183	462
AFS financial assets	8,16,42,43	213,309	154,585	202,131	146,484
Held-to-maturity investments	3,9,16,42	948	15,441	898	14,632
Investment in direct financing leases	11,42	73,490	-	69,639	-
Investment in associates and jointly controlled entities	13,16,44	2,407,496	2,557,390	2,281,338	2,423,377
Property, aircraft and equipment	15,16	15,503,889	14,880,090	14,691,452	14,100,341
Investment properties	16,17	68,564	370,717	64,971	351,291
Intangible assets	16,18	349,222	314,609	330,922	298,123
Financial derivative assets	28,42,43	2,976	3,255	2,820	3,084
Other financial assets	19,23,42	251,717	322,265	238,526	305,377
Deferred tax assets	39	658,568	663,107	624,057	628,359
Other non-current assets	20	248,979	324,370	235,932	307,372
Total non-current assets		19,780,606	19,608,279	18,744,059	18,580,762
Total assets		₩ 22,920,438	₩ 22,973,401	$ 21,719,358	$ 21,769,545

(Continued)

KOREAN AIR LINES CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (CONTINUED)

AS OF DECEMBER 31, 2013 AND 2012 (Unaudited)

LIABILITIES AND SHAREHOLDERS' EQUITY	NOTES	Korean won 2013	Korean won 2012 (Unaudited)	Translation into U.S. dollars (Note 2) 2013	Translation into U.S. dollars (Note 2) 2012 (Unaudited)
		(In millions)		(In thousands)	
CURRENT LIABILITIES:					
Trade and other payables	22,42,44	₩ 841,236	₩ 971,522	$ 797,153	$ 920,612
Short-term borrowings	16,23,42	817,466	1,265,616	774,629	1,199,295
Current portion of long-term borrowings	16,23,42	4,076,268	1,930,330	3,862,662	1,829,177
Obligation under finance leases	16,24,42	871,447	918,147	825,782	870,034
Current income tax liabilities		1,262	10,980	1,196	10,404
Current portion of financial derivative liabilities	28,42,43	32,561	31,666	30,855	30,007
Other current liabilities	27,30	1,118,595	1,078,879	1,059,979	1,022,344
Total current liabilities		7,758,835	6,207,140	7,352,256	5,881,873
NON-CURRENT LIABILITIES:					
Long-term trade and other payables	22,42,44	174,124	133,888	165,000	126,872
Long-term borrowings	16,23,42	1,220,865	2,039,203	1,156,889	1,932,344
Debentures	23,42,44	2,361,382	3,702,003	2,237,640	3,508,010
Asset-backed securitization ("ABS") loans	23,42,44	916,114	587,479	868,108	556,694
Guaranteed loans	16,23,42,44	35,899	53,785	34,018	50,966
Obligation under finance leases	16,24,42	5,019,925	4,709,967	4,756,870	4,463,154
Net defined benefit obligation	3,25	879,931	867,872	833,820	822,393
Provisions	26	140,686	88,181	133,314	83,560
Deferred revenue	27	1,558,787	1,476,695	1,477,103	1,399,313
Financial derivative liabilities	28,42,43	399	4,292	378	4,068
Other financial liabilities	29,42	-	20,526	-	19,450
Deferred tax liabilities	39	82,310	156,083	77,997	147,904
Other non-current liabilities	30	30,968	21,904	29,345	20,757
Total non-current liabilities		12,421,390	13,861,878	11,770,482	13,135,485
Total liabilities		20,180,225	20,069,018	19,122,738	19,017,358
SHAREHOLDERS' EQUITY:					
Capital stock	31	298,931	366,754	283,267	347,535
Other capital surplus	32	52,699	165,357	49,938	156,692
Other capital components	34	328,164	(6,481)	310,967	(6,142)
Retained earnings	33	1,967,197	2,095,970	1,864,111	1,986,137
NON-CONTROLLING INTERESTS:		93,222	282,783	88,337	267,965
Total shareholders' equity		2,740,213	2,904,383	2,596,620	2,752,187
Total liabilities and shareholders' equity		₩ 22,920,438	₩ 22,973,401	$ 21,719,358	$ 21,769,545

(Concluded)

See accompanying notes to consolidated financial statements.

KOREAN AIR LINES CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME

FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012 (Unaudited)

	NOTES	Korean won 2013	Korean won 2012 (Unaudited)	Translation into U.S. dollars (Note 2) 2013	Translation into U.S. dollars (Note 2) 2012 (Unaudited)
		(In millions except for (loss) earnings per share)		(In thousands except for (loss) earnings per share)	
SALES	4,35,44	₩ 11,848,708	₩ 12,341,790	$ 11,227,810	$ 11,695,054
COST OF SALES	40,44	10,753,626	11,011,325	10,190,113	10,434,308
GROSS PROFIT		1,095,082	1,330,465	1,037,697	1,260,746
Selling and administrative expenses	36,40	1,114,644	1,101,898	1,056,234	1,044,156
OPERATING (LOSS) INCOME	4	(19,562)	228,567	(18,537)	216,590
Financial income	37,42	105,830	113,923	100,284	107,953
Financial expenses	37,42	526,710	586,025	499,109	555,316
Gain on equity method valuation	13	32,243	82,267	30,553	77,956
Other non-operating income	38	733,087	1,171,735	694,671	1,110,333
Other non-operating expenses	38	717,549	663,689	679,947	628,910
(LOSS) INCOME BEFORE INCOME TAX (BENEFIT) EXPENSE	39	(392,661)	346,778	(372,085)	328,606
INCOME TAX (BENEFIT) EXPENSE	39	(137,092)	162,309	(129,908)	153,803
NET (LOSS) INCOME FROM CONTINUING OPERATIONS		(255,569)	184,469	(242,177)	174,803
NET (LOSS) INCOME FROM DISCONTINUED OPERATIONS	47	(127,986)	71,902	(121,279)	68,134
NET (LOSS) INCOME		₩ (383,555)	₩ 256,371	$ (363,456)	$ 242,937
OTHER COMPREHENSIVE (LOSS) INCOME AFTER INCOME TAX:					
Items not to be reclassified subsequent to income or loss:					
Remeasurement of the net defined benefit liabilities	25	₩ 47,156	₩ (94,074)	$ 44,685	$ (89,144)
Change in retained earnings – equity method–accounted investments	13	1,751	(1,715)	1,659	(1,626)
Revaluation surplus	15	321,796	-	304,933	-
		370,703	(95,789)	351,277	(90,770)

(Continued)

KOREAN AIR LINES CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012 (Unaudited)

	NOTES	Korean won 2013	Korean won 2012 (Unaudited)	Translation into U.S. dollars (Note 2) 2013	Translation into U.S. dollars (Note 2) 2012 (Unaudited)
		(In millions except for (loss) earnings per share)		(In thousands except for (loss) earnings per share)	
Items to be reclassified subsequent to income or loss:					
Gain on AFS financial assets, net	34	₩ 40,496	₩ 19,066	$ 38,374	$ 18,067
Change in capital adjustments – equity method–accounted investments	13	(53,876)	(6,361)	(51,053)	(6,027)
Gain (loss) on financial derivatives, net	28,34	7,479	(1,096)	7,088	(1,039)
Loss on foreign operation translation		(5,114)	(2,544)	(4,846)	(2,411)
		(11,015)	9,065	(10,437)	8,590
COMPREHENSIVE (LOSS) INCOME		₩ (23,867)	₩ 169,647	$ (22,616)	$ 160,757
NET (LOSS) INCOME ATTRIBUTABLE TO:					
Owners of the Company		₩ (224,995)	₩ 246,413	$ (213,204)	$ 233,501
Non-controlling interests		(158,560)	9,958	(150,252)	9,436
COMPREHENSIVE (LOSS) INCOME ATTRIBUTABLE TO:					
Owners of the Company		155,774	162,848	147,611	154,314
Non-controlling interests		(179,641)	6,799	(170,227)	6,443
(LOSS) EARNINGS PER SHARE:	41				
Continuing and discontinued operations					
Basic (loss) earnings per share		(3,517)	3,649	(3)	3
Diluted (loss) earnings per share		(3,517)	3,649	(3)	3
Continuing operations					
Basic (loss) earnings per share		(3,851)	2,691	(4)	3
Diluted (loss) earnings per share		(3,851)	2,691	(4)	3

(Concluded)

See accompanying notes to consolidated financial statements.

KOREAN AIR LINES CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012 (Unaudited)

	Korean won							
	Owners of the Company							
		Other capital surplus						
	Capital stock	Additional paid-in capital	Others	Other capital components	Retained earnings	Subtotal	Non-controlling interests	Total
	(In millions)							
January 1, 2012 (Unaudited)	₩ 366,754	₩ 189,806	₩ (21,263)	₩ (13,880)	₩ 1,938,824	₩ 2,460,241	₩ 308,712	₩ 2,768,953
Dividends	-	-	-	-	-	-	(10,869)	(10,869)
Net income	-	-	-	-	246,413	246,413	9,958	256,371
Other comprehensive income (loss)	-	-	-	7,399	(90,964)	(83,565)	(3,159)	(86,724)
Incorporation and disposal of subsidiaries	-	-	-	-	3,215	3,215	(20,593)	(17,378)
Change in retained earnings of subsidiaries	-	-	-	-	(1,518)	(1,518)	(1,266)	(2,784)
Others	-	(389)	(2,797)	-	-	(3,186)	-	(3,186)
December 31, 2012 (Unaudited)	₩ 366,754	₩ 189,417	₩ (24,060)	₩ (6,481)	₩ 2,095,970	₩ 2,621,600	₩ 282,783	₩ 2,904,383
January 1, 2013 (Unaudited)	₩ 366,754	₩ 189,417	₩ (24,060)	₩ (6,481)	₩ 2,095,970	₩ 2,621,600	₩ 282,783	₩ 2,904,383
Dividends	-	-	-	-	-	-	(4,371)	(4,371)
Net loss	-	-	-	-	(224,995)	(224,995)	(158,560)	(383,555)
Other comprehensive income (loss)	-	-	-	334,645	46,124	380,769	(21,081)	359,688
Increase (decrease) due to merger	4,403	28,896	(8,926)	-	-	24,373	(24,373)	-
Decrease due to spin-off	(72,226)	(43,406)	(298,082)	-	-	(413,714)	-	(413,714)
Substitution of revaluation surplus	-	-	-	-	12,847	12,847	13,023	25,870
Issuance of hybrid securities	-	-	208,860	-	-	208,860	-	208,860
Dividend from hybrid securities	-	-	-	-	(6,758)	(6,758)	-	(6,758)
Change in retained earningsof investment in associates and subsidiaries	-	-	-	-	37,136	37,136	8,439	45,575
Others	-	-	-	-	6,873	6,873	(2,638)	4,235
December 31, 2013 (Unaudited)	₩ 298,931	₩ 174,907	₩ (122,208)	₩ 328,164	₩ 1,967,197	₩ 2,646,991	₩ 93,222	₩ 2,740,213

(Continued)

KOREAN AIR LINES CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012 (Unaudited)

	Translation into U.S. dollars (Note 2)							
	Owners of the Company							
		Other capital surplus						
	Capital stock	Additional paid-in capital	Others	Other capital components	Retained earnings	Subtotal	Non-controlling interests	Total
	(In thousands)							
January 1, 2012 (Unaudited)	$ 347,535	$ 179,860	$ (20,149)	$ (13,153)	$ 1,837,225	$ 2,331,318	$ 292,535	$ 2,623,853
Dividends	-	-	-	-	-	-	(10,300)	(10,300)
Net income	-	-	-	-	233,501	233,501	9,436	242,937
Other comprehensive income (loss)	-	-	-	7,011	(86,198)	(79,187)	(2,993)	(82,180)
Incorporation and disposal of subsidiaries	-	-	-	-	3,047	3,047	(19,514)	(16,467)
Change in retained earnings of subsidiaries	-	-	-	-	(1,438)	(1,438)	(1,199)	(2,637)
Others	-	(369)	(2,650)	-	-	(3,019)	-	(3,019)
December 31, 2012 (Unaudited)	$ 347,535	$ 179,491	$ (22,799)	$ (6,142)	$ 1,986,137	$ 2,484,222	$ 267,965	$ 2,752,187
January 1, 2013 (Unaudited)	$ 347,535	$ 179,491	$ (22,799)	$ (6,142)	$ 1,986,137	$ 2,484,222	$ 267,965	$ 2,752,187
Dividends	-	-	-	-	-	-	(4,142)	(4,142)
Net loss	-	-	-	-	(213,204)	(213,204)	(150,252)	(363,456)
Other comprehensive income (loss)	-	-	-	317,109	43,706	360,815	(19,975)	340,840
Increase (decrease) due to merger	4,173	27,382	(8,458)	-	-	23,097	(23,096)	1
Decrease due to spin-off	(68,441)	(41,131)	(282,462)	-	-	(392,034)	-	(392,034)
Substitution of revaluation surplus	-	-	-	-	12,173	12,173	12,340	24,513
Issuance of hybrid securities	-	-	197,915	-	-	197,915	-	197,915
Dividend from hybrid securities	-	-	-	-	(6,404)	(6,404)	-	(6,404)
Change in retained earnings of investment in associates and subsidiaries	-	-	-	-	35,190	35,190	7,996	43,186
Others	-	-	-	-	6,513	6,513	(2,499)	4,014
December 31, 2013 (Unaudited)	$ 283,267	$ 165,742	$ (115,804)	$ 310,967	$ 1,864,111	$ 2,508,283	$ 88,337	$ 2,596,620

(Concluded)

See accompanying notes to consolidated financial statements.

KOREAN AIR LINES CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012 (Unaudited)

	Korean won		Translation into U.S. dollars (Note 2)	
	2013	2012 (Unaudited)	2013	2012 (Unaudited)
	(In millions)		(In thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:				
Cash flows from operations:				
Net (loss) income	₩ (383,555)	₩ 256,371	$ (363,456)	$ 242,937
Adjustments to reconcile net loss to net cash provided by operating activities:				
Maintenance material cost	5,056	-	4,791	-
Provision for leased aircraft maintenance	27,869	37,113	26,409	35,168
Retirement benefit costs	159,982	150,712	151,599	142,814
Depreciation	1,629,729	1,493,146	1,544,328	1,414,902
Amortization	33,065	22,966	31,333	21,763
Bad debt expenses	-	505	-	479
Interest expense	507,412	575,230	480,822	545,086
Loss on valuation of derivatives	25,689	22,433	24,343	21,257
Impairment loss on AFS securities	1,685	-	1,596	-
Loss on disposal of AFS securities	2,640	18	2,502	18
Impairment loss on investments in associates and jointly controlled entities	1,500	3,443	1,421	3,263
Loss on disposal of investments in associates and jointly controlled entities	2,496	-	2,365	-
Other bad debt expenses	453	6,556	429	6,212
Loss on foreign currency translation	57,392	198,220	54,384	187,833
Loss on disposal of property, aircraft and equipment	89,706	142,659	85,005	135,183
Impairment loss on property, aircraft and equipment	35,101	43,692	33,262	41,403
Loss on disposal of intangible assets	-	585	-	554
Impairment loss on intangible assets	-	50	-	47
Loss on revaluation of assets	52,530	-	49,777	-
Loss on disposal of discontinued operations	171,434	-	162,451	-
Miscellaneous loss	149,306	-	141,482	-
Income tax expense	-	180,327	-	170,877
Others	3,682	51	3,489	48

(Continued)

KOREAN AIR LINES CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012 (Unaudited)

	Korean won		Translation into U.S. dollars (Note 2)	
	2013	2012 (Unaudited)	2013	2012 (Unaudited)
	(In millions)		(In thousands)	
Interest income	₩ (32,160)	₩ (42,672)	$ (30,474)	$ (40,436)
Dividend income	(3,274)	(2,303)	(3,102)	(2,183)
Gain on valuation of derivatives	(56,511)	(59,039)	(53,550)	(55,946)
Gain on valuation of equity method	(32,982)	(81,733)	(31,254)	(77,450)
Gain on foreign currency translation	(425,088)	(824,180)	(402,813)	(780,991)
Reversal of allowance for doubtful accounts	(397)	(870)	(377)	(825)
Gain on disposal of property, aircraft and equipment	(33,983)	(29,784)	(32,202)	(28,224)
Gain on disposal of investments in associates and subsidiaries	(359)	-	(340)	-
Income tax benefit	(138,155)	-	(130,915)	-
Others	(16,438)	(9,848)	(15,576)	(9,332)
	2,217,380	1,827,277	2,101,185	1,731,520
Changes in assets and liabilities resulting from operations:				
Decrease in trade receivables	50,969	89,284	48,298	84,606
Decrease in other receivables	9,403	7,295	8,910	6,913
Decrease (increase) in inventories	26,005	(57,344)	24,642	(54,339)
Decrease in financial derivative assets	99,108	5,457	93,914	5,171
Increase in advance payments	(23,923)	(90,798)	(22,670)	(86,040)
Decrease (increase) in prepaid expenses	2,917	(13,168)	2,765	(12,478)
Increase in prepaid value-added tax	(1,112)	(1,287)	(1,053)	(1,220)
Increase in other current assets	(10,097)	(2,511)	(9,568)	(2,379)
Decrease in long-term advance payments	(344)	-	(326)	-
Increase in long-term prepaid expenses	136	19,265	129	18,256
Decrease in trade payables	(42,650)	(39,056)	(40,415)	(37,010)
Increase (decrease) in other payables	(54,554)	26,498	(51,695)	25,109
Increase (decrease) in accrued expenses	(136,708)	62,389	(129,544)	59,119
Increase in advances from customers	88,726	68,672	84,076	65,074
Increase (decrease) in unearned revenue	169	(13,119)	160	(12,431)
Increase (decrease) in financial derivative liabilities	(20,356)	4,051	(19,289)	3,839
Increase (decrease) in other current liabilities	163	(10,732)	154	(10,169)
Decrease (increase) in plan assets	10,987	(10,874)	10,411	(10,304)
Payment of severance benefit	(80,735)	(83,276)	(76,504)	(78,912)
Decrease in provisions for leased aircraft maintenance	(2,676)	(57,357)	(2,536)	(54,352)
Increase (decrease) in other financial liabilities	(274)	64	(259)	61
Increase in deferred revenue	82,092	114,057	77,790	108,080
Increase in other non-current liabilities	5,335	18,405	5,055	17,441
	2,581	35,915	2,445	34,035

(Continued)

KOREAN AIR LINES CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012 (Unaudited)

	Korean won		Translation into U.S. dollars (Note 2)	
	2013	2012 (Unaudited)	2013	2012 (Unaudited)
	(In millions)		(In thousands)	
Interest received	₩ 33,109	₩ 46,523	$ 31,374	$ 44,085
Dividends received	95,039	134,629	90,059	127,575
Income taxes refunded (paid)	(15,209)	4,778	(14,412)	4,528
Net cash provided by operating activities	1,949,345	2,305,493	1,847,195	2,184,680
CASH FLOWS FROM INVESTING ACTIVITIES:				
Decrease in short-term financial instruments	58,345	168,026	55,288	159,221
Disposal of current portion of held-to-maturity investments	857	1,757	812	1,665
Decrease in short-term loans	67	22	63	20
Decrease in long-term financial instruments	3	1,947	3	1,845
Disposal of AFS financial assets	2,382	1,609	2,257	1,524
Disposal of investments in associates	8,265	-	7,832	-
Disposal of investments in subsidiaries	-	37,065	-	35,123
Disposal of property, aircraft and equipment	146,743	234,995	139,053	222,681
Disposal of intangible assets	1,856	141	1,759	134
Decrease in guarantee deposits	143,220	232,460	135,715	220,278
Cash inflows from others	10,578	-	10,023	-
Increase in short-term loans	(250,039)	(6,898)	(236,937)	(6,536)
Increase in short-term financial instruments	(132,010)	(106,206)	(125,092)	(100,641)
Increase in long-term financial instruments	(1,320)	(7,675)	(1,251)	(7,273)
Purchase of AFS financial assets	(2,866)	(785)	(2,715)	(743)
Purchase of held-to-maturity investments	(1,435)	-	(1,360)	-
Purchase of investment in associates	(3,905)	(8,630)	(3,700)	(8,178)
Purchase of investment in direct financing leases	(12,684)	-	(12,019)	-
Acquisition of property, aircraft and equipment	(1,242,378)	(905,989)	(1,177,275)	(858,513)
Acquisition of intangible assets	(1,231)	(1,396)	(1,166)	(1,322)
Acquisition of investment properties	(428)	-	(405)	-
Increase in guarantee deposits	(78,764)	(267,860)	(74,636)	(253,824)
Cash outflows for others	(21)	(29,935)	(21)	(28,366)
Net cash used in investing activities	(1,354,765)	(657,352)	(1,283,772)	(622,905)

(Continued)

KOREAN AIR LINES CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012 (Unaudited)

	Korean won		Translation into U.S. dollars (Note 2)	
	2013	2012 (Unaudited)	2013	2012 (Unaudited)
	(In millions)		(In thousands)	
CASH FLOWS FROM FINANCING ACTIVITIES:				
Proceeds from issuance of short-term borrowings	₩ 1,423,121	₩ 1,453,389	$ 1,348,547	$ 1,377,228
Proceeds from issuance of debentures	531,709	1,971,278	503,846	1,867,978
Proceeds from issuance of long-term borrowings	1,516,395	585,119	1,436,932	554,457
Proceeds from ABS loans	910,148	-	862,454	-
Proceeds from issuance of hybrid securities	208,860	-	197,915	-
Paid in capital increase	664	-	629	-
Increase in guarantee deposits	284	151	270	144
Cash inflows from others	622	-	589	-
Repayments of short-term borrowings	(1,768,208)	(1,230,352)	(1,675,550)	(1,165,878)
Repayment of current portion of long-term borrowings	(2,108,467)	(2,697,075)	(1,997,979)	(2,555,743)
Repayments of current portion of obligations under finance leases	(957,279)	(996,222)	(907,115)	(944,018)
Repayments of long-term borrowings	(19,262)	(68,979)	(18,253)	(65,365)
Interest on hybrid securities paid	(6,720)	-	(6,368)	-
Interest paid	(489,783)	(561,382)	(464,117)	(531,965)
Dividends paid	(4,371)	(10,869)	(4,142)	(10,300)
Cash outflows due to spin-off	(165,016)	-	(156,369)	-
Cash outflows for others	(180)	(35,637)	(170)	(33,769)
Net cash used in financing activities	(927,483)	(1,590,579)	(878,881)	(1,507,231)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(332,903)	57,562	(315,458)	54,544
CASH AND CASH EQUIVALENTS, AT THE BEGINNING OF THE YEAR	1,465,499	1,465,748	1,388,704	1,388,940
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(5,771)	(57,811)	(5,469)	(54,780)
CASH AND CASH EQUIVALENTS, AT THE END OF THE YEAR	₩ 1,126,825	₩ 1,465,499	$ 1,067,777	$ 1,388,704

(Concluded)

See accompanying notes to consolidated financial statements.

1. GENERAL:

Korean Air Lines Co., Ltd. (the "Company"), which is the controlling entity in accordance with Korean International Financial Reporting Standards ("K-IFRS") 1110, *Consolidated Financial Statements*, was established on June 19, 1962, under the Investment Promotion Law of the Republic of Korea and is engaged in the business of domestic and international airline services, manufacture of aircraft parts, maintenance of aircraft and catering of in-flight meals. The Company has been a publicly traded company upon listing its common stock on the Korea Exchange since 1966. Total capital stock of the Company as of December 31, 2013, amounted to ₩298,931 million in par value (including ₩5,554 million of preferred stock). The principal shareholders of the Company's common shares are Hanjin Transportation Co., Ltd., and Hanjin Kal Co., Ltd., and its affiliates who collectively own 32.08% of outstanding common shares. Meanwhile, the Company spun the investment business unit off as of August 1, 2013 (Note 47).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Basis of Financial Statement Presentation

The Company and its subsidiaries (the "Group") maintain its official accounting records in Korean won and prepare consolidated financial statements in conformity with Korean statutory requirements and K-IFRS, in Korean language (Hangul). Accordingly, these consolidated financial statements are intended for use by those who are informed about K-IFRS and Korean practices. Certain information included in the Korean language financial statements, but not required for a fair presentation of the Group's financial position, operating results, changes in shareholders' equity or cash flows is not presented in the accompanying consolidated financial statements.

The accompanying consolidated financial statements are stated in Korean won, the currency of the country in which the Group is incorporated and operated. The translation of Korean won amounts into U.S. dollar amounts is included solely for the convenience of readers outside the Republic of Korea and has been made at the rate of ₩1,055.30 to USD 1.00 on December 31, 2013, the base rate announced by Seoul Money Brokerage Services, Ltd. Such translations should not be interpreted as representations that the Korean won amounts could be converted into U.S. dollars at that or any other rate.

(1) Basis of Preparation

The Group has prepared the consolidated financial statements in accordance with the K-IFRS for the annual period beginning on January 1, 2011.

The Group's accounting policies applied for the accompanying consolidated financial statements are the same as the policies applied for the preparation of consolidated financial statements as of and for the year ended December 31, 2012, except for the effects from the introduction of new and revised accounting standards of interpretation as described below.

The accompanying consolidated financial statements have been prepared on the historical cost basis, except for certain non-current assets and financial instruments that are measured at revalued amounts or fair values, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given.

1) Accounting standards and interpretations that were newly applied for the year ended December 31, 2013, and changes in the Group's accounting policies are as follows:

Amendments to K-IFRS 1001, *Presentation of Financial Statements*
The amendments to K-IFRS 1001 require items of other comprehensive income to be grouped into two categories in the other comprehensive income section: (a) items that will not be reclassified subsequently to profit or loss and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Other than this presentation change, the application of the amendments to K-IFRS 1001 does not result in any impact on the Group's financial position and financial performance. The amendments have been applied retrospectively for the comparative period, and hence, the presentation of items of other comprehensive income has been modified to reflect the changes.

Amendments to K-IFRS 1019, *Employee Benefits*
The amendments to K-IFRS 1019 require the recognition of changes in defined benefit obligations and in fair value of plan assets when they occur and, hence, eliminate the 'corridor approach' permitted under the previous version of K-IFRS 1019 and accelerate the recognition of past service costs. All actuarial gains and losses are recognized immediately through other comprehensive income (the option to recognize actuarial gains and losses in profit or loss has also been removed). Furthermore, the interest cost and expected return on plan assets used in the previous version of K-IFRS 1019 are replaced with a 'net interest' amount under K-IFRS 1019 (as revised in 2011), which is calculated by applying the discount rate to the net defined benefit liability or asset. The amendments to K-IFRS 1019 also require the recognition of past service cost as an expense at the earlier date of (a) when the plan amendment or curtailment occurs and (b) when the Group recognizes related restructuring costs or termination benefits. The application of K-IFRS 1019 has had no material impact on the Group's consolidated financial statements.

Amendments to K-IFRS 1107, *Financial Instruments: Disclosures*
The amendments to K-IFRS 1107 are mainly focusing on presentation of the offset between financial assets and financial liabilities and require entities to disclose information about rights of offset and related arrangements (such as collateral agreements) for financial instruments under an enforceable master netting agreement or similar arrangement, irrespective of whether they would meet the offsetting criteria under K-IFRS 1032, *Financial Instruments: Presentation*. As the Group has neither any offsetting financial instruments under K-IFRS 1032 nor any rights of offset or related arrangements in place, the application of the amendments has had no material impact on the disclosures or on the amounts recognized in the Group's consolidated financial statements.

Enactment to K-IFRS 1110
K-IFRS 1110 replaces the parts of K-IFRS 1027, *Consolidated and Separate Financial Statements*, that deal with consolidated financial statements and K-IFRS 2012, *Consolidation–Special Purpose Entities*, and establishes a single basis for consolidation for all entities, including structured entities (the term from K-IFRS 2012, '*Special-Purpose Entities*' is no longer used). Under K-IFRS 1110, an investor controls an investee when the investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The application of K-IFRS 1110 has had no material impact on the Group's consolidated financial statements.

Enactment to K-IFRS 1111, *Joint Arrangement*
K-IFRS 1111 deals with how a joint arrangement where two or more parties have joint control should be classified either as a joint operation or a joint venture. The classification of joint arrangements under K-IFRS 1111 is determined based on the rights and obligations of parties to the joint arrangements by considering the structure; the legal form of the arrangements; the contractual terms agreed by the parties to the arrangement; and, when relevant, other facts and circumstances. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement (i.e., joint operators) have rights to the assets, and obligations for the liabilities, relating to the arrangement. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement (i.e., joint venturers) have rights to the net assets of the arrangement. If the Group is a joint operator, the Group is to recognize assets, liabilities, revenues and expenses in relation to its interest in a joint operation, and if the Group is joint ventures, the Group is to account for that investment using the equity method. The application of K-IFRS 1111 has had no material impact on the Group's consolidated financial statements.

Enactment to K-IFRS 1112, *Disclosure of Interest in Other Entities*
K-IFRS 1112 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates or unconsolidated structured entities. This standard requires an entity to disclose the nature of, and risks associated with, its interests in other entities and the effects of those interests on its financial position, financial performance and cash flows.

Enactment to K-IFRS 1113, *Fair Value Measurement*
K-IFRS 1113 establishes a single source of guidance for fair value measurements and disclosure about fair value measurements. The standard defines fair value, establishes a framework for measuring fair value and requires disclosures about fair value measurements. K-IFRS 1113 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is measured by taking into account the characteristics of the asset or liability that market participants would take when pricing the asset or liability at the measurement date. A fair value measurement under K-IFRS 1113 requires an entity to determine the particular asset or liability that is the subject of measurement, the principal (or most advantageous) market for the asset or liability and the valuation technique appropriate for the measurement. In addition, K-IFRS 1113 requires extensive disclosures about fair value measurements. The application of K-IFRS 1113 has had no material impact on the Group’s financial statements.

There are some other amendments made to K-IFRS as part of the Annual Improvements to K-IFRS 2009–2011, such as the tax effect of distribution to holders of equity instruments (the amendments to K-IFRS 1032), which has not resulted in material effects on the Group’s consolidated financial statements.

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

Amendments to K-IFRS 1032
The amendments to K-IFRS 1032 clarify existing application issue relating to the offset of financial assets and financial liabilities requirements. Specifically, the amendments clarify the meaning of ‘currently has a legally enforceable right of setoff’ and ‘simultaneous realization and settlement’. The Group’s right to offset must not be conditional on the occurrence of future events, but enforceable anytime during the contract periods, during the ordinary course of business with counterparty, a default of counterparty and master netting agreement or in some forms of non-recourse debt. The amendments to K-IFRS 1032 are effective for annual periods beginning on or after January 1, 2014.

Amendments to K-IFRS 1039, *Financial Instruments: Recognition and Measurement*
The amendments to K-IFRS 1039 allows the continuation of hedge accounting when a derivative is novated to a clearing counterparty or entity acting in a similar capacity and certain conditions are met. The amendment to K-IFRS 1039 is effective for annual periods beginning on or after January 1, 2014.

Enactment to K-IFRS 2121, *Levies*
K-IFRS 2121 defines a levy as a payment to a government for which an entity receives no specific goods or services. The interpretation requires that a liability is recognized when the obligating event occurs. The obligating event is the activity that triggers payment of the levy and is typically specified in the legislation that imposes the levy. The interpretation is effective for annual periods beginning on or after January 1, 2014.

The list above does not include some other amendments, such as the Amendments to K-IFRS 1036, *Impairment of Assets*, relating to recoverable amount disclosures for non-financial assets that are effective from January 1, 2014, with earlier application permitted.

The Group does not anticipate that the application of these new and revised K-IFRS that have been issued, but not effective will have any impact on the Group’s consolidated financial statements.

(2) Basis of Consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including structured entities) controlled by the Company (and its subsidiaries). Control is achieved where the Company 1) has the power over the investee; 2) is exposed, or has rights, to variable returns from its involvement with the investee; and 3) has the ability to use its power to affect its returns. The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary. Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies.

All intragroup transactions and related assets, liabilities, income and expenses are eliminated in full on consolidation.

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, a gain or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill) and liabilities of the subsidiary and any non-controlling interests. When assets of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss has been recognized in other comprehensive income and accumulated in equity, the amounts previously recognized in other comprehensive income and accumulated in equity are accounted for as if the Company had directly disposed of the relevant assets (i.e., reclassified to profit or loss or transferred directly to retained earnings). The fair value of any investment retained in the former subsidiary at the date when control is lost is recognized as the fair value on initial recognition for subsequent accounting under K-IFRS 1039 or, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

(3) Business Combination

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the fair values of the assets transferred by the Group [Company], liabilities incurred by the Group [Company] to the former owners of the acquiree and the equity interests issued by the Group [Company] in exchange for control of the acquiree. Acquisition-related costs are generally recognized in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognized at their fair value at the acquisition date, except that:

•deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognized and measured in accordance with K-IFRS 1012, *Income Taxes*, and K-IFRS 1019, respectively;

•liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group [Company] entered into to replace share-based payment arrangements of the acquiree are measured in accordance with K-IFRS 1102, *Share-Based Payment*, at the acquisition date; and

•assets (or disposal groups) that are classified as held for sale in accordance with K-IFRS 1105, *Non-current Assets Held for Sale and Discontinued Operations*, are measured in accordance with that standard.

Goodwill is measured as the excess of the sum of a) the consideration transferred, b) the amount of any non-controlling interests in the acquiree and c) the fair value of the acquirer's previously held equity interest in the acquiree (if any), over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of a) the consideration transferred, b) the amount of any non-controlling interests in the acquiree and c) the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognized immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognized amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another K-IFRS.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement-period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement-period adjustments are adjustments that arise from additional information obtained during the ‘measurement period’ (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement-period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with K-IFRS 1039 or K-IFRS 1037, *Provisions, Contingent Liabilities and Contingent Assets*, as appropriate, with the corresponding gain or loss being recognized in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date and the resulting gain or loss, if any, is recognized in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognized in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest was disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognized, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognized at that date.

(4) Investments in jointly controlled entities and associates

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of associates or joint ventures are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with K-IFRS 1105. Under the equity method, an investment in an associate or a joint venture is initially recognized in the consolidated statement of financial position at cost and adjusted thereafter to recognize the Group's share of the profit or loss and other comprehensive income of the associate or joint venture. When the Group's share of losses of an associate or a joint venture exceeds the Group's interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), the Group discontinues recognizing its share of further losses. Additional losses are recognized only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an associate or a joint venture recognized at the date of acquisition is recognized as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognized immediately in profit or loss.

Upon disposal of an associate or a joint venture that results in the Group losing significant influence over that associate or joint venture, any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset in accordance with K-IFRS 1039. The difference between the previous carrying amount of the associate or joint venture attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate or joint venture. In addition, the Group accounts for all amounts previously recognized in other comprehensive income in relation to that associate or joint venture on the same basis it would be required if that associate or joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognized in other comprehensive income by that associate or joint venture would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as reclassification adjustment) when it loses significant influence over that associate or joint venture.

When the Group reduces its ownership interest in an associate or a joint venture, but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognized in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities. In addition, the Group applies K-IFRS 1105 to a portion of investment in an associate or a joint venture that meets the criteria to be classified as held for sale.

The requirements of K-IFRS 1039 are applied to determine whether it is necessary to recognize any impairment loss with respect to the Group's investment in an associate or a joint venture. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with K-IFRS 1036 by comparing its recoverable amount (higher of value in use or fair value, less costs to sell) with its carrying amount, any impairment loss recognized forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized in accordance with K-IFRS 1036 to the extent that the recoverable amount of the investment subsequently increases.

The Group continues to use the equity method when an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate. There is no remeasurement to fair value upon such changes in ownership interests.

When a Group entity transacts with an associate or a joint venture of the Group, profits and losses resulting from the transactions with the associate or joint venture are recognized in the Group's consolidated financial statements only to the extent of interests in the associate or joint venture that are not related to the Group.

(5) Interests in joint operations

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

When the Group undertakes its activities under joint operations, the Group as a joint operator recognizes in relation to its interest in a joint operation:

•its assets, including its share of any assets held jointly;
•its liabilities, including its share of any liabilities incurred jointly;
•its revenue from the sale of its share of the output arising from the joint operation;
•its share of the revenue from the sale of the output by the joint operation; and
•its expenses, including its share of any expenses incurred jointly.

The Group accounts for the assets, liabilities, revenues and expenses relating to its interest in a joint operation in accordance with the K-IFRS applicable to the particular assets, liabilities, revenues and expenses.

When the Group transacts in a joint operation in which the Group is a joint operator (such as a sale or contribution of assets), the Group is considered to be conducting the transaction with the other parties to the joint operation, and gains and losses resulting from the transactions are recognized in the Group's consolidated financial statements only to the extent of other parties' interests in the joint operation.

When the Group transacts in a joint operation in which the Group is a joint operator (such as a purchase of assets), the Group does not recognize its share of the gains and losses until it resells those assets to a third party.

(6) Goodwill

Goodwill arising on the acquisition of a business is carried at cost, as established at the date of acquisition of the business, less accumulated impairment losses, if any.

For the purpose of impairment testing, goodwill is allocated to each of the Group’s cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually or more frequently when there is indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit on a pro rata basis based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognized directly in profit or loss. An impairment loss recognized for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

The Group’s policy for goodwill arising on the acquisition of an associate is described in Note 2. (4).

(7) Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continued use. This condition is regarded as met only when the sale is highly probable and the non-current asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Group is committed to a sale plan involving loss of control over a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after the sale.

When the Group is committed to a sale plan involving disposal of an investment, or a portion of an investment, in an associate or joint venture, the investment, or the portion of the investment, that will be disposed of is classified as held for sale when the criteria described above are met, and the Group discontinues the use of the equity method in relation to the portion that is classified a held for sale. Any retained portion of an investment in an associate or a joint venture that has not been classified as held for sale continues to be accounted for using the equity method. The Group discontinues the use of the equity method at the time of disposal when the disposal results in the Group losing significant influence over the associate or joint venture.

After the disposal takes place, the Group accounts for any retained interest in the associate or joint venture in accordance with K-IFRS 1039, unless the retained interest continues to be an associate or a joint venture, in which case the Group uses the equity method.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value, less costs to sell.

(8) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances. The Group recognizes revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities, as described below.

1) Sales of goods
Revenue from the sale of goods is recognized when the Group has transferred the significant risks and rewards of ownership of the goods to the buyer.

2) Rendering of services
Revenue from airline services is recognized upon completion of the services, and revenue from a contract to provide other services is recognized by reference to stage of completion of the contract. Depending on the nature of the transaction, the Group determines the stage of completion by reference to surveys of work performed; services performed to date as a percentage of total services to be performed; or the proportion that costs incurred to date bear to the estimated total costs of the transaction, as applicable.

Rendering of services that result in award credits for customers, under the Group's Maxi-Points Scheme, is accounted for as multiple-element revenue transactions, and the fair value of the consideration received or receivable is allocated between the goods supplied and the award credits granted. The consideration allocated to the award credits is measured by reference to their fair value–the amount for which the award credits could be sold separately. Such consideration is not recognized as revenue at the time of the initial sale transaction, but is deferred and recognized as revenue when the award credits are redeemed and the Group's obligations have been fulfilled.

3) Dividend and interest income
Dividend income from investments is recognized when the Group's right to receive payment has been established.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

4) Rental income
The Group's policy for recognition of revenue from operating leases is described in Note 2. (10).

5) Customer Royalty Program
The Group operates customer royalty program to provide customers with incentives to buy their goods or services. If a customer buys goods or services, the Group grants the customer award credits. The customer can redeem the award credits for awards, such as free or discounted goods or services. The award credits are accounted separately as identifiable component of the sales transaction(s) in which they are granted (the 'initial sales'). The fair value of the consideration received or receivable in respect of the initial sale shall be allocated between the award credits and the other components of the sale.

If the Group supplies the awards itself, it shall recognize the consideration allocated to award credits as revenue when award credits are redeemed and it fulfills its obligation to supply awards. The amount of revenue recognized shall be based on the number of award credits that have been redeemed in exchange for awards related to the total number expected to be redeemed.

If the third party supplies the awards, the Group shall assess whether it is collecting the consideration allocated to the award credits on its own account (as the principal in the transaction) or on behalf of the third party (as agent for the third party). The amount of revenue recognized shall be net amount retained on its own account.

(9) Construction contracts

Where the outcome of a construction contract can be estimated reliably, revenue and costs are recognized by reference to the stage of completion of the contract activity at the end of the reporting period, measured based on the proportion of contract costs incurred for work performed to date relative to the estimated total contract costs, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that the amount can be measured reliably and its receipt is considered probable.

Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognized to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognized as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognized as an expense immediately.

When contract costs incurred to date, plus recognized profits, less recognized losses, exceed progress billing, the surplus is shown as amounts due from customers for contract work. For contracts where progress billings exceed contract costs incurred to date, plus recognized profits, less recognized losses, the surplus is shown as the amounts due to customers for contract work. Amounts received before the related work is performed are included in the consolidated statement of financial position, as a liability, as advances received. Amounts billed for work performed, but not yet paid by the customer are included in the consolidated statement of financial position under trade and other receivables.

(10) Lease

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

1) The Group as lessor

Amounts due from lessees under finance leases are recognized as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term.

2) The Group as lessee

Assets held under finance leases are initially recognized as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognized immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalized in accordance with the Group's general policy on borrowing costs (Note 2. (12)). Contingent rentals are recognized as expenses in the periods in which they are incurred.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

(11) Foreign currencies

The Group's consolidated financial statements are presented in the currency of the primary economic environment in which the Group operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of the Group are expressed in Korean won, which is the functional currency of the Group and the presentation currency for the consolidated financial statements.

In preparing the consolidated financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognized in profit or loss in the period in which they arise, except for:

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;
- exchange differences on transactions entered into in order to hedge certain foreign currency risks (Note 2. (24)) below for hedging accounting policies); and
- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognized initially in other comprehensive income and reclassified from equity to profit or loss on disposal or partial disposal of the net investment.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Company's foreign operations are expressed in Korean won using exchange rates prevailing at the end of the reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognized in other comprehensive income and accumulated in equity (attributed to non-controlling interests as appropriate).

On the disposal of a foreign operation (i.e., a disposal of the Group's entire interest in a foreign operation, a disposal involving loss of control over a subsidiary that includes a foreign operation or partial disposal of an interest in a joint arrangement or an associate that includes a foreign operation where the retained interest becomes a financial asset), all of the accumulated exchange differences in respect of that operation attributable to the owners of the Company are reclassified to profit or loss. Any exchange differences that have previously been attributed to non-controlling interests are derecognized, but they are not reclassified to profit or loss.

In the case of a partial disposal (i.e., no loss of control) of a subsidiary that includes a foreign operation, the proportionate share of accumulated exchange differences are reattributed to non-controlling interests in equity and are not recognized in profit or loss. For all other partial disposals (i.e., partial disposals of associates or joint arrangements that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate. Exchange differences arising are recognized in other comprehensive income.

(12) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings, pending their expenditure on qualifying assets, is deducted from the borrowing costs eligible for capitalization.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

(13) Government grants

Government grants are not recognized until there is reasonable assurance that the Group will comply with the conditions attached to them and that the grants will be received.

The benefit of a government loan at a below-market rate of interest is treated as a government grant, measured as the difference between proceeds received and the fair value of the loan based on prevailing market interest rates.

Government grants related to assets are presented in the consolidated statement of financial position by deducting the grant from the carrying amount of the asset. The related grant is recognized in profit or loss over the life of a depreciable asset as a reduced depreciation expense.

Government grants related to income are deducted from the related expenses. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Company with no future related costs are recognized in profit or loss in the period in which they become receivable.

(14) Retirement benefit costs and termination benefits

For defined benefit retirement benefit plans, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at the end of each reporting period. Remeasurement, comprising actuarial gains and losses, the effect of the changes to the asset ceiling (if applicable) and the return on plan assets (excluding interest), is reflected immediately in the consolidated statement of financial position, with a charge or credit recognized in other comprehensive income in the period in which it occurs. Remeasurement recognized in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss.

Past service cost is recognized in profit or loss in the period of a plan amendment. Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset. Defined benefit costs are composed of service cost (including current service cost and past service cost, as well as gains and losses on curtailments and settlements), net interest expense (income) and remeasurement.

The Group presents the service cost and net interest expense (income) components in profit or loss and the remeasurement component in other comprehensive income. Curtailment gains and losses are accounted for as past service costs.

The retirement benefit obligation recognized in the consolidated statement of financial position represents the actual deficit or surplus in the Group's defined benefit plans. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of refunds from the plans or reductions in future contributions to the plans.

A liability for a termination benefit is recognized at the earlier of when the entity can no longer withdraw the offer of the termination benefit and when the entity recognizes any related restructuring costs.

(15) Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

1) Current tax
The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of profit or loss and comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

2) Deferred tax
Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent it is probable that there will be sufficient taxable profits against which the benefits of the temporary differences can be utilized and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

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

Deferred tax assets and liabilities are offset if, and only if, the Group has a legally enforceable right to set off current tax assets against current tax liabilities, and the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities that intend either to settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

For the purpose of measuring deferred tax liabilities and deferred tax assets for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time, rather than through sale.

3) Current tax and deferred tax for the year
Current tax and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case the current tax and deferred tax are also recognized in other comprehensive income or directly in equity, respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

(16) Property, aircraft and equipment

Property, aircraft and equipment are stated at cost, less subsequent accumulated depreciation and accumulated impairment losses. The cost of an item of property, aircraft and equipment is directly attributable to their purchase or construction, which includes any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. It also includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Subsequent costs are recognized in carrying amount of an asset or as a separate asset if it is probable that future economic benefits associated with the assets will flow into the Group and the cost of an asset can be measured reliably. Routine maintenance and repairs are expensed as incurred.

The Group does not depreciate land and leased land. Depreciation expense is computed using the straight-line method based on the estimated useful lives of the assets as follows:

Description		Useful lives (years)
Buildings and structures		20–40
Machinery		4–15
Aircraft and leased aircraft	Fuselage, etc.	6–15
	Periodical large repair	2.8–12
Engines and leased engines	Engines	15
	Periodical large repair	3.3–8.8
Aircraft parts		15
Vehicles		4–9
Facilities, tools and equipment		4–5
Computation equipment		3–4
Others and other leased assets		5–15
Leasehold improvements		1.7–10

If each part of an item of property, aircraft and equipment has a cost that is significant in relation to the total cost of the item, it is depreciated separately.

The Group reviews the depreciation method, the estimated useful lives and residual values of property, aircraft and equipment at the end of each annual reporting period. If expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate.

An item of property, aircraft and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognized.

(17) Investment properties

Investment properties are properties held to earn rentals or for capital appreciation (including property under construction for such purposes). Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are reported at cost, less accumulated depreciation and accumulated impairment losses.

Subsequent costs are recognized in the carrying amount of an asset or as a separate asset if it is probable that future economic benefits associated with the assets will flow into the Group and the cost of an asset can be measured reliably. Routine maintenance and repairs are expensed as incurred.

While land is not depreciated, all other investment property is depreciated based on the respective asset's estimated useful lives of 20–40 years using the straight-line method.

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An investment property is derecognized upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognized.

(18) Intangible assets

1) Intangible assets acquired separately
Intangible assets with finite useful lives that are acquired separately are carried at cost, less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost, less accumulated impairment losses.

2) Internally generated intangible assets - research and development expenditure
Expenditure on research activities is recognized as an expense in the period in which it is incurred.

Expenditure arising from development (or from the development phase of an internal project) is recognized as an intangible asset if, and only if, the development project is designed to produce new or substantially improved products, and the Group can demonstrate the technical and economic feasibility and measure reliably the resources attributable to the intangible asset during its development.

The amount initially recognized for internally generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria. Where no internally generated intangible asset can be recognized, development expenditure is recognized in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally generated intangible assets are reported at cost, less accumulated amortization and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

3) Intangible assets acquired in a business combination
Intangible assets that are acquired in a business combination are recognized separately from goodwill and are initially recognized at their fair value at the acquisition date (which is regarded as their cost). Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost, less accumulated amortization and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

4) Derecognition of intangible assets
An intangible asset is derecognized on disposal or when no future economic benefits are expected from its use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognized in profit or loss when the asset is derecognized.

Intangible assets with finite useful lives are amortized based on the estimated useful lives of the assets as follows:

Description	Useful lives (years)
Research and development costs	5–15.3
Facility usage rights	19–30
Other intangible assets	5–20

Among the Group's intangible assets, useful life of a membership is estimated to be infinite as the usable period is not limited in accordance with the terms of the contract and the economic benefits are expected to be continuously generated from the asset during the holding period.

(19) Impairment of tangible and intangible assets other than goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise, they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value, less costs to sell, or value in use. If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or the cash-generating unit) is reduced to its recoverable amount and the reduced amount is recognized in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or the cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

(20) Inventories

Inventories are stated at the lower of cost and net realizable value. The cost of inventories is measured by the following evaluation method:

Description		evaluation method
Merchandise		First-in, first-out method and others
Products		Total average method and others
Raw materials	Aerospace	Moving average method
	In-flight meals	First-in, first-out method
Supplies	Air transport/aerospace	Moving average method
	In-flight meals	First-in, first-out method
Materials in transit		Specific Identification method
Others		First-in, first-out method

Cost of inventories consists of the purchase price, cost of conversion and other costs incurred in bringing the inventories to their present location and condition. Net realizable value represents the estimated selling price for inventories, less all estimated costs of completion and costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognized as an expense (cost of sales) in the period in which the related revenue is recognized. The amount of any write-down of inventories to net realizable value and all losses of inventories are recognized as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realizable value, is recognized as a reduction in the amount of inventories recognized as an expense in the period in which the reversal occurs.

(21) Provisions

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

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material). The discount rate used is a pretax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage is recognized in profit or loss as borrowing cost.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

At the end of each reporting period, the remaining provision balance is reviewed and assessed to determine if the current best estimate is being recognized. If the existence of an obligation to transfer economic benefit is no longer probable, the related provision is reversed during the period.

(22) Financial Instruments

Financial assets are recognized when the Group becomes a party to the contractual provisions of the instruments. Financial assets are initially measured at fair value. Transaction costs that are directly attributable to the acquisition of financial assets are added to or deducted from the fair value of the financial assets, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets at fair value through profit or loss (“FVTPL”) are recognized immediately in profit or loss.

All regular-way purchases or sales of financial assets are recognized and derecognized on a trade-date basis. Regular-way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Financial assets are classified into the following specified categories: 'financial assets at FVTPL', 'held-to-maturity investments', 'available-for-sale (AFS) financial assets' and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

1) Effective interest method
The effective interest method is a method of calculating the amortized cost of a debt instrument, and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Income is recognized on an effective interest basis for debt instruments other than financial assets classified as at FVTPL.

2) Financial assets at FVTPL
Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term;
- on initial recognition, it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise;
- the financial asset forms part of a group of financial assets or financial liabilities, or both, which is managed, and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and K-IFRS 1039 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the 'Other non-operating income and expense' line item in the consolidated statement of comprehensive income.

3) Held-to-maturity investments
Non-derivatives financial assets with fixed or determinable payments and fixed maturity dates that the Group has the positive intent and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are measured at amortized cost using the effective interest method, less any impairment, with revenue recognized on an effective yield basis.

4) AFS financial assets
AFS financial assets are non-derivatives that are either designated as AFS or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at FVTPL.

They are subsequently measured at fair value at the end of each reporting period. Changes in the carrying amount of AFS monetary financial assets relating to changes in foreign currency rates (see below), interest income calculated using the effective interest method and dividends on AFS equity investments are recognized in profit or loss. Other changes in the carrying amount of AFS financial assets are recognized in other comprehensive income (as gain (loss) on AFS financial assets, net). When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in other comprehensive income is reclassified to profit or loss.

Dividends on AFS equity instruments are recognized in profit or loss when the Group's right to receive the dividends is established.

The fair value of AFS monetary financial assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate prevailing at the end of the reporting period. The foreign exchange gains and losses that are recognized in profit or loss are determined based on the amortized cost of the monetary asset. Other foreign exchange gains and losses are recognized in other comprehensive income.

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to, and must be settled by, delivery of such unquoted equity investments are measured at cost, less any identified impairment losses, at the end of each reporting period.

5) Loans and receivables

Trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortized cost using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the effect of discounting is immaterial.

6) Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that more events have occurred after the initial recognition of the financial asset and the estimated future cash flows of the investment have been affected.

For AFS equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment includes:

- significant financial difficulty of the issuer or counterparty,
- default or delinquency in interest or principal payments,
- it becoming probable that the borrower will enter bankruptcy or financial reorganization or
- the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments and an increase in the number of delayed payments, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets that are carried at cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets, with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss in the period.

For financial assets measured at amortized cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

In respect of AFS equity securities, impairment losses previously recognized in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized in other comprehensive income. In respect of AFS debt securities, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

7) Derecognition of financial assets
The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

On derecognition of financial assets in its entirety, the difference between the assets' carrying amount and the sum of the consideration received and receivable and the cumulated gain or loss that had been recognized in other comprehensive income and accumulated in equity is recognized in profit or loss.

On derecognition of financial assets other than in its entirety (e.g., when the Group retains an option to repurchase part of a transferred asset or it retains a residual interest and such an retained interest indicates that the transferor has neither transferred nor retained substantially all the risks and rewards of ownership and has retained control of the transferred asset), the Group allocates the previous carrying amount of the financial asset between the part it continues to recognize under continuing involvement and the part it no longer recognizes on the basis of the relative fair value of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognized and the sum of the consideration received for the part that is no longer recognized and any cumulative gain or loss allocated to it that had been recognized in other comprehensive income is recognized in profit or loss. A cumulative gain or loss that had been recognized in other comprehensive income is allocated between the part that continues to be recognized and the part that is no longer recognized on the basis of the relative fair value of those parts.

(23) Financial liabilities and equity instruments

1) Classification as debt or equity
Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement and the definitions of financial liability and an equity instrument.

2) Equity instruments
An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognized as the proceeds are received, net of direct issue costs.

Repurchase of the Group's own equity instruments is recognized and deducted directly in equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments.

3) Financial liabilities

Financial liabilities are recognized when the Group becomes a party to the contractual provisions of the instruments. Financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the issue of financial liabilities are deducted from the fair value of the financial liabilities on initial recognition. Transaction costs directly attributable to acquisition of financial liabilities at FVTPL are recognized immediately in profit or loss.

Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities.

4) Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as FVTPL.

A financial liability is classified as held for trading if:

•it has been acquired principally for the purpose of repurchasing in the near term;
•on initial recognition, it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit taking; or
•it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

•such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise;
•the financial liability forms part of a group of financial assets or financial liabilities, or both, which is managed, and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
•it forms part of a contract containing one or more embedded derivatives, and K-IFRS 1039 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any interest paid on the financial liability and is included in the 'Other non-operating income and expense' line item in the consolidated statement of comprehensive income.

5) Other financial liabilities

Other financial liabilities are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

The effective interest method is a method of calculating the amortized cost of a financial liability, and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments, including all fees and points paid or received (that form an integral part of the effective interest rate) and transaction costs and other premiums or discounts through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

6) Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss he/she incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instruments.

Financial guarantee contract liabilities are initially measured at their fair values and, if not designated as at FVTPL, are subsequently measured at the higher of:

•the amount of the obligation under the contract, as determined in accordance with K-IFRS 1037, and
•the amount initially recognized, less cumulative amortization recognized in accordance with the K-IFRS 1018, *Revenue*

7) Derecognition of financial liabilities
The Group derecognize financial liabilities when the Group's obligation are discharged or canceled or they expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

(24) Derivative financial instruments

The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate, foreign exchange rate and oil price risk, including currency option, oil price option and interest rate swaps.

Derivatives are initially recognized at fair value at the date the derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognized in profit or loss immediately, unless the derivative is designated and effective as a hedging instrument, in which case the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

A derivative with a positive fair value is recognized as a financial asset, and a derivative with a negative fair value is recognized as a financial liability. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realized or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

1) Hedge accounting
The Group designates certain hedging instruments, which include derivatives, embedded derivatives and non-derivatives in respect of foreign currency risk, as either fair value hedges, cash flow hedges or hedges of net investments in foreign operations. Hedges of foreign exchange risk on firm commitments are accounted for as cash flow hedges.

At the inception of the hedge relationship, the entity documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item.

2) Fair value hedges
Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognized in profit or loss immediately, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The change in the fair value of the hedging instrument and the change in the hedged item attributable to the hedged risk are recognized in the line of the consolidated statement of comprehensive income relating to the hedged item.

Hedge accounting is discontinued when the Group revokes the hedging relationship; when the hedging instrument expires or is sold, terminated or exercised; or when it no longer qualifies for hedge accounting. The fair value adjustment to the carrying amount of the hedged item arising from the hedged risk is amortized to profit or loss from that date.

3) Cash flow hedges
The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in other comprehensive income. The gain or loss relating to the ineffective portion is recognized immediately in profit or loss, and is included in the 'Other non-operating income and expense' line item.

Amounts previously recognized in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item is recognized in profit or loss in the same line of the consolidated statement of comprehensive income as the recognized hedged item. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously accumulated in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability.

Hedge accounting is discontinued when the Group revokes the hedging relationship; when the hedging instrument expires or is sold, terminated or exercised; or it no longer qualifies for hedge accounting. Any gain or loss accumulated in equity at that time remains in equity and is recognized when the forecast transaction is ultimately recognized in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognized immediately in profit or loss.

(25) Fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of K-IFRS 1102; leasing transactions that are within the scope of K-IFRS 1017, *Leases*; and measurements that have some similarities to fair value, but are not fair value, such as net realizable value in K-IFRS 1002, *Inventories*, or value in use in K-IFRS 1036.

In addition, for financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

(Level 1) inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
(Level 2) inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
(Level 3) inputs are unobservable inputs for the asset or liability.

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

In the application of the Group accounting policies, which are described in Note 2, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

(1) Critical judgments in applying accounting policies

The followings are the critical judgments, apart from those involving estimations (Note 3. (2)), that the directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements.

Management has reviewed the Group's held-to-maturity financial assets in the light of its capital maintenance and liquidity requirements and has confirmed the Group's positive intention and ability to hold those assets to maturity. The carrying amount of the held-to-maturity financial assets is ₩10,322 million ($9,781 thousand). Details of these assets are set out in Note 9.

(2) Key sources of estimation uncertainty

The followings are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

1) Defined Benefit Plan
The Group's defined benefit obligation is determined based on the actuarial valuation carried out at the end of each annual reporting period. Actuarial assumptions are the Group's best estimates of the variables in determining the cost of providing postretirement benefits, such as discount rates, rates of expected future salary increases and mortality rates. Significant estimation uncertainty is likely to persist in making such assumptions due to the long-term nature of postretirement benefit plan. At the end of this year, net defined benefit obligation of the plan is ₩879,931 million ($833,820 thousand) (prior year of ₩867,872 million ($822,393 thousand)), as detailed in Note 25.

2) Valuation of Financial Instruments
As described in Notes 42 and 43, the Group uses valuation techniques that include inputs that are not based on observable market data to estimate the fair value of certain type of financial instruments. Notes 42 and 43 provide detailed information about key assumptions used in the determination of the fair value of financial instruments, as well as the detailed sensitivity analysis for these assumptions. The directors believe that the chosen valuation techniques and assumptions used are appropriate in determining the fair value of financial instruments.

3) Probability on the Realization of Unused Deferred Tax Assets
In consideration of operating performance of the Group and estimate of the future operating performance, the Group recognizes deferred tax asset of ₩243,476 million ($230,717 thousand) in relation to unused tax loss carryforward of ₩1,006,100 million ($953,378 thousand).

4. SEGMENT INFORMATION:

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

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

(2) Operating results by reportable segment for the year ended December 31, 2013, are as follows:

	Korean won						
	Air transport	Aerospace	In-flight meals	Hotel/ limousine	Others	Adjustment for consolidation	Total
	(In millions)						
Total sales	₩ 11,262,741	₩ 638,154	₩ 91,737	₩ 27,830	₩ 296,803	₩ (468,557)	₩ 11,848,708
Internal sales	(320,155)	-	(569)	(118)	(147,715)	468,557	-
Net sales	10,942,586	638,154	91,168	27,712	149,088	-	11,848,708
Operating income (loss)	(64,947)	20,961	29,318	(5,073)	20,573	(20,394)	(19,562)
Depreciation and amortization	(1,595,483)	(35,134)	(6,007)	(2,245)	(14,300)	-	(1,653,169)
Total assets	19,768,886	1,112,655	74,214	232,331	2,994,782	(1,262,430)	22,920,438
Total liabilities							20,180,225

	Translation into U.S. dollars (Note 2)						
	Air transport	Aerospace	In-flight meals	Hotel/ limousine	Others	Adjustment for consolidation	Total
	(In thousands)						
Total sales	$ 10,672,549	$ 604,713	$ 86,930	$ 26,372	$ 281,250	$ (444,004)	$ 11,227,810
Internal sales	(303,378)	-	(539)	(112)	(139,975)	444,004	-
Net sales	10,369,171	604,713	86,391	26,260	141,275	-	11,227,810
Operating income (loss)	(61,543)	19,863	27,782	(4,807)	19,493	(19,325)	(18,537)
Depreciation and amortization	(1,511,876)	(33,293)	(5,692)	(2,126)	(13,550)	-	(1,566,537)
Total assets	18,732,954	1,054,349	70,325	220,157	2,837,849	(1,196,276)	21,719,358
Total liabilities							19,122,738

(3) Operating results by geographical area for the year ended December 31, 2013, are as follows:

	Korean won					
	Local companies		Overseas companies		Adjustment for consolidation	Total
	Domestic	International	Americas	Asia		
	(In millions)					
Total sales	₩ 1,769,472	₩ 10,515,403	₩ 2,277	₩ 30,113	₩ (468,557)	₩ 11,848,708
Internal sales	(442,559)		(3)	(25,995)	468,557	-
Net sales	11,842,316		2,274	4,118	-	11,848,708
Operating income (loss)	2,328		(1,566)	70	(20,394)	(19,562)
Total assets	23,948,132		212,525	22,211	(1,262,430)	22,920,438
Total liabilities						20,180,225

	Translation into U.S. dollars (Note 2)					
	Local companies		Overseas companies		Adjustment for consolidation	Total
	Domestic	International	Americas	Asia		
	(In thousands)					
Total sales	$ 1,676,748	$ 9,964,374	$ 2,157	$ 28,535	$ (444,004)	$ 11,227,810
Internal sales	(419,368)		(3)	(24,633)	444,004	-
Net sales	11,221,754		2,154	3,902	-	11,227,810
Operating income (loss)	2,205		(1,484)	67	(19,325)	(18,537)
Total assets	22,693,199		201,388	21,047	(1,196,276)	21,719,358
Total liabilities						19,122,738

(4) There is no single customer who accounted for more than 10% of the Group's revenue for the years ended December 31, 2013 and 2012.

5. CASH AND CASH EQUIVALENTS:

Cash and cash equivalents as of December 31, 2013 and 2012, consist of the following:

	Korean won		Translation into U.S. dollars (Note 2)	
	2013	2012	2013	2012
	(In millions)		(In thousands)	
Cash on hand	₩ 329	₩ 9,148	$ 311	$ 8,669
Bank deposits	1,126,496	1,456,351	1,067,466	1,380,035
	₩ 1,126,825	₩ 1,465,499	$ 1,067,777	$ 1,388,704

6. RESTRICTED DEPOSITS:

Restricted deposits as of December 31, 2013 and 2012, consist of the following:

	Korean won		
	2013	2012	Remark
	(In millions)		
Cash and cash equivalents	₩ 888	₩ 901	Pledged for air force business
Long-term financial instruments	2,111	-	Pledged for borrowings of Grandstar Cargo International Airlines Co., Ltd.
	10,890	-	Performance guarantee deposit for the mail delivery contract with Korea Post
	-	6,880	Payment guarantee of deferred air tickets
	130	-	Performance guarantee deposit for U.S. air force delivery service
	1,000	1,000	Rental guarantee for Incheon International Airport terminal
	877	842	Accident compensation for employees and guarantee for X-RAY of Incheon International Airport
	-	26	Guarantee-related business license
	121	53	Receivables attachment
	-	96	Contract guarantee for airport facilities fee
	-	85	Contract guarantee for operating cost
	13	29	Bank account deposit
	₩ 16,030	₩ 9,912	

	Translation into U.S. dollars (Note 2)		Remark
	2013	2012	
	(In thousands)		
Cash and cash equivalents	$ 841	$ 854	Pledged for air force business
Long-term financial instruments	2,000	-	Pledged for borrowings of Grandstar Cargo International Airlines Co., Ltd.
	10,319	-	Performance guarantee deposit for the mail delivery contract with Korea Post
	-	6,519	Payment guarantee of deferred air tickets
	123	-	Performance guarantee deposit for U.S. air force delivery service
	948	948	Rental guarantee for Incheon International Airport terminal
	831	798	Accident compensation for employees and guarantee for X-RAY of Incheon International Airport
	-	25	Guarantee-related business license
	114	50	Receivables attachment
	-	91	Contract guarantee for airport facilities fee
	-	81	Contract guarantee for operating cost
	13	27	Bank account deposit
	$ 15,189	$ 9,393	

7. TRADE AND OTHER RECEIVABLES:

Trade and other receivables as of December 31, 2013 and 2012, consist of the following:

2013

	Korean won		Translation into U.S. dollars (Note 2)	
	Current	Non-current	Current	Non-current
	(In millions)		(In thousands)	
Trade receivables	₩ 791,481	₩ 220	$ 750,005	$ 209
Allowance for doubtful accounts	(6,400)	-	(6,065)	-
Discount on present value	(40)	(28)	(38)	(26)
	785,041	192	743,902	183
Short-term loans	250,007	-	236,907	-
Allowance for doubtful accounts	-	-	-	-
	250,007	-	236,907	-
Non-trade receivables	79,552	-	75,384	-
Allowance for doubtful accounts	(605)	-	(574)	-
	78,947	-	74,810	-
Accrued revenues	43,843	-	41,545	-
Allowance for doubtful accounts	(436)	-	(413)	-
	43,407	-	41,132	-
	₩ 1,157,402	₩ 192	$ 1,096,751	$ 183

2012

	Korean won		Translation into U.S. dollars (Note 2)	
	Current	Non-current	Current	Non-current
	(In millions)		(In thousands)	
Trade receivables	₩ 847,112	₩ 447	$ 802,721	$ 424
Allowance for doubtful accounts	(6,947)	(4)	(6,583)	(4)
Discount on present value	(46)	(37)	(43)	(35)
	840,119	406	796,095	385
Short-term loans	6,579	81	6,234	77
Allowance for doubtful accounts	(6,512)	-	(6,171)	-
	67	81	63	77
Non-trade receivables	29,167	-	27,639	-
Allowance for doubtful accounts	(144)	-	(137)	-
	29,023	-	27,502	-
Accrued revenues	52,995	-	50,218	-
Allowance for doubtful accounts	(496)	-	(470)	-
	52,499	-	49,748	-
	₩ 921,708	₩ 487	$ 873,408	$ 462

(2) Credit risk and details of allowance for doubtful accounts as of December 31, 2013 and 2012, are as follows:

The above trade and other receivables are classified as 'loans and receivables' and measured at amortized cost.

The Group estimates the allowance for doubtful accounts based on the each receivable analysis because the credit offering period for the sales of the Group varies with the sales' categories and customers.

1) Aging analysis of the trade receivables that are overdue, but are not impaired as of December 31, 2013 and 2012, are as follows:

2013

	Korean won				
	Within 6 months	6–12 months	1 year–3 years	Over 3 years	Total
			(In millions)		
Trade receivables	₩ 13,815	₩ 770	₩ 765	₩ 1,844	₩ 17,194
Allowance for doubtful accounts	(138)	(8)	(8)	(18)	(172)
	₩ 13,677	₩ 762	₩ 757	₩ 1,826	₩ 17,022

	Translation into U.S. dollars (Note 2)				
	Within 6 months	6–12 months	1 year–3 years	Over 3 years	Total
			(In thousands)		
Trade receivables	$ 13,091	$ 729	$ 725	$ 1,748	$ 16,293
Allowance for doubtful accounts	(131)	(7)	(7)	(17)	(162)
	$ 12,960	$ 722	$ 718	$ 1,731	$ 16,131

2012

	Korean won				
	Within 6 months	6–12 months	1 year–3 years	Over 3 years	Total
	(In millions)				
Trade receivables	₩ 37,457	₩ 294	₩ 2,941	₩ 1,696	₩ 42,388
Allowance for doubtful accounts	(411)	(3)	(30)	(17)	(461)
	₩ 37,046	₩ 291	₩ 2,911	₩ 1,679	₩ 41,927

	Translation into U.S. dollars (Note 2)				
	Within 6 months	6–12 months	1 year–3 years	Over 3 years	Total
	(In thousands)				
Trade receivables	$ 35,494	$ 279	$ 2,787	$ 1,607	$ 40,167
Allowance for doubtful accounts	(389)	(3)	(28)	(16)	(436)
	$ 35,105	$ 276	$ 2,759	$ 1,591	$ 39,731

2) Trade receivables are not impaired as of December 31, 2013 and 2012.

3) Changes in allowance for trade and other receivables for the years ended December 31, 2013 and 2012, are as follows:

	2013			
	Korean won		Translation into U.S. dollars (Note 2)	
	Trade receivables	Loans	Trade receivables	Loans
	(In millions)		(In thousands)	
Beginning balance	₩ 6,951	₩ 6,512	$ 6,587	$ 6,171
Reversal of allowance for doubtful accounts	(543)	-	(514)	-
Bad debt expense	-	(6,512)	-	(6,171)
Decrease due to contribution in kind	(8)	-	(8)	-
Ending balance	₩ 6,400	₩ -	$ 6,065	$ -

	2012			
	Korean won		Translation into U.S. dollars (Note 2)	
	Trade receivables	Loans	Trade receivables	Loans
	(In millions)		(In thousands)	
Beginning balance	₩ 8,429	₩ -	$ 7,987	$ -
Reversal of allowance for doubtful accounts	(1,200)	6,512	(1,137)	6,171
Bad debt expense	(278)	-	(263)	-
Ending balance	₩ 6,951	₩ 6,512	$ 6,587	$ 6,171

The Group has judged the recoverability of the trade receivables by considering the changes in credit rating from the beginning date of credit offering to the end of the reporting period. The concentration of credit risk is limited because there are lots of customers and no interconnection between them.

8. AFS FINANCIAL ASSETS:

AFS financial assets as of December 31, 2013 and 2012, consist of the following:

	Korean won			
	2013		2012	
	Current	Non-current	Current	Non-current
	(In millions)			
Equity securities:				
Marketable securities	₩ -	₩ 140,004	₩ -	₩ 78,688
Non-marketable securities	-	65,021	-	67,600
Debt securities:				
Corporate bonds	3,000	3	-	3,002
Investments in other equity securities (*1)	-	8,281	-	5,295
	₩ 3,000	₩ 213,309	₩ -	₩ 154,585

	Translation into U.S. dollars (Note 2)			
	2013		2012	
	Current	Non-current	Current	Non-current
	(In thousands)			
Equity securities:				
Marketable securities	$ -	$ 132,668	$ -	$ 74,566
Non-marketable securities	-	61,614	-	64,057
Debt securities:				
Corporate bonds	2,843	2	-	2,844
Investments in other equity securities (*1)	-	7,847	-	5,017
	$ 2,843	$ 202,131	$ -	$ 146,484

(*1) As of December 31, 2013, ₩423 million ($401 thousand) of investments in other equity securities were provided to Information and Communication Financial Cooperative and others as collateral related to the performance payment guarantee (Note 16).

Meanwhile, the Company recognized an impairment loss of ₩1,685 million ($1,596 thousand), which occurred in non-marketable securities of AFS financial assets, for the year ended December 31, 2013. There is no reversal of impairment loss incurred in AFS financial assets for the years ended December 31, 2013 and 2012.

9. HELD-TO-MATURITY INVESTMENTS:

Held-to-maturity investments as of December 31, 2013 and 2012, consist of the following:

	Korean won			
	2013		2012	
	Current	Non-current	Current	Non-current
	(In millions)			
Government and public bonds (*1)	₩ 9,374	₩ 948	₩ 6,566	₩ 13,170
Corporate bonds	-	-	2,008	1,706
Subordinated debt	-	-	-	565
	₩ 9,374	₩ 948	₩ 8,574	₩ 15,441

	Translation into U.S. dollars (Note 2)			
	2013		2012	
	Current	Non-current	Current	Non-current
	(In thousands)			
Government and public bonds (*1)	$ 8,882	$ 898	$ 6,221	$ 12,480
Corporate bonds	-	-	1,903	1,617
Subordinated debt	-	-	-	535
	$ 8,882	$ 898	$ 8,124	$ 14,632

(*1) As of December 31, 2013, and 2012, the Group's government and public bonds were provided as collateral related to the contract performance guarantee (Note 16).

There were no held-to-maturity investments overdue or impaired for the years ended December 31, 2013 and 2012.

10. INVENTORIES:

Inventories as of December 31, 2013 and 2012, consist of the following:

	Korean won					
	2013			2012		
	Acquisition cost	Valuation allowance	Book value	Acquisition cost	Valuation allowance	Book value
	(In millions)					
Merchandise	₩ 22,640	₩ -	₩ 22,640	₩ 21,313	₩ -	₩ 21,313
Finished goods	7,275	-	7,275	5,666	-	5,666
Raw materials	79,782	-	79,782	76,577	-	76,577
Supplies	340,169	-	340,169	379,017	-	379,017
Materials in transit	14,436	-	14,436	11,071	-	11,071
	₩ 464,302	₩ -	₩ 464,302	₩ 493,644	₩ -	₩ 493,644

	Translation into U.S. dollars (Note 2)					
	2013			2012		
	Acquisition cost	Valuation allowance	Book value	Acquisition cost	Valuation allowance	Book value
	(In thousands)					
Merchandise	$ 21,454	$ -	$ 21,454	$ 20,197	$ -	$ 20,197
Finished goods	6,893	-	6,893	5,369	-	5,369
Raw materials	75,602	-	75,602	72,564	-	72,564
Supplies	322,343	-	322,343	359,155	-	359,155
Materials in transit	13,679	-	13,679	10,491	-	10,491
	$ 439,971	$ -	$ 439,971	$ 467,776	$ -	$ 467,776

11. INVESTMENT IN DIRECT FINANCING LEASES:

(1) The Group has offered the finance leases of the aircraft, and the minimum lease payments and present value of the finance leases as of December 31, 2013, are as follows:

	Korean won	Translation into U.S. dollars (Note 2)
	(In millions)	(In thousands)
Less than one year	₩ 16,701	$ 15,826
One year to five years	71,855	68,090
More than five years	15,750	14,924
	104,306	98,840
Present value of discounts	(23,086)	(21,876)
	₩ 81,220	$ 76,964

(2) Investment in direct financing leases are not impaired for the years ended December 31, 2013 and 2012.

12. INVESTMENTS IN SUBSIDIARIES:

(1) Investments in subsidiaries as of December 31, 2013 and 2012, consist of the following:

Description	Principal business	Location	Ownership of Group 2013	Ownership of Group 2012
			(%)	(%)
Korea Airport Service Co., Ltd.	Airport support service	Korea	59.54	59.54
Hanjin Information Systems & Telecommunication Co., Ltd.	Software development and supply	Korea	99.35	99.35
Topas Co., Ltd. (*1)	Software development and supply	Korea	-	67.35
KAL Hotel Network Co., Ltd. (*1)	Hotel service	Korea	-	100.00
Hanjin Travel Service Co., Ltd. (*1) and (*2)	Travel service	Korea	-	72.30
Air Total Service Co., Ltd.	Labor supply	Korea	100.00	100.00
Jungseok Enterprise Co., Ltd. (*1)	Real estate service	Korea	-	48.87
Jedong Leisure Co., Ltd. (*1)	Golf course operation	Korea	-	100.00
Hanjin Energy Co., Ltd.	Business support service	Korea	100.00	100.00
Jin Air Co., Ltd. (*1)	Airline services	Korea	-	100.00
Homeo Therapy Co., Ltd. (*1)	Drug development	Korea	-	100.00
Hanjin International Corp.	Hotel and rental service	USA	100.00	100.00
Hanjin Central Asia MChJ.	Construction operating	Uzbekistan	100.00	100.00
IAT Co., Ltd.	Aircraft engine repair services	Korea	90.00	90.00
WLD Co., Ltd.	Sports and leisure service	Korea	100.00	100.00
Korea Global Logistics System Co., Ltd.	Telecommunication service	Korea	95.00	95.00
Hanjin International Japan Co., Ltd	Airport support service	Japan	55.00	55.00
Waikiki Resort Hotel Inc. (*1)	Hotel service	USA	-	100.00
Air Korea Co., Ltd. (*3)	Airport support service	Korea	-	75.00
KAL 4 Asset Securitization Specialty Company (*4)	Issuance and repayment of ABS loans	Korea	0.50	-
KAL 5 Asset Securitization Specialty Company (*4)	Issuance and repayment of ABS loans	Korea	0.50	-
KAL 6 Asset Securitization Specialty Company (*4)	Issuance and repayment of ABS loans	Korea	0.50	-

Description	Principal business	Location	Ownership of Group 2013	Ownership of Group 2012
			(%)	
KAL 7 Asset Securitization Specialty Company (*4)	Issuance and repayment of ABS loans	Korea	0.50	-
KAL 8 Asset Securitization Specialty Company (*4)	Issuance and repayment of ABS loans	Korea	0.50	-
KAL 9 Asset Securitization Specialty Company (*4)	Issuance and repayment of ABS loans	Korea	0.50	-
KAL 10 Asset Securitization Specialty Company (*4)	Issuance and repayment of ABS loans	Korea	0.50	-

(*1) They are excluded from classification of investment in subsidiaries as Hanjin KAL Co., Ltd., incorporated by spin-off, holds shares and powers of control over them as of December 31, 2013.

(*2) Hanjin Travel Service Co., Ltd., was incorporated by spin-off of travel business segment of Hanjin Travel Service Co., Ltd., during the year ended December 31, 2013. The spin-off was a physical division that was followed by the original company obtaining new company's outstanding shares. However, the Company merged with the original company.

(*3) Air Korea Co., Ltd. was classified as investments in associates because of change in portion of ownership due to the Company's spin-off.

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

(2) Financial positions of the Group's major subsidiaries as of December 31, 2013, are as follows:

	Korea Airport Service Co., Ltd.	Hanjin Information Systems & Telecommunication Co., Ltd.	Hanjin Energy Co., Ltd.	Korea Global Logistics System Co., Ltd.	IAT Co., Ltd.	Hanjin International Japan Co., Ltd.
	Korean won (In millions)					
Current assets	₩ 128,128	₩ 50,411	₩ 5	₩ 6,938	₩ 1,705	₩ 64,940
Non-current assets	261,881	14,742	2,392,413	73	31,024	176,163
	₩ 390,009	₩ 65,153	₩ 2,392,418	₩ 7,011	₩ 32,729	₩ 241,103
Current liabilities	₩ 54,850	₩ 14,792	₩ 1,061,550	₩ 347	₩ 19	₩ 1,718
Non-current liabilities	81,033	3,114	33,170	52	585	227,518
	₩ 135,883	₩ 17,906	₩ 1,094,720	₩ 399	₩ 604	₩ 229,236
Owners of the Company	₩ 254,126	₩ 47,247	₩ 1,297,698	₩ 6,612	₩ 32,125	₩ 11,867
Non-controlling interests	-	-	-	-	-	-
	₩ 254,126	₩ 47,247	₩ 1,297,698	₩ 6,612	₩ 32,125	₩ 11,867

	Translation into U.S. dollars (Note 2)					
	Korea Airport Service Co., Ltd.	Hanjin Information Systems & Telecommunication Co., Ltd.	Hanjin Energy Co., Ltd.	Korea Global Logistics System Co., Ltd.	IAT Co., Ltd.	Hanjin International Japan Co., Ltd.
	(In thousands)					
Current assets	$ 121,414	$ 47,769	$ 5	$ 6,574	$ 1,615	$ 61,537
Non-current assets	248,157	13,970	2,267,045	69	29,399	166,931
	$ 369,571	$ 61,739	$ 2,267,050	$ 6,643	$ 31,014	$ 228,468
Current liabilities	$ 51,976	$ 14,017	$ 1,005,922	$ 329	$ 17	$ 1,628
Non-current liabilities	76,786	2,951	31,432	49	555	215,595
	$ 128,762	$ 16,968	$ 1,037,354	$ 378	$ 572	$ 217,223
Owners of the Company	$ 240,809	$ 44,771	$ 1,229,696	$ 6,265	$ 30,442	$ 11,245
Non-controlling interests	-	-	-	-	-	-
	$ 240,809	$ 44,771	$ 1,229,696	$ 6,265	$ 30,442	$ 11,245

(*1) Consolidated statements of financial position, as disclosed above, include the consolidated adjusting amounts before intercompany transactions that are not eliminated.

(3) Financial performances of the Group's major subsidiaries for the year ended December 31, 2013, are as follows:

	Korean won					
	Korea Airport Service Co., Ltd.	Hanjin Information Systems & Telecommunication Co., Ltd.	Hanjin Energy Co., Ltd.	Korea Global Logistics System Co., Ltd.	IAT Co., Ltd.	Hanjin International Japan Co., Ltd.
	(In millions)					
Sales	₩ 427,161	₩ 106,211	₩ -	₩ 2,989	₩ -	₩ 2,277
Operating income (loss)	13,591	11,952	(355)	985	(570)	(1,566)
Net income (loss)	709	7,554	38,960	914	(577)	(35,613)

	Translation into U.S. dollars (Note 2)					
	Korea Airport Service Co., Ltd.	Hanjin Information Systems & Telecommunication Co., Ltd.	Hanjin Energy Co., Ltd.	Korea Global Logistics System Co., Ltd.	IAT Co., Ltd.	Hanjin International Japan Co., Ltd.
	(In thousands)					
Sales	$ 404,776	$ 100,646	$ -	$ 2,832	$ -	$ 2,157
Operating income (loss)	12,878	11,326	(336)	933	(540)	(1,484)
Net income (loss)	671	7,158	36,918	866	(547)	(33,747)

(*1) Consolidated statements of financial position, as disclosed above, include the consolidated adjusting amounts before intercompany transactions that are not eliminated.

(4) Cash flows of the Group's major subsidiaries for the year ended December 31, 2013, are as follows:

	Korean won					
	Korea Airport Service Co., Ltd.	Hanjin Information Systems & Telecommunication Co., Ltd.	Hanjin Energy Co., Ltd.	Korea Global Logistics System Co., Ltd.	IAT Co., Ltd.	Hanjin International Japan Co., Ltd.
	(In millions)					
Cash flows from operating activities	₩ 16,628	₩ 12,097	₩ 73,946	₩ 1,028	₩ (523)	₩ (28,825)
Cash flows from investment activities	(1,898)	(13,099)	-	(1,300)	(5,396)	(114,915)
Cash flows from financing activities	(8,829)	272	(73,956)	-	6,964	90,350
Net changes in cash and cash equivalents	5,901	(730)	(10)	(272)	1,045	(53,390)
Changes in cash and cash equivalents due to foreign currency translation	(10)	-	-	-	-	196
Beginning balance	30,454	7,585	14	1,174	651	118,089
Ending balance	₩ 36,345	₩ 6,855	₩ 4	₩ 902	₩ 1,696	₩ 64,895

	Translation into U.S. dollars (Note 2)					
	Korea Airport Service Co., Ltd.	Hanjin Information Systems & Telecommunication Co., Ltd.	Hanjin Energy Co., Ltd.	Korea Global Logistics System Co., Ltd.	IAT Co., Ltd.	Hanjin International Japan Co., Ltd.
	(In thousands)					
Cash flows from operating activities	$ 15,757	$ 11,463	$ 70,071	$ 974	$ (495)	$ (27,314)
Cash flows from investment activities	(1,799)	(12,412)	-	(1,232)	(5,114)	(108,893)
Cash flows from financing activities	(8,366)	257	(70,080)	-	6,599	85,615
Net changes in cash and cash equivalents	5,592	(692)	(9)	(258)	990	(50,592)
Changes in cash and cash equivalents due to foreign currency translation	(10)	-	-	-	-	185
Beginning balance	28,858	7,188	13	1,113	617	111,901
Ending balance	$ 34,440	$ 6,496	$ 4	$ 855	$ 1,607	$ 61,494

(*1) Consolidated statements of cash flows, as disclosed above, include the amounts before intercompany transactions that are not eliminated.

(5) The ownership ratio of non-controlling interests, financial position as of December 31, 2013, financial performances for the year ended December 31, 2013, and dividend paid to non-controlling interests of major subsidiaries are as follows:

	Korean won				
	Korea Airport Service Co., Ltd.	Hanjin Information Systems & Telecommunication Co., Ltd.	Hanjin Energy Co., Ltd.	Korea Global Logistics System Co., Ltd.	IAT Co., Ltd.
			(In millions)		
Ownership ratio	40.46%	0.65%	1.38%	5.19%	10.00%
Non-controlling interests	₩ 80,585	₩ 303	₩ 5,506	₩ 342	₩ 3,213
Net (loss) income attributable non-controlling interests	(10,126)	50	537	48	(58)
Dividend paid to non-controlling interests	619	2	-	-	-

	Translation into U.S. dollars (Note 2)				
	Korea Airport Service Co., Ltd.	Hanjin Information Systems & Telecommunication Co., Ltd.	Hanjin Energy Co., Ltd.	Korea Global Logistics System Co., Ltd.	IAT Co., Ltd.
			(In thousands)		
Ownership ratio	40.46%	0.65%	1.38%	5.19%	10.00%
Non-controlling interests	$ 76,362	$ 287	$ 5,218	$ 324	$ 3,044
Net (loss) income attributable non-controlling interests	(9,595)	47	509	45	(55)
Dividend paid to non-controlling interests	586	2	-	-	-

(*1) Ownership of non-controlling interest is not included, whether directly or indirectly, in the ownership of the Company. It may differ from percentage of shares that is deducted by simply adding up each subsidiary's share.

13. INVESTMENTS IN ASSOCIATES AND JOINTLY CONTROLLED ENTITIES:

(1) Investments in associates and jointly controlled entities as of December 31, 2013 and 2012, consist of the following:

2013

					Korean won	
Description		Principal business	Location	Ownership	Acquisition cost	Book value
				(%)	(In millions)	
Associates	Hanjin Shipping Holdings Co., Ltd.	Holding company	Korea	27.40	₩ 226,784	₩ -
	Grandstar Cargo International Airlines Co., Ltd.	Logistics industry	China	25.00	26,015	-
	EIGHTCITY Co., Ltd.	Real estate	Korea	23.81	1,500	-
	Hanjin-Jungseok Investment	Rental real estate	Korea	25.00	2,500	2,566
	S-Oil Co., Ltd. (*3)	Oil purification	Korea	28.41	2,158,342	2,392,410
	Czech Airlines j.s.c.	Airline services	Czech	44.00	3,905	10,848

Description		Principal business	Location	Ownership	Korean won Acquisition cost	Korean won Book value
				(%)	(In millions)	
	Air Korea Co., Ltd. (*2)	Airport support service	Korea	50.00	500	1,672
					₩ 2,419,546	₩ 2,407,496

Description		Principal business	Location	Ownership	Translation into U.S. dollars (Note 2) Acquisition cost	Translation into U.S. dollars (Note 2) Book value
				(%)	(In thousands)	
Associates	Hanjin Shipping Holdings Co., Ltd.	Holding company	Korea	27.40	$ 214,900	$ -
	Grandstar Cargo International Airlines Co., Ltd.	Logistics industry	China	25.00	24,652	-
	EIGHTCITY Co., Ltd.	Real estate	Korea	23.81	1,421	-
	Hanjin-Jungseok Investment	Rental real estate	Korea	25.00	2,369	2,431
	S-Oil Co., Ltd. (*3)	Oil purification	Korea	28.41	2,045,241	2,267,043
	Czech Airlines j.s.c.	Airline services	Czech	44.00	3,700	10,279
	Air Korea Co., Ltd. (*2)	Airport support service	Korea	50.00	474	1,585
					$ 2,292,757	$ 2,281,338

2012

Description		Principal business	Location	Ownership	Korean won Acquisition cost	Korean won Book value
				(%)	(In millions)	
Associates	Hanjin Transportation Co., Ltd. (*1)	Transportation	Korea	21.63	₩ 60,695	₩ 111,601
	Hanjin Shipping Holdings Co., Ltd.	Holding company	Korea	27.40	226,784	25,602
	Grandstar Cargo International Airlines Co., Ltd.	Logistics industry	China	25.00	26,015	-
	EIGHTCITY Co., Ltd.	Real estate	Korea	23.81	1,500	1,500
	Hanjin-Jungseok Investment	Rental real estate	Korea	75.00	7,500	7,500
	S-Oil Co., Ltd. (*3)	Oil purification	Korea	28.41	2,158,342	2,401,230
	KTB Safe Private Security Investment Trust 68 (*1)	Other finance	Korea	100,00	1,130	1,130
Jointly controlled entities	Tianjin Hanjin-Sino Trans Air Cargo Terminal Co., Ltd. (*4)	Logistics industry	China	61.97	11,637	8,827
					₩ 2,493,603	₩ 2,557,390

Description		Principal business	Location	Ownership	Translation into U.S. dollars (Note 2) Acquisition cost	Translation into U.S. dollars (Note 2) Book value
				(%)	(In thousands)	
Associates	Hanjin Transportation Co., Ltd. (*1)	Transportation	Korea	21.63	$ 57,515	$ 105,753
	Hanjin Shipping Holdings Co., Ltd.	Holding company	Korea	27.40	214,900	24,260

	Description	Principal business	Location	Ownership	Korean won Acquisition cost	Korean won Book value
				(%)	(In millions)	
	Grandstar Cargo International Airlines Co., Ltd.	Logistics industry	China	25.00	24,652	-
	EIGHTCITY Co., Ltd.	Real estate	Korea	23.81	1,421	1,421
	Hanjin-Jungseok Investment	Rental real estate	Korea	75.00	7,107	7,107
	S-Oil Co., Ltd. (*3)	Oil purification	Korea	28.41	2,045,241	2,275,401
	KTB Safe Private Security Investment Trust 68 (*1)	Other finance	Korea	100.00	1,071	1,071
Jointly controlled entities	Tianjin Hanjin-Sino Trans Air Cargo Terminal Co., Ltd. (*4)	Logistics industry	China	61.97	11,027	8,364
					$ 2,362,934	$ 2,423,377

(*1) Hanjin Transportation Co., Ltd., and KTB Safe Private Security Investment Trust 68 are excluded from the investment in associates due to the Company's spin-off for the year ended December 31, 2013.
(*2) It was classified as investments in associates and jointly controlled entities from investment in subsidiaries due to the disposal of part of shares owned by the Group and the loss of power of control after the Company's spin-off.
(*3) It was provided as collateral related to the borrowings of Hanjin Energy Co., Ltd. (see Note 16).
(*4) All joint arrangements that the Group holds are structured by a separate entity. The parties that have joint control with respect to the joint agreement hold the rights to the net assets of the agreements so that they are classified as joint ventures and accounted for using the equity method of accounting.

(2) Fair values of investments in associates and jointly controlled entities with disclosed market values as of December 31, 2013 and 2012, are as follows:

	Korean won 2013	Korean won 2012	Translation into U.S. dollars (Note 2) 2013	Translation into U.S. dollars (Note 2) 2012
	(In millions)		(In thousands)	
Hanjin Shipping Holdings Co., Ltd.	₩ 62,997	₩ 68,156	$ 59,696	$ 64,585
Hanjin Transportation Co., Ltd. (*1)	-	51,156	-	48,475
S-Oil Co., Ltd.	2,366,785	3,326,293	2,242,761	3,151,988
	₩ 2,429,782	₩ 3,445,605	$ 2,302,457	$ 3,265,048

(*1) Excluded from the investment in associates due to the Company's spin-off for the year ended December 31, 2013.

(3) Changes in investment in associates and jointly controlled entities for the years ended December 31, 2013 and 2012, are as follows:

2013

	Korean won Beginning balance	Acquisition	Dividend	Gain (loss) on valuation of equity method	Net change in interests of equity method securities	Decrease due to spin-off	Others	Ending balance
				(In millions)				
Hanjin Transportation Co., Ltd. (*1)	₩ 111,601	₩ -	₩ (1,036)	₩ 739	₩ 2,908	₩ (101,365)	₩ (12,847)	₩ -
Hanjin Shipping Holdings Co., Ltd. (*2)	25,602	-	-	(50,785)	(15,380)	-	40,563	-
EIGHTCITY Co., Ltd.(*3)	1,500	-	-	-	-	-	(1,500)	-

	Korean won							
	Beginning balance	Acquisition	Dividend	Gain (loss) on valuation of equity method	Net change in interests of equity method securities	Decrease due to spin-off	Others	Ending balance
	(In millions)							
Hanjin- Jungseok Investment	7,500	-	-	66	-	(5,000)	-	2,566
S-Oil Co., Ltd. (*4)	2,401,230	-	(84,757)	77,444	(191)	-	(1,316)	2,392,410
Czech Airlines j.s.c.	-	3,905	-	6,197	746	-	-	10,848
Air Korea Co., Ltd. (*5)	-	-	-	(60)	-	-	1,732	1,672
KTB Safe Private Security Investment Trust 68	1,130	-	-	-	-	(1,130)	-	-
Tianjin Hanjin-Sino Trans Air Cargo Terminal Co., Ltd. (*6)	8,827	-	-	(619)	212	-	(8,420)	-
	₩ 2,557,390	₩ 3,905	₩ (85,793)	₩ 32,982	₩ (11,705)	₩ (107,495)	₩ 18,212	₩ 2,407,496

	Translation into U.S. dollars (Note 2)							
	Beginning balance	Acquisition	Dividend	Gain (loss) on valuation of equity method	Net change in interests of equity method securities	Decrease due to spin-off	Others	Ending balance
	(In thousands)							
Hanjin Transportation Co., Ltd. (*1)	$ 105,753	$ -	$ (982)	$ 700	$ 2,756	$ (96,053)	$ (12,174)	$ -
Hanjin Shipping Holdings Co., Ltd. (*2)	24,260	-	-	(48,123)	(14,574)	-	38,437	-
EIGHTCITY Co., Ltd.(*3)	1,421	-	-	-	-	-	(1,421)	-
Hanjin- Jungseok Investment	7,107	-	-	62	-	(4,738)	-	2,431
S-Oil Co., Ltd. (*4)	2,275,401	-	(80,315)	73,386	(181)	-	(1,248)	2,267,043
Czech Airlines j.s.c.	-	3,700	-	5,872	707	-	-	10,279
Air Korea Co., Ltd. (*5)	-	-	-	(57)	-	-	1,642	1,585
KTB Safe Private Security Investment Trust 68	1,071	-	-	-	-	(1,071)	-	-
Tianjin Hanjin-Sino Trans Air Cargo Terminal Co., Ltd.(*6)	8,364	-	-	(586)	200	-	(7,978)	-
	$ 2,423,377	$ 3,700	$ (81,297)	$ 31,254	$ (11,092)	$ (101,862)	$ 17,258	$ 2,281,338

(*1) Others are mainly reclassification from the investment of associates into AFS financial assets.
(*2) Others are mainly the differential investments occurred as the Hanjin Transportation Co., Ltd., was classified into the investment in subsidiaries from investment in associates of Hanjin Shipping Holdings Co., Ltd.
(*3) The Group recognized an impairment loss of ₩1,500 million ($1,421 thousand).
(*4) Others are mainly due to the change of remeasurement of the net defined benefit liabilities of investment of associates.
(*5) Others are mainly reclassifications from investment of subsidiaries into investment of associates.
(*6) Others are due to the liquidation for the year ended December 31, 2013.

2012

	Korean won						
	Beginning balance	Acquisition	Dividend	Gain (loss) on valuation of equity method securities	Net change in interests of equity method securities	Others	Impairment loss	Ending balance
	(In millions)						
Hanjin Transportation Co., Ltd.	₩ 112,573	₩ -	₩ (1,021)	₩ (178)	₩ 1,337	₩ (1,110)	₩ -	₩ 111,601
Hanjin Shipping Holdings Co., Ltd.	92,035	-	-	(59,082)	(8,735)	1,384	-	25,602
Grandstar Cargo International Airlines Co., Ltd.	10,653	-	-	(6,962)	(248)	-	(3,443)	-
EIGHTCITY Co., Ltd. (*2)	-	-	-	-	-	1,500	-	1,500
Hanjin- Jungseok Investment	-	7,500	-	-	-	-	-	7,500
S-Oil Co., Ltd.	2,369,445	-	(116,740)	147,992	2,522	(1,989)	-	2,401,230
KTB Safe Private Security Investment Trust 68	-	1,130	-	-	-	-	-	1,130
Tianjin Hanjin-Sino Trans Air Cargo Terminal Co., Ltd.	9,487	-	-	(112)	(548)	-	-	8,827
Hanjin Central Asia MChJ (*1)	176	-	-	-	-	(176)	-	-
IAT Co., Ltd. (*3)	11,700	-	-	-	-	(11,700)	-	-
WLD Co., Ltd. (*3)	6,000	-	-	-	-	(6,000)	-	-
Hanjin GT&S	235	-	-	75	-	(310)	-	-
	₩ 2,612,304	₩ 8,630	₩ (117,761)	₩ 81,733	₩ (5,672)	₩ (18,401)	₩ (3,443)	₩ 2,557,390

	Translation into U.S. dollars (Note 2)						
	Beginning balance	Acquisition	Dividend	Gain (loss) on valuation of equity method securities	Net change in interests of equity method securities	Others	Impairment loss	Ending balance
	(In thousands)						
Hanjin Transportation Co., Ltd.	$ 106,674	$ -	$ (968)	$ (169)	$ 1,268	$ (1,052)	$ -	$ 105,753
Hanjin Shipping Holdings Co., Ltd.	87,212	-	-	(55,987)	(8,277)	1,312	-	24,260
Grandstar Cargo International Airlines Co., Ltd.	10,095	-	-	(6,597)	(235)	-	(3,263)	-
EIGHTCITY Co., Ltd. (*2)	-	-	-	-	-	1,421	-	1,421
Hanjin- Jungseok Investment	-	7,107	-	-	-	-	-	7,107
S-Oil Co., Ltd.	2,245,281	-	(110,623)	140,238	2,390	(1,885)	-	2,275,401
KTB Safe Private Security Investment Trust 68	-	1,071	-	-	-	-	-	1,071
Tianjin Hanjin-Sino Trans Air Cargo Terminal Co., Ltd.	8,990	-	-	(106)	(520)	-	-	8,364
Hanjin Central Asia MChJ (*1)	167	-	-	-	-	(167)	-	-
IAT Co., Ltd. (*3)	11,087	$ -	-	-	-	(11,087)	$ -	-
WLD Co., Ltd. (*3)	5,686	-	-	-	-	(5,686)	-	-
Hanjin GT&S	223	-	-	71	-	(294)	-	-
	$ 2,475,415	$ 8,178	$ (111,591)	$ 77,450	$ (5,374)	$ (17,438)	$ (3,263)	$ 2,423,377

(*1) Others increased by ₩14,282 million ($13,534 thousand) due to the property contribution of construction in progress, and it was reclassified to the investment in subsidiaries.
(*2) EIGHTCITY Co., Ltd. was reclassified from AFS financial assets to investments in associates.
(*3) IAT Co., Ltd., and WLD Co., Ltd., were reclassified to the investment in subsidiaries for the year ended December 31, 2012.

(4) Financial information of the Group's investments in associates and jointly controlled entities as of and for the years ended December 31, 2013 and 2012, is as follows:

2013

	Korean won				
	Hanjin Shipping Holdings Co., Ltd.	S-Oil Co., Ltd.	Czech Airlines j.s.c.	Hanjin-Jungseok Investment	Air Korea Co., Ltd. (*3)
	(In millions)				
Current assets	₩ 2,065,317	₩ 7,905,840	₩ 84,266	₩ 10,278	₩ 6,692
Non-current assets	8,763,525	4,007,974	136,443	-	1,047
	₩ 10,828,842	₩ 11,913,814	₩ 220,709	₩ 10,278	₩ 7,739
Current liabilities	₩ 4,577,526	₩ 5,858,849	₩ 173,142	₩ 15	₩ 2,368
Non-current liabilities	5,531,410	687,237	22,913	-	2,026
	₩ 10,108,936	₩ 6,546,086	₩ 196,055	₩ 15	₩ 4,394
Owners of the Company	₩ 248,686	₩ 5,367,728	₩ 24,654	₩ 10,263	₩ 3,345
Non-controlling interests	471,220	-	-	-	-
	₩ 719,906	₩ 5,367,728	₩ 24,654	₩ 10,263	₩ 3,345
Sales	₩ 10,359,500	₩ 31,158,528	₩ 454,073	₩ -	₩ 13,238
Operating income (loss)	(206,575)	391,922	(38,124)	(61)	179
Net (loss) income attributable to owners of the Company	(240,495)	303,361	(43,553)	263	(120)
Net (loss) income attributable to non-controlling interests	(418,557)	-	-	-	-

	Translation into U.S. dollars (Note 2)				
	Hanjin Shipping Holdings Co., Ltd.	S-Oil Co., Ltd.	Czech Airlines j.s.c.	Hanjin-Jungseok Investment	Air Korea Co., Ltd. (*3)
	(In thousands)				
Current assets	$ 1,957,089	$ 7,491,557	$ 79,850	$ 9,739	$ 6,342
Non-current assets	8,304,298	3,797,947	129,293	-	991
	$ 10,261,387	$ 11,289,504	$ 209,143	$ 9,739	$ 7,333
Current liabilities	$ 4,337,654	$ 5,551,833	$ 164,069	$ 14	$ 2,244
Non-current liabilities	5,241,552	651,224	21,712	-	1,920
	$ 9,579,206	$ 6,203,057	$ 185,781	$ 14	$ 4,164
Owners of the Company	$ 235,655	$ 5,086,447	$ 23,362	$ 9,725	$ 3,169
Non-controlling interests	$ 446,527	$ -	$ -	$ -	$ -
	$ 682,182	$ 5,086,447	$ 23,362	$ 9,725	$ 3,169
Sales	$ 9,816,639	$ 29,525,754	$ 430,278	$ -	$ 12,544
Operating income (loss)	(195,750)	371,385	(36,126)	(58)	170
Net (loss) income attributable to owners of the Company	(227,892)	287,464	(41,271)	249	(114)
Net (loss) income attributable to non-controlling interests	(396,624)	-	-	-	-

2012

	Korean won			
	Hanjin Transportation Co., Ltd.	Hanjin Shipping Holdings Co., Ltd.	S-Oil Co., Ltd.	Tianjin Hanjin-Sino Trans Air Cargo Terminal Co., Ltd.
	(In millions)			
Current assets	₩ 242,469	₩ 52,669	₩ 8,575,095	₩ 13,840
Non-current assets	1,304,151	563,023	3,915,859	408
	₩ 1,546,620	₩ 615,692	₩ 12,490,954	₩ 14,248
Current liabilities	₩ 443,279	₩ 111,998	₩ 6,233,297	₩ 4
Non-current liabilities	496,819	106,416	853,972	-
	₩ 940,098	₩ 218,414	₩ 7,087,269	₩ 4
Owners of the Company	₩ 606,522	₩ 397,278	₩ 5,403,685	₩ 14,244
Non-controlling interests	-	-	-	-
	₩ 606,522	₩ 397,278	₩ 5,403,685	₩ 14,244
Sales	₩ 1,209,785	₩ 40,715	₩ 34,723,291	₩ -
Operating income (loss)	30,839	(206,811)	818,230	(180)
Net (loss) income attributable to Owners of the Company	(825)	(215,618)	612,803	(180)
Net (loss) income attributable to non-controlling interests	-	-	-	-

	Translation into U.S. dollars (Note 2)			
	Hanjin Transportation Co., Ltd.	Hanjin Shipping Holdings Co., Ltd.	S-Oil Co., Ltd.	Tianjin Hanjin-Sino Trans Air Cargo Terminal Co., Ltd.
	(In thousands)			
Current assets	$ 229,763	$ 49,909	$ 8,125,741	$ 13,115
Non-current assets	1,235,810	533,519	3,710,660	385
	$ 1,465,573	$ 583,428	$ 11,836,401	$ 13,500
Current liabilities	$ 420,050	$ 106,129	$ 5,906,659	$ 3
Non-current liabilities	470,784	100,839	809,222	-
	$ 890,834	$ 206,968	$ 6,715,881	$ 3
Owners of the Company	$ 574,739	$ 376,460	$ 5,120,520	$ 13,497
Non-controlling interests	-	-	-	-
	$ 574,739	$ 376,460	$ 5,120,520	$ 13,497
Sales	$ 1,146,389	$ 38,581	$ 32,903,716	$ -
Operating income (loss)	29,223	(195,973)	775,353	(171)
Net (loss) income attributable to Owners of the Company	(782)	(204,319)	580,691	(171)
Net (loss) income attributable to non-controlling interests	-	-	-	-

(*1) Financial data is applied on fair value adjustment due to the acquisition of equity and the difference adjustment of accounting policies compared to controlling company. However, intercompany transactions and goodwill recognized in the Group are not applied on this financial data.

(*2) Hanjin Shipping Holdings Co., Ltd., and S-Oil Co., Ltd., for the year ended of December 31, 2013, and S-Oil Co., Ltd., for the year ended of December 31, 2012, are consolidated financial data. However, other associates and jointly controlled entities are separate financial information.

(*3) In case of Air Korea Co., Ltd., the operating result after being reclassified into the investment in associates from the investment in subsidiaries due to the spin-off of the Company was used.

(5) Adjustments from equity of associates to book value shares owned as of December 31, 2013 and 2012, are as follows:

2013

	Korean won									
	Hanjin Shipping Holdings Co., Ltd.		S-Oil Co., Ltd.		Czech Airlines, j.s.c.		Hanjin- Jungseok Investment		Air Korea Co., Ltd.	
					(In millions)					
Net assets (A)	₩	248,687	₩	5,367,728	₩	24,654	₩	10,263	₩	3,345
Ownership ratio (B)		27.40%		27.47% (*1)		44.00%		25.00%		50.00%
(A)×(B)		68,165		1,474,646		10,848		2,566		1,672
Investment difference		34,503		917,764		-		-		-
Unrealized loss		(18,883)		-		-		-		-
Accumulated impairment		(98,878)		-		-		-		-
Unrecognized accumulated loss		15,093		-		-		-		-
Book value	₩	-	₩	2,392,410	₩	10,848	₩	2,566	₩	1,672

	Translation into U.S. dollars (Note 2)									
	Hanjin Shipping Holdings Co., Ltd.		S-Oil Co., Ltd.		Czech Airlines, j.s.c.		Hanjin- Jungseok Investment		Air Korea Co., Ltd.	
					(In thousands)					
Net assets (A)	$	235,655	$	5,086,447	$	23,362	$	9,725	$	3,169
Ownership ratio (B)		27.40%		27.47% (*1)		44.00%		25.00%		50.00%
(A)×(B)		64,593		1,397,371		10,279		2,431		1,585
Investment difference		32,694		869,672		-		-		-
Unrealized loss		(17,893)		-		-		-		-
Accumulated impairment		(93,697)		-		-		-		-
Unrecognized accumulated loss		14,303		-		-		-		-
Book value	$	-	$	2,267,043	$	10,279	$	2,431	$	1,585

(*1) Ownership ratio was calculated to the Group's common stock shares divided by all common stock shares and preferred stock shares of associates.

2012

	Korean won							
	Hanjin Transportation Co., Ltd.		Hanjin Shipping Holdings Co., Ltd.		S-Oil Co., Ltd.		Tianjin Hanjin-Sino Trans Air Cargo Terminal Co., Ltd.	
			(In millions)					
Net assets (A)	₩	606,522	₩	397,278	₩	5,403,685	₩	14,244
Ownership ratio(B)		21.63%		27.40%		27.47% (*1)		61.97%
(A)×(B)		131,194		108,860		1,483,150		8,827
Investment difference		(19,593)		34,503		918,080		-
Unrealized loss		-		(18,883)		-		-
Accumulated impairment		-		(98,878)		-		-
Book value	₩	111,601	₩	25,602	₩	2,401,230	₩	8,827

	Translation into U.S. dollars (Note 2)			
	Hanjin Transportation Co., Ltd.	Hanjin Shipping Holdings Co., Ltd.	S-Oil Co., Ltd.	Tianjin Hanjin-Sino Trans Air Cargo Terminal Co., Ltd.
	(In thousands)			
Net assets (A)	$ 574,739	$ 376,460	$ 5,120,520	$ 13,497
Ownership ratio (B)	21.63%	27.40%	27.47% (*1)	61.97%
(A)×(B)	124,319	103,156	1,405,430	8,364
Investment difference	(18,566)	32,695	869,971	-
Unrealized loss	-	(17,893)	-	-
Accumulated impairment	-	(93,697)	-	-
Book value	$ 105,753	$ 24,261	$ 2,275,401	$ 8,364

(*1) Ownership ratio was calculated to the Group's common stock shares divided by all common stock shares and preferred stock shares of associates.

(6) Unrecognized accumulated loss on equity method valuation due to discontinuation of using the equity method as of December 31, 2013 and 2012, is as follows:

	Korean won		Translation into U.S. dollars (Note 2)	
	2013	2012	2013	2012
	(In millions)		(In thousands)	
Hanjin Shipping Holdings Co., Ltd.	₩ 15,094	₩ -	$ 14,303	$ -

14. INTERESTS IN JOINT OPERATIONS:

The Group owns a joint investment building which has the significant joint arrangement. Under the joint arrangement, the Group has 70% ownership of the building, INHA International Medical Center, which is located in Jung-gu, Incheon, and invested in the building for the purpose of leasing. The Group has the right to the rental income in relation to its interest and recognizes its share of any expenses incurred jointly.

15. PROPERTY, AIRCRAFT AND EQUIPMENT:

(1) Property, aircraft and equipment as of December 31, 2013 and 2012, consist of the following:

	Korean won					
	2013			2012		
	Acquisition cost	Accumulated depreciation	Book value	Acquisition cost	Accumulated depreciation	Book value
	(In millions)					
Land (*1)	₩ 1,965,606	₩ -	₩ 1,965,606	₩ 1,730,800	₩ -	₩ 1,730,800
Leased land (*1)	21,460	-	21,460	-	-	-
Buildings	791,733	(277,497)	514,236	1,061,824	(340,422)	721,402
Structures	165,056	(79,121)	85,935	171,074	(76,098)	94,976
Machinery	343,477	(244,899)	98,578	341,089	(224,893)	116,196
Aircraft	5,718,077	(3,725,616)	1,992,461	5,076,679	(3,350,854)	1,725,825
Engines	2,204,013	(1,212,079)	991,934	2,034,279	(1,082,878)	951,401
Leased aircraft	8,992,637	(2,238,716)	6,753,921	8,709,244	(2,202,499)	6,506,745
Leased engines	2,258,791	(756,139)	1,502,652	2,192,773	(729,289)	1,463,484
Aircraft parts	220,842	(115,416)	105,426	228,899	(120,669)	108,230
Others	484,816	(367,466)	117,350	543,486	(395,748)	147,738

	Korean won					
	2013			2012		
	Acquisition cost	Accumulated depreciation	Book value	Acquisition cost	Accumulated depreciation	Book value
	(In millions)					
Construction in progress	1,354,330	-	1,354,330	1,313,293	-	1,313,293
	₩ 24,520,838	₩ (9,016,949)	₩ 15,503,889	₩ 23,403,440	₩ (8,523,350)	₩ 14,880,090

	Translation into U.S. dollars (Note 2)					
	2013			2012		
	Acquisition cost	Accumulated depreciation	Book value	Acquisition cost	Accumulated Depreciation	Book value
	(In thousands)					
Land (*1)	$ 1,862,604	$ -	$ 1,862,604	$ 1,640,102	$ -	$ 1,640,102
Leased land (*1)	20,336	-	20,336	-	-	-
Buildings	750,244	(262,955)	487,289	1,006,182	(322,584)	683,598
Structures	156,407	(74,975)	81,432	162,109	(72,110)	89,999
Machinery	325,479	(232,066)	93,413	323,216	(213,109)	110,107
Aircraft	5,418,437	(3,530,386)	1,888,051	4,810,650	(3,175,263)	1,635,387
Engines	2,088,518	(1,148,563)	939,955	1,927,679	(1,026,133)	901,546
Leased aircraft	8,521,403	(2,121,402)	6,400,001	8,252,861	(2,087,084)	6,165,777
Leased engines	2,140,425	(716,516)	1,423,909	2,077,867	(691,072)	1,386,795
Aircraft parts	209,270	(109,369)	99,901	216,905	(114,346)	102,559
Others	459,411	(348,210)	111,201	515,006	(375,009)	139,997
Construction in progress	1,283,360	-	1,283,360	1,244,474	-	1,244,474
	$ 23,235,894	$ (8,544,442)	$ 14,691,452	$ 22,177,051	$ (8,076,710)	$ 14,100,341

(*1) The acquisition cost includes the increase of ₩391,158 million ($370,661 thousand) by revaluation of land as of December 31, 2013.

(2) Changes in property, aircraft and equipment for the years ended December 31, 2013 and 2012, are as follows:

2013

	Korean won						
	Beginning balance	Acquisition	Disposal	Depreciation	Decrease by spin-off	Others (*1)	Ending balance
				(In millions)			
Land	₩ 1,730,800	₩ 2,863	₩ (2,830)	₩ -	₩ (216,302)	₩ 451,075	₩ 1,965,606
Leased land	-	-	-	-	-	21,460	21,460
Buildings	721,402	1,460	(955)	(21,255)	(191,956)	5,540	514,236
Structures	94,976	4	(48)	(4,233)	(4,793)	29	85,935
Machinery	116,196	3,629	(60)	(21,333)	(250)	396	98,578
Aircraft	1,725,825	354	(70,900)	(311,037)	-	648,219	1,992,461
Engines	951,401	32,119	(56,250)	(276,350)	-	341,014	991,934
Leased aircraft	6,506,745	82,452	(22,997)	(606,374)	(8,295)	802,390	6,753,921
Leased engines	1,463,484	-	(12,411)	(333,041)	(3,458)	388,078	1,502,652
Aircraft parts	108,230	16,112	(1,747)	(17,169)	-	-	105,426
Others	147,738	13,248	(2,395)	(33,423)	(8,366)	548	117,350
Construction in progress	1,313,293	2,421,488	(16,716)	-	(90,166)	(2,273,569)	1,354,330
	₩ 14,880,090	₩ 2,573,729	₩ (187,309)	₩ (1,624,215)	₩ (523,586)	₩ 385,180	₩ 15,503,889

	Translation into U.S. dollars (Note 2)						
	Beginning balance	Acquisition	Disposal	Depreciation	Decrease by spin-off	Others (*1)	Ending balance
				(In thousands)			
Land	$ 1,640,102	$ 2,713	$ (2,682)	$ -	$ (204,967)	$ 427,438	$ 1,862,604
Leased land	-	-	-	-	-	20,336	20,336
Buildings	683,598	1,384	(905)	(20,141)	(181,897)	5,250	487,289
Structures	89,999	4	(45)	(4,012)	(4,542)	28	81,432
Machinery	110,107	3,439	(57)	(20,215)	(236)	375	93,413
Aircraft	1,635,387	335	(67,185)	(294,738)	-	614,252	1,888,051
Engines	901,546	30,436	(53,303)	(261,869)	-	323,145	939,955
Leased aircraft	6,165,777	78,131	(21,791)	(574,599)	(7,861)	760,344	6,400,001
Leased engines	1,386,795	-	(11,761)	(315,589)	(3,277)	367,741	1,423,909
Aircraft parts	102,559	15,268	(1,656)	(16,270)	-	-	99,901
Others	139,997	12,554	(2,270)	(31,671)	(7,927)	518	111,201
Construction in progress	1,244,474	2,294,596	(15,840)	-	(85,441)	(2,154,429)	1,283,360
	$ 14,100,341	$ 2,438,860	$ (177,495)	$ (1,539,104)	$ (496,148)	$ 364,998	$ 14,691,452

(*1) Other increase or decrease was mainly due to the transfer of construction-in-progress account, increase of financial leases, contribution in kind and others.

2012

	Korean won					
	Beginning balance	Acquisition	Disposal	Depreciation	Others (*1)	Ending balance
			(In millions)			
Land	₩ 1,715,726	₩ 18,394	₩ (107)	₩ -	₩ (3,213)	₩ 1,730,800
Buildings	753,306	6,858	(32,248)	(26,771)	20,257	721,402
Structures	99,603	175	-	(4,856)	54	94,976
Machinery	98,952	19,912	(467)	(20,600)	18,399	116,196
Aircraft	2,054,309	1,448	(42,208)	(284,216)	(3,508)	1,725,825
Engines	985,891	64,073	(18,179)	(236,898)	156,514	951,401
Leased aircraft	5,834,128	57,811	-	(578,176)	1,192,982	6,506,745
Leased engines	1,219,008	22,552	-	(286,013)	507,937	1,463,484
Aircraft parts	109,007	17,061	(5,677)	(12,161)	-	108,230
Others	139,703	35,490	(16,980)	(38,141)	27,666	147,738
Construction in progress	1,179,702	662,215	(11,525)	-	(517,099)	1,313,293
	₩ 14,189,335	₩ 905,989	₩ (127,391)	₩ (1,487,832)	₩ 1,399,989	₩ 14,880,090

	Translation into U.S. dollars (Note 2)					
	Beginning balance	Acquisition	Disposal	Depreciation	Others (*1)	Ending balance
			(In thousands)			
Land	$ 1,625,818	$ 17,430	$ (102)	$ -	$ (3,044)	$ 1,640,102
Buildings	713,831	6,498	(30,558)	(25,368)	19,195	683,598
Structures	94,384	166	-	(4,602)	51	89,999
Machinery	93,767	18,869	(442)	(19,520)	17,433	110,107
Aircraft	1,946,659	1,372	(39,997)	(269,322)	(3,325)	1,635,387
Engines	934,228	60,715	(17,227)	(224,484)	148,314	901,546
Leased aircraft	5,528,407	54,781	-	(547,879)	1,130,468	6,165,777
Leased engines	1,155,129	21,370	-	(271,025)	481,321	1,386,795

	Translation into U.S. dollars (Note 2)					
	Beginning balance	Acquisition	Disposal	Depreciation	Others (*1)	Ending balance
			(In thousands)			
Aircraft parts	103,295	16,167	(5,378)	(11,525)	-	102,559
Others	132,382	33,631	(16,090)	(36,142)	26,216	139,997
Construction in progress	1,117,883	627,514	(10,921)	-	(490,002)	1,244,474
	$ 13,445,783	$ 858,513	$ (120,715)	$ (1,409,867)	$ 1,326,627	$ 14,100,341

(*1) Other increase or decrease was mainly due to the transfer of construction-in-progress account and consists of investment in direct financing leased property, contribution in kind and others.

(3) As of December 31, 2013, the Group capitalized borrowing costs of ₩4,726 million ($4,478 thousand) into construction in progress. The Group used the interest rate on funds specifically for the purpose of obtaining a qualifying asset and other general funds whose interest rates are 4.83% and 3.63%, respectively. Also, the subsidiaries used the interest rate of 5.11%–5.20% on funds specifically for the purpose of obtaining a qualifying asset for the year ended December 31, 2013.

(4) The Group has been applying asset revaluation model to land and as of June 30, 2013, the Group revaluated land by using value that was appraised by an independent and professional appraiser, Hana Appraisal & Consulting Co., Ltd. The revaluation method is appraised using value of land basis method that uses standard land price that is near by the land similar to utility value considering the ratio of changing land price, the ratio of increasing Producer Price Index, location, shape, environment, state of usage of land and other factors of valuation from the date of public announcement of land value to June 30, 2013. There is no change in the valuation method for the year ended December 31, 2013. The book values of land by revaluation model and cost model are as follows:

	Korean won (In millions)		Translation into U.S. dollars (Note 2) (In thousands)	
	Revaluation model	Cost model	Revaluation model	Cost model
Land	₩ 1,965,606	₩ 1,602,948	$ 1,862,604	$ 1,518,951
Leased land	21,460	13,385	20,336	12,684
	₩ 1,987,066	₩ 1,616,333	$ 1,882,940	$ 1,531,635

The Group recognized revaluation surplus of ₩423,661 million ($401,461 thousand, before income tax), which is added in equity as other comprehensive income and recognized revaluation loss of ₩52,530 million ($49,777 thousand, before income tax) for the year ended December 31, 2013. Also, the amount of transferring revaluation surplus to retained earnings by disposal of revaluated land is ₩399 million ($378 thousand, before income tax) for the year ended December 31, 2013.

(5) Fair value measurements of land and leased land by fair value hierarchy levels as of December 31, 2013, are as follows:

	Korean won (In millions)			
	Level 1	Level 2	Level 3	Total
Land	₩ -	₩ 1,965,606	₩ -	₩ 1,965,606
Leased land	-	21,460	-	21,460
	₩ -	₩ 1,987,066	₩ -	₩ 1,987,066

	Translation into U.S. dollars (Note 2) (In thousands)			
	Level 1	Level 2	Level 3	Total
Land	$ -	$ 1,862,604	$ -	$ 1,862,604
Leased land	-	20,336	-	20,336
	$ -	$ 1,882,940	$ -	$ 1,882,940

(6) There was no movement between Level 1 and Level 2 for the year ended December 31, 2013.

16. PLEDGED ASSETS AND GUARANTEES:

Significant pledged assets provided as collateral and guarantees for the Group as of December 31, 2013, are as follows (in millions of Korean won, except for share data):

Pledged assets	Book value	Collateralized amount	Provided to	In relation to
Land/buildings	2,101,881	1,380,619	Korea Development Bank ("KDB") and others	Short-term and long-term borrowings, etc.
Aircraft and engines	1,950,586	2,584,620		
Machinery	12,406	10,152		
Facility usage rights	85,405	185,500		
Held-to-maturity investments	808	-	Korea Post and others	Performance Guarantee
AFS financial assets	423	2,027 shares	Software Financial Cooperative	Performance Guarantee
Investment in associates — Hanjin Shipping Holdings Co., Ltd. (*3)	5,177	986,067 shares	Korea Exchange Bank	Guaranteed loans
Investment in subsidiaries — Hanjin Energy Co., Ltd. (*3)	909,167	35,200 shares	Woori Bank and others	Borrowings — Hanjin Energy Co., Ltd.
Investment in associates – S-oil Corporation (*3)	2,392,410	31,983,586 shares	Woori Bank and others	

(*1) The book value of land and buildings consists of property and investment properties.
(*2) The collateralized amounts of the pledged assets provided as collateral and guarantees in foreign currency are translated into Korean won amounts at the exchange rate on December 31, 2013.
(*3) In case of associates and subsidiaries, it is shown as book value in separate financial statements.

In addition, the Group has provided leased aircraft and leased engines as collateral to the lessor for the obligations under finance leases. Also, the Group has provided property, including land, buildings and machinery (collateralized amount of ₩24,460 million ($23,178 thousand)), and mining rights as collateral to the Korea Resources Corporation, for the obligations under borrowings amount of ₩8,811 million ($8,350 thousand)).

17. INVESTMENT PROPERTIES:

(1) Investment properties as of December 31, 2013 and 2012, consist of the following:

	Korean won					
	2013			2012		
	Acquisition cost	Accumulated depreciation	Book value	Acquisition cost	Accumulated depreciation	Book value
	(In millions)					
Land	₩ 44,407	₩ -	₩ 44,407	₩ 277,238	₩ -	₩ 277,238
Buildings	31,017	(6,860)	24,157	149,127	(66,231)	82,896
Construction in progress	-	-	-	10,583	-	10,583
	₩ 75,424	₩ (6,860)	₩ 68,564	₩ 436,948	₩ (66,231)	₩ 370,717

	Translation into U.S. dollars (Note 2)					
	2013			2012		
	Acquisition cost	Accumulated depreciation	Book value	Acquisition cost	Accumulated depreciation	Book value
	(In thousands)					
Land	$ 42,079	$ -	$ 42,079	$ 262,710	$ -	$ 262,710
Buildings	29,392	(6,500)	22,892	141,313	(62,761)	78,552
Construction in progress	-	-	-	10,029	-	10,029
	$ 71,471	$ (6,500)	$ 64,971	$ 414,052	$ (62,761)	$ 351,291

(2) Changes in the carrying amount of investment properties for the years ended December 31, 2013 and 2012, are as follows:

2013

	Korean won				
	Beginning balance	Acquisition	Depreciation	Others (*1)	Ending balance
	(In millions)				
Land	₩ 277,238	₩ -	₩ -	₩ (232,831)	₩ 44,407
Buildings	82,896	428	(5,514)	(53,653)	24,157
Construction in progress	10,583	-	-	(10,583)	-
	₩ 370,717	₩ 428	₩ (5,514)	₩ (297,067)	₩ 68,564

	Translation into U.S. dollars (Note 2)				
	Beginning balance	Acquisition	Depreciation	Others (*1)	Ending balance
	(In thousands)				
Land	$ 262,710	$ -	$ -	$ (220,631)	$ 42,079
Buildings	78,552	405	(5,224)	(50,841)	22,892
Construction in progress	10,029	-	-	(10,029)	-
	$ 351,291	$ 405	$ (5,224)	$ (281,501)	$ 64,971

(*1) Other increase or decrease was due to decrease by the spin-off and the transfer of property, aircraft and equipment with investment properties

2012

	Korean won				
	Beginning balance	Acquisition	Depreciation	Others (*1)	Ending balance
			(In millions)		
Land	₩ 276,409	₩ -	₩ -	₩ 829	₩ 277,238
Buildings	77,034	-	(5,314)	11,176	82,896
Construction in progress	3,672	-	-	6,911	10,583
	₩ 357,115	₩ -	₩ (5,314)	₩ 18,916	₩ 370,717

	Translation into U.S. dollars (Note 2)				
	Beginning balance	Acquisition	Depreciation	Others (*1)	Ending balance
			(In thousands)		
Land	$ 261,925	$ -	$ -	$ 785	$ 262,710
Buildings	72,997	-	(5,035)	10,590	78,552
Construction in progress	3,480	-	-	6,549	10,029
	$ 338,402	$ -	$ (5,035)	$ 17,924	$ 351,291

(*1) Other increase or decrease was mainly due to the transfer of property, aircraft and equipment to investment properties.

(3) Revenue and cost related to investment properties for the years ended December 31, 2013 and 2012, are as follows:

	Korean won		Translation into U.S. dollars (Note 2)	
	2013	2012	2013	2012
	(In millions)		(In thousands)	
Rental income	₩ 25,173	₩ 41,314	$ 23,854	$ 39,149
Rental cost (depreciation)	12,422	5,314	11,771	5,035

(4) Fair values of investment properties as of December 31, 2013, are as follows:

	Korean won		Translation into U.S. dollars (Note 2)	
	Book	Fair value	Book	Fair value
	(In millions)		(In thousands)	
Land	₩ 44,406	₩ 48,167	$ 42,079	$ 45,643
Buildings	24,157	34,196	22,892	32,404
	₩ 68,563	₩ 82,363	$ 64,971	$ 78,047

As of June 30, 2013, the Group appraised land by an independent and professional appraiser, Hana Appraisal & Consulting Co., Ltd. The revaluation method is appraised using value of land basis method, which uses standard land price, which is near by the land similar to utility value considering the ratio of changing land price, the ratio of increasing Producer Price Index, location, shape, environment, state of usage of land and other factors of valuation from the date of public announcement of land value. There are no changes in the valuation method for the year ended December 31, 2013.

(5) Fair value measurements of investment properties by fair value hierarchy levels as of December 31, 2013, areas follows:

	Korean won (In millions)			
	Level 1	Level 2	Level 3	Total
Land	₩ -	₩ 48,167	₩ -	₩ 48,167
Buildings	-	34,196	-	34,196
	₩ -	₩ 82,363	₩ -	₩ 82,363

	Translation into U.S. dollars (Note 2) (In thousands)			
	Level 1	Level 2	Level 3	Total
Land	$ -	$ 45,643	$ -	$ 45,643
Buildings	-	32,404	-	32,404
	$ -	$ 78,047	$ -	$ 78,047

18. INTANGIBLE ASSETS:

(1) Intangible assets as of December 31, 2013 and 2012, consist of the following:

	Korean won					
	2013			2012		
	Acquisition cost	Accumulated depreciation	Book value	Acquisition cost	Accumulated depreciation	Book value
	(In millions)					
Goodwill	₩ 2,302	₩ -	₩ 2,302	₩ 2,480	₩ -	₩ 2,480
Facility usage rights	232,547	(117,973)	114,574	228,894	(104,225)	124,669
Research and development costs	118,295	(30,750)	87,545	41,943	(16,598)	25,345
Other intangible assets	179,724	(34,923)	144,801	191,668	(29,553)	162,115
	₩ 532,868	₩ (183,646)	₩ 349,222	₩ 464,985	₩ (150,376)	₩ 314,609

	Translation into U.S. dollars (Note 2)					
	2013			2012		
	Acquisition cost	Accumulated depreciation	Book value	Acquisition cost	Accumulated depreciation	Book value
	(In thousands)					
Goodwill	$ 2,181	$ -	$ 2,181	$ 2,350	$ -	$ 2,350
Facility usage rights	220,361	(111,791)	108,570	216,900	(98,764)	118,136
Research and development costs	112,096	(29,138)	82,958	39,745	(15,728)	24,017
Other intangible assets	170,306	(33,093)	137,213	181,624	(28,004)	153,620
	$ 504,944	$ (174,022)	$ 330,922	$ 440,619	$ (142,496)	$ 298,123

(2) Changes in the carrying amount of intangible assets for the years ended December 31, 2013 and 2012, are as follows:

2013

	Korean won						
	Beginning balance	Acquisition	Disposal	Depreciation	Decrease due to spin-off	Others (*1)	Ending balance
				(In millions)			
Goodwill	₩ 2,480	₩ -	₩ -	₩ -	₩ -	₩ (178)	₩ 2,302
Facility usage rights	124,669	-	-	(10,095)	-	-	114,574
Research and development costs	25,345	1,221	-	(14,152)	-	75,131	87,545
Other intangible assets	162,115	10	(1,656)	(8,818)	(7,932)	1,082	144,801
	₩ 314,609	₩ 1,231	₩ (1,656)	₩ (33,065)	₩ (7,932)	₩ 76,035	₩ 349,222

	Translation into U.S. dollars (Note 2)						
	Beginning balance	Acquisition	Disposal	Depreciation	Decrease due to spin-off	Others (*1)	Ending balance
				(In thousands)			
Goodwill	$ 2,350	$ -	$ -	$ -	$ -	$ (169)	$ 2,181
Facility usage rights	118,136	-	-	(9,566)	-	-	108,570
Research and development costs	24,017	1,157	-	(13,410)	-	71,194	82,958
Other intangible assets	153,620	9	(1,568)	(8,357)	(7,516)	1,025	137,213
	$ 298,123	$ 1,166	$ (1,568)	$ (31,333)	$ (7,516)	$ 72,050	$ 330,922

(*1) Other increases or decreases were mainly due to the transfer of construction-in-progress account and consisted of contribution in kind and others.

2012

	Korean won					
	Beginning balance	Acquisition	Disposal	Depreciation	Others (*1)	Ending balance
			(In millions)			
Goodwill	₩ 2,347	₩ -	₩ -	₩ -	₩ 133	₩ 2,480
Facility usage rights	140,841	-	-	(10,096)	(6,076)	124,669
Research and development costs	28,975	-	-	(3,630)	-	25,345
Other intangible assets	170,662	1,396	(726)	(9,240)	23	162,115
	₩ 342,825	₩ 1,396	₩ (726)	₩ (22,966)	₩ (5,920)	₩ 314,609

	Translation into U.S. dollars (Note 2)					
	Beginning balance	Acquisition	Disposal	Depreciation	Others (*1)	Ending balance
			(In millions)			
Goodwill	$ 2,224	$ -	$ -	$ -	$ 126	$ 2,350
Facility usage rights	133,461	-	-	(9,567)	(5,758)	118,136
Research and development costs	27,457	-	-	(3,440)	-	24,017
Other intangible assets	161,719	1,322	(688)	(8,756)	23	153,620
	$ 324,861	$ 1,322	$ (688)	$ (21,763)	$ (5,609)	$ 298,123

19. OTHER FINANCIAL ASSETS:

Other financial assets as of December 31, 2013 and 2012, consist of the following:

	Korean won		Translation into U.S. dollars (Note 2)	
	2013	2012	2013	2012
	(In millions)		(In thousands)	
Guarantee deposits	₩ 251,717	₩ 322,265	$ 238,526	$ 305,377

The Group is providing guarantee deposits of JPY 4,119,618 thousand and $14,422 thousand for ABS loans (see Note 23). There were no overdues and impairment of other financial assets for the years ended December 31, 2013 and 2012.

20. OTHER ASSETS:

Other assets as of December 31, 2013 and 2012, consist of the following:

	Korean won			
	2013		2012	
	Current	Non-current	Current	Non-current
	(In millions)			
Advance payments	₩ 194,599	₩ 463	₩ 176,951	₩ 119
Prepaid expenses	86,094	245,353	98,068	320,210
Prepaid value-added tax	18,643	-	31,171	-
Others	10,111	3,163	109	4,041
	₩ 309,447	₩ 248,979	₩ 306,299	₩ 324,370

	Translation into U.S. dollars (Note 2)			
	2013		2012	
	Current	Non-current	Current	Non-current
	(In thousands)			
Advance payments	$ 184,402	$ 439	$ 167,678	$ 113
Prepaid expenses	81,582	232,496	92,929	303,430
Prepaid value-added tax	17,667	-	29,537	-
Others	9,581	2,997	105	3,829
	$ 293,232	$ 235,932	$ 290,249	$ 307,372

The Group is providing the advance payments amounting to ₩36,767 million, JPY 1,646,534 thousand and $11,239 thousand for ABS loans (see Note 21).

21. ASSETS HELD FOR SALE:

On July 23, 2012, the Group entered into a contract for disposal of spatial data business; therefore, related properties are classified as non-current assets held for sale. Meanwhile, the Group sold non-current assets held for sale on September 12, 2013, and there are no assets held for sale as of December 31, 2013.

Non-current assets held for sale as of December 31, 2013 and 2012, are as follows:

	Korean won		Translation into U.S. dollars (Note 2)	
	2013	2012	2013	2012
	(In millions)		(In thousands)	
Assets held for sale	₩ -	₩ 1,904	$ -	$ 1,805

Assets held for sale are measured at the lower of carrying amount and fair value, less cost to sell. Impairment loss of ₩202 million ($192 thousand) on non-current assets held for sale is recognized for the year ended December 31, 2012.

22. TRADE AND OTHER PAYABLES:

Trade and other payables as of December 31, 2013 and 2012, consist of the following:

	Korean won			
	2013		2012	
	Current	Non-current	Current	Non-current
	(In millions)			
Trade payables	₩ 206,856	₩ -	₩ 239,091	₩ -
Non-trade payables	163,313	174,124	151,816	133,888
Accrued expenses	471,025	-	580,611	-
Dividends payable	42	-	4	-
	₩ 841,236	₩ 174,124	₩ 971,522	₩ 133,888

	Translation into U.S. dollars (Note 2)			
	2013		2012	
	Current	Non-current	Current	Non-current
	(In thousands)			
Trade payables	$ 196,016	$ -	$ 226,562	$ -
Non-trade payables	154,755	165,000	143,861	126,872
Accrued expenses	446,342	-	550,186	-
Dividends payable	40	-	3	-
	$ 797,153	$ 165,000	$ 920,612	$ 126,872

23. BORROWINGS AND DEBENTURES:

(1) Borrowings and debentures as of December 31, 2013 and 2012, consist of the following:

	Korean won					
	2013			2012		
	Current	Non-current	Total	Current	Non-current	Total
	(In millions)					
Short-term borrowings	₩ 817,466	₩ -	₩ 817,466	₩ 1,265,616	₩ -	₩ 1,265,616
Long-term borrowings	1,909,833	1,220,865	3,130,698	671,368	2,039,203	2,710,571
Debentures	1,585,934	2,361,382	3,947,316	643,464	3,702,003	4,345,467
ABS loans	566,354	916,114	1,482,468	598,137	587,479	1,185,616
Guaranteed loans	14,147	35,899	50,046	17,361	53,785	71,146
	₩ 4,893,734	₩ 4,534,260	₩ 9,427,994	₩ 3,195,946	₩ 6,382,470	₩ 9,578,416

	Translation into U.S. dollars (Note 2)					
	2013			2012		
	Current	Non-current	Total	Current	Non-current	Total
	(In thousands)					
Short-term borrowings	$ 774,629	$ -	$ 774,629	$ 1,199,295	$ -	$ 1,199,295
Long-term borrowings	1,809,754	1,156,889	2,966,643	636,188	1,932,344	2,568,532
Debentures	1,502,827	2,237,640	3,740,467	609,745	3,508,010	4,117,755
ABS loans	536,676	868,108	1,404,784	566,793	556,694	1,123,487
Guaranteed loans	13,405	34,018	47,423	16,451	50,966	67,417
	$ 4,637,291	$ 4,296,655	$ 8,933,946	$ 3,028,472	$ 6,048,014	$ 9,076,486

(2) Short-term borrowings as of December 31, 2013 and 2012, consist of the following:

Lender	Annual interest rate	Korean won 2013	Korean won 2012	Translation into U.S. dollars (Note 2) 2013	Translation into U.S. dollars (Note 2) 2012
		(In millions)		(In thousands)	
Korea Development Bank	-	₩ -	₩ 190,000	$ -	$ 180,043
Hana Bank	3M CD + 1.50%	60,000	75,000	56,856	71,070
Shinhan Bank	3.96%	5,000	5,000	4,738	4,738
National Agricultural Cooperative Federation	3.88% 3M CD + 1.29%	240,000	120,000	227,424	113,712
Hana Bank and others	3M CD + 2.20%	26,446	24,224	25,060	22,955
Korea Development Bank	3M LIBOR + 3.05%	211,060	337,397	200,000	319,716
Korea Exim Bank	-	-	107,110	-	101,497
Korea Exchange Bank	3M LIBOR + 2.90%	42,212	93,186	40,000	88,302
Hana Bank	3M LIBOR + 2.50%	63,900	64,857	60,551	61,458
Woori Bank	3M LIBOR + 2.50%	52,765	53,555	50,000	50,749
Bank of China	-	-	53,555	-	50,749
Korea Development Bank–Singapore	3M LIBOR + 2.10%	52,765	32,133	50,000	30,449
Kookmin Bank	3M LIBOR + 2.55% - 2.67%	63,318	66,266	60,000	62,794
National Agricultural Cooperative Federation	-	-	42,844	-	40,599
Business Bank of Center and Nara	-	-	146	-	139
Others	-	-	343	-	325
		₩ 817,466	₩ 1,265,616	$ 774,629	$ 1,199,295

(3) Long-term borrowings as of December 31, 2013 and 2012, consist of the following:

Lender	Annual interest rate	Maturity	Korean won 2013	Korean won 2012	Translation into U.S. dollars (Note 2) 2013	Translation into U.S. dollars (Note 2) 2012
			(In millions)		(In thousands)	
Korea Development Bank	Fiscal financing special account rate + 0.75%	2016-06-25	₩ 6,800	₩ 13,302	$ 6,444	$ 12,605
	12M KDB rate + 1.20%	2015-07-08	130,000	-	123,188	-
	4.15%–5.11%	2023-04-19	72,300	11,000	68,511	10,424
Industrial Bank of Korea	4.35%	2023-12-15	4,000	4,000	3,791	3,791
Kookmin Bank	3.00%	2021-11-08	11,036	11,280	10,458	10,689
Korea Resources	-	2020-06-30	85	-	80	-
Corporation	2.60%–3.20%	2019-12-15	8,727	3,864	8,269	3,662
National Agricultural Cooperative Federation	3.89%–5.34%	2015-05-22	64,166	296,571	60,804	281,030
Hana Bank and others	3M CD rate + 1.53%–2.00%	2014-04-30	1,031,853	1,054,178	977,782	998,936
Korea Development Bank	3M LIBOR + 0.57%–2.85%	2017-05-09	318,367	423,582	301,684	401,386
	3M JPY LIBOR + 2.00%–3.70%	2018-04-09	175,816	49,900	166,602	47,285
Korea Finance Corporation	3M LIBOR + 2.30%–3.23%	2014-10-31	32,169	167,096	30,483	158,340
Korea Exim Bank	3M LIBOR + 1.65%-3.10%	2015-06-27	115,340	30,881	109,296	29,262
National Agricultural Cooperative Federation	3M LIBOR + 0.60%–4.35%	2016-06-29	201,779	204,718	191,206	193,990
Hana Bank	3M LIBOR + 0.60%–3.20%	2018-03-28	249,418	151,690	236,348	143,741
Woori Bank	3M LIBOR + 1.70%–1.97%	2015-04-30	126,698	64,691	120,059	61,301
National Federation of Fisheries Cooperatives	3M LIBOR + 2.85%	2016-03-29	52,765	53,555	50,000	50,749
Shinhan Bank	3M LIBOR + 1.86%	2014-05-31	52,364	43,735	49,620	41,443
Korea Exchange Bank	3M LIBOR + 1.89%–2.45%	2015-07-31	136,909	44,937	129,735	42,582
Bank of Communication	3M LIBOR + 2.70%	2023-08-28	341,422	64,266	323,530	60,898
Societe Generale	-	-	-	9,945	-	9,424
Korea Exchange Bank - LA	-	-	-	10,389	-	9,845
			3,132,014	2,713,580	2,967,890	2,571,383

Lender	Annual interest rate	Maturity	Korean won 2013	Korean won 2012	Translation into U.S. dollars (Note 2) 2013	Translation into U.S. dollars (Note 2) 2012
			(In millions)		(In thousands)	
Present value discounts			(1,316)	(3,009)	(1,247)	(2,851)
			3,130,698	2,710,571	2,966,643	2,568,532
Less: current portion of long-term borrowings			(1,909,833)	(671,368)	(1,809,754)	(636,188)
			₩ 1,220,865	₩ 2,039,203	$ 1,156,889	$ 1,932,344

(4) Debentures as of December 31, 2013 and 2012, consist of the following:

Series	Annual interest rate	Issue date	Maturity	Korean won 2013	Korean won 2012	Translation into U.S. dollars (Note 2) 2013	Translation into U.S. dollars (Note 2) 2012
				(In millions)		(In thousands)	
30-2nd	-	2008-03-06	-	₩ -	₩ 100,000	$ -	$ 94,760
31-2nd	-	2008-05-14	-	-	80,000	-	75,808
36-2nd	7.20%	2009-08-06	2014-08-06	70,000	70,000	66,332	66,332
37-2nd	7.10%	2009-10-29	2014-10-29	100,000	100,000	94,760	94,760
38-1st	-	2010-02-04	-	-	100,000	-	94,760
38-2nd	6.90%	2010-02-04	2015-02-04	200,000	200,000	189,520	189,520
39th	-	2010-04-15	-	-	64,266	-	60,898
40th	-	2010-08-02	-	-	300,000	-	284,279
41st	4.82%	2011-02-08	2014-02-08	300,000	300,000	284,279	284,279
42-1st	4.78%	2011-05-16	2014-05-16	300,000	300,000	284,279	284,279
42-2nd	3M LIBOR+ 2.50%	2011-05-16	2014-05-16	211,060	214,220	200,000	202,994
43-1st	4.55%	2011-08-08	2014-08-08	300,000	300,000	284,279	284,279
43-2nd	5.03%	2011-08-08	2016-08-08	300,000	300,000	284,279	284,279
44-1st	4.29%	2012-02-08	2015-02-08	200,000	200,000	189,520	189,520
44-2nd	4.52%	2012-02-08	2016-02-08	150,000	150,000	142,140	142,140
44-3rd	3M JPY LIBOR + 3.25%	2012-02-08	2015-02-08	100,466	124,750	95,201	118,213
45th (*1)	3M JPY LIBOR + 2.50%	2012-02-27	2015-02-27	100,466	124,750	95,201	118,213
46-1st	3.58%	2012-07-19	2015-07-19	150,000	150,000	142,140	142,140
46-2nd	3.98%	2012-07-19	2017-07-19	250,000	250,000	236,899	236,899
47-1st	-	2012-10-08	-	-	50,000	-	47,380
47-2nd	4.16%	2012-10-08	2019-10-18	250,000	250,000	236,899	236,899
48th	6M LIBOR + 2.20%	2012-11-13	2014-11-23	105,530	107,110	100,000	101,497
49-1st	-	2012-12-13	-	-	60,000	-	56,856
49-2nd	-	2012-12-13	-	-	70,000	-	66,332
49-3rd	4.36%	2012-12-13	2019-12-13	170,000	170,000	161,092	161,092
50th (*1)	6M JPY LIBOR + 1.55%	2013-02-25	2016-02-25	85,396	-	80,921	-
51st	6M JPY LIBOR + 2.35%	2013-02-26	2016-02-26	100,466	-	95,201	-
52nd	6M JPY LIBOR + 2.20%	2013-03-11	2015-09-11	100,466	-	95,201	-
53rd	6M JPY LIBOR + 2.20%	2013-03-13	2015-12-21	85,396	-	80,921	-
54th (*2)	3M LIBOR + 1.35%	2013-03-19	2016-03-19	105,530	-	100,000	-
Arirang bond	3M USD LIBOR + 2.76%	2012-11-02	2017-11-02	221,107	224,417	209,521	212,657
				3,955,883	4,359,513	3,748,585	4,131,065

Series	Annual interest rate	Issue date	Maturity	Korean won 2013	Korean won 2012	Translation into U.S. dollars (Note 2) 2013	Translation into U.S. dollars (Note 2) 2012
				(In millions)		(In thousands)	
	Present value discount			(8,567)	(14,046)	(8,118)	(13,310)
				3,947,316	4,345,467	3,740,467	4,117,755
	Less: current portion of bonds			(1,586,590)	(644,266)	(1,503,449)	(610,505)
	Present value discounts, less current portion			656	802	622	760
				₩ 2,361,382	₩ 3,702,003	$ 2,237,640	$ 3,508,010

(*1) Kookmin Bank has provided guarantee to a maximum of $145,000 thousand and JPY 9,000,000 thousand for 45th and 50th guaranteed debentures, respectively.
(*2) Shinhan Bank has provided guarantee to a maximum of $100,000 thousand for 54th guaranteed debenture.

(5) ABS loans as of December 31, 2013 and 2012, consist of the following:

Description	Maturity	Annual interest rate	Korean won 2013	Korean won 2012	Translation into U.S. dollars (Note 2) 2013	Translation into U.S. dollars (Note 2) 2012
			(In millions)		(In thousands)	
KAL-4th ABS	2014-11-23	6.85%	₩ 120,000	₩ 240,000	$ 113,712	$ 227,423
KAL-5th ABS	2013-11-27	-	-	156,545	-	148,342
KAL-6th ABS	2014-04-28	1.55%	23,014	113,420	21,809	107,476
KAL-7th ABS	2016-11-08	4.57%	350,000	470,000	331,659	445,371
KAL-8th ABS	2014-10-28	1M LIBOR + 2.00%	87,590	205,651	83,000	194,875
KAL-9th ABS	2018-04-25	3.15%	500,000	-	473,799	-
KAL-10th ABS	2016-11-28	0.84%	401,864	-	380,805	-
			1,482,468	1,185,616	1,404,784	1,123,487
Less: current portion of ABS loans			(566,354)	(598,137)	(536,676)	(566,793)
			₩ 916,114	₩ 587,479	$ 868,108	$ 556,694

The Group is providing a guarantee deposit of JPY 4,120 million and $14,422 thousand, and advance payments of ₩36,767 million, JPY 1,646,534 thousand and $11,239 thousand in connection with the above ABS loans.

(6) The Group has agreed to assume certain guaranteed liabilities of Hanjin Shipping Co., Ltd., with Korea Exchange Bank and other financial institutions (guaranteed loans), pursuant to the Government Guidelines for the Rationalization of the Marine Industry. The guaranteed loans accrue no interest and are payable in equal installments over 20 years. In accordance with the repayment schedule, the Group made its first installment payment in 2003 and the final installment will be due in 2017. Guaranteed liabilities as of December 31, 2013 and 2012, consist of the following:

	Korean won 2013	Korean won 2012	Translation into U.S. dollars (Note 2) 2013	Translation into U.S. dollars (Note 2) 2012
	(In millions)		(In thousands)	
KDB	₩ 15,695	₩ 22,892	$ 14,873	$ 21,692
Woori Bank	10,294	15,009	9,755	14,222
Hanshin Mutual Savings & Finance Co., Ltd.	791	1,153	750	1,093
Kookmin Bank	584	851	553	806
Shinhan Bank	2,268	3,478	2,149	3,296

	Korean won		Translation into U.S. dollars (Note 2)	
	2013	2012	2013	2012
	(In millions)		(In thousands)	
Daegu Bank	1,941	2,829	1,840	2,681
Korean Exchange Bank	25,559	37,276	24,219	35,323
Tongyang Life Insurance Co., Ltd.	4,142	6,556	3,925	6,212
Lotte Insurance Co., Ltd.	537	784	508	743
Triumph II Investments (Ireland) Limited	654	955	620	904
	62,465	91,783	59,192	86,972
Present value discounts	(12,419)	(20,637)	(11,769)	(19,555)
	50,046	71,146	47,423	67,417
Less: current portion of liabilities	(15,995)	(18,660)	(15,156)	(17,682)
Present value discounts, less current portion	1,848	1,299	1,751	1,231
	₩ 35,899	₩ 53,785	$ 34,018	$ 50,966

986,067 shares of Hanjin Shipping Holdings Co., Ltd., were provided as collateral for the guaranteed loans to Korea Exchange Bank (see Note 16).

24. OBLIGATION UNDER FINANCE LEASES:

(1) Obligation under finance leases as of December 31, 2013 and 2012, consists of the following:

Lender	Annual interest rate	Korean won 2013	Korean won 2012	Translation into U.S. dollars (Note 2) 2013	Translation into U.S. dollars (Note 2) 2012
		(In millions)		(In thousands)	
ANSETT	3.88%	₩ 41,712	₩ 49,728	$ 39,526	$ 47,122
Arirang Ltd.	5.58%	62,150	85,768	58,893	81,273
BCLL	4.43%	55,576	75,168	52,664	71,229
CIT	3.69%–4.22%	72,593	79,710	68,789	75,533
Constitution Aircraft Leasing 3 Ltd.	9.57%	17,422	19,792	16,509	18,755
Dooley Aviation Ltd.	3M LIBOR + 2.34%	158,152	180,954	149,864	171,472
Duria Aviation Ltd.	6M LIBOR + 0.98%	8,998	17,736	8,527	16,807
KALECA03 Aviation Ltd.	3M JPY LIBOR + 0.15%	17,001	31,412	16,110	29,765
KALECA10 Aviation Ltd.	3M LIBOR + 0.59%	130,565	147,018	123,723	139,314
KALECA11 Aviation Ltd.	3M LIBOR + 1.05%–1.14%	784,606	886,291	743,491	839,847
KALECA11-2 Aviation Ltd.	3M LIBOR + 1.05%	197,672	222,558	187,313	210,895
KALEDC (2011) Ltd.	3M LIBOR + 1.12%	34,081	38,781	32,295	36,749
KE Atomos Ltd.	3M LIBOR + 1.50%	44,850	61,588	42,500	58,361
KE Augustus Ltd.	3M LIBOR + 4.07%	46,985	68,080	44,523	64,512
KE Cayman Leasing Ltd.	3M JPY LIBOR + 1.39%	10,718	32,234	10,156	30,545
KE Celtics Ltd.	3M LIBOR + 4.75%	3,430	17,405	3,250	16,493
KE Evergreen Ltd.	3M LIBOR + 4.41%	8,442	25,706	8,000	24,359
KE Export Leasing Ltd.	3M LIBOR + 0.57%–1.25% 4.55%–5.35%	875,569	1,154,886	829,687	1,094,368
KE Export Leasing (2011) Ltd.	3M LIBOR + 0.54%–0.56%	404,998	453,733	383,775	429,957
KE Harmony Ltd.	-	-	8,444	-	8,001

Lender	Annual interest rate	Korean won 2013	Korean won 2012	Translation into U.S. dollars (Note 2) 2013	Translation into U.S. dollars (Note 2) 2012
		(In millions)		(In thousands)	
KE Innisfree Ltd.	-	-	9,572	-	9,071
KE Jumbos V Ltd.	5.38%	59,114	78,084	56,016	73,992
KE Octavius Ltd.	4.53%–4.58%	98,071	144,552	92,932	136,977
KE PC2018 Ltd.	3M LIBOR + 3.69%	17,676	32,294	16,750	30,601
KE U Simjo Ltd.	-	-	7,010	-	6,642
KUBAEK	3M LIBOR + 2.31%	85,580	98,071	81,096	92,931
Mugunghwa Ltd.	6M LIBOR + 3.60%	37,494	47,308	35,530	44,829
Peninsula Aviation Ltd.	6M LIBOR + 3.60%	36,110	44,305	34,218	41,984
SKYTEAM 2010 Ltd.	3M LIBOR + 3.50%	11,081	18,744	10,500	17,762
Sumisho Aircraft Asset Management B.V.	5.73%	9,156	12,919	8,676	12,242
GECAS	3.73%–4.43%	149,920	172,494	142,064	163,455
KE Cayman Leasing (2012)	3M JPY LIBOR + 2.90%	66,217	107,522	62,747	101,888
KE Export Leasing (2011-II) Ltd.	3M LIBOR + 0.59%–0.62%	286,024	319,393	271,036	302,656
KE Export Leasing (2012) Ltd.	3M LIBOR + 1.42%	445,248	496,679	421,916	470,652
KALECA12 Aviation Ltd.	3M JPY LIBOR + 0.71%	158,770	214,135	150,450	202,914
KALECA12 Aviation Ltd.	3M LIBOR + 2.80%	51,175	60,878	48,493	57,688
KE WINNER Leasing Ltd.	3M LIBOR + 2.86%	96,730	107,162	91,662	101,547
KE EXPORT LEASING (2013-A)	3M LIBOR + 0.43%	156,873	-	148,653	-
KE EXPORT LEASING (2013-B)	3M LIBOR + 0.43%	163,538	-	154,968	-
KE EXPORT LEASING (2013-C)	3M LIBOR + 0.72%	174,650	-	165,498	-
KE EXPORT LEASING (2013-D) LLC	3M LIBOR + 0.41%	192,217	-	182,144	-
KALECA13 Aviation Ltd.	3M LIBOR + 2.55%	37,567	-	35,598	-
KALECA13 Aviation Ltd.	3M EURB + 0.63%	245,294	-	232,440	-
KE WITH Leasing, Ltd.	3M LIBOR + 2.60%	71,026	-	67,304	-
KE 2013B 739-A	3M LIBOR + 2.70%	42,918	-	40,669	-
JIN AN IRELAND COMPANY Ltd.	3M LIBOR + 2.70%	42,234	-	40,021	-
KE 2013B 777	3M LIBOR + 2.66%	168,998	-	160,143	-
Boeing Training Service Korea LLC	7.75%	12,171	-	11,533	-
		5,891,372	5,628,114	5,582,652	5,333,188
Less: current portion of obligation under finance leases, net of present value discounts		(871,447)	(918,147)	(825,782)	(870,034)
		₩ 5,019,925	₩ 4,709,967	$ 4,756,870	$ 4,463,154

(2) Minimum lease payments and present value of long-term obligation under finance leases as of December 31, 2013, consist of the following:

		Korean won		Translation into U.S. dollars (Note 2)
		(In millions)		(In thousands)
Less than one year	₩	979,654	$	928,318
One year to five years		2,987,024		2,830,498
More than five years		2,337,102		2,214,633
		6,303,780		5,973,449
Present value discounts		(412,408)		(390,797)
	₩	5,891,372	$	5,582,652

25. EMPLOYEE BENEFITS:

(1) The net defined benefit liabilities as of December 31, 2013 and 2012, consist of the following:

	Korean won		Translation into U.S. dollars (Note 2)	
	2013	2012	2013	2012
	(In millions)		(In thousands)	
Present value of defined benefit obligations	₩ 1,210,889	₩ 1,229,019	$ 1,147,435	$ 1,164,616
Fair value of plan assets	(330,958)	(361,147)	(313,615)	(342,223)
	₩ 879,931	₩ 867,872	$ 833,820	$ 822,393

(2) Changes in carrying amount of the net defined benefit liabilities for the years ended December 31, 2013 and 2012, are as follows:

	Korean won					
	2013			2012		
	Present value of defined benefit obligations	Fair value of plan assets	Total	Present value of defined benefit obligations	Fair value of plan assets	Total
	(In millions)					
Beginning balance	₩ 1,229,019	₩ (361,147)	₩ 867,872	₩ 1,029,002	₩ (340,153)	₩ 688,849
Current service cost	132,354	-	132,354	120,787	-	120,787
Interest expense	39,550	(11,922)	27,628	41,241	(11,316)	29,925
Remeasurement of the net defined benefit liabilities	(62,385)	173	(62,212)	122,548	(377)	122,171
Contributions	-	(15,849)	(15,849)	-	(37,340)	(37,340)
Benefits paid	(80,735)	26,836	(53,899)	(83,276)	26,466	(56,810)
Succession of defined benefit obligation	(7,800)	2,812	(4,988)	650	-	650
Decrease due to spin-off	(36,226)	26,107	(10,119)	-	-	-
Others	(2,888)	2,032	(856)	(1,933)	1,573	(360)
Ending balance	₩ 1,210,889	₩ (330,958)	₩ 879,931	₩ 1,229,019	₩ (361,147)	₩ 867,872

	Translation into U.S. dollars (Note 2)					
	2013			2012		
	Present value of defined benefit obligations	Fair value of plan assets	Total	Present value of defined benefit obligations	Fair value of plan assets	Total
	(In thousands)					
Beginning balance	$ 1,164,616	$ (342,223)	$ 822,393	$ 975,080	$ (322,328)	$ 652,752
Current service cost	125,418	-	125,418	114,458	-	114,458
Interest expense	37,478	(11,297)	26,181	39,080	(10,724)	28,356
Remeasurement of the net defined benefit liabilities	(59,116)	164	(58,952)	116,126	(358)	115,768
Contributions	-	(15,018)	(15,018)	-	(35,383)	(35,383)
Benefits paid	(76,504)	25,429	(51,075)	(78,912)	25,079	(53,833)
Succession of defined benefit obligation	(7,391)	2,665	(4,726)	616	-	616
Decrease due to spin-off	(34,328)	24,739	(9,589)	-	-	-
Others	(2,738)	1,926	(812)	(1,832)	1,491	(341)
Ending balance	$ 1,147,435	$ (313,615)	$ 833,820	$ 1,164,616	$ (342,223)	$ 822,393

(3) The principal assumption used for actuarial valuation as of December 31, 2013 and 2012, is as follows:

Description	2013	2012
Discount rate (%)	3.59–3.96	3.21–4.31
Expected rate of wage increase (%)	2.70–4.84	3.40–5.30

(4) The fair values of plan assets as of December 31, 2013 and 2012, are as follows:

	Korean won		Translation into U.S. dollars (Note 2)	
	2013	2012	2013	2012
	(In millions)		(In thousands)	
Bank deposits and others	₩ 189,524	₩ 216,503	$ 179,593	$ 205,158
Equity instruments	40,596	45,734	38,469	43,337
Debt instruments	69,483	56,818	65,842	53,841
Others	31,355	42,092	29,711	39,887
	₩ 330,958	₩ 361,147	$ 313,615	$ 342,223

Policy and investment strategy about plan assets pursue the balance between reducing risk and creating profit. Fundamentally, it is accomplished by diversified investment, partially matching strategy of assets and liabilities, and hedging strategy to minimize flexibility of assets related to liabilities. The Group extensively diversifies investment to broadly based assets to reduce overall flexibility of assets related to liabilities (risk adjustment) and achieve a target profit. It is similar to bonds and partially responds to long maturity pension liability to allocation of assets for earning static profit.

Actual return of plan assets for the years ended December 31, 2013 and 2012, is ₩11,749 million ($11,133 thousand) and ₩11,694 million ($11,082 thousand), respectively.

(5) The sensitivity analyses below have been determined based on reasonably possible changes of the respective assumptions occurring as of December 31, 2013, while holding all other assumptions constant.

	Korean won				Translation into U.S. dollars (Note 2)			
	Impact of the defined benefit obligation				Impact of the defined benefit obligation			
Description	Increase by 1%		Decrease by 1%		Increase by 1%		Decrease by 1%	
	(In millions)				(In thousands)			
Discount rate	₩	(90,517)	₩	105,259	$	(85,774)	$	99,744
Expected rate of salary		105,457		(91,850)		99,931		(87,037)

Since there is correlation among actuarial assumptions, changes of assumptions will not occur in isolation and above sensitivity analyses will not show the actual change of defined benefit obligations. Also, in the above sensitivity analyses, present value of defined benefit obligations is measured by using the projected unit credit method that is applied to measure the amount of defined benefit obligations in the separate statements of financial position.

26. PROVISIONS:

Changes in the provision liabilities for the years ended December 31, 2013 and 2012, are as follows:

2013

	Korean won									
	Beginning balance		Charged to income or loss		Utilization		Other		Ending balance	
	(In millions)									
Provision for leased aircraft maintenance (*1)	₩	82,462	₩	27,869	₩	(2,666)	₩	-	₩	107,665
Provision for coupon for passenger flight tickets (*2)		-		27,521		-		-		27,521
Others		5,719		57		(226)		(50)		5,500
	₩	88,181	₩	55,447	₩	(2,892)	₩	(50)	₩	140,686

	Translation into U.S. dollars (Note 2)									
	Beginning balance		Charged to income or loss		Utilization		Other		Ending balance	
	(In thousands)									
Provision for leased aircraft maintenance (*1)	$	78,141	$	26,409	$	(2,526)	$	-	$	102,024
Provision for coupon for passenger flight tickets (*2)		-		26,079		-		-		26,079
Others		5,419		54		(215)		(47)		5,211
	$	83,560	$	52,542	$	(2,741)	$	(47)	$	133,314

2012

	Korean won							
	Beginning balance		Charged to income or loss		Utilization		Ending balance	
	(In millions)							
Provision for leased aircraft maintenance (*1)	₩	102,706	₩	37,113	₩	(57,357)	₩	82,462
Others		7,487		592		(2,360)		5,719
	₩	110,193	₩	37,705	₩	(59,717)	₩	88,181

	Translation into U.S. dollars (Note 2)			
	Beginning balance	Charged to income or loss	Utilization	Ending balance
	(In thousands)			
Provision for leased aircraft maintenance (*1)	$ 97,325	$ 35,168	$ (54,352)	$ 78,141
Others	7,095	561	(2,237)	5,419
	$ 104,420	$ 35,729	$ (56,589)	$ 83,560

(*1) The Company has maintenance obligations related to the operating leases. In order to fulfill its obligations, the Company estimated and recognized as a provision for leased aircraft maintenance by anticipating future maintenance costs since it is probable that an outflow of resources embodying economic benefits will be required to settle the obligations.

(*2) The Company recognized as a provision for coupon for passenger flight tickets that were agreed to the plaintiff as $26,000 thousand in relation to airline ticket price collusion of flights for passengers to the Americas in the United States court class action.

27. DEFERRED REVENUE:

The Group manages its frequent flyer program, "SKYPASS," a customer loyalty program, which provides incentives through accrued mileage, such as bonus flight tickets and seat class upgrades, in addition to other benefits to its customers and its alliance companies. The Group allocates the fair value of the consideration received in respect of the sales into the award credits and service revenue. The award credits' portion of sales price is not recognized as revenue until the obligation has been performed. The Group's deferred income in connection with the SKYPASS system recognized in the consolidated statement of financial position as of December 31, 2013, amounted to ₩1,604,347 million ($1,520,276 thousand), including ₩45,560 million ($43,173 thousand) of advance receipts from customers and ₩1,558,787 million ($1,477,103 thousand) of deferred revenue.

28. DERIVATIVE INSTRUMENTS AND HEDGE ACCOUNTING:

(1) As of December 31, 2013, the Company entered into derivative agreements with KDB and six other financial institutions, and derivatives as of December 31, 2013, consist of the following:

Type of transactions	Accounting policy	Maturity	Contract amount	
Currency option	Trading	2014.08.29	USD	40,000 thousand
Oil price option	Hedging	2015.06.30	BBL	4,650 thousand
Interest rate swaps	Trading	2016.09.01	KRW	15,000 million
TRS (*1)	Trading	2016.12.28	KRW	25,139 million
Interest rate swaps	Hedging	2014.04.30	KRW	400,000 million
Currency swaps	Hedging	2017.11.02	KRW	230,000 million

(*1) Total Return Swap (TRS): As of December 31, 2013, the Company has entered into TRS agreement with Hana Daetoo Securities Co., Ltd., on the common shares of Grandstar Cargo Int'l Airlines Co., Ltd.

(2) Impact on the separate financial statements in relation to derivatives as of and for the year ended December 31, 2013, is as follows:

	Korean won						
	Statement of financial position			Income sheet			
Derivative instruments	Financial derivative assets	Financial derivative liabilities	Other capital components	Valuation gain	Valuation loss	Transaction gain	Transaction loss
	(In millions)						
Currency option	₩ 303	₩ -	₩ -	₩ 303	₩ -	₩ 96	₩ -
Oil price option	4,590	2,501	2,156	4,590	2,445	12,294	2,412
Oil price swaps	-	-	-	-	-	715	79
Cross-currency interest rate swaps	-	-	-	51,614	-	5,696	19
Interest rate swaps	2,976	5,320	(2,597)	4	14	-	63
TRS	-	25,139	-	-	23,230	-	-
	₩ 7,869	₩ 32,960	₩ (441)	₩ 56,511	₩ 25,689	₩ 18,801	₩ 2,573

	Translation into U.S. dollars (Note 2)						
	Statement of financial position			Income sheet			
Derivative instruments	Financial derivative assets	Financial derivative liabilities	Other capital components	Valuation gain	Valuation loss	Transaction gain	Transaction loss
	(In thousands)						
Currency option	$ 287	$ -	$ -	$ 287	$ -	$ 90	$ -
Oil price option	4,350	2,370	2,043	4,349	2,317	11,649	2,286
Oil price swaps	-	-	-	-	-	678	75
Cross-currency interest rate swaps	-	-	-	48,910	-	5,398	18
Interest rate swaps	2,820	5,041	(2,461)	4	13	-	59
TRS	-	23,822	-	-	22,013	-	-
	$ 7,457	$ 31,233	$ (418)	$ 53,550	$ 24,343	$ 17,815	$ 2,438

29. OTHER FINANCIAL LIABILITIES:

Other financial liabilities as of December 31, 2013 and 2012, consist of the following:

	Korean won		Translation into U.S. dollars (Note 2)	
	2013	2012	2013	2012
	(In millions)		(In thousands)	
Leasehold deposits received	₩ -	₩ 20,526	$ -	$ 19,450

30. OTHER LIABILITIES:

Other liabilities as of December 31, 2013 and 2012, consist of the following:

	Korean won			
	2013		2012	
	Current	Non-current	Current	Non-current
	(In millions)			
Advances	₩ 1,020,334	₩ -	₩ 970,431	₩ -
Withholdings	91,671	30,258	98,531	20,940
Unearned revenues	5,251	-	7,328	-
Others	1,339	710	2,589	964
	₩ 1,118,595	₩ 30,968	₩ 1,078,879	₩ 21,904

	Translation into U.S. dollars (Note 2)			
	2013		2012	
	Current	Non-current	Current	Non-current
	(In thousands)			
Advances	$ 966,867	$ -	$ 919,578	$ -
Withholdings	86,867	28,673	93,368	19,843
Unearned revenues	4,976	-	6,944	-
Others	1,269	672	2,454	914
	$ 1,059,979	$ 29,345	$ 1,022,344	$ 20,757

31. CAPITAL STOCK:

(1) Capital stock as of December 31, 2013 and 2012, consists of the following:

				Korean won		Translation into U.S. dollars (Note 2)	
	Number of shares authorized	Number of shares issued	Par value	2013	2012	2013	2012
				(In millions)		(In thousands)	
Common stock	250,000,000	58,675,438	₩ 5,000	₩ 293,377	₩ 359,858	$ 278,004	$ 341,001
Preferred stock (*1)		1,110,794	₩ 5,000	5,554	6,896	5,263	6,534
	250,000,000	59,786,232		₩ 298,931	₩ 366,754	$ 283,267	$ 347,535

(*1) As the non-voting preferred stock, in case of cash dividends, it gets additional 1% more dividends than common stock. If the Company cannot pay dividends, the preferred stock gets voting right from the resolution of the next general meeting of shareholders that the Company does not pay dividends until the resolution of the general meeting of shareholders that the Company pays dividends.

(2) Changes in number of stocks issued for the years ended December 31, 2013 and 2012, are as follows:

	2013		2012	
	Common stock	Preferred stock	Common stock	Preferred stock
Beginning balance	71,971,631	1,379,177	71,971,631	1,379,177
Increase due to the merger (*1)	880,622	-	-	-
Decrease due to spin-off (*2)	(14,176,815)	(268,383)	-	-
Ending balance	58,675,438	1,110,794	71,971,631	1,379,177

(*1) The Company issued shares as a result of merger of Hanjin Travel Service Co., Ltd.'s investment division.
(*2) The Company spun the investment business unit off as of August 1, 2013.

32. OTHER CAPITAL SURPLUS:

(1) Other capital surplus as of December 31, 2013 and 2012, consists of the following:

	Korean won		Translation into U.S. dollars (Note 2)	
	2013	2012	2013	2012
	(In millions)		(In thousands)	
Additional paid-in capital	₩ 174,907	₩ 189,417	$ 165,742	$ 179,491
Other capital	(122,208)	(24,060)	(115,804)	(22,799)
	₩ 52,699	₩ 165,357	$ 49,938	$ 156,692

(*1) The Company has two shares of common stock due to the acquisition of odd-lot stocks as of December 31, 2013, and had 4,437,327 shares of common stock (₩65,264 million ($61,844 thousand)) and 11,869 shares of preferred stock (₩135 million ($128 thousand)) as of December 31, 2012.

(2) Changes in additional paid-in capital for the years ended as of December 31, 2013 and 2012, are as follows:

	Korean won		Translation into U.S. dollars (Note 2)	
	2013	2012	2013	2012
	(In millions)		(In thousands)	
Beginning balance	₩ 189,417	₩ 189,806	$ 179,491	$ 179,860
Increase due to merger (*1)	28,896	-	27,382	-
Decrease due to spin-off (*2)	(43,406)	-	(41,131)	-
Others	-	(389)	-	(369)
Ending balance	₩ 174,907	₩ 189,417	$ 165,742	$ 179,491

(*1) The Company issued shares as a result of merger of Hanjin Travel Service Co., Ltd., investment division.
(*2) The Company spun the investment business unit off as of August 1, 2013.

(3) Changes in other capital for the years ended December 31, 2013 and 2012, are as follows:

	Korean won		Translation into U.S. dollars (Note 2)	
	2013	2012	2013	2012
	(In millions)		(In thousands)	
Beginning balance	₩ (24,060)	₩ (21,263)	$ (22,799)	$ (20,149)
Increase due to merger (*1)	(8,926)	-	(8,458)	-
Decrease due to spin-off (*2)	(298,082)	-	(282,462)	-
Acquisition of odd-lot stocks (*3)	-	-	-	-
Issuance of hybrid securities	208,860	-	197,915	-
Others	-	(2,797)	-	(2,650)
Ending balance	₩ (122,208)	₩ (24,060)	$ (115,804)	$ (22,799)

(*1) The Company issued shares as a result of merger of Hanjin Travel Service Co., Ltd., investment division.
(*2) The Company spun the investment business unit off as of August 1, 2013.
(*3) The Company has two shares of common stock due to the acquisition of odd-lot stocks as of December 31, 2013, and had 4,437,327 shares of common stock (₩65,264 million ($61,844 thousand)) and 11,869 shares of preferred stock (₩135 million ($128 thousand)) as of December 31, 2012.

(4) Hybrid securities as of December 31, 2013 and 2012, consist of the following:

	Date of Issue	Maturity	Interest rate	Korean won 2013	Korean won 2012	Translation into U.S. dollars (Note 2) 2013	Translation into U.S. dollars (Note 2) 2012
				(In millions)		(In thousands)	
Blank non -guaranteed bonds	2013-06-28	2043-6-28	6.40%	₩ 208,860	₩ -	$ 197,915	$ -

The interest rate of hybrid securities is 6.40% for five years after it is issued and five years later, the increased interest rate (6.40% + 3.50% + (benchmark yield after five years from the date of issue -3.32%)) is applied.

The Group can exercise the right to early repayment every year after five years of the hybrid securities issuance. If the Group notices the willingness to extend the maturity before a month prior to expiration date, the maturity can be extended to 30 years on the same condition. In addition, the Group can choose to pay the interest of hybrid securities. However, the Group cannot suspend the payment of interest if the decision on stock dividend, purchase and redemption of stocks, and profit retirement would happen for 12 months before the payment of interest.

33. RETAINED EARNINGS AND DIVIDENDS:

(1) Retained earnings as of December 31, 2013 and 2012, consist of the following:

	Korean won		Translation into U.S. dollars (Note 2)	
	2013	2012	2013	2012
	(In millions)		(In thousands)	
Legal reserve:				
Legal appropriated retained earnings (*1)	₩ 3,452	₩ 3,452	$ 3,271	$ 3,271
Voluntary reserve:				
Facility reserve	200,000	200,000	189,519	189,520
Unappropriated retained earnings (*2)	1,763,745	1,892,518	1,671,321	1,793,346
	₩ 1,967,197	₩ 2,095,970	$ 1,864,111	$ 1,986,137

(*1) The Korean Commercial Code requires the Company to appropriate as legal reserve an amount equal to at least 10% of cash dividends paid for each accounting period, until the reserve equals 50% of the stated capital. The legal reserve may be used to reduce a deficit or transferred to capital stock.

(*2) ₩1,915,926 million ($1,815,527 thousand) in unappropriated retained earnings, related to the reevaluation gain resulting from the revaluation of assets in accordance with the Korean Assets Revaluation Act in the past, was recognized by the Group as unappropriated retained earnings.

(2) Changes in retained earnings for the years ended December 31, 2013 and 2012, are as follows:

	Korean won		Translation into U.S. dollars (Note 2)	
	2013	2012	2013	2012
	(In millions)		(In thousands)	
Beginning balance	₩ 2,095,970	₩ 1,938,824	$ 1,986,137	$ 1,837,225
Net (loss) income	(224,995)	246,413	(213,204)	233,501
Other comprehensive income (loss)	46,124	(90,964)	43,706	(86,198)
Substitution of revaluation surplus	12,847	-	12,173	-
Dividend of hybrid securities	(6,758)	-	(6,404)	-
Incorporation and disposal of subsidiaries	-	3,215	-	3,047
Change in retained earnings of investment in associates and subsidiaries	37,136	(1,518)	35,190	(1,438)
Others	6,873	-	6,513	-
Ending balance	₩ 1,967,197	₩ 2,095,970	$ 1,864,111	$ 1,986,137

(3) There is no dividend payment (except for the dividend from hybrid securities) for the years ended December 31, 2013 and 2012.

34. OTHER CAPITAL COMPONENTS:

(1) Other capital components as of December 31, 2013 and 2012, consist of the following:

	Korean won		Translation into U.S. dollars (Note 2)	
	2013	2012	2013	2012
	(In millions)		(In thousands)	
Gain on valuation of AFS financial assets, net	₩ 77,987	₩ 36,802	$ 73,900	$ 34,873
Loss on valuation of equity method	(51,378)	(7,824)	(48,686)	(7,414)
Loss on valuation of derivatives, net	(441)	(9,462)	(418)	(8,966)
Cumulative effect of foreign currency translation	(12,173)	(25,997)	(11,535)	(24,635)
Revaluation surplus	314,169	-	297,706	-
	₩ 328,164	₩ (6,481)	$ 310,967	$ (6,142)

(2) Changes in other capital components for the years ended December 31, 2013 and 2012, are as follows:

	Korean won		Translation into U.S. dollars (Note 2)	
	2013	2012	2013	2012
	(In millions)		(In thousands)	
Beginning balance	₩ (6,481)	₩ (13,880)	$ (6,142)	$ (13,153)
Gain on valuation of AFS financial assets, net	41,185	14,426	39,027	13,670
Loss on valuation of equity method	(43,554)	(5,592)	(41,272)	(5,299)
Loss on valuation of derivatives, net	9,021	(1,112)	8,549	(1,054)
Cumulative effect of foreign currency translation	13,824	(323)	13,099	(306)
Revaluation surplus	314,169	-	297,706	-
Ending balance	₩ 328,164	₩ (6,481)	$ 310,967	$ (6,142)

35. SALES:

(1) Sales classified as operating income or loss resulting from the Company's continuing operations for the years ended December 31, 2013 and 2012, consist of the following:

	Korean won		Translation into U.S. dollars (Note 2)	
	2013	2012	2013	2012
	(In millions)		(In thousands)	
Air transport revenue	₩ 10,942,586	₩ 11,559,445	$ 10,369,171	$ 10,953,706
Other revenue	906,122	782,345	858,639	741,348
	₩ 11,848,708	₩ 12,341,790	$ 11,227,810	$ 11,695,054

(2) Due to the seasonal nature of air transport business, sales and department profit are expected to be higher in the second half than in the first half. Because passenger's demands of domestic and international flights increase significantly in the holiday season, especially July and August, sales and number of passengers have been historically higher than other months.

36. SELLING AND ADMINISTRATIVE EXPENSES:

Selling and administrative expenses for the years ended December 31, 2013 and 2012, consist of the following:

	Korean won		Translation into U.S. dollars (Note 2)	
	2013	2012	2013	2012
	(In millions)		(In thousands)	
Salaries	₩ 274,514	₩ 279,135	$ 260,129	$ 264,508
Retirement and severance benefits	28,102	27,985	26,629	26,518
Depreciation	10,731	11,607	10,168	10,999
Amortization	18,374	10,015	17,412	9,490
Rental	16,835	17,693	15,953	16,766
Sales commission	312,382	348,200	296,013	329,954
Advertising	96,204	100,491	91,163	95,225
Welfare	63,761	53,078	60,420	50,296
Training	7,122	7,472	6,748	7,081
Communications	46,617	41,384	44,174	39,215
Taxes and dues	20,558	20,881	19,481	19,787
Facility maintenance	7,468	7,836	7,076	7,425
Others	211,976	176,121	200,868	166,892
	₩ 1,114,644	₩ 1,101,898	$ 1,056,234	$ 1,044,156

37. FINANCIAL INCOME AND EXPENSES:

(1) Financial income for the years ended December 31, 2013 and 2012, consists of the following:

	Korean won		Translation into U.S. dollars (Note 2)	
	2013	2012	2013	2012
	(In millions)		(In thousands)	
Interest income	₩ 28,210	₩ 35,324	$ 26,732	$ 33,473
Dividend income	2,308	2,211	2,187	2,095
Gain on valuation of derivatives	56,511	59,039	53,550	55,946
Gain on derivatives transaction	18,801	17,349	17,815	16,439
	₩ 105,830	₩ 113,923	$ 100,284	$ 107,953

(2) Financial expenses for the years ended December 31, 2013 and 2012, consist of the following:

	Korean won		Translation into U.S. dollars (Note 2)	
	2013	2012	2013	2012
	(In millions)		(In thousands)	
Interest expense	₩ 498,448	₩ 558,871	$ 472,328	$ 529,585
Loss on valuation of derivatives	25,689	22,433	24,343	21,257
Loss on derivatives transaction	2,573	4,721	2,438	4,474
	₩ 526,710	₩ 586,025	$ 499,109	$ 555,316

38. OTHER NON-OPERATING INCOME AND EXPENSES:

(1) Other non-operating income for the years ended December 31, 2013 and 2012, consists of the following:

	Korean won		Translation into U.S. dollars (Note 2)	
	2013	2012	2013	2012
	(In millions)		(In thousands)	
Gain on foreign currency transaction	₩ 250,096	₩ 301,741	$ 236,990	$ 285,929
Gain on foreign currency translation	424,676	816,460	402,422	773,675
Reversal of allowance for doubtful accounts	-	920	-	872
Gain on disposal of investments in associates and jointly controlled entities	359	-	340	-
Gain on disposal of property, aircraft and equipment	33,983	29,784	32,202	28,224
Miscellaneous income	23,973	22,830	22,717	21,633
	₩ 733,087	₩ 1,171,735	$ 694,671	$ 1,110,333

(2) Other non-operating expenses for the years ended December 31, 2013 and 2012, consist of the following:

	Korean won		Translation into U.S. dollars (Note 2)	
	2013	2012	2013	2012
	(In millions)		(In thousands)	
Other bad debt expenses	₩ 453	₩ 6,556	$ 429	$ 6,212
Loss on foreign currency transaction	285,677	232,070	270,707	219,909
Loss on foreign currency translation	56,717	196,142	53,745	185,864
Loss on disposal of AFS financial assets	2,640	18	2,502	18
Impairment loss on AFS financial assets	1,685	-	1,596	-
Impairment loss on investments in associates and jointly controlled entities	1,500	3,443	1,421	3,263
Impairment loss on investment in subsidiaries	-	50	-	47
Loss on disposal of associates and jointly controlled entities	2,496	-	2,365	-
Loss on disposal of property, aircraft and equipment	89,688	98,950	84,988	93,765
Impairment loss on property, aircraft and equipment	35,101	43,692	33,262	41,403
Loss on disposal of intangible assets	-	585	-	554
Loss on revaluation assets	52,530	-	49,777	-
Donation	16,645	21,392	15,773	20,271
Miscellaneous loss	172,417	60,791	163,382	57,604
	₩ 717,549	₩ 663,689	$ 679,947	$ 628,910

39. INCOME TAX EXPENSE (BENEFIT):

(1) Income tax benefit for the years ended December 31, 2013 and 2012, consists of the following:

	Korean won		Translation into U.S. dollars (Note 2)	
	2013	2012	2013	2012
	(In millions)		(In thousands)	
Current income tax expense	₩ 47,976	₩ (6,959)	$ 45,462	$ (6,595)
± Changes in deferred taxes due to temporary differences (*)	(50,910)	(14,737)	(48,242)	(13,965)
± Tax loss carryforward (**)	(7,077)	156,674	(6,706)	148,464
Total amount of income tax effect	(10,011)	134,978	(9,486)	127,904
± Items recorded directly in equity	(127,081)	27,331	(120,422)	25,899
Income tax expense (benefit)	₩ (137,092)	₩ 162,309	$ (129,908)	$ 153,803
(*) Temporary differences — deferred tax assets at the end of period	₩ 313,260	₩ 251,104	$ 296,845	$ 237,946
Temporary differences — deferred tax assets at the beginning of period	251,104	236,367	237,946	223,981
Deferred tax assets succeeded due to merger	73	-	69	-
Deferred tax assets transferred due to spin-off	11,173	-	10,588	-
Changes in deferred taxes due to temporary differences	₩ (50,910)	₩ (14,737)	$ (48,242)	$ (13,965)
(**) Tax loss carryforward — deferred tax assets at the end of period	262,997	255,920	249,216	242,509
Tax loss carryforward — deferred tax assets at the beginning of period	255,920	412,594	242,509	390,973
Changes in deferred taxes due to tax loss carryforward	₩ (7,077)	₩ 156,674	$ (6,707)	$ 148,464

(2) Reconciliation between income before income tax and income tax expense for the years ended December 31, 2013 and 2012, is as follows:

	Korean won		Translation into U.S. dollars (Note 2)	
	2013	2012	2013	2012
	(In millions)		(In thousands)	
(Loss) income before income tax expense	₩ (392,661)	₩ 346,778	$ (372,085)	$ 328,606
Assessed tax on the applicable rates	(95,024)	83,920	(90,045)	79,523
Adjustments:				
Non-deductible expenses	(24,879)	(3,536)	(23,575)	(3,351)
Tax credits	(5,692)	5,357	(5,394)	5,076
Others	(11,497)	76,568	(10,894)	72,555
Income tax expense (benefit)	₩ (137,092)	₩ 162,309	$ (129,908)	$ 153,803
Effective tax rate (%) (*1)	-	46.80	-	46.80

(*1) The effective tax rate was not computed due to net loss before income tax benefit for the year ended December 31, 2013.

(*2) The tax rate applied to the taxable income for the years ended December 31, 2013 and 2012, is 24.2% (including residence tax), which is the statutory income tax rate of Korea.

(3) Changes in temporary differences and deferred income tax assets (liabilities) as of and for the years ended December 31, 2013 and 2012, are as follows:

2013

Description	Korean won Beginning balance (*)	Korean won Increase (Decrease) (*)	Korean won Ending balance
		(In millions)	
Temporary differences:			
Defined benefit obligation	₩ 636,759	₩ 72,776	₩ 709,535
Provision for leased aircraft maintenance	82,462	25,203	107,665
Deferred revenue	1,519,039	85,308	1,604,347
Gain from assets contributed	45,138	(41,954)	3,184
Gain (loss) on foreign currency translation	110,195	(51,973)	58,222
Accrued expenses	75,324	6,732	82,056
Borrowings	(20,393)	7,973	(12,420)
AFS financial assets	(67,225)	(41,932)	(109,157)
Property, aircraft and equipment, and intangible assets	(884,231)	167	(884,064)
Gain on valuation of derivatives	(9,635)	37,702	28,067
Others	(94,586)	110,424	15,838
	₩ 1,392,847	₩ 210,426	₩ 1,603,273
Tax loss carryforward	1,017,019	(10,919)	1,006,100
Tax credits	9,808	23,041	32,849
Deferred tax assets	507,024	69,234	576,258

Description	Translation into U.S. dollars (Note 2) Beginning balance (*)	Translation into U.S. dollars (Note 2) Increase (decrease) (*)	Translation into U.S. dollars (Note 2) Ending balance
		(In thousands)	
Temporary differences:			
Defined benefit obligation	$ 603,392	$ 68,962	$ 672,354
Provision for leased aircraft maintenance	78,141	23,883	102,024
Deferred revenue	1,439,438	80,837	1,520,275
Gain from assets contributed	42,772	(39,755)	3,017
Gain (loss) on foreign currency translation	104,421	(49,250)	55,171
Accrued Expenses	71,377	6,379	77,756
Borrowings	(19,325)	7,555	(11,770)
AFS financial assets	(63,703)	(39,735)	(103,438)
Property, aircraft and equipment, and intangible assets	(837,895)	159	(837,736)
Gain on valuation of derivatives	(9,130)	35,726	26,596
Others	(89,630)	104,638	15,008
	$ 1,319,858	$ 199,399	$ 1,519,257
Tax loss carryforward	963,725	(10,347)	953,378
Tax credits	9,294	21,834	31,128
Deferred tax assets	480,455	65,605	546,060

2012

Description	Korean won Beginning balance (*)	Increase (decrease) (*)	Ending balance
		(In millions)	
Temporary differences:			
Defined benefit obligation	₩ 451,368	₩ 185,391	₩ 636,759
Provision for leased aircraft maintenance	229,083	(146,620)	82,463
Deferred revenue	1,383,262	135,777	1,519,039
Gain from assets contributed	45,984	(846)	45,138
Gain (loss) on foreign currency translation	149,769	(39,573)	110,196
Accrued Expenses	69,615	5,709	75,324
Borrowings	(29,301)	8,908	(20,393)
AFS financial assets	(64,052)	(3,173)	(67,225)
Property, aircraft and equipment, and intangible assets	(841,820)	(42,410)	(884,230)
Gain on valuation of derivatives	12,824	(22,459)	(9,635)
Others	108,551	(203,137)	(94,586)
	₩ 1,515,283	₩ (122,433)	₩ 1,392,850
Tax loss carryforward	1,426,106	(409,087)	1,017,019
Tax credits	12,547	(2,739)	9,808
Deferred tax assets	648,961	(141,937)	507,024

Description	Translation into U.S. dollars (Note 2) Beginning balance (*)	Increase (decrease) (*)	Ending balance
		(In thousands)	
Temporary differences:			
Defined benefit obligation	$ 427,715	$ 175,676	$ 603,391
Provision for leased aircraft maintenance	217,078	(138,937)	78,141
Deferred revenue	1,310,776	128,662	1,439,438
Gain from assets contributed	43,574	(801)	42,773
Gain (loss) on foreign currency translation	141,921	(37,500)	104,421
Accrued Expenses	65,967	5,410	71,377
Borrowings	(27,766)	8,441	(19,325)
AFS financial assets	(60,695)	(3,007)	(63,702)
Property, aircraft and equipment, and intangible assets	(797,707)	(40,188)	(837,895)
Gain on valuation of derivatives	12,152	(21,282)	(9,130)
Others	102,863	(192,492)	(89,629)
	$ 1,435,878	$ (116,018)	$ 1,319,860
Tax loss carryforward	1,351,375	(387,650)	963,725
Tax credits	11,889	(2,595)	9,294
Deferred tax assets	614,954	(134,499)	480,455

(*) Beginning temporary differences include temporary differences recognized as deferred income tax assets (liabilities) as of December 31, 2012 and 2011, which has been partially adjusted during actual tax adjustments for the years ended December 31, 2013 and 2012. Therefore, the Company reflected the aforementioned adjustment in the change in temporary differences for the years ended December 31, 2013 and 2012.

(4) Deferred income tax expense directly adjusted to shareholders' equity as of December 31, 2013 and 2012, consists of the following:

	Korean won		Translation into U.S. dollars (Note 2)	
	2013	2012	2013	2012
	(In millions)		(In thousands)	
Deferred income tax expense directly adjusted to shareholders' equity:				
Gain on valuation of AFS financial assets	₩ (14,532)	₩ (4,281)	$ (13,771)	$ (4,057)
Loss on valuation of cash flow hedging derivatives	(459)	719	(435)	681
Remeasurement of the net defined benefit liabilities	(13,209)	25,613	(12,517)	24,271
Revaluation surplus	(91,831)	-	(87,019)	-
	(120,031)	22,051	(113,742)	20,895
Deferred income tax expense directly adjusted to non-controlling interests	(7,050)	5,280	(6,680)	5,004
	₩ (127,081)	₩ 27,331	$ (120,422)	$ 25,899

(5) Deductible temporary differences, tax loss and unused tax credits, not recognized as deferred tax assets as of December 31, 2013 and 2012, are as follows:

	Korean won		Translation into U.S. dollars (Note 2)	
	2013	2012	2013	2012
	(In millions)		(In thousands)	
Investment in subsidiaries and associates and gains from assets contributed	₩ 308,810	₩ 355,255	$ 292,628	$ 336,639
Unused tax credits	13,328	-	12,630	-
	₩ 322,138	₩ 355,255	$ 305,258	$ 336,639

(6) The expiration date of unused tax credits not recognized as deferred tax assets as of December 31, 2013 and 2012, consists of the following:

	Korean won		Translation into U.S. dollars (Note 2)	
	2013	2012	2013	2012
	(In millions)		(In thousands)	
Within 1 year	₩ 2,842	₩ -	$ 2,693	$ -
1–2 years	10,486	-	9,937	-
	₩ 13,328	₩ -	$ 12,630	$ -

40. CLASSIFICATION OF EXPENSES BY NATURE:

Expenses classified by nature for the years ended December 31, 2013 and 2012, consist of the following:

	Korean won		Translation into U.S. dollars (Note 2)	
	2013	2012	2013	2012
	(In millions)		(In thousands)	
Salaries, retirement and severance benefit	₩ 1,639,374	₩ 1,632,526	$ 1,553,467	$ 1,546,979
Welfare	305,538	263,859	289,528	250,032
Depreciation and amortization	1,653,169	1,503,940	1,566,539	1,425,130
Rental	208,657	231,310	197,723	219,188
Fuel and oil charges	4,336,958	4,738,558	4,109,692	4,490,247
Airport-related costs	997,584	1,114,717	945,308	1,056,304
Sales commission	312,382	348,200	296,013	329,954
Others	2,414,608	2,280,113	2,288,077	2,160,630
	₩ 11,868,270	₩ 12,113,223	$ 11,246,347	$ 11,478,464

(*) The amount is the sum of cost of sales and selling and administrative expenses from continuing operations.

41. EARNINGS (LOSS) PER SHARE:

Basic (loss) earnings per share for the years ended December 31, 2013 and 2012, are as follows (In millions of Korean won and in thousands of U.S. dollars, except for share data and (loss) earnings per share):

	Korean won		Translation into U.S. dollars (Note 2)	
	2013	2012	2013	2012
	(In millions)		(In thousands)	
Net (loss) income	₩ (224,995)	₩ 246,413	$ (213,204)	$ 233,501
Net (loss) income applicable to common stock:	(224,995)	246,413	(213,204)	233,501
Continuing operation	(246,369)	181,723	(233,458)	172,201
Discontinued operation	21,374	64,690	20,254	61,300
Weighted-average number of common shares outstanding	63,974,099	67,534,304	63,974,099	67,534,304
(Loss) earnings per share:	(3,517)	3,649	(3)	3
Continuing operation	(3,851)	2,691	(4)	3
Discontinued operation	334	958	1	-

(*1) Diluted (loss) earnings per share for the years ended December 31, 2013 and 2012 are the same as the basic (loss) earnings per share since there are no dilutive potential common shares and dilutive effect.

The contents of weighted-average common shares for the years ended December 31, 2013 and 2012, are as follows:

	Number of shares	
	2013	2012
Cumulative number of weighted-average common shares	23,350,546,177	24,717,555,264
Number of days	365	366
Weighted-average number of common shares outstanding	63,974,099	67,534,304

42. FINANCIAL RISK MANAGEMENT:

(1) Capital risk management:

The Group manages its capital in order to maintain the ability to continuously provide profits to its shareholders and interest parties and optimum capital structure to reduce capital expenses. In order to maintain such optimum, the Group adjusts dividend payments, redeems paid-in capital to shareholders and issues stocks to reduce liabilities or sell assets.

Like other entities in the field in which the Group operates in, the Group manages its capital based on the ratio of net debt to total equity. Net debt refers to total borrowings (including obligation under finance leases as presented in the separate statement of financial position) less cash and cash equivalents and short-term financial assets, and total equity refers to capital presented in the statement of financial position plus net debt.

The Group's net debt-to-total equity ratio as of December 31, 2013 and 2012, is as follows:

	Korean won		Translation into U.S. dollars (Note 2)	
	2013	2012	2013	2012
	(In millions)		(In thousands)	
Total borrowings	₩ 15,319,366	₩ 15,206,530	$ 14,516,598	$ 14,409,675
Less: cash and cash equivalents and short-term financial instruments	1,179,987	1,579,670	1,118,154	1,496,892
Net debt	14,139,379	13,626,860	13,398,444	12,912,783
Capital	2,740,213	2,904,383	2,596,620	2,752,187
Total equity	₩ 16,879,592	₩ 16,531,243	$ 15,995,064	$ 15,664,970
Net debt to total equity ratio	83.77%	82.43%	83.77%	82.43%

(2) Significant accounting policies and methods (recognition criteria, measurement standards including recognition criteria for revenue and expenses) adopted by the Group regarding financial assets, financial liabilities and shareholders' equity are disclosed in detail in Note 2.

(3) Book value by category of the financial assets and liabilities as of December 31, 2013 and 2012, are as follows:

1) Financial assets

2013

	Korean won					
Description	Loans and receivables	Financial assets at FVTPL	Held-to-maturity financial assets	AFS financial assets	For hedging derivative financial assets	Total
	(In millions)					
Cash and cash equivalents	₩ 1,126,825	₩ -	₩ -	₩ -	₩ -	₩ 1,126,825
Short- and long-term financial assets	54,418	-	-	-	-	54,418
Held-to-maturity financial assets	-	-	10,322	-	-	10,322
AFS financial assets	-	-	-	216,309	-	216,309
Trade and other receivables	1,157,594	-	-	-	-	1,157,594
Financial derivative assets	-	303	-	-	7,566	7,869

Description	Korean won					
	Loans and receivables	Financial assets at FVTPL	Held-to-maturity financial assets	AFS financial assets	For hedging derivative financial assets	Total
	(In millions)					
Investment in direct financing leases	81,220	-	-	-	-	81,220
Other financial assets	251,717	-	-	-	-	251,717
	₩ 2,671,774	₩ 303	₩ 10,322	₩ 216,309	₩ 7,566	₩ 2,906,274

Description	Translation into U.S. dollars (Note 2)					
	Loans and receivables	Financial assets at FVTPL	Held-to-maturity financial assets	AFS financial assets	For hedging derivative financial assets	Total
	(In thousands)					
Cash and cash equivalents	$ 1,067,777	$ -	$ -	$ -	$ -	$ 1,067,777
Short- and long-term financial assets	51,567	-	-	-	-	51,567
Held-to-maturity financial assets	-	-	9,780	-	-	9,780
AFS financial assets	-	-	-	204,974	-	204,974
Trade and other receivables	1,096,934	-	-	-	-	1,096,934
Financial derivative assets	-	287	-	-	7,170	7,457
Investment in direct financing leases	76,964	-	-	-	-	76,964
Other financial assets	238,526	-	-	-	-	238,526
	$ 2,531,768	$ 287	$ 9,780	$ 204,974	$ 7,170	$ 2,753,979

2012

Description	Korean won					
	Loans and receivables	Financial assets at FVTPL	Held-to-maturity financial assets	AFS financial assets	For hedging derivative financial assets	Total
	(In millions)					
Cash and cash equivalents	₩ 1,465,499	₩ -	₩ -	₩ -	₩ -	₩ 1,465,499
Short- and long-term financial assets	116,134	-	-	-	-	116,134
Held-to-maturity financial assets	-	-	24,015	-	-	24,015
AFS financial assets	-	-	-	154,585	-	154,585
Trade and other receivables	922,195	-	-	-	-	922,195
Financial derivative assets	-	40,681	-	-	8,167	48,848

Description	Korean won					
	Loans and receivables	Financial assets at FVTPL	Held-to-maturity financial assets	AFS financial assets	For hedging derivative financial assets	Total
	(In millions)					
Other financial assets	322,265	-	-	-	-	322,265
	₩ 2,826,093	₩ 40,681	₩ 24,015	₩ 154,585	₩ 8,167	₩ 3,053,541

Description	Translation into U.S. dollars (Note 2)					
	Loans and receivables	Financial assets at FVTPL	Held-to-maturity financial assets	AFS financial assets	For hedging derivative financial assets	Total
	(In thousands)					
Cash and cash equivalents	$ 1,388,704	$ -	$ -	$ -	$ -	$ 1,388,704
Short- and long-term financial assets	110,048	-	-	-	-	110,048
Held-to-maturity financial assets	-	-	22,756	-	-	22,756
AFS financial assets	-	-	-	146,484	-	146,484
Trade and other receivables	873,870	-	-	-	-	873,870
Financial derivative assets	-	38,550	-	-	7,738	46,288
Other financial assets	305,377	-	-	-	-	305,377
	$ 2,677,999	$ 38,550	$ 22,756	$ 146,484	$ 7,738	$ 2,893,527

2) Financial liabilities

2013

Description	Korean won			
	Financial liabilities at FVTPL	Financial liabilities recognized at amortized cost	For hedging derivative financial liabilities	Total
	(In millions)			
Trade and other payables	₩ -	₩ 1,015,360	₩ -	₩ 1,015,360
Borrowings	-	5,480,678	-	5,480,678
Debentures	-	3,947,316	-	3,947,316
Financial derivative liabilities	25,538	-	7,422	32,960
Obligation under finance leases	-	5,891,372	-	5,891,372
	₩ 25,538	₩ 16,334,726	₩ 7,422	₩ 16,367,686

Description	Financial liabilities at FVTPL		Financial liabilities recognized at amortized cost		For hedging derivative financial liabilities		Total	
	Translation into U.S. dollars (Note 2) (In thousands)							
Trade and other payables	$	-	$	962,153	$	-	$	962,153
Borrowings		-		5,193,478		-		5,193,478
Debentures		-		3,740,468		-		3,740,468
Financial derivative liabilities		24,200		-		7,033		31,233
Obligation under finance leases		-		5,582,652		-		5,582,652
	$	24,200	$	15,478,751	$	7,033	$	15,509,984

2012

Description	Financial liabilities at FVTPL		Financial liabilities recognized at amortized cost		For hedging derivative financial liabilities		Total	
	Korean won (In millions)							
Trade and other payables	₩	-	₩	1,105,410	₩	-	₩	1,105,410
Borrowings		-		5,232,949		-		5,232,949
Debentures		-		4,345,467		-		4,345,467
Financial derivative liabilities		5,913		-		30,045		35,958
Obligation under finance leases		-		5,628,114		-		5,628,114
Other financial liabilities		-		20,526		-		20,526
	₩	5,913	₩	16,332,466	₩	30,045	₩	16,368,424

Description	Financial liabilities at FVTPL		Financial liabilities recognized at amortized cost		For hedging derivative financial liabilities		Total	
	Translation into U.S. dollars (Note 2) (In thousands)							
Trade and other payables	$	-	$	1,047,484	$	-	$	1,047,484
Borrowings		-		4,958,731		-		4,958,731
Debentures		-		4,117,755		-		4,117,755
Financial derivative liabilities		5,603		-		28,472		34,075
Obligation under finance leases		-		5,333,188		-		5,333,188
Other financial liabilities		-		19,450		-		19,450
	$	5,603	$	15,476,608	$	28,472	$	15,510,683

(4) Major income or loss by category of financial instruments for the years ended December 31, 2013 and 2012, is as follows:

1) Financial assets

2013

Description	Loans and receivables	Financial assets at FVTPL	Held-to-maturity financial assets	AFS financial assets	For hedging derivative financial assets	Total
	Korean won (In millions)					
Interest income	₩ 27,919	₩ -	₩ 291	₩ -	₩ -	₩ 28,210
Dividend income	-	-	-	2,308	-	2,308
Bad debt expenses, net	(90)	-	-	-	-	(90)
Loss on foreign currency translation, net	(30,330)	-	-	-	-	(30,330)
Gain on valuation of derivatives, net	-	51,904	-	-	4,590	56,494
Gain on derivative transactions, net	-	5,773	-	-	636	6,409
Impairment loss on AFS financial aseets	-	-	-	(1,685)	-	(1,685)
Loss on disposal of AFS financial assets	-	-	-	(2,640)	-	(2,640)
	₩ (2,501)	₩ 57,677	₩ 291	₩ (2,017)	₩ 5,226	₩ 58,676

Description	Loans and receivables	Financial assets at FVTPL	Held-to-maturity financial assets	AFS financial assets	For hedging derivative financial assets	Total
	Translation into U.S. dollars (Note 2) (In thousands)					
Interest income	$ 26,456	$ -	$ 276	$ -	$ -	$ 26,732
Dividend income	-	-	-	2,187	-	2,187
Bad debt expenses, net	(85)	-	-	-	-	(85)
Loss on foreign currency translation, net	(28,741)	-	-	-	-	(28,741)
Gain on valuation of derivatives, net	-	49,184	-	-	4,349	53,533
Gain on derivative transactions, net	-	5,471	-	-	604	6,075
Impairment loss on AFS financial assets	-	-	-	(1,596)	-	(1,596)

Description	Loans and receivables	Financial assets at FVTPL	Held-to-maturity financial assets	AFS financial assets	For hedging derivative financial assets	Total
	Translation into U.S. dollars (Note 2)					
	(In thousands)					
Loss on disposal of AFS financial assets	-	-	-	(2,502)	-	(2,502)
	$ (2,370)	$ 54,655	$ 276	$ (1,911)	$ 4,953	$ 55,603

2) Financial liabilities

2013

Description	Financial liabilities at FVTPL	Financial liabilities recognized at amortized cost	For hedging derivative financial liabilities	Total
	Korean won			
	(In millions)			
Interest expense	₩ -	₩ (498,448)	₩ -	₩ (498,448)
Gain on foreign currency translation, net	-	398,246	43	398,289
Loss on valuation of derivatives, net	(23,227)	-	(2,445)	(25,672)
Gain (loss) on derivative transactions, net	(62)	-	9,882	9,820
Gain on valuation of derivatives, net (*1)	-	-	7,479	7,479
	₩ (23,289)	₩ (100,202)	₩ 14,959	₩ (108,532)

Description	Financial liabilities at FVTPL	Financial liabilities recognized at amortized cost	For hedging derivative financial liabilities	Total
	Translation into U.S. dollars (Note 2)			
	(In thousands)			
Interest expense	$ -	$ (472,329)	$ -	$ (472,329)
Gain on foreign currency translation, net	-	377,377	41	377,418
Loss on valuation of derivatives, net	(22,010)	-	(2,317)	(24,327)
Gain (loss) on derivative transactions, net	(59)	-	9,364	9,305
Gain on valuation of derivatives, net (*1)	-	-	7,088	7,088
	$ (22,069)	$ (94,952)	$ 14,176	$ (102,845)

(*1) Other comprehensive income (after tax effect)

(5) Financial risk management

1) Purpose of managing financial risk

The financial sector manages the Group's business and organizes the approach to the domestic and international financial markets. Furthermore, it monitors and manages the financial risk related to the Group's business through internal risk reports, which analyze the scope and scale of each risk. These risks include the market risk (including currency risk, interest rate risk including oil price fluctuation risk and price risk), credit risk, liquidity risk and cash flow interest rate risk.

The Group tries to minimize the impact of these risks by using derivative instruments for risk aversion. Use of derivatives is determined on the basis of the policy of the Group approved by the Board of Directors, but, by this, documented principles about foreign exchange risk, interest rate risk, credit risk, use of non-derivative financial instruments and derivative financial instruments, and the investment of excess liquidity are provided. Internal auditor reviews the compliance with the policy and limitations of risk consistently. The Group does not make and transact the financial instrument contract, including derivatives, for speculative purposes.

Finance sector reports on a quarterly basis to the Risk Management Committee, an independent organization to monitor the risk and policy in order to reduce the degree of risk.

2) Market risk

The Group is mainly exposed to financial risks, such as foreign exchange rate risk, interest rate risk and oil price risk. Therefore, the Group made a contract for derivative instruments.

a) Foreign exchange risk management

The Group is exposed to various foreign currency risks since it makes transactions in foreign currencies. By using the currency option contracts, the Group manages the degree of risk exposure due to the changes in exchange rates within the limit decided in the policy that has been approved.

The carrying amounts of the Group's foreign currency-denominated monetary assets and monetary liabilities as of December 31, 2013 and 2012, are as follows:

	Korean won			
	Assets		Liabilities	
	2013	2012	2013	2012
	(In millions)			
USD	₩ 939,669	₩ 607,569	₩ 8,506,012	₩ 8,474,047
JPY	133,991	194,110	1,447,473	1,101,210
Others	281,227	324,575	280,250	38,613
	₩ 1,354,887	₩ 1,126,254	₩ 10,233,735	₩ 9,613,870

	Translation into U.S. dollars (Note 2)			
	Assets		Liabilities	
	2013	2012	2013	2012
	(In thousands)			
USD	$ 890,428	$ 575,731	$ 8,060,278	$ 8,029,989
JPY	126,970	183,938	1,371,622	1,043,505
Others	266,490	307,567	265,565	36,590
	$ 1,283,888	$ 1,067,236	$ 9,697,465	$ 9,110,084

b) Foreign currency sensitivity analysis

The Group is mainly exposed to the risk on USD, JPY, and other currencies (EUR, CNY, and others).

The Group's sensitivity to a 10% increase or decrease and in KRW (functional currency of the Company) against the foreign currencies as of December 31, 2013 and 2012, is presented in the table below. The sensitivity rate used in reporting foreign currency risk internally to key management personnel is 10% and it represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency-denominated monetary items and adjusts their translation at the period-end for a 10% change in foreign currency rates. A positive number below indicates an increase in income (loss) before income tax expense and other equity where the KRW strengthens 10% against the relevant currency. For a 10% weakening of KRW against the relevant currency, there would be an equal and opposite impact on the income (loss) before income tax expense and other equity.

	Korean won					
	USD		JPY		Others	
	2013	2012	2013	2012	2013	2012
	(In millions)					
Income (loss) (*1)	₩ 756,389	₩ 787,844	₩ 131,348	₩ 90,710	₩ (98)	₩ (28,596)
Equity (*2)	(284)	(95)	-	-	-	-

	Translation into U.S. dollars (Note 2)					
	USD		JPY		Others	
	2013	2012	2013	2012	2013	2012
	(In thousands)					
Income (loss) (*1)	$ 716,753	$ 746,560	$ 124,465	$ 85,957	$ (93)	$ (27,098)
Equity (*2)	(270)	(90)	-	-	-	-

(*1) Increase (decrease) is mainly due to exchange rate fluctuations of USD, JPY currency receivables and payables as of December 31, 2013 and 2012.
(*2) Decrease is mainly due to the changes in the fair value of derivatives designated for hedging.

b) Interest risk management

The Group has borrowed funds on fixed and floating interest rates; therefore, the Group is exposed to interest rate risk. In order to manage interest rate risk, the Group maintains proper balance between floating rate borrowings and fixed rate borrowings, and the Group has entered into interest rate swap contracts. In order to appropriately adjust to situation of interest and the defined tendency of risk, the risk aversion activity is evaluated periodically and optimal hedging strategy is applied.

The exposure degree of interest rate risk for financial assets and liabilities is described in detail in the footnotes of liquidity risk management.

b-1) Interest sensitivity analysis

The sensitivity analyses mentioned above have been determined based on the exposure to interest rates for both derivatives and non-derivative instruments at the end of the reporting period. For floating rate financial assets and liabilities, the analysis is prepared assuming the amount of the financial assets and liabilities outstanding at the end of the reporting period was outstanding for whole year. A 50-basis-point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

The sensitivity rate used in reporting interest risk internally to key management personnel is 50 basis points (bp) and it represents management's assessment of the reasonably possible change in interest rates.

The Group's sensitivity to a 50-bp change in interest rates on net income under the condition all other variables are fixed, as of December 31, 2013, is as follows:

- The Group's net income will decrease (increase) to ₩48,120 million ($ 45,599 thousand) (prior year ₩42,931 million ($40,682 thousand)), and it is mainly due to the interest rate risk of floating rate borrowings.

The interest rate sensitivity of the Group has increased due to the increase in floating rate borrowings for the year ended December 31, 2013.

b-2) Interest rate swap contracts

On the basis of the interest rate swap agreement, the Group will exchange the balance that is calculated by applying the difference between fixed rates and floating rate interest of the notional amount that is determined in advance. These contracts will reduce the risk of changes in fair value of the fixed-rate liabilities and cash flows of floating rate liabilities with the Group attributable to changes in interest rates. The fair value of the interest rate swap is determined by discounting the future cash flows estimated using the credit risk that is inherent in the contract with the yield curve as of December 31, 2013, and it is disclosed in the following table. The average interest rate is determined based on the outstanding balance as of December 31, 2013.

The interest rate swaps outstanding as of December 31, 2013 and 2012, are as follows:

2013

		Korean won	
Classification	Average contracted fixed rate (%)	Contract amount	Fair value
		(In millions)	
For trading			
More than two years	3.90	₩ 15,000	₩ 399
For hedging			
Within one year	6.31	400,000	4,921
		₩ 415,000	₩ 5,320

		Translation into U.S. dollars (Note 2)	
Classification	Average contracted fixed rate (%)	Contract amount	Fair value
		(In thousands)	
For trading			
More than two years	3.90	$ 14,214	$ 378
For hedging			
Within one year	6.31	379,039	4,663
		$ 393,253	$ 5,041

2012

		Korean won	
Classification	Average contracted fixed rate (%)	Contract amount	Fair value
		(In millions)	
For trading			
More than two years	3.90	₩ 15,000	₩ 535
For hedging			
1–2 years	6.31	400,000	13,209
		₩ 415,000	₩ 13,744

Classification	Average contracted fixed rate (%)	Translation into U.S. dollars (Note 2) Contract amount	Fair value
		(In thousands)	
For trading			
More than two years	3.90	$ 14,214	$ 507
For hedging			
1–2 years	6.31	379,039	12,516
		$ 393,253	$ 13,023

c) Risk of changes in oil prices

Market prices of oil products such as jet fuel have fluctuated greatly due to various factors that affect to determine the supply and demand of crude oil in the world market. These factors will affect the cash flow and performance of air-transportation business, which is the largest business segment of the Group.

The effects of 10% change in oil price on income (loss) for the years ended December 31, 2013 and 2012, are as follows:

	Korean won 2013 Increase by 10%	Korean won 2013 Decrease by 10%	Korean won 2012 Increase by 10%	Korean won 2012 Decrease by 10%
	(In millions)			
Income or loss	₩ (435,204)	₩ 435,204	₩ (475,419)	₩ 475,419

	Translation into U.S. dollars (Note 2) 2013 Increase by 10%	2013 Decrease by 10%	2012 Increase by 10%	2012 Decrease by 10%
	(In thousands)			
Income or loss	$ (412,399)	$ 412,399	$ (450,506)	$ 450,506

d. Other price risk

The Group is exposed to price risk arising from equity instruments. The Group held equity instruments for a strategic purpose, not for trading, and does not have actively traded investment assets.

d-1) Stock price sensitivity analysis

The following sensitivity analysis is based on the current stock price fluctuation risk as of December 31, 2013.

The effect of 5% fall in stock price is as follows:

- Equity instruments classified as AFS financial assets, and the Group's net income will decrease to ₩253 million ($ 240 thousand) (prior year ₩1,038 million ($ 983 thousand)) due to the impairment loss.

The effect of 5% change in stock price is as follows:

- The Group's other comprehensive income will increase to ₩7,000 million ($ 6,633 thousand)/decrease to ₩6,747 million ($ 6,394 thousand) (prior year ₩3,934 million ($ 3,728 thousand)/₩2,897 million ($2,745 thousand)), and it is due to the change in fair value of AFS financial assets.

The stock price sensitivity of the Group has increased because the stock price as of December 31, 2013, is higher than as of December 31, 2012.

3) Credit risk management

The credit risk refers to risk of financial losses to the Group when the counterparty defaults on the obligations of the contract. As a means to reduce the economic losses due to default, the Group trades with the customers whose credit ratings are above a certain level, and the Company has adopted a policy to receive adequate collateral.

The Group has traded only with companies that received a credit rating that is applicable to investment grade and above. This credit information is provided by independent credit-rating agencies. If the Group is not able to use information that credit rating agency provided, the Group uses other financial information and trading performance, which is officially announced for the purpose of the Group to determine the credit rating of major customers. The Group has reviewed the exposure of credit risk and credit rating of customers consistently, and transaction amounts are distributed to the approved customers. Credit risk is controlled by the approved transaction limits that are reviewed annually by the Risk Management Committee.
The trade receivables consist of many suppliers and distributed in various regions. The credit evaluation about the trade receivables has been carried out consistently.

The carrying amounts of the financial assets exposed to credit risk, which is not in the above table, are excluded from the above disclosure because the book value of financial assets represents the maximum amount of exposure to credit risk.

4) Liquidity risk management

The board of directors is to formulate the basic policy for financing the Group's short-term and long-term funds and managing liquidity management regulations and has ultimate responsibility for liquidity risk management. The Group manages liquidity risk by maintaining sufficient reserves and borrowing limit, observing the predicted and actual cash flows, and matching the maturity structure of financial assets and financial liabilities.

a. Details related to liquidity and interest rate risk

The following table shows the contractual maturity of the Group's non-derivative financial liabilities. The table is formed based on the earliest maturity date on which the Group has to pay on the basis of the cash flows of the financial liabilities that are not discounted, and the cash flows include both the principal and interest. If the interest cash flows are based on a floating interest rate, cash flows that are not discounted will be derived based on the yield curve at the end of the reporting period. The maturity analysis is based on the earliest maturity date on which the Group can be required to pay.

2013

Classification	Korean won			
	Within 1 year	1–5 years	More than 5 years	Total
	(In millions)			
Trade and other payables	₩ 841,236	₩ 174,125	₩ -	₩ 1,015,361
Obligation under finance leases	979,654	2,987,024	2,337,103	6,303,781
Borrowings	3,476,409	2,085,058	231,369	5,792,836
Debentures	1,766,319	1,950,312	653,309	4,369,940
	₩ 7,063,618	₩ 7,196,519	₩ 3,221,781	₩ 17,481,918

Classification	Translation into U.S. dollars (Note 2)			
	Within 1 year	1–5 years	More than 5 years	Total
	(In thousands)			
Trade and other payables	$ 797,153	$ 165,000	$ -	$ 962,153
Obligation under finance leases	928,318	2,830,498	2,214,633	5,973,449
Borrowings	3,294,238	1,975,796	219,245	5,489,279
Debentures	1,673,760	1,848,111	619,075	4,140,946
	$ 6,693,469	$ 6,819,405	$ 3,052,953	$ 16,565,827

2012

Classification	Korean won			
	Within 1 year	1–5 years	More than 5 years	Total
	(In millions)			
Trade and other payables	₩ 971,522	₩ 133,888	₩ -	₩ 1,105,410
Obligation under finance leases	1,043,635	2,948,023	2,115,795	6,107,453
Borrowings	2,769,486	2,695,775	13,787	5,479,048
Debentures	835,910	3,358,159	733,539	4,927,608
Other financial liabilities	-	-	20,526	20,526
	₩ 5,620,553	₩ 9,135,845	₩ 2,883,647	₩ 17,640,045

Classification	Translation into U.S. dollars (Note 2)			
	Within 1 year	1–5 years	More than 5 years	Total
	(In thousands)			
Trade and other payables	$ 920,612	$ 126,872	$ -	$ 1,047,484
Obligation under finance leases	988,946	2,793,540	2,004,923	5,787,409
Borrowings	2,624,359	2,554,511	13,064	5,191,934
Debentures	792,106	3,182,184	695,100	4,669,390
Other financial liabilities	-	-	19,450	19,450
	$ 5,326,023	$ 8,657,107	$ 2,732,537	$ 16,715,667

The following table shows the expected maturity of the Group's non-derivative financial assets, and the table is formed based on the contractual maturity amount of the financial assets that are not discounted. In order to understand the liquidity risk management of the Group, the information about the non-derivative financial assets has to be included because the Group manages the liquidity based on the net assets and net liabilities.

2013

Classification	Korean won			
	Within 1 year	1–5 years	More than 5 years	Total
	(In millions)			
Cash and cash equivalents	₩ 1,126,825	₩ -	₩ -	₩ 1,126,825
Short- and long-term financial assets	53,162	-	1,256	54,418
Investment in direct financing leases	16,701	71,856	15,750	104,307
Trade and other receivables	1,157,402	183	9	1,157,594
AFS financial assets	3,000	-	3	3,003
Held-to-maturity financial assets	9,374	933	15	10,322
Other financial assets	-	-	251,717	251,717
	₩ 2,366,464	₩ 72,972	₩ 268,750	₩ 2,708,186

Classification	Translation into U.S. dollars (Note 2)			
	Within 1 year	1–5 years	More than 5 years	Total
	(In thousands)			
Cash and cash equivalents	$ 1,067,777	$ -	$ -	$ 1,067,777
Short- and long-term financial assets	50,377	-	1,190	51,567
Investment in direct financing leases	15,826	68,090	14,924	98,840
Trade and other receivables	1,096,751	175	8	1,096,934
AFS financial assets	2,843	-	2	2,845
Held-to-maturity financial assets	8,883	883	14	9,780

Classification	Translation into U.S. dollars (Note 2)			
	Within 1 year	1–5 years	More than 5 years	Total
	(In thousands)			
Other financial assets	-	-	238,526	238,526
	$ 2,242,457	$ 69,148	$ 254,664	$ 2,566,269

2012

Classification	Korean won			
	Within 1 year	1–5 years	More than 5 years	Total
	(In millions)			
Cash and cash equivalents	₩ 1,465,499	₩ -	₩ -	₩ 1,465,499
Short- and long-term financial assets	114,170	-	1,964	116,134
Trade and other receivables	921,708	406	81	922,195
AFS financial assets	-	3,000	2	3,002
Held-to-maturity financial assets	8,573	15,397	45	24,015
Other financial assets	-	-	322,265	322,265
	₩ 2,509,950	₩ 18,803	₩ 324,357	₩ 2,853,110

Classification	Translation into U.S. dollars (Note 2)			
	Within 1 year	1–5 years	More than 5 years	Total
	(In thousands)			
Cash and cash equivalents	$ 1,388,704	$ -	$ -	$ 1,388,704
Short- and long-term financial assets	108,188	-	1,860	110,048
Trade and other receivables	873,408	385	77	873,870
AFS financial assets	-	2,843	2	2,845
Held-to-maturity financial assets	8,124	14,590	42	22,756
Other financial assets	-	-	305,377	305,377
	$ 2,378,424	$ 17,818	$ 307,358	$ 2,703,600

The amount of the floating rate instruments (non-derivative financial assets and liabilities) contained in the table above may be changed if the changes in floating interest rates are different from the determined estimate rate at the end of the reporting period.

The table below shows in detail the breakdown of the liquidity analysis of derivative financial instruments. The amount of the derivative instruments that are settled in net amounts is based on undiscounted net cash inflows and outflows in accordance with the terms of the contract, and that of the derivative instruments that are settled in gross amounts is based on undiscounted total cash inflows and outflows. In case the amounts to be received or paid are not settled, an interest rate estimated based on the yield curve at the end of the reporting period is used.

2013

Classification	Korean won		
	Within 1 year	1–2 years	More than 2 years
		(In millions)	
Net settlement:			
Oil price option	₩ 2,089	₩ -	₩ -
Currency option	303	-	-
TRS	(25,139)	-	-

Classification	Korean won Within 1 year	1–2 years	More than 2 years
		(In millions)	
Gross settlement:			
Currency/interest rate swaps:			
Inflows	7,960	437	245,354
Outflows	(13,100)	(585)	(237,102)
	₩ (27,887)	₩ (148)	₩ 8,252

Classification	Translation into U.S. dollars (Note 2) Within 1 year	1–2 years	More than 2 years
		(In thousands)	
Net settlement:			
Oil price option	$ 1,979	$ -	$ -
Currency option	287	-	-
TRS	(23,822)	-	-
Gross settlement:			
Currency/interest rate swaps:			
Inflows	7,543	414	232,497
Outflows	(12,413)	(554)	(224,677)
	$ (26,426)	$ (140)	$ 7,820

2012

Classification	Korean won Within 1 year	1–2 years	More than 2 years
		(In millions)	
Net settlement:			
Oil price option	₩ (13,606)	₩ -	₩ -
Oil price swaps	1,680	-	-
Currency option	(41)	-	-
Cross-currency interest rate swaps	40,682	-	-
TRS	(5,337)	-	-
Gross settlement:			
Currency/interest rate swaps:			
Inflows	15,943	7,960	245,791
Outflows	(25,823)	(13,100)	(237,687)
	₩ 13,498	₩ (5,140)	₩ 8,104

Classification	Translation into U.S. dollars (Note 2) Within 1 year	1–2 years	More than 2 years
		(In thousands)	
Net settlement:			
Oil price option	$ (12,893)	$ -	$ -
Oil price swaps	1,592	-	-
Currency option	(39)	-	-
Cross-currency interest rate swaps	38,550	-	-
TRS	(5,057)	-	-

Classification	Translation into U.S. dollars (Note 2) Within 1 year	1–2 years	More than 2 years
		(In thousands)	
Gross settlement:			
Currency/interest rate swaps:			
Inflows	15,108	7,543	232,911
Outflows	(24,470)	(12,413)	(225,232)
	$ 12,791	$ (4,870)	$ 7,679

(3) Reclassification of financial assets

There are no financial assets that have been reclassified due to the change of use or purpose of them during the current period.

43. FAIR VALUE OF FINANCIAL INSTRUMENTS:

(1) Financial instruments that are measured subsequent to initial recognition at fair value are categorized into Level 1 to Level 3, and fair value measurements of financial instruments by fair value hierarchy level as of December 31, 2013 and 2012, are as follows:

2013

Classification	Korean won Level 1	Level 2	Level 3	Total
		(In millions)		
AFS:				
Listed securities	₩ 140,004	₩ -	₩ -	₩ 140,004
Unlisted securities	-	-	22,116	22,116
Derivative financial assets	-	7,869	-	7,869
	₩ 140,004	₩ 7,869	₩ 22,116	₩ 169,989
Derivative financial liabilities	₩ -	₩ 32,960	₩ -	₩ 32,960

Classification	Translation into U.S. dollars (Note 2) Level 1	Level 2	Level 3	Total
		(In thousands)		
AFS:				
Listed securities	$ 132,668	$ -	$ -	$ 132,668
Unlisted securities	-	-	20,958	20,958
Derivative financial assets	-	7,457	-	7,457
	$ 132,668	$ 7,457	$ 20,958	$ 161,083
Derivative financial liabilities	$ -	$ 31,233	$ -	$ 31,233

2012

Classification	Korean won Level 1	Level 2	Level 3	Total
		(In millions)		
AFS:				
Listed securities	₩ 78,688	₩ -	₩ -	₩ 78,688
Unlisted securities	-	-	24,100	24,100

Classification	Korean won Level 1	Level 2	Level 3	Total
	(In millions)			
Derivative financial assets	-	48,848	-	48,848
	₩ 78,688	₩ 48,848	₩ 24,100	₩ 151,636
Derivative financial liabilities	₩ -	₩ 35,958	₩ -	₩ 35,958

Classification	Translation into U.S. dollars (Note 2) Level 1	Level 2	Level 3	Total
	(In thousands)			
AFS:				
Listed securities	$ 74,565	$ -	$ -	$ 74,565
Unlisted securities	-	-	22,837	22,837
Derivative financial assets	-	46,288	-	46,288
	$ 74,565	$ 46,288	$ 22,837	$ 143,690
Derivative financial liabilities	$ -	$ 34,075	$ -	$ 34,075

There is no significant movement between Level 1 and Level 2 for the years ended December 31, 2013 and 2012.

(2) The management of the Group considers that the carrying amounts of financial assets and financial liabilities recognized at amortized cost in the separate financial statements approximate their fair values.

(3) The following table gives information about how the fair values of financial instruments categorized into Levels 2 and 3 are determined in particular, the valuation techniques and relationship of significant unobservable inputs to fair value.

Description	Fair value Korean won	Translation into U.S. dollars (Note 2)	Valuation techniques	Significant observable inputs	Range	Description of relationships
	(In millions)	(In thousands)				
Derivative financial assets (Note 26)	₩ 7,869	$ 7,457	Discounted cash flow The fair values of derivatives are measured at the amounts discounted at the appropriate discount rate for future cash flows of the derivative instruments which are estimated on the basis of leading interest rates, exchange rates, and oil price based on the applicable yield curves derived from interest rates, exchange rates, oil price and others disclosed in the market at the end of the reporting period.	N/A	N/A	N/A
Derivative financial liabilities (Note 26)	32,960	31,233				

Description	Fair value: Korean won	Fair value: Translation into U.S. dollars (Note 2)	Valuation techniques	Significant observable inputs	Range	Description of relationships
	(In millions)	(In thousands)				
Unlisted securities (Note 7)	19,695	18,663	Discounted cash flow Weighted-average cost of capital discount rate that is used to measure the fair value of non-listed shares is estimated by the weighted-average, after-tax, outside capital cost; capital cost estimates of the share value beta, reflected for the purpose of the issuer of the shares; and capital structure based on the equity beta of comparable public companies that has been derived based on the CAPM.	Sales growth rate Pretax operating income ratio Weighted average cost of capital	2.06–13.02% (4.83%) (1.21)–26.40% (16.80%) 7.83–25.42% (9.38%)	Fair value of non-listed shares will increase if the weighted-average cost of capital is reduced along with the increase in pretax operating margin and sales growth rate.
	2,421	2,295	Net asset valuation method The value of the Company is measured by summing up adjusted fair value of each individual asset and liability	N/A	N/A	N/A

(4) The changes in financial instruments that are measured at fair value on a recurring basis and classified as Level 3 for the year ended December 31, 2013, are as follows, and there is no change for the year ended December 31, 2012.

Classification	Beginning balance	Income or loss	Other comprehensive income	Buy (sell)	Ending balance
	Korean won (In millions)				
AFS:					
Unlisted securities (*1)	₩ 24,100	₩ (1,067)	₩ 5,789	₩ (6,705)	₩ 22,117

Classification	Beginning balance	Income or loss	Other comprehensive income	Buy (sell)	Ending balance
	Translation into U.S. dollars (Note 2) (In thousands)				
AFS:					
Unlisted securities (*1)	$ 22,837	$ (1,011)	$ 5,486	$ (6,354)	$ 20,958

(*1) The amount recognized in income or loss occurred due to impairment loss, and it is included in other non-operating expenses. In addition, the amount recognized in other comprehensive income is recognized as changes in AFS financial assets.

(5) The Group recognizes transfers between levels of the fair value hierarchy at the time of the event or change in circumstances that caused the transfer. In addition, there is no change in valuation techniques that have been used to measure the fair value of financial instruments classified as Level 2 and Level 3 for the year ended December 31, 2013.

(6) Though principle of subsequent measurement to financial assets and liabilities is fair value, the Group could not measure reliable fair value, the list and amount of financial assets and liabilities not disclosed as fair value information is as follows:

Category	Description (*1)	Korean won 2013	Korean won 2012	Translation into U.S. dollars (Note 2) 2013	Translation into U.S. dollars (Note 2) 2012
		(In millions)		(In thousands)	
AFS financial assets	Unlisted securities and equity investment	₩ 51,186	₩ 48,794	$ 48,503	$ 46,237
	Corporate bond	3,003	3,002	2,845	2,844

(*1) AFS financial assets are issued by non-listed companies in early stages of business. They are measured at cost because they are hard to obtain reliable financial information required for the measurement of fair value, or even if the financial information were obtained, the range of fair value measurements is significant and it is impossible to reliably evaluate the occurrence probability of various estimates.

44. TRANSACTIONS AND BALANCES WITH RELATED PARTIES:

(1) The list of related parties of the Group as of December 31, 2013 and 2012, is as follows:

Relationship	Related parties
Associates and joint ventures	Air Korea Co., Ltd. (*1), Hanjin Jungseok Investment Co., Ltd., Grandstar Cargo International Airlines Co., Ltd., Hanjin Shipping Holdings Co., Ltd., EIGHTCITY Co., Ltd., Tianjin Hanjin-Sino Trans Air Cargo Terminal Co., Ltd.(*2), S-Oil Corp., Czech Airlines j.s.c.
Other related parties	Hanjin Transportation Co., Ltd., Hanjin Kal Co., Ltd., Topas Co., Ltd. (*1), KAL Hotel Network Co., Ltd. (*1), Hanjin Travel Service Co., Ltd. (*1), Jungseok Enterprise Co., Ltd. (*1), Jedong Leisure Co., Ltd. (*1), Jin Air Co., Ltd., Homeo Therapy Co., Ltd. (*1), Cyber Sky Co., Ltd., Uniconverse Co., Ltd., Jungseok-Inha school's foundation, Hanjin Shipping Co., Ltd., Terminal One Management Inc., etc.

(*1) These companies are reclassified from subsidiaries to associates, joint ventures, and other related parties due to spin-off of the investment business unit on August 1, 2013. Therefore, the transactions before the date are classified to the transactions with subsidiaries, and the transactions after the date are classified to the transactions with associates, joint ventures and other related parties.
(*2) It went into liquidation during the year ended December 31, 2013.

(2) Significant transactions with related parties (except for treasury and equity transactions) for the years ended December 31, 2013 and 2012, are as follows:

2013

Description		Korean won Sales and others	Korean won Purchases and others
		(In millions)	
Associates and jointly controlled entities	S-Oil Corp.	₩ 1,723	₩ 534,281
	Czech Airlines j.s.c.	10,218	-
	Hanjin Shipping Holdings Co., Ltd.	11	-
	Hanjin Transportation Co., Ltd.	6,277	18,151
	Others	151	13,770

Description		Korean won	
		Sales and others	Purchases and others
		(In millions)	
Other related parties	Hanjin Kal Co., Ltd.	243	13,506
	Jin Air Co., Ltd.	51,851	447
	Topas Co., Ltd.	16,901	15,645
	KAL Hotel Network Co., Ltd.	15,121	19,966
	Hanjin Travel Service Co., Ltd.	324	1,815
	Jungseok Enterprise Co., Ltd.	203	1,035
	Hanjin Transportation Co., Ltd.	5,338	20,168
	Cyber Sky Co., Ltd.	352	3,468
	Jungseok-Inha School's Foundation	2,286	7,509
	Uniconverse Co., Ltd.	1,595	16,357
	Others	1,959	2,351

Description		Translation into U.S. dollars (Note 2)	
		Sales and others	Purchases and others
		(In thousands)	
Associates and jointly controlled entities	S-Oil Corp.	$ 1,632	$ 506,283
	Czech Airlines j.s.c.	9,683	-
	Hanjin Shipping Holdings Co., Ltd.	11	-
	Hanjin Transportation Co., Ltd.	5,948	17,200
	Others	143	13,049
Other related parties	Hanjin Kal Co., Ltd.	230	12,799
	Jin Air Co., Ltd.	49,134	424
	Topas Co., Ltd.	16,015	14,825
	KAL Hotel Network Co., Ltd.	14,329	18,920
	Hanjin Travel Service Co., Ltd.	307	1,720
	Jungseok Enterprise Co., Ltd.	193	981
	Hanjin Transportation Co., Ltd.	5,059	19,111
	Cyber Sky Co., Ltd.	334	3,286
	Jungseok-Inha School's Foundation	2,166	7,115
	Uniconverse Co., Ltd.	1,511	15,500
	Others	1,857	2,228

2012

Description		Korean won	
		Sales and others	Purchases and others
		(In millions)	
Associates and jointly controlled entities	S-Oil Corp.	₩ 2,012	₩ 468,892
	Hanjin Shipping Holdings Co., Ltd.	52	-
	Hanjin Transportation Co., Ltd.	14,732	36,795
Other related parties	Cyber Sky Co., Ltd.	480	3,877
	Jungseok-Inha School's Foundation	5,951	8,998
	Others	4,551	15,751

Description		Translation into U.S. dollars (Note 2)	
		Sales and others	Purchases and others
		(In thousands)	
Associates and jointly controlled entities	S-Oil Corp.	$ 1,907	$ 444,321
	Hanjin Shipping Holdings Co., Ltd.	49	-
	Hanjin Transportation Co., Ltd.	13,960	34,867

Description		Translation into U.S. dollars (Note 2)	
		Sales and others	Purchases and others
		(In thousands)	
Other related parties	Cyber Sky Co., Ltd.	455	3,674
	Jungseok-Inha School's Foundation	5,640	8,526
	Others	4,312	14,926

(3) Significant receivables from and payables to the related parties (except for loan and borrowing transaction) as of December 31, 2013 and 2012, are as follows:

2013

Description		Korean won	
		Trade and other receivables	Trade and other payables
		(In millions)	
Associates and jointly controlled entities	S-Oil Corp.	₩ -	₩ 36,036
	Czech Airlines j.s.c.	3,721	155
	Hanjin Shipping Holdings Co., Ltd.	2	-
	Others	17	2,840
Other related parties	Hanjin Kal Co., Ltd.	2,381	12,730
	Jin Air Co., Ltd.	21,030	13,126
	Topas Co., Ltd.	6,196	5,367
	KAL Hotel Network Co., Ltd.	4,111	3,786
	Hanjin Travel Service Co., Ltd.	65	1,855
	Jungseok Enterprise Co., Ltd.	413	2,749
	Hanjin Transportation Co., Ltd.	1,776	6,730
	Cyber Sky Co., Ltd.	31	585
	Jungseok-Inha School's Foundation	658	-
	Uniconverse Co., Ltd.	240	1,770
	Others	506	1,026

Description		Translation into U.S. dollars (Note 2)	
		Trade and other receivables	Trade and other payables
		(In thousands)	
Associates and jointly controlled entities	S-Oil Corp.	$ -	$ 34,148
	Czech Airlines j.s.c.	3,526	147
	Hanjin Shipping Holdings Co., Ltd.	2	-
	Others	16	2,691
Other related parties	Hanjin Kal Co., Ltd.	2,256	12,063
	Jin Air Co., Ltd.	19,928	12,439
	Topas Co., Ltd.	5,872	5,086
	KAL Hotel Network Co., Ltd.	3,896	3,588
	Hanjin Travel Service Co., Ltd.	62	1,758
	Jungseok Enterprise Co., Ltd.	391	2,605
	Hanjin Transportation Co., Ltd.	1,683	6,377
	Cyber Sky Co., Ltd.	30	555
	Jungseok-Inha School's Foundation	624	-
	Uniconverse Co., Ltd.	227	1,677
	Others	480	973

2012

Description		Korean won: Trade and other receivables	Trade and other payables
		(In millions)	
Associates and jointly controlled entities	S-Oil Corp.	₩ 664	₩ 33,067
	Hanjin Shipping Holdings Co., Ltd.	6	16
	Hanjin Transportation Co., Ltd.	1,611	7,253
	Others	277	-
Other related parties	Cyber Sky Co., Ltd.	21	433
	Jungseok-Inha School's Foundation	1,390	1,627
	Others	824	1,613

Description		Translation into U.S. dollars (Note 2): Trade and other receivables	Trade and other payables
		(In thousands)	
Associates and jointly controlled entities	S-Oil Corp.	$ 629	$ 31,335
	Hanjin Shipping Holdings Co., Ltd.	6	15
	Hanjin Transportation Co., Ltd.	1,527	6,873
	Others	263	-
Other related parties	Cyber Sky Co., Ltd.	20	411
	Jungseok-Inha School's Foundation	1,318	1,542
	Others	781	1,529

(4) Loan and borrowing transactions with related parties for the years ended December 31, 2013 and 2012, are as follows:

2013

	Account	Beginning balance	Increase	Decrease	Ending balance
		(In thousands)			
Associates and jointly controlled entities:					
Hanjin Shipping Holdings Co., Ltd. (*1)	Short-term loans	₩ -	₩ 250,000	₩ -	₩ 250,000
Grandstar Cargo International Airlines Co., Ltd.	Short-term loans	$ 6,080,000	$ -	$ (6,080,000)	$ -
	Allowance for doubtful accounts	$ 6,080,000	$ -	$ (6,080,000)	$ -

(*1) Interest income and interest receivable for the year ended December 31, 2013, are ₩1,405 million ($1,332 thousand), and the Company has received 28,935,482 shares of Hanjin Shipping Co., Ltd., and Yoido building (maximum amount receivable ₩95 billion) from Hanjin Shipping Holdings Co., Ltd., as collateral. In addition, the Company established a pledge right to the loans that Hanjin Shipping Holdings Co., Ltd. lent to Hanjin Shipping Co., Ltd.

2012

	Account	Beginning balance	Increase	Decrease	Ending balance
		(In thousands)			
Associates and jointly controlled entities:					
Grandstar Cargo International Airlines Co., Ltd.	Short-term loans	$ -	$ 6,080,000	$ -	$ 6,080,000
	Allowance for doubtful accounts	$ -	$ 6,080,000	$ -	$ 6,080,000

(5) Stock trading with special relevant parties for the year ended December 31, 2013, are as follows:

2013

Description	Company	Transaction	Korean won	Translation into U.S. dollars (Note 2)
			(In millions)	(In thousands)
Merger	Hanjin Transportation Co., Ltd. (*1)	Increase due to merger (*2)	₩ 3,684	$ 3,491
Purchase of investment securities	Czech Airlines j.s.c.	Stock purchase	₩ 3,905	$ 3,700

(*1) Reclassified to other related parties from the associates due to the spin-off.
(*2) Increase was due to the merger of Hanjin Travel Service Co., Ltd.'s investment division.

(6) The remuneration of registered and unregistered directors of the Company for the years ended December 31, 2013 and 2012, is as follows:

Transactions	Korean won 2013	Korean won 2012	Translation into U.S. dollars (Note 2) 2013	Translation into U.S. dollars (Note 2) 2012
	(In millions)		(In thousands)	
Wages and salaries	₩ 4,208	₩ 3,916	$ 3,988	$ 3,710
Accrued severance benefits	1,808	4,877	1,713	4,621
	₩ 6,016	₩ 8,793	$ 5,701	$ 8,331

(7) Guarantees, which the Group has provided for related parties as of December 31, 2013, consist of the following (in millions of Korean won and in thousands of U.S. dollars):

Transaction	Currency	Guaranteed amounts	Financial institutions	Description
Jungseok Enterprise Co., Ltd.	KRW	13,512	Korea Exchange Bank and others	Guaranteed loans
Hanjin Transportation Co., Ltd.	KRW	40,289		
Hanjin Heavy Industries & Construction Holdings Co., Ltd.	KRW	17,121	KDB and others	
Grandstar Cargo International Airlines Co., Ltd.	USD	18,302	Bank of China	Others
	USD	1,921	Korea Exchange Bank	

(8) Guarantees that have been provided to the Group by related parties as of December 31, 2013, are as follows:

Financial institutions	Korean won Guaranteed amounts	Jungseok Enterprise Co., Ltd.	Hanjin Transportation Co., Ltd.	Hanjin Shipping Co., Ltd. (*1)	Hanjin Heavy Industries & Construction Holdings
	(In millions)				
Korea Development Bank	₩ 15,695	₩ 20,404	₩ 20,404	₩ 20,404	₩ 20,404
Korea Exchange Bank	25,559	33,226	33,226	33,226	33,226
Woori Bank and others	21,211	25,318	25,318	25,679	25,318
	₩ 62,465	₩ 78,948	₩ 78,948	₩ 79,309	₩ 78,948

Financial institutions	Guaranteed amounts	Jungseok Enterprise Co., Ltd.	Hanjin Transportation Co., Ltd.	Hanjin Shipping Co., Ltd. (*1)	Hanjin Heavy Industries & Construction Holdings
	Translation into U.S. dollars (Note 2)				
	(In thousands)				
KDB	$ 14,873	$ 19,335	$ 19,335	$ 19,335	$ 19,335
Korea Exchange Bank	24,220	31,485	31,485	31,485	31,485
Woori Bank and others	20,100	23,991	23,991	24,334	23,991
	$ 59,193	$ 74,811	$ 74,811	$ 75,154	$ 74,811

(*1) Since Hanjin Shipping Co., Ltd. (a new company), was spun off from Hanjin Shipping Holdings Co., Ltd. (a surviving company), as of December 1, 2009. Hanjin Shipping Holdings Co., Ltd. jointly provides a guarantee for the long-term liabilities that were assumed by the companies above.

(9) The Company and Korea Airport Service Co., Ltd., have entered into an agreement to participate in the recapitalization of Hanjin Energy Co., Ltd., through additional capital injection or subordinated loans if Hanjin Energy Co., Ltd., is unable to repay its loans. The Company and Korea Airport Service Co., Ltd. provided collateral to Hana Bank for 1,200 shares and 34,000 shares, respectively, for Hanjin Energy Co., Ltd.

45. NON-CASH TRANSACTIONS:

The significant non-cash transactions from investment and financing activities that are not included in the statements of cash flows for the years ended December 31, 2013 and 2012, are as follows:

Description	Korean won 2013	Korean won 2012
	(In millions)	
Transfer of long-term borrowings to current portion of long-term borrowings	₩ 2,671,638	₩ 1,253,587
Transfer of debentures to current portion of debentures	1,586,735	641,418
Transfer of obligation under finance leases to current portion of obligation under finance leases	909,738	1,019,094
Increase in revaluation surplus	423,661	-
Transfer of construction in property, aircraft and equipment, etc.	2,310,445	524,316
Transfer from property, aircraft and equipment to investment properties	26,010	1,875
Acquisition of financial lease assets	1,400,797	1,319,873

Description	Translation into U.S. dollars (Note 2) 2013	Translation into U.S. dollars (Note 2) 2012
	(In thousands)	
Transfer of long-term borrowings to current portion of long-term borrowings	$ 2,531,639	$ 1,187,896
Transfer of debentures to current portion of debentures	1,503,587	607,807
Transfer of obligation under finance leases to current portion of obligation under finance leases	862,066	965,691
Increase in revaluation surplus	401,461	-
Transfer of construction in property, aircraft and equipment, etc.	2,189,373	496,841
Transfer from property, aircraft and equipment to investment properties	24,647	1,777

Description	Translation into U.S. dollars (Note 2) 2013	2012
	(In thousands)	
Acquisition of financial lease assets	1,327,393	1,250,709

46. COMMITMENTS AND CONTINGENCIES:

(1) The guarantee provided as of December 31, 2013, is as follows:

Financial institution	Description	Korean won	Translation into U.S. dollars (Note 2)	Details
		(In millions)	(In thousands)	
Seoul Guarantee Insurance Co., Ltd.	Performance guarantee	₩ 3,989	$ 3,780	Contracts, bids, warranty and others
Korea Defense Industry Association		783,404	742,352	
HSBC Australia and others		12,921	12,244	
Engineering Financial Cooperative		50,049	47,426	
Korea Software Financial Cooperative		16,727	15,851	
Information& Communication Financial Cooperative		84	80	

As of December 31, 2013, the Group is provided with guarantees amounting to ₩13,876 million ($13,149 thousand) by Seoul Guarantee Insurance Company in relation to the restoration of forest due to the production of limestone and $3,000 thousand by Hana Bank in connection with the purchase of equipment.

(2) The Company provides a guarantee of ₩7,448 million ($7,058 thousands) in relation to the personal loan of flight-training-center trainees.

(3) Credit line and details of credit agreements as of December 31, 2013, are as follows (in millions of Korean won and in thousands of U.S. dollars):

Description	Financial institutions	Currency	Limit
Credit line agreement	Hana Bank and others	KRW	360,000
		USD	60,000
Letters of credit	Korea Development Bank and others	USD	87,335
		USD	147,335
		KRW	360,000

(4) As of December 31, 2013, the Company has an outstanding promissory note pledged as collateral to the Korea Defense Industry Association.

(5) As of December 31, 2013, various claims, lawsuits and complaints arising from airline service operations are pending against the Company. Management believes that the Company has adequate insurance coverage against these claims and that the ultimate outcome of these cases will not have any material adverse effect on the financial performance and position of the Company.

With regard to the alleged antitrust violation related to the Company and other parties colluding on price fixing of air cargo services, the Company made a plea to the United States Department of Justice on August 1, 2007, for the payment of fines totaling $300,000 thousand to be paid in annual installments. Accordingly, the Company made fine payments of $150,000 thousand since 2007, and the rest will be paid through 2014 to 2016 under an agreement with the United States Department of Justice. The amounts of ₩52,765 million ($50,000 thousand) and ₩ 105,530 million ($100,000 thousand) are included in non-trade payables and non-current non-trade payables as of December 31, 2013.

The Company settled with the plaintiff to pay $115,000 thousand in the class action lawsuit filed with the U.S. court, and the amounts of ₩52,765 million and ₩68,595 million are included in non-trade payables and non-current non-trade payables, respectively. In addition, the Company recognizes the airline ticket discount of $26,000 thousand as a provision for airline ticket discount coupon.

In connection with the antitrust violation that has been mentioned above, various other parties that have also filed lawsuits against the Company are still awaiting the results of claimed damages from the United States and Canada District Courts. As of December 31, 2013, the Company cannot reasonably estimate the potential loss from this proceeding.

In addition, a litigation related to overtime labor allowance against Korea Airport Services Co., Ltd., is in dispute as a defendant (total litigation amount of ₩463 million ($430 thousand)); other legal case pending as a plaintiff is related to unjust enrichment (total litigation cost of ₩561 million ($532 thousand)). It is not possible for a case pending or in progress of the above to predict the likelihood of outflow of resources and the results of litigation.

Also, one of the subsidiaries, Hanjin Information Systems & Telecommunication Co., Ltd., faces the ₩86 million ($81 thousand) lawsuit which the Company is claimed guilty in the underground facilities-based construction project in Busan. However, the impact of the penalty in the consolidated financial statements is not considered to be material.

(6) The Group has entered into various contracts with manufacturers such as The Boeing Company to purchase aircraft. The amount of such contracts is approximately $8,354 million as of December 31, 2013.

(7) Operating lease contracts

A. Operating lease usage

The Company has entered into operating lease agreements to lease 21 aircraft and certain aircraft parts from International Lease Finance Corporation, Gecas Technical Services Ltd. and other lessors. The Company has also entered into an operating lease agreement for using the cargo terminal at JFK International Airport in the United States with the New York City Industrial Development Agency (“IDA”).

The schedule of lease payments as of December 31, 2013, is as follows:

	Korean won (In millions)	Translation into U.S. dollars (Note 2) (In thousands)
2014. 1. 1–2014. 12. 31	₩ 114,725	$ 108,713
2015. 1. 1–2015. 12. 31	105,501	99,973
2016. 1. 1–2016. 12. 30	99,709	94,484
2017. 1. 1–2017. 12. 31	71,337	67,599
2018. 1. 1–2018. 12. 31	63,906	60,557
Thereafter	138,500	131,242
	₩ 593,678	$ 562,568

Korea Development Bank has provided a guarantee of $27 million for the aircraft operating lease agreements, and in accordance with the IDA operating lease contract, a guarantee of up to $60 million for opening letters of credit with Kookmin Bank was provided to the Company.

The Group has entered into operating lease agreements to lease business computing equipment from Macquarie Finance Korea Ltd. The schedule of lease payments as of December 31, 2013, is summarized as follows:

	Korean won	Translation into U.S. dollars (Note 2)
	(In millions)	(In thousands)
2014. 1. 1–2014. 12. 31	₩ 2,373	$ 2,248
2015. 1. 1–2015. 12. 31	541	513
2016. 1. 1–2016. 12. 31	61	58
	₩ 2,975	$ 2,819

B. Provision of lease

As of December 31, 2013, the Group has entered into an operating lease agreement for the lease of the standing parts and two aircraft with Uzbekistan Airways. Estimated annual lease receipts are as follows:

	Korean won	Translation into U.S. dollars (Note 2)
	(In millions)	(In thousands)
2014. 1. 1–2014. 12. 31	₩ 32,500	$ 30,797
2015. 1. 1–2015. 12. 31	29,144	27,617
2016. 1. 1–2016. 12. 31	16,030	15,190
2017. 1. 1–2017. 12. 31	2,537	2,404
	₩ 80,211	$ 76,008

(8) The Company and four other airlines, including Air France, entered into a joint use agreement with the JFK Airport in New York and established Terminal One Group Association ("TOGA") to use the new terminal one of JFK Airport. TOGA may have to repay IDA bond based on terminal lease revenue, and they have provided a joint guarantee ($278 million) for each terminal usage fee.

(9) The Company has entered into an agreement to improve its financial structure through sales and leaseback agreements with creditors, including KDB, on May 31, 2012.

(10) The main agreements that the Group has entered into are as follows:

1) Korea Airport Service Co., Ltd. ("KAS") is granted the right since 2001 to use the facilities of Gimpo International Airport by the Korea Airports Authority ("KAA"), a government authority responsible for the management and operation of Korea's airports. KAS uses the contributed facilities free of charge for 20 years. The property value of the contributed facilities at the date of contribution is accounted for as a facilities usage right and is amortized over 20 years. KAS recognizes the amount of amortization as an expense when incurred.

KAS has also contributed certain ground-handling facilities constructed by KAS at the Incheon International Airport, in accordance with the agreement with the Ministry of Construction and Transportation dated March 9, 2001, in exchange for facilities usage rights for those facilities for 20 years. On October 16, 1999, KAS was granted a free usage right for additional contributed facilities for 12 years in accordance with an agreement with Incheon International Airport Foreign Carrier Cargo Terminal Co., Ltd.

2) The Group has entered into an agreement to participate in the recapitalization of Hanjin Energy Co., Ltd. through additional capital injection or subordinated loans if Hanjin Energy Co., Ltd. is unable to repay its loans (current portion of long-term borrowings of ₩1,021,377 million ($967,855 thousand) and short-term borrowings of ₩26,446 million ($26,060 thousand). Such loans were borrowed by Hanjin Energy Co., Ltd. from 10 financial institutions, including Hana Bank.
Hanjin Energy Co., Ltd., cannot pay dividend except for stock dividend and cannot reduce its capital until the redemption of the full amount of the loan on the basis of the agreement. The shareholders of Hanjin Energy Co., Ltd., can transfer shares to the affiliates belonging to the corporate group, including the Company, and Hanjin Energy Co., Ltd., but the Company must maintain more than 67% shareholding of Hanjin Energy Co., Ltd., under any circumstances on the basis of the agreement.

3) Major contingencies of WLD Co., Ltd., are described as follows:

On March 30, 2011, WLD Co., Ltd., entered into an agreement regarding "Wang San Marina business" with Incheon and Yongyu-mueui Project Management Co., Ltd. Details of the agreement are as follows:

Description	Details of agreement
Location:	143 Eurwang-dong, Jung-gu, Incheon, Korea
Amount of total investment:	Approx. ₩160 billion ($152 million)
Business content:	Business for construction of yacht tournament course that is scheduled to be held in 2014 Incheon Asia Games
Support of government:	Depending on the construction progress, to receive government financial support from the Incheon Metropolitan City (₩16.7 billion ($15 million))

WLD CO., Ltd., is to construct Wang San Marina business, including yacht tournament course for 2014 Incheon Asian Games, in a timely manner and cooperate successful holding and operation of yacht tournament course for the 2014 Incheon Asian Games, and must invest the rest of the amount, excluding Wang San Marina operating expenses, that is with government grants, freeway road costs that will be opened by the government and other infrastructure costs. WLD CO., Ltd., may acquire business reclamation sites that are public sites for composition cost or below that amount and is provided operating right for at least 30 years after constructing facilities.

Meanwhile, the Company made a commitment under paid-in capital increase with KDB in order to secure repayment of WLD Co., Ltd.'s debt borrowed (amount of ₩62,400 million ($59,130 thousand)) from KDB in case WLD Co., Ltd., has insufficient funds to repay the principal and interests. If WLD Co., Ltd., makes a borrowing from KDB, it has been set for pledging-related deposits, assigning collateral and collateralizing securities of land and building for this business to acquire.

4) On June 30, 2011, IAT Co., Ltd., entered into an agreement with Korea Land & Housing Corporation and Inchon Development & Tourism Corporation about a project related to the "Attraction of Incheon Free Economic Zone, Yeongjong Sky City Airways Airplane Engine Maintenance Centre." Major terms of the agreement include investment of ₩120 billion ($108 million) by the IAT Co., Ltd., for construction of an Airplane Engine Maintenance Centre and acquisition of related land located at 779-11 Unbuk-dong, Jung-gu, Incheon, Korea. Meanwhile, IAT Co., Ltd., shall not provide land, etc., for collateral or guarantee, for a period of five years from the date it first entered into an agreement for land (in July 2011), which is recognized in construction in process as of December 31, 2013. In addition, IAT Co., Ltd., shall not dispose or rent out to third parties for the period of five years after transfer of ownership. Finally, IAT Co., Ltd., shall maintain the portion of its foreign investors' ownership to be higher than 10% for at least five years after the engagement date, under the Foreign Direct Investment Policy.

As of December 31, 2013, issued preferred shares of subsidiary as cumulative and non-participative preferred shares will be converted proportionately for one common stock per one preferred stock after five years and six months (conversion date) from the date of acquiring land. However, 6% of dividend is guaranteed for preferred shareholders until the conversion date, and, in the case of dividend in arrears, preferred shareholders have a right to refuse conversion until the dividend in arrears is paid. In accordance with the ones described above, the subsidiary classifies the amount asked by preferred shareholders at conversion date as a finance liability, which is discounted for present value. Meanwhile, after five years from the first acquisition date of land, the Company has a call option for six months to buy the preferred shares held by United Technologies International Corporation-Asia Private Ltd, a preferred shareholder of Incheon Aviation Tech Co., Ltd. and the preferred shareholder of Incheon Aviation Tech Co., Ltd. also has a put option to sell the preferred shares to the Company during the period.

47. SPIN-OFF:

(1) On March 22, 2013, and June 28, 2013, the Company's board of directors and shareholders approved resolutions to spin off its investment business and to establish a new holding company, Hanjin KAL Co., Ltd., for the purpose of completing the spin-off. The spin-off allows the Company to focus on its core businesses, thereby enhancing efficiency in operations and expediting its business development. Facts related to the spin-off of investment segment company:

	Content
Method	Equity spin-off
Companies	Korean Airlines Co., Ltd. (the surviving company), Hanjin Kal Co., Ltd. (the new company)
Date of spin-off	August 1, 2013

The continuing operation and discontinued operation are stated separately in the income statements, and the comparative income statements for the year ended December 31, 2012, are revised and the cash flows from discontinued operation are stated below.

(2) The gain and loss of discontinued operation included in comprehensive income statements for the years ended December 31, 2013 and 2012, are as follows:

Description	Korean won 2013	Korean won 2012
	(In millions)	
Sales	₩ 244,565	₩ 377,846
Cost of sales	153,199	232,045
Gross income	91,366	145,801
Selling and administrative expenses	38,079	55,812
Operating income	53,287	89,989
Financial income	4,054	7,441
Financial expenses	8,963	16,359
Other non-operating income	3,689	14,511
Other non-operating expenses	9,682	5,662
Income before income tax expense	42,385	89,920
Income tax expense	(1,063)	18,018
Subtotal	43,448	71,902
Loss on disposal of discontinued operations	(171,434)	-
Net income (loss) from discontinued operations	₩ (127,986)	₩ 71,902

Description		Translation into U.S. dollars (Note 2) 2013		2012
		(In thousands)		
Sales	$	231,749	$	358,046
Cost of sales		145,171		219,885
Gross income		86,578		138,161
Selling and administrative expenses		36,083		52,887
Operating income		50,495		85,274
Financial income		3,842		7,051
Financial expenses		8,494		15,502
Other non-operating income		3,496		13,750
Other non-operating expenses		9,174		5,365
Income before income tax expense		40,165		85,208
Income tax expense		(1,007)		17,074
Subtotal		41,172		68,134
Loss on disposal of discontinued operations		(162,451)		-
Net income (loss) from discontinued operations	$	(121,279)	$	68,134

(3) The cash flows from discontinued operations for the years ended December 31, 2013 and 2012, are as follows:

Transaction		Korean won 2013		2012		Translation into U.S. dollars (Note 2) 2013		2012
		(In millions)				(In thousands)		
Cash flows from operating activities	₩	98,819	₩	55,134	$	93,641	$	52,245
Cash flows from investing activities		(102,631)		(47,694)		(97,253)		(45,194)
Cash flows from financing activities		10,803		41,783		10,237		39,594
Net cash flows	₩	6,991	₩	49,223	$	6,625	$	46,645

(4) Assets and liabilities removed by the spin-off of the investment business unit for the year ended December 31, 2013, are as follows:

		Korean won		Translation into U.S. dollars (Note 2)
		(In millions)		(In thousands)
Current assets:				
Cash and cash equivalents	₩	165,016	$	156,369
Short-term financial instruments		124,641		118,109
Trade and other receivables		29,275		27,741
Current portion of held-to-maturity investments		4,883		4,627
Inventories		1,675		1,588
Income tax receivable		166		157
Other current assets		17,262		16,357
		342,918		324,948
Non-current assets:				
Long-term financial instruments		1,416		1,341
AFS financial assets		7,731		7,326
Held-to-maturity investments		7,508		7,115
Investment in associates and jointly controlled entities		107,495		101,862
Property, aircraft and equipment and others		523,586		496,149
Investment properties		261,336		247,642
Intangible assets		7,932		7,516

	Korean won		Translation into U.S. dollars (Note 2)	
	(In millions)		(In thousands)	
Other non-current assets		17,995		17,053
		934,999		886,004
Total assets		1,277,917		1,210,952
Current liabilities:				
Trade and other payables		43,486		41,207
Short-term borrowings		90,000		85,284
Current portion of long-term borrowings		4,620		4,377
Other current liabilities		56,805		53,829
		194,911		184,697
Non-current liabilities:				
Long-term borrowings		147,371		139,648
Debentures		179,374		169,974
Defined benefit obligation		10,119		9,589
Point provisions		50		47
Deferred revenue		866		821
Other financial liabilities		21,232		20,120
Deferred tax liabilities		21,778		20,637
Other non-current liabilities		56,110		53,170
		436,900		414,006
Total liabilities		631,811		598,703
Net assets	₩	646,106	$	612,249

(5) For free distributions of non-cash assets that all the owners of the same equity are treated equally, the Group recognizes the dividend payable using the fair value at the date when the Group declares a distribution and has an obligation to distribute the assets to its owners. The fair value of dividend payable is remeasured for each accounting period and at the distribution completion time. The difference between specific non-cash assets being transferred and the dividend payable at the distribution time is recognized as gain on disposal of discontinued operations.

48. EVENTS AFTER THE REPORTING PERIOD:

(1) The Company issued asset- backed securities subsequent to December 31, 2013, and the details of issuance are as follows:

Target assets	Amount of issuance	Date of issuance	Issue period	Method of repayment
	(In millions)			
Domestic cargo receivables	₩3,300 billion	2014.02.14	39 months (2014.2–2017.5)	Amortization of principal (30 months' split with deferral for nine months)
	₩1,000 billion	2014.02.26	51 months (2014.2–2018.5)	Amortization of principal (nine months' split with deferral for 42 months)

Independent Auditors' Report

The Board of Directors and Stockholders
Korean Air Lines Co., Ltd.:

We have audited the accompanying consolidated statements of financial position of Korean Air Lines Co., Ltd. and its subsidiaries (collectively, the "Group") as of December 31, 2012 and 2011, and the related consolidated statements of comprehensive income (loss), changes in equity and cash flows for the years then ended, expressed in Korean won. Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Korean International Financial Reporting Standards. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of one subsidiary, Korea Airport Service Co., Ltd., which reflects 2.3% and 1.8% of total consolidated assets (before elimination of intercompany transactions) as of December 31, 2012 and 2011 and 2.9% and 3.2% of total consolidated sales (before elimination of intercompany transactions) for the years then ended. Those financial statements were audited by other auditors whose report has been furnished to us, and our report, insofar as it relates to the amounts in the fin ancial statements of this subsidiary, is based solely on the report of the other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the Republic of Korea. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

In our opinion, based on our audits and the report of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Group as of December 31, 2012 and 2011 and its financial performance and its cash flows for the years then ended, in accordance with Korean International Financial Reporting Standards.

Without qualifying our opinion, we draw attention to the following:

The accompanying consolidated financial statements as of and for the year ended December 31, 2012 have been translated into United States dollars solely for the convenience of the reader. We have audited the translation and, in our opinion, the consolidated financial statements expressed in Korean won have been translated into dollars on the basis set forth in note 4 to the consolidated financial 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. Accordingly, this report and the accompanying consolidated financial statements are for use by those knowledgeable about Korean auditing standards and their application in practice.

KPMG Samjong Accounting Corp.

Seoul, Korea
March 11, 2013

This report is effective as of March 11, 2013, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying consolidated financial statements and notes thereto. Accordingly, the readers of the audit report should understand that the above audit report has not been updated to reflect the impact of such subsequent events or circumstances, if any.

KOREAN AIR LINES CO., LTD. AND SUBSIDIARIES
Consolidated Statements of Financial Position

As of December 31, 2012 and 2011

(In millions of won and in thousands of US dollars)

	Note		2012	2011		2012 (Note 4)
Assets						
Cash and cash equivalents	5,30	₩	1,465,499	1,465,748	$	1,368,219
Other financial assets	8,13, 30		122,810	183,524		114,658
Trade receivables	6, 30		840,119	943,821		784,352
Other receivables	6, 30		81,632	93,640		76,213
Prepayments			215,852	124,913		201,524
Inventories	7		493,644	435,348		460,876
Other current assets	27,30		145,567	103,156		135,903
Total current assets			3,365,123	3,350,150		3,141,745
Investments in associates	9,13		2,557,390	2,612,304		2,387,630
Other non-current financial assets	8,13,30		172,476	159,757		161,027
Investment property, net	10		370,717	357,115		346,109
Property, aircraft and equipment, net	11,13,28		14,880,090	14,189,336		13,892,344
Intangible assets, net	12,13		314,609	342,826		293,725
Long-term prepaid expenses			320,210	287,422		298,954
Deferred income tax assets			663,107	770,292		619,090
Other non-current assets	27,30		329,680	319,141		307,796
Total non-current assets			19,608,279	19,038,193		18,306,675
Total assets		₩	22,973,402	22,388,343	$	21,448,420

See accompanying notes to the consolidated financial statements.

KOREAN AIR LINES CO., LTD. AND SUBSIDIARIES
Consolidated Statements of Financial Position, Continued

As of December 31, 2012 and 2011

(In millions of won and in thousands of US dollars)

	Note		2012	2011		2012 (Note 4)
Liabilities						
Short-term borrowings	13,15	₩	1,265,616	1,010,814	$	1,181,604
Trade accounts and notes payable	30		239,091	290,074		223,220
Other accounts payable	28,30		151,816	135,451		141,738
Advance receipts from customers	18		970,431	901,887		906,013
Accrued expenses			580,615	506,094		542,074
Current portion of long-term liabilities	13,16		1,930,330	2,735,067		1,802,194
Current portion of finance leases obligation	16		918,147	893,895		857,200
Other current liabilities	14,27,30		151,095	152,535		141,066
Total current liabilities			6,207,141	6,625,817		5,795,109
Bonds, net of discount	16,30		3,702,003	2,441,516		3,456,263
Long-term borrowings	13,16,30		2,039,203	2,300,880		1,903,840
Long-term non-trade payables	28		133,888	144,163		125,000
Obligation under finance leases	16,30		4,709,967	4,459,482		4,397,318
Asset-backed securitization loans	16,30		587,479	1,252,829		548,482
Other financial liabilities	13,16,26,30		74,313	86,710		69,380
Deferred revenue	18		1,476,695	1,342,605		1,378,671
Defined benefit obligations	17		867,872	688,849		810,262
Deferred income tax liabilities			156,083	121,331		145,722
Other non-current liabilities	14,27,30		114,375	155,209		106,783
Total non-current liabilities			13,861,878	12,993,574		12,941,721
Total liabilities			20,069,019	19,619,391		18,736,830
Equity						
Capital stock	19		366,754	366,754		342,409
Capital surplus	19		231,137	233,020		215,794
Capital adjustments	20		(65,780)	(64,478)		(61,414)
Accumulated other comprehensive loss	20,27		(6,481)	(13,880)		(6,051)
Retained earnings			2,095,970	1,938,824		1,956,839
Total equity attributable to owners of the Parent Company			2,621,600	2,460,240		2,447,577
Non-controlling interests			282,783	308,712		264,013
Total equity			2,904,383	2,768,952		2,711,590
Total liabilities and equity		₩	22,973,402	22,388,343	$	21,448,420

See accompanying notes to the consolidated financial statements.

KOREAN AIR LINES CO., LTD. AND SUBSIDIARIES
Consolidated Statements of Comprehensive Income (Loss)

For the years ended December 31, 2012 and 2011

(In millions of won and in thousands of US dollars, except earnings (loss) per share)

	Note		2012	2011		2012 (Note 4)
Continuing operations						
Revenue	18,26,32,33	₩	12,719,636	12,245,709	$	11,875,301
Cost of revenue	26,32		(11,243,370)	(10,524,979)		(10,497,031)
Gross profit			1,476,266	1,720,730		1,378,270
Selling, general and administrative expenses	21,32		(1,157,709)	(1,268,117)		(1,080,860)
Operating profit	32,33		318,557	452,613		297,410
Other income	22		1,181,785	533,146		1,103,338
Other expenses	22		(665,355)	(853,407)		(621,188)
Finance income	23,27		121,363	96,317		113,307
Finance costs	23,27		(605,846)	(719,597)		(565,630)
Share of net profits of equity accounted investees	9		81,733	221,896		76,308
Profit (loss) before income tax			432,237	(269,032)		403,545
Income tax benefit (expense)	24,32		(180,327)	61,373		(168,357)
Profit (loss) from continuing operations			251,910	(207,659)		235,188
Discontinued operations						
Profit from discontinued operations	32		4,461	7,908		4,165
Profit (loss) for the year			256,371	(199,751)		239,353
Other comprehensive loss for the year, net of income tax						
Net change in unrealized fair value of long-term investment securities	8		19,066	(6,119)		17,800
Effective portion of net change in unrealized fair value of cash flow hedges	27		(1,096)	18,814		(1,023)
Change in capital adjustments - equity method accounted investments	9		(6,361)	(13,248)		(5,939)
Change in retained earnings - equity method accounted investments	9		(1,715)	(2,209)		(1,601)
Foreign currency translation difference			(2,544)	(377)		(2,375)
Defined benefit plan actuarial losses	17		(94,074)	(71,615)		(87,829)
			(86,724)	(74,754)		(80,967)
Total comprehensive income (loss) for the year		₩	169,647	(274,505)	$	158,386

See accompanying notes to the consolidated financial statements.

KOREAN AIR LINES CO., LTD. AND SUBSIDIARIES
Consolidated Statements of Comprehensive Income (Loss), Continued

For the years ended December 31, 2012 and 2011

(In millions of won and in thousands of US dollars, except earnings (loss) per share)

	Note		2012	2011		2012 (Note 4)
Profit (loss) attributable to:						
Owners of Parent Company		₩	246,413	(218,821)	$	230,056
Non-controlling interests			9,958	19,070		9,297
Total comprehensive income (loss) attributable to:						
Owners of Parent Company			162,848	(278,669)		152,038
Non-controlling interests			6,799	4,164		6,348
Earnings (loss) per share (in won and US dollars)	25	₩	3,649	(3,240)	$	3.41

See accompanying notes to the consolidated financial statements.

KOREAN AIR LINES CO., LTD. AND SUBSIDIARIES
Consolidated Statements of Changes in Equity

For the years ended December 31, 2012 and 2011

(In millions of won and in thousands of US dollars)

		Capital stock	Capital surplus	Capital adjust-ments	Accumulated other comprehensive income (loss)	Retained earnings	Sub-total	Non-controlling interests	Total equity
Balance at January 1, 2011	₩	366,754	192,402	(65,718)	(23,130)	2,263,740	2,734,048	543,228	3,277,276
Profit (loss) for the year		-	-	-	-	(218,821)	(218,821)	19,070	(199,751)
Net change in unrealized fair value of long-term investment securities		-	-	-	(5,563)	-	(5,563)	(556)	(6,119)
Effective portion of net change in unrealized fair value of cash flow hedges		-	-	-	14,910	-	14,910	3,904	18,814
Change in capital adjustments - equity method accounted investments		-	-	-	128	-	128	(13,376)	(13,248)
Change in retained earnings - equity method accounted investments		-	-	-	-	(387)	(387)	(1,822)	(2,209)
Foreign currency translation difference		-	-	-	(225)	-	(225)	(153)	(378)
Defined benefit plan actuarial losses		-	-	-	-	(68,711)	(68,711)	(2,904)	(71,615)
Dividends		-	-	-	-	(34,519)	(34,519)	(12,518)	(47,037)
Capital reduction of subsidiaries		-	41,448	-	-	-	41,448	(235,804)	(194,356)
Others		-	(830)	1,240	-	(2,478)	(2,068)	9,643	7,575
Balance at December 31, 2011	₩	366,754	233,020	(64,478)	(13,880)	1,938,824	2,460,240	308,712	2,768,952
Balance at January 1, 2012	₩	366,754	233,020	(64,478)	(13,880)	1,938,824	2,460,240	308,712	2,768,952
Profit (loss) for the year		-	-	-	-	246,413	246,413	9,958	256,371
Net change in unrealized fair value of long-term investment securities		-	-	-	15,977	-	15,977	3,089	19,066
Effective portion of net change in unrealized fair value of cash flow hedges		-	-	-	(1,112)	-	(1,112)	16	(1,096)
Change in capital adjustments - equity method accounted investments		-	-	-	(5,592)	-	(5,592)	(769)	(6,361)
Change in retained earnings - equity method accounted investments		-	-	-	-	(1,311)	(1,311)	(404)	(1,715)
Foreign currency translation difference		-	-	-	(1,874)	-	(1,874)	(670)	(2,544)
Defined benefit plan actuarial losses		-	-	-	-	(89,653)	(89,653)	(4,420)	(94,073)
Dividends		-	-	-	-	-	-	(10,869)	(10,869)
Changes in ownership in subsidiaries		-	-	-	-	3,215	3,215	(20,593)	(17,378)
Change in retained earnings of subsidiaries		-	-	-	-	(1,518)	(1,518)	(1,267)	(2,785)
Others		-	(1,883)	(1,302)	-	-	(3,185)	-	(3,185)
Balance at December 31, 2012	₩	366,754	231,137	(65,780)	(6,481)	2,095,970	2,621,600	282,783	2,904,383
(Note 4)	$	342,409	215,794	(61,414)	(6,051)	1,956,839	2,447,577	264,013	2,711,590

See accompanying notes to the consolidated financial statements.

KOREAN AIR LINES CO., LTD. AND SUBSIDIARIES
Consolidated Statements of Cash Flows

For the years ended December 31, 2012 and 2011

(In millions of won and in thousands of US dollars)

	Note		2012	2011		2012 (Note 4)
Cash flows from operating activities						
Cash generated from operations	31	₩	2,120,269	1,869,668	$	1,979,525
Interest received			46,523	33,278		43,435
Dividends received			134,629	125,453		125,692
Income taxes refund received (paid)			4,778	(19,422)		4,461
Net cash provided by operating activities			2,306,199	2,008,977		2,153,113
Cash flows from investing activities						
Proceeds from sales of other financial assets			117,993	202,441		110,161
Proceeds from sales of property, aircraft and equipment			234,996	48,404		219,397
Proceeds from sale of intangible assets			141	-		132
Proceeds from sales of investments in associates			-	1,467		-
Increase in cash resulting from business combinations			37,065	-		34,605
Effects of changes in scope of consolidation			6,610	-		6,171
Decrease in guarantee deposits			(35,401)	(10,480)		(33,051)
Purchase of other financial assets			(121,564)	(124,028)		(113,495)
Purchase of property, aircraft and equipment			(905,989)	(664,182)		(845,849)
Purchase of intangible assets			(1,396)	(1,733)		(1,303)
Purchase of investments in associates			(8,630)	(25,703)		(8,057)
Others, net			18,823	1,718		17,574
Net cash used in investing activities			(657,352)	(572,096)		(613,715)
Cash flows from financing activities						
Proceeds from short-term borrowings			1,453,389	1,196,090		1,356,913
Proceeds from issuance of bonds			1,971,278	1,412,093		1,840,424
Proceeds from long-term borrowings			585,119	834,972		546,279
Proceeds from issuance of asset-backed securitization loans			-	1,108,222		-
Proceeds from withholdings (other financial liabilities)			152	1,455		142
Repayments of short-term borrowings			(1,230,351)	(1,024,909)		(1,148,680)
Repayments of current portion of long-term liabilities			(2,697,075)	(2,777,638)		(2,518,042)
Repayments of current portion of current portion of finance leases obligation, net			(996,222)	(765,417)		(930,092)
Repayments of long-term borrowings			(68,979)	(28,026)		(64,400)
Distribution to non-controlling interests upon capital reduction of subsidiaries			-	(159,838)		-
Purchase of treasury stock			-	(3,436)		-
Dividends paid			(10,869)	(47,038)		(10,148)
Interest paid			(561,382)	(566,729)		(524,117)
Others, net			(35,639)	(10,278)		(33,273)
Net cash used in financing activities			(1,590,579)	(830,477)		(1,484,994)

See accompanying notes to the consolidated financial statements.

KOREAN AIR LINES CO., LTD. AND SUBSIDIARIES
Consolidated Statements of Cash Flows, Continued

For the years ended December 31, 2012 and 2011

(In millions of won and in thousands of US dollars)

		2012	2011		2012 (Note 4)
Net increase in cash and cash equivalents from continuing operations	₩	58,268	606,404	$	54,404
Net decrease in cash and cash equivalents from discontinued operations		(706)	(388)		(660)
Cash and cash equivalents at beginning of year		1,465,748	851,571		1,368,450
Effect of exchange rate fluctuations on cash held		(57,811)	8,161		(53,975)
Cash and cash equivalents end of year	₩	1,465,499	1,465,748	$	1,368,219

See accompanying notes to the consolidated financial statements.

December 31, 2012

1. General Description of the Parent Company and Subsidiaries

(a) Organization and description of business of the Parent Company

Korean Air Lines Co., Ltd. (the "Parent Company") was established on June 19, 1962 under the Investment Promotion Laws of the Republic of Korea and is engaged in the business of domestic and international airline services, manufacture of aircraft parts, maintenance of aircraft and catering of in-flight meals.

The Parent Company has been a publicly traded company upon listing its common stock on the Korea Exchange since 1966. The total capital stock of the Parent Company as of December 31, 2012 amounted to ₩ 366,754 million in par value (including ₩ 6,896 million of preferred stock). The principal stockholders of the Parent Company's common shares are Hanjin Transportation Co., Ltd. and its affiliates who collectively own 25.68% of outstanding common shares and 6.17% of treasury shares.

The consolidated financial statements comprise the Parent Company and its subsidiaries (together referred to as the "Group" and individually as "Group entities") and the Group's interests in associates and joint ventures.

(b) Subsidiaries

Details of subsidiaries as of December 31, 2012 and 2011 are as follows:

(In millions of won)

Subsidiary	Location	Percentage of ownership 2012	Percentage of ownership 2011		Net assets 2012	Net assets 2011
Korean Airport Service Co., Ltd.	Korea	59.54%	59.54%	₩	240,989	246,544
Hanjin Information Systems & Telecommunication Co., Ltd.	Korea	99.35%	99.35%		42,799	40,799
Topas Co., Ltd.	Korea	67.35%	67.35%		23,017	20,865
Incheon International Airport Oiling Facility (*1)	Korea	-	61.50%		-	65,815
KAL Hotel Network Co., Ltd.	Korea	100.00%	100.00%		80,917	58,301
Hanjin Travel Service Co., Ltd. (*2)	Korea	72.30%	72.30%		87,864	92,286
Air Total Service Co., Ltd.	Korea	100.00%	100.00%		3,154	3,693
Jungseok Enterprise Co., Ltd.	Korea	48.87%	48.87%		286,011	278,311
Jedong Leisure Co., Ltd.	Korea	100.00%	100.00%		26,756	26,718
Hanjin Energy Co., Ltd.	Korea	100.00%	100.00%		1,254,843	1,190,177
Jin Air Co., Ltd.	Korea	100.00%	100.00%		13,319	4,152
Homeo Therapy Co., Ltd.	Korea	100.00%	100.00%		7,656	9,168
Air Korea	Korea	75.00%	75.00%		3,191	3,489
Korea Global Logistics System Co., Ltd.	Korea	95.00%	95.00%		5,688	4,903
IAT Co., Ltd. (*3)	Korea	90.00%	90.00%		25,818	12,853
WLD Co., Ltd. (*3)	Korea	100.00%	100.00%		36,252	6,000
Hanjin International Corp.	USA	100.00%	100.00%		2,027	34,490
Waikiki Resort Hotel Inc.	USA	100.00%	100.00%		3,882	3,880
Hanjin Int'l Japan	Japan	55.00%	55.00%		10,863	8,424
Hanjin Central Asia MChJ. (*3)	Uzbekistan	100.00%	100.00%		12,346	148

December 31, 2012

1. General Description of the Parent Company and Subsidiaries, Continued

(b) Subsidiaries, continued

Details of subsidiaries as of December 31, 2012 and 2011 are as follows, continued:

(*1) In 2012, Incheon International Airport Oiling Facility ("IIFF"), a subsidiary of the Parent Company was liquidated.

(*2) On October 15, 2012, Board of Directors of Hanjin Travel Service Co., Ltd., a subsidiary of the Parent Company, has decided to split into the Business Division (a newly established company after spin-off) and the Investment Business Division (a surviving company after spin-off, which hold shares of Jungseok Enterprise Co., Ltd., a subsidiary of the Parent Company). In addition, the Parent Company has resolved to merge the Investment Business Division, a subsidiary on January 31, 2013.

(*3) These companies are transferred from investments in associates to consolidated subsidiaries.

Financial information of subsidiaries as of and for the year ended December 31, 2012 is as follows:

(In millions of won)

Subsidiary		Total assets	Total liabilities	Revenue	Net profit (loss)
Korean Airport Service Co., Ltd.	₩	372,735	131,746	411,109	3,835
Hanjin Information Systems & Telecommunication Co., Ltd.		65,352	22,553	119,054	5,160
Topas Co., Ltd.		35,186	12,169	58,537	12,744
Incheon International Airport Oiling Facility		-	-	15,263	4,461
KAL Hotel Network Co., Ltd.		194,200	113,283	58,149	6,112
Hanjin Travel Service Co., Ltd.		104,264	16,400	27,565	328
Air Total Service Co., Ltd.		7,869	4,715	27,647	(283)
Jungseok Enterprise Co., Ltd.		344,933	58,923	38,310	11,447
Jedong Leisure Co., Ltd.		30,242	3,486	5	38
Hanjin Energy Co., Ltd.		2,401,249	1,146,406	147,992	63,959
Jin Air Co., Ltd.		70,148	56,829	247,510	9,833
Homeo Therapy Co., Ltd.		7,812	156	-	(1,511)
Air Korea		7,056	3,865	25,306	826
Korea Global Logistics System Co., Ltd.		6,273	586	3,270	807
IAT Co., Ltd.		26,281	463	-	(18)
WLD Co., Ltd.		38,809	2,557	-	435
Hanjin International Corp.		236,803	234,776	1,608	(45,756)
Waikiki Resort Hotel Inc.		16,490	12,609	13,512	292
Hanjin Int'l Japan		14,685	3,822	39,339	3,558
Hanjin Central Asia MChJ.		12,968	623	468	(211)

2. Basis of Preparation

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with Korean International Financial Reporting Standards ("K-IFRS"), as prescribed in *the Act on External Audits of Corporations in the Republic of Korea*.

The consolidated financial statements were authorized for issue by the Board of Directors on February 21, 2013.

(b) 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
- available-for-sale financial assets 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 and unrecognized past service costs.

(c) Functional and presentation currency

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.

(d) Use of estimates and judgments

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 in which the estimates are revised and in any future periods affected.

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 17 - Employee Benefits
- Note 18 - Deferred Revenue
- Note 24 - Income Tax Expense
- Note 28 - Commitments and Contingencies

December 31, 2012

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.

(a) Basis of consolidation

Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of the other entity so as to obtain benefits from its activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

If a member of the Group uses accounting policies other than those adopted in the consolidated financial statements for like transactions and events in similar circumstances, appropriate adjustments are made to its financial statements in preparing the consolidated financial statements.

Associates

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20% and 50% of the voting power of another entity.

Investments in associates are accounted for using the equity method and are recognized initially at cost. The Group's investment includes goodwill identified on acquisition, net of any accumulated impairment losses. The consolidated financial statements include the Group's share of the income and expenses and equity movements of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence or joint control commences until the date that significant influence ceases. When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest, including any long-term investments, is reduced to nil, and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Intra-group losses are recognized as expense if intra-group losses indicate an impairment that requires recognition in the consolidated financial statements.

Non-controlling interests

Non-controlling interests in a subsidiary are accounted for separately from the parent's ownership interests in a subsidiary. Each component of net profit or loss and other comprehensive income (loss) is attributed to the owners of the parent and non-controlling interest holders, even when the allocation reduces the non-controlling interest balance below zero.

3. Significant Accounting Policies, Continued

(b)Business combinations

Business combination

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

Each identifiable asset and liability is measured at its acquisition-date fair value except for below:

- Leases and insurance contracts are required to be classified on the basis of the contractual terms and other factors
- Only those contingent liabilities assumed in a business combination that are a present obligation and can be measured reliably are recognized
- Deferred tax assets or liabilities are recognized and measured in accordance with K-IFRS No. 1012, 'Income Taxes'
- Employee benefit arrangements are recognized and measured in accordance with K-IFRS No.1019, 'Employee Benefits'
- Indemnification assets are recognized and measured on the same basis as the indemnified liability or asset
- Reacquired rights are measured on the basis of the remaining contractual terms of the related contract
- Liabilities or equity instruments related to share-based payment transactions are measured in accordance with the method in K-IFRS No. 1102, 'Share-based Payment'
- Assets held for sale are measured at fair value less costs to sell in accordance with K-IFRS No. 1105, 'Non-current Assets Held for Sale'

As of the acquisition date, non-controlling interests in the acquiree are measured as the non-controlling interests' proportionate share of the acquiree's identifiable net assets.

The consideration transferred in a business combination shall be measured at fair value, which shall be calculated as the sum of the acquisition-date fair values of the assets transferred by the acquirer, the liabilities incurred by the acquirer to former owners of the acquiree and the equity interests issued by the acquirer. However, any portion of the acquirer's share-based payment awards exchanged for awards held by the acquiree's employees that is included in consideration transferred in the business combination shall be measured in accordance with the method described above rather than at fair value.

Acquisition-related costs are costs the acquirer incurs to effect a business combination. Those costs include finder's fees; advisory, legal, accounting, valuation and other professional or consulting fees; general administrative costs, including the costs of maintaining an internal acquisitions department; and costs of registering and issuing debt and equity securities. Acquisition-related costs, other than those associated with the issue of debt or equity securities, are expensed in the periods in which the costs are incurred and the services are received. 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.

3. Significant Accounting Policies, Continued

(b) Business combinations, continued

Goodwill

The Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognized amount of any non-controlling interests in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquiree; less
- the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, bargain purchase gain is recognized immediately in profit or loss.

(c) Foreign currency

Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities 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. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the reporting period. 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. Foreign currency differences arising on retranslation are recognized in profit or loss, except for differences arising on 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 (loss). 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.

3. Significant Accounting Policies, Continued

(c) Foreign currency, continued

Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to won at exchange rates at the reporting date. The income and expenses of foreign operations are translated to won at exchange rates at the dates of the transactions.

Foreign currency translation differences for foreign operations, net of tax effect, are recognized in other comprehensive income (loss).

When a foreign operation is disposed of, the relevant amount in the translation is transferred to profit or loss as part of the profit or loss on disposal. On the partial disposal of a subsidiary that includes a foreign operation, the relevant proportion of such cumulative amount is reattributed to non-controlling interest. In any other partial disposal of a foreign operation, the relevant proportion is reclassified to profit or loss.

(d) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, demand deposits, and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and are used by the Group in management of its short-term commitments. Generally equity investments are excluded from cash and cash equivalents.

(e) Non-derivative financial assets

The Group initially recognizes loans and receivables and deposits on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognized initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

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.

The Group has the following non-derivative financial assets: financial assets at fair value through profit or loss, held-to-maturity financial assets, loans and receivables and available-for-sale financial assets.

3. Significant Accounting Policies, Continued

(e) Non-derivative financial assets, continued

Financial assets at fair value through profit or loss
A financial asset is classified at fair value through profit or loss if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Group's documented risk management or investment strategy. Upon initial recognition attributable transaction costs are recognized in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss.

Held-to-maturity investments
If the Group has the positive intent and ability to hold debt securities to maturity, then such financial assets are classified as held-to-maturity. Held-to-maturity financial assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition held-to-maturity financial assets are measured at amortized cost using the effective interest method, less any impairment losses.

Loans and receivables
Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

Available-for-sale financial assets
Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale and that are not classified in any of the previous categories. The Group's investments in equity securities and certain debt securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign currency differences on available-for-sale equity instruments, are recognized in other comprehensive income (loss) and presented within equity. When an investment is derecognized, the cumulative gain or loss in other comprehensive income (loss) is transferred to profit or loss.

Derecognition of financial assets
The Group derecognises 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 in a transaction in which substantially all the risks and rewards of the ownership of the financial asset are transferred. Any interest in such transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

If a transfer does not result in derecognition because the Group has retained substantially all the risks and rewards of the transferred asset, the Group continues to recognize the transferred asset in its entirety and recognizes a financial liability for the consideration received.

3. Significant Accounting Policies, Continued

(e) Non-derivative financial assets, continued

Offsetting financial assets and financial liabilities

Financial assets and financial liabilities shall be offset and the net amount presented in the statement of financial position when the Group currently has a legally enforceable right to set off the recognized amounts and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

(f) Non-derivative financial liabilities

The Group initially recognizes debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities (including liabilities designated at fair value through profit or loss) are recognized initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

The Group has the following non-derivative financial liabilities: loans and borrowings, bank overdrafts, and trade and other payables. Such financial liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortized cost using the effective interest method.

(g) Share capital

Ordinary shares

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

Preference share capital

Preference share capital is classified as equity if it is non-redeemable, or redeemable only at the Parent Company's option, and any dividends are discretionary. Dividends thereon are recognized as distributions within equity upon approval by the Parent Company's shareholders.

Preference share capital is classified as a liability if it is redeemable on a specific date or at the option of the shareholders, or if dividend payments are not discretionary. Dividends thereon are recognized as interest expense in profit or loss as accrued.

All of the Parent Company's issued and outstanding preference share capital is classified as equity.

Repurchase of share capital (treasury shares)

When share capital recognized as equity is repurchased, the amount of the consideration paid, which includes directly attributable costs, net of any tax effects, is recognized as a deduction from equity. Repurchased shares are classified as treasury shares and are presented as a deduction from total equity. When treasury shares are sold or reissued subsequently, the amount received results in an increase in equity, and the resulting net amount on the transaction is not recognized in current year profits and losses.

3. Significant Accounting Policies, Continued

(h) Derivative financial instruments, including hedge accounting

The Group holds derivative contracts to manage interest rate risk, foreign exchange risk and oil-price risk. The Group designated derivatives as hedging items 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). Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value through profit or loss.

On initial designation of the hedge, the Group formally documents the relationship between the hedging instruments and hedged items, 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. The Group makes an assessment, both at the inception of the hedge relationship as well as on a quarterly basis, whether the hedging instruments are expected to be "highly effective" in offsetting the changes in the fair value or cash flows of the respective hedged items during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80%-125%. For a cash flow hedge of a forecast transaction, the transaction should be highly probable to occur and should present an exposure to variations in cash flows that could ultimately affect reported net income.

Derivatives are recognized initially at fair value and attributable transaction costs are recognized in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below.

Fair value hedges
Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in profit and loss, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortized to profit or loss over the period to maturity.

3. Significant Accounting Policies, Continued

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

Cash flow hedges

When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast 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 (loss) and presented in the hedging reserve in equity. The amount recognized in other comprehensive income (loss) is removed and included in profit or loss in the same period as the hedged cash flows affect profit or loss under the same line item in the statement of comprehensive income (loss) as the hedged item. 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, exercised, or the designation is revoked, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognized in other comprehensive income (loss) and presented in the hedging reserve in equity remains there until the forecasted transaction affects profit or loss. When the hedged item is a non-financial asset, the amount recognized in other comprehensive income (loss) is transferred to the carrying amount of the asset when the asset is recognized. If the forecast transaction is no longer expected to occur, then the balance in other comprehensive income (loss) is recognized immediately in profit or loss. In other cases the amount recognized in other comprehensive income (loss) is transferred to profit or loss in the same period that the hedged item affects profit or loss.

Separable embedded derivatives

Embedded derivatives are separated from the host contract and accounted for separately only if the following criteria has been met: (a) the economic characteristics and risks of the host contract and the embedded derivatives are not clearly and closely related to a separate instrument with the same terms as the embedded derivative that would meet the definition of a derivative, and (b) the hybrid (combined) instrument is not measured at fair value through profit or loss. Changes in the fair value of separable embedded derivatives are recognized immediately in profit or loss.

Other non-trading derivatives

When a derivative financial instrument is not held for trading, and is not designated in a qualifying hedge relationship, all changes in its fair value are recognized immediately in profit or loss.

3. Significant Accounting Policies, Continued

(i) Inventories

Inventories are stated at the lower of cost or net realizable value. The cost of inventories is determined by the moving-average method for airline service supplies and aerospace raw materials and supplies, the specific identification method for materials-in-transit and the first-in, first-out method for all other inventories and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. For the consolidated subsidiaries, inventories are valued using various inventory cost methods including total average cost, moving-average, first-in, first-out and the specific identification methods depending on inventory type. The difference between the subsidiaries' costing methods and those of the Group is immaterial to the consolidated financial statements.

Net realizable value is the estimate selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

In the period when revenue is recognized, the carrying amount of related inventory is recognized as cost of sales and any write-down to net realizable value and obsolescence of inventory is recognized as an expense in the period occurred. Reversals of previous write-downs as expense are deducted from cost of sales.

(j) Investment property

Properties held to earn rentals or for capital appreciation are classified as investment properties. Investment property is measured initially at cost including transaction costs incurred to acquire the asset. Subsequently, investment property is measured at cost less accumulated depreciation and accumulated impairment losses.

3. Significant Accounting Policies, Continued

(k) Property, aircraft and equipment

Recognition and measurement
Items of property, aircraft and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labor, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and borrowing costs on qualifying assets.

Cost also may include transfers from other comprehensive income (loss) of any gain or loss on qualifying cash flow hedges of foreign currency purchases of property, aircraft and equipment. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

When parts of an item of property, aircraft and equipment have different useful lives, they are accounted for as separate items (major components) of property, aircraft and equipment.

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

Subsequent costs
The cost of replacing a part of an item of property, aircraft and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group, and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property, aircraft and equipment are recognized in profit or loss as incurred.

When overhaul cost is embedded in the cost of an item of property, aircraft and equipment, the carrying amount of the component of property, aircraft and equipment is determined by reference to the current market price of such overhauls.

3. Significant Accounting Policies, Continued

(k) Property, aircraft and equipment, continued

Depreciation

Depreciation is calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value.

Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, aircraft and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Land is not depreciated.

The estimated useful lives for the current and comparative periods are as follows:

		Useful lives (years)
Buildings and structures		4 ~ 53
Aircraft and leased aircraft	Fuselage, etc.	6 ~ 15
	Overhaul	2.8 ~ 10.2
Engine and leased engine	Engine	15
	Overhaul	2.8 ~ 8.8
Aircraft parts		15
Others		4 ~ 31.5

Depreciation methods, useful lives and residual values are reviewed at each financial year-end and adjusted, if appropriate. Such adjustments are made as changes in accounting estimates.

(l) Borrowing costs

The Group capitalizes borrowing costs, which includes exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs, directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. 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. The Group immediately recognizes other borrowing costs as an expense.

3. Significant Accounting Policies, Continued

(m) Leases

Leases in which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and, except for investment property, the leased assets are not recognized in the Group's statement of financial position. Investment property held under an operating lease is recognized in the Group's statement of financial position at its fair value.

(n) Intangible assets

Intangible assets are initially measured at cost. Subsequently, intangible assets are measured at cost less accumulated amortization and accumulated impairment losses.

Research and development
Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognized in profit or loss as incurred.

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditures are capitalized only if the Group can demonstrate all of the following:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale,
- its intention to complete the intangible asset and use or sell it,
- its ability to use or sell the intangible asset,
- how the intangible asset will generate probable future economic benefits. Among other things, the Group can demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset.
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset, and
- its ability to measure reliably the expenditure attributable to the intangible asset during its development.

The expenditures capitalized include the cost of materials, direct labor, overhead costs that are directly attributable to preparing the asset for its intended use, and borrowing costs on qualifying assets.

3. Significant Accounting Policies, Continued

(n) Intangible assets, continued

Subsequent costs

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 immediately in profit or loss as incurred.

Amortization

Except for goodwill, amortization is calculated on a straight-line basis over the estimated useful lives of intangible assets shown below 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 country club membership and golf club membership are expected to be available for use, these intangible assets are regarded as having indefinite useful lives and not amortized.

	Estimated useful lives (years)
Development costs	5 ~ 16
Facility usage rights	10 ~ 30
Other intangible assets	5 ~ 20

Goodwill

Goodwill that arises upon the acquisition of subsidiaries is included in intangible assets. In respect of acquisitions prior to January 1, 2010, goodwill is included on the basis of its deemed cost, which represents the amount recorded under previous K-GAAP, adjusted for the reclassification of certain intangibles.

Subsequent measurement:

Goodwill is measured at cost less accumulated impairment losses. In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment, and an impairment loss on such an investment is not allocated to any asset, including goodwill, that forms part of the carrying amount of the equity accounted investee.

3. Significant Accounting Policies, Continued

(o) 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 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 statement of financial position.

(p) 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 in respect of 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 by 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.

3. Significant Accounting Policies, Continued

(p) Impairment of financial assets, continued

(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 (loss) and there is objective evidence that the asset is impaired, the cumulative loss that had been recognized in other comprehensive income (loss) 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.

(q) Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets except construction work in progress assets, employee benefits' assets, inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time.

The recoverable amount of an asset or cash-generating unit is the greater of its value-in-use and its fair value less costs to sell. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit, or CGU").

3. Significant Accounting Policies, Continued

(r) Employee benefits

Short-term employee benefits
Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognized for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

Retirement benefits: Defined benefit plan
A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. Any unrecognized past service costs and the fair value of any plan assets are deducted.

The discount rate is the yield at the reporting date on AAA credit-rated bonds that have maturity dates approximating the terms of the Group's obligations and that are denominated in the same currency in which the benefits are expected to be paid. The calculation is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Group, the recognized asset is limited to the total of any unrecognized past service costs and 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.

In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to any plan in the Group. An economic benefit is available to the Group if it is realizable during the life of the plan, or on settlement of the plan liabilities.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognized in profit or loss on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognized immediately in profit or loss.

The Group recognizes all actuarial gains and losses arising from defined benefit plans in other comprehensive income (loss).

(s) Provisions

A provision is recognized if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as finance cost.

3. Significant Accounting Policies, Continued

(t) Revenue and customer loyalty programmes

Revenue from airline (passenger and cargo) services is recognized upon completion of the services. Revenue from maintaining aircraft and manufacturing aircraft parts in the aerospace business is recognized when the related services are rendered and goods are delivered upon transfer of risk and rewards to the customers.

The Group manages its frequent flyer program, "SKYPASS", a customer loyalty program, which provides incentives through accrued mileage such as bonus flight tickets and seat class upgrades in addition to other benefits to the Group's customers and Group's alliance companies' customers. The fair value of the consideration received or receivable in respect of the initial sale is allocated between the award credits and the other service revenue. The award credits' portion of the sales price is measured at relative fair value. The relative fair value of the award credits is initially recognized as deferred revenue and the related revenue is recognized when the obligation is performed.

As soon as the outcome of a construction contract can be estimated reliably, contract revenue and expenses are recognized in the statement of operations in proportion to the percentage of completion. Contract revenue includes the initial amount agreed in the contract plus any variations in contract work, claims and incentive payments to the extent that it is probable that they will result in revenue and can be measured reliably.

The percentage of completion is assessed by reference to costs incurred for work performed to date to the estimated total contract costs or 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.

(u) 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 rate method.

3. Significant Accounting Policies, Continued

(v) Income taxes

Income tax expense comprises current 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 (loss).

Current tax
Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. The taxable profit is different from the accounting profit for the period since 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.

Deferred tax
Deferred tax is recognized, using the asset-liability method, in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. A deferred tax liability is recognized for all taxable temporary differences. A deferred tax asset is recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which they can be utilized. However, deferred tax is not recognized for the following temporary differences: taxable temporary differences arising on the initial recognition of goodwill, or the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting profit or loss nor taxable income.

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 that 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 that 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.

3. Significant Accounting Policies, Continued

(w) Operating segments

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenditures, including revenues and expenses that relate to transactions with any of the Company`s other components. All operating segments' operating results are regularly reviewed by the Company's chief operating decision maker ("CODM") to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available. Management has determined that the CODM of the Company is the CEO.

The Group has four reportable segments 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. Entity wide disclosures of product revenue information are provided in note 33 to the consolidated financial statements.

(x) Discontinued operations

A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations that has been disposed of or is held for sale, or is a subsidiary acquired exclusively with a view to resale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative consolidated statement of comprehensive income is re-presented as if the operation had been discontinued from the start of the comparative period.

(y) New standards and interpretations not yet adopted

The following new standards, interpretations and amendments to existing standards have been published and are mandatory for the Group for annual periods beginning after January 1, 2012, and the Group has not early adopted them. Management is in the process of evaluating the impact of the amendments on the Group's consolidated financial statements.

(i) K-IFRS No.1110, 'Consolidated Financial Statements'

The standard introduces a single control model to determine whether an investee should be consolidated. As a result, the Group may need to change its consolidation conclusion in respect of its investees, which may lead to changes in the current accounting for these investees. The standards are effective for annual periods beginning on or after January 1, 2013 with early adoption permitted.

3. Significant Accounting Policies, Continued

(y) New standards and interpretations not yet adopted, continued

(ii) K-IFRS No.1111, 'Joint Arrangements'

The standard classifies joint arrangements into two types - joint operations and joint ventures. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement (i.e. joint operators) have rights to the assets, and obligations for the liabilities, relating to the arrangement. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement (i.e. joint venturers) have rights to the net assets of the arrangement. The standard requires a joint operator to recognize and measure the assets and liabilities (and recognize the related revenues and expenses) in relation to its interest in the arrangement in accordance with relevant IFRSs applicable to the particular assets, liabilities, revenues and expenses. The standard requires a joint venturer to recognize an investment and to account for that investment using the equity method. The standards are effective for annual periods beginning on or after January 1, 2013 with early adoption permitted.

(iii) K-IFRS No.1112, 'Disclosure of Interests in Other Entities'

The standard brings together into a single standard all the disclosure requirements about an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. The Group is currently assessing the disclosure requirements for interests in subsidiaries, interests in joint arrangements and associates and unconsolidated structured entities in comparison with the existing disclosures. The standard requires the disclosure of information about the nature, risks and financial effects of these interests. The standards are effective for annual periods beginning on or after January 1, 2013 with early adoption permitted.

(iv) Amendments to K-IFRS No. 1019, 'Employee Benefits'

The standard requires recognition of actuarial gains and losses immediately in other comprehensive income and to calculate expected return on plan assets based on the rate used to discount the defined benefit obligation. The standard will be applied retrospectively for the Group's annual periods beginning on or after January 1, 2013.

(v) K-IFRS No. 1113, 'Fair Value Measurement'

The standard defines fair value and a single framework for fair value, and requires disclosures about fair value measurements. The standard will be applied prospectively for the Group's annual periods beginning on or after January 1, 2013.

(vi) Amendments to K-IFRS No. 1001, 'Presentation of Financial Statements'

The amendments require presenting in other comprehensive income on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendment is mandatorily effective for annual periods beginning on or after July 1, 2012.

December 31, 2012

4. Convenience Translation of Financial Statements

The consolidated financial statements are expressed in Korean won and have been translated into US dollars at the rate of ₩ 1,071.10 to $ 1, the basic exchange rate on December 31, 2012 posted by Seoul Money Brokerage Services, solely for the convenience of the reader. These translations do not comply with K-IFRS and should not be construed as a representation that any or all of the amounts shown could be converted into US dollars at this or any other rate.

5. Cash and Cash Equivalents

Cash and cash equivalents as of December 31, 2012 and 2011 are summarized as follows:

(In millions of won and in thousands of US dollars)

		2012	2011		2012 (Note 4)
Cash on hand	₩	9,148	11,809	$	8,541
Bank deposits (*)		1,456,351	1,453,939		1,359,678
	₩	1,465,499	1,465,748	$	1,368,219

(*) Includes restricted deposits of ₩909 million and ₩ 7,190 million as of December 31, 2012 and 2011, respectively.

6. Trade Receivables and Other Receivables

Trade receivables and other receivables as of December 31, 2012 and 2011 are summarized as follows:

(In millions of won and in thousands of US dollars)

		2012	2011		2012 (Note 4)
Trade receivables:					
Trade receivables	₩	847,112	952,320	$	790,880
Allowance for doubtful accounts		(6,947)	(8,429)		(6,486)
Present value discount		(46)	(70)		(42)
		840,119	943,821		784,352
Other receivables:					
Non-trade receivables		29,278	27,516		27,335
Allowance for doubtful accounts		(144)	(154)		(134)
Accrued revenues		52,995	66,896		49,477
Allowance for doubtful accounts		(497)	(618)		(465)
		81,632	93,640		76,213
Total trade and other receivables	₩	921,751	1,037,461	$	860,565

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7. Inventories

Inventories as of December 31, 2012 and 2011 are summarized as follows:

(In millions of won and in thousands of US dollars)

		2012	2011		2012
					(Note 4)
Merchandise	₩	21,314	21,106	$	19,899
Finished goods		5,666	4,828		5,290
Raw materials		76,577	72,928		71,494
Supplies		379,017	326,385		353,858
Materials-in-transit		11,070	10,101		10,335
	₩	493,644	435,348	$	460,876

8. Other Financial Assets

Other financial assets as of December 31, 2012 and 2011 are summarized as follows:

(In millions of won and in thousands of US dollars)

		2012	2011		2012
					(Note 4)
Current:					
Loans and receivables	₩	114,237	175,211	$	106,654
Held-to-maturity investments		8,573	8,313		8,004
		122,810	183,524		114,658
Non-current:					
Loans and receivables		2,450	3,422		2,287
Available-for-sale financial assets		154,585	138,483		144,324
Held-to-maturity investments		15,441	17,852		14,416
		172,476	159,757		161,027
Total other financial assets	₩	295,286	343,281	$	275,685

8. Other Financial Assets, Continued

(a) Details of other financial assets as of December 31, 2012 and 2011 are summarized as follows:

(In millions of won)

		Loans and receivables	Available-for-sale financial assets	Held-to-maturity investments	Total
December 31, 2012					
Current:					
Short-term financial instruments	₩	114,170	-	-	114,170
Short-term investment securities		-	-	8,573	8,573
Short-term loans		67	-	-	67
		114,237	-	8,573	122,810
Non-current:					
Long-term financial instruments		1,963	-	-	1,963
Long-term investment securities		-	154,585	15,441	170,026
Long-term loans		81	-	-	81
Long-term trade receivables		406	-	-	406
		2,450	154,585	15,441	172,476
	₩	116,687	154,585	24,014	295,286
December 31, 2011					
Current:					
Short-term financial instruments	₩	175,134	-	-	175,134
Short-term investment securities		-	-	8,313	8,313
Short-term loans		77	-	-	77
		175,211	-	8,313	183,524
Non-current:					
Long-term financial instruments		2,644	-	-	2,644
Long-term investment securities		-	138,483	17,852	156,335
Long-term loans		127	-	-	127
Long-term trade receivables		651	-	-	651
		3,422	138,483	17,852	159,757
	₩	178,633	138,483	26,165	343,281

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8. Other Financial Assets, Continued

(b) Available-for-sale financial assets (non-current) as of December 31, 2012 and 2011 are summarized as follows:

(In millions of won and in thousands of US dollars)

		Acquisition cost	2012	2011		2012 (Note 4)
Marketable securities recorded at fair value	₩	43,030	78,592	60,026	$	73,375
Non-marketable securities		59,308	67,600	69,329		63,113
Investments in affiliated companies		96	96	490		90
Debt securities		3,002	3,002	3,000		2,802
Investments in other equity securities		5,332	5,295	5,638		4,944
Total available-for-sale financial assets	₩	110,768	154,585	138,483	$	144,324

(c) Held-to-maturity investments as of December 31, 2012 and 2011 are summarized as follows:

(In millions of won and in thousands of US dollars)

		2012	2011		2012 (Note 4)
Within one year	₩	8,573	8,313	$	8,004
Due in one to five years		13,412	17,814		12,522
Due in six to ten years		2,029	38		1,894
	₩	24,014	26,165	$	22,420

(d) Financial instruments income(expense) by categories for the years ended December 31, 2012 and 2011 are summarized as follows:

(In millions of won and in thousands of US dollars)

		2012	2011		2012 (Note 4)
Available-for-sale financial assets:					
Finance income recognized in other comprehensive income, net of tax	₩	19,066	(6,119)	$	17,800

9. Investments in Associates

(a) Investments in associates as of December 31, 2012 and 2011 are summarized as follows:

(In millions of won and in thousands of US dollars)

Company	Location	Percentage of ownership		2012	2011		2012
Hanjin Transportation Co., Ltd.	Korea	21.63%	₩	111,601	112,573	$	104,193
Hanjin Shipping Holdings Co., Ltd.	Korea	27.40%		25,602	92,035		23,903
Grandstar Cargo International Airlines Co., Ltd.	China	25.00%		-	10,653		-
Tianjin Hanjin-Sino Trans Air Cargo Terminal Co., Ltd.	China	61.97%		8,827	9,487		8,241
S-Oil Corporation	Korea	28.41%		2,401,230	2,369,445		2,241,835
Hanjin Central Asia MChJ (*1)	Uzbekistan	-		-	176		-
EIGHTCITY Co., Ltd. (*2)	Korea	23.81%		1,500	-		1,400
IAT Co., Ltd. (*1)	Korea	-		-	11,700		-
WLD Co., Ltd. (*1)	Korea	-		-	6,000		-
Hanjin GT&S Co., Ltd.	Korea	-		-	235		-
Hanjin-Jungseok Investment Co.,Ltd	Korea	75.00%		7,500	-		7,002
The 68^{th} KTB Safe Private Equity Fund Investment Trust	Korea	100.00%		1,130	-		1,056
			₩	2,557,390	2,612,304	$	2,387,630

(*1) These companies were accounted for as investment in associates prior to March 31, 2012 as management believes that the difference of consolidating such subsidiaries from equity method accounting is insignificant on the consolidated financial statements. During the year ended December 31, 2012, these companies are transferred from investments in associates to consolidated subsidiaries.

(*2) EIGHTCITY Co., Ltd. is reclassified from available-for-sale financial assets to investments in associates.

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9. Investments in Associates, Continued

(b) Changes in the carrying amount of investments in associates for the year ended December 31, 2012 are summarized as follows:

(In millions of won)

Company	Beginning balance	Acquisitions	Disposal	Dividends received	Profit (loss)	Accumulated other comprehensive loss	Other increase (decrease)	Impairment losses	Ending balance
Hanjin Transportation Co., Ltd.	₩ 112,573	-	-	(1,023)	(177)	1,338	(1,110)	-	111,601
Hanjin Shipping Holdings Co., Ltd.	92,035	-	-	-	(59,083)	(8,735)	1,385	-	25,602
Grandstar Cargo International Airlines Co., Ltd.	10,653	-	-	-	(6,962)	(248)	-	(3,443)	-
Tianjin Hanjin-Sino Trans Air Cargo Terminal Co., Ltd.	9,487	-	-	-	(112)	(548)	-	-	8,827
S-Oil Corporation	2,369,445	-	-	(116,740)	147,992	2,523	(1,990)	-	2,401,230
Hanjin Central Asia MChJ.	176	14,283	(14,459)	-	-	-	-	-	-
EIGHTCITY Co., Ltd.	-	1,500	-	-	-	-	-	-	1,500
IAT Co., Ltd.	11,700	-	(11,700)	-	-	-	-	-	-
WLD Co., Ltd.	6,000	-	(6,000)	-	-	-	-	-	-
Hanjin GT&S Co., Ltd.	235	-	(310)	-	75	-	-	-	-
Hanjin-Jungseok Investment Co.,Ltd	-	7,500	-	-	-	-	-	-	7,500
The 68^{th} KTB Safe Private Equity Fund Investment Trust	-	1,130	-	-	-	-	-	-	1,130
	₩ 2,612,304	24,413	(32,469)	(117,763)	81,733	(5,670)	(1,715)	(3,443)	2,557,390

(c) The fair value of investments of equity-accounted investees for which there are published price quotations as of December 31, 2012 are as follows:

(In millions of won except share data)

Company	Number of shares	Book value	Market price
Hanjin Transportation Co., Ltd.	2,590,179	₩ 111,601	51,156
Hanjin Shipping Holdings Co., Ltd.	11,999,377	25,602	68,156
S-Oil Corporation	31,983,586	2,401,230	3,326,293

9. Investments in Associates, Continued

(d) Financial information of associates as of and for the year ended December 31, 2012 are summarized as follows:

(In millions of won)

Company		Total assets	Total liabilities	Revenue	Net profit (loss)
Hanjin Transportation Co., Ltd.	₩	1,756,399	986,249	1,209,785	(825)
Hanjin Shipping Holdings Co., Ltd.		615,692	218,413	40,715	(215,618)
Grandstar Cargo International Airlines Co., Ltd.		75,337	68,715	(63)	(26,528)
Tianjin Hanjin-Sino Trans Air Cargo Terminal Co., Ltd.		17,382	4	-	(180)
S-Oil Co., Ltd.		12,490,954	7,087,269	34,723,291	587,582
EIGHTCITY Co., Ltd.		17,796	16,355	-	(4,818)
Hanjin-Jungseok Investment Co.,Ltd		10,062	18	-	44
The 68th KTB Safe Private Equity Fund Investment Trust		1,153	2	-	21

10. Investment Property

(a) Investment property as of December 31, 2012 and 2011 are summarized as follows:

(In millions of won)

		2012			2011		
		Acquisition cost	Accumulated depreciation	Book value	Acquisition cost	Accumulated depreciation	Book value
Land	₩	277,238	-	277,238	276,409	-	276,409
Building		149,127	(66,231)	82,896	149,031	(71,998)	77,033
Construction-in-progress		10,583	-	10,583	3,673	-	3,673
	₩	436,948	(66,231)	370,717	429,113	(71,998)	357,115

(b) Changes in carrying amount of investment property for the year ended December 31, 2012 are summarized as follows:

(In millions of won and in thousands of US dollars)

		Balance at Jan. 1, 2012	Depreciation	Transfers	Balance at Dec. 31, 2012		Balance at Dec. 31, 2012 (Note 4)
Land	₩	276,409	-	829	277,238	$	258,835
Building		77,033	(5,314)	11,177	82,896		77,393
Construction-in-progress		3,673	-	6,910	10,583		9,881
	₩	357,115	(5,314)	18,916	370,717	$	346,109

(c) Revenue and cost in related to investment property for the years ended December 31, 2012 and 2011 are summarized as follows:

(In millions of won and in thousands of US dollars)

		2012	2011		2012 (Note 4)
Revenue	₩	41,314	38,879	$	38,572
Cost (depreciation)		5,314	4,368		4,961

11. Property, Aircraft and Equipment

(a) Property, aircraft and equipment as of December 31, 2012 and 2011 are summarized as follows:

(In millions of won)

		2012			2011		
		Acquisition cost	Accumulated depreciation	Book value	Acquisition cost	Accumulated depreciation	Book value
Land	₩	1,730,800	-	1,730,800	1,715,726	-	1,715,726
Buildings and structures		1,232,898	(416,520)	816,378	1,278,311	(425,402)	852,909
Machinery		341,089	(224,894)	116,195	309,917	(210,965)	98,952
Aircraft and engines		7,110,959	(4,433,733)	2,677,226	7,286,042	(4,245,842)	3,040,200
Leased aircraft and leased engines		10,902,017	(2,931,788)	7,970,229	9,555,822	(2,502,686)	7,053,136
Aircraft parts		228,899	(120,670)	108,229	219,870	(110,863)	109,007
Others		543,486	(395,746)	147,740	547,123	(407,419)	139,704
Construction-in-progress		1,313,293	-	1,313,293	1,179,702	-	1,179,702
	₩	23,403,441	(8,523,351)	14,880,090	22,092,513	(7,903,177)	14,189,336

(b) Changes in carrying amount of property, aircraft and equipment for the year ended December 31, 2012 are as follows:

(In millions of won and in thousands of US dollars)

		Balance at January 1, 2012	Acquisition	Disposal	Depreciation	Others	Balance at December 31, 2012		Balance at December 31, 2012
									(Note 4)
Land	₩	1,715,726	18,394	(107)	-	(3,213)	1,730,800	$	1,615,909
Buildings and structures		852,909	7,033	(32,248)	(31,627)	20,311	816,378		762,187
Machinery		98,952	19,912	(467)	(20,600)	18,398	116,195		108,482
Aircraft and engines		3,040,200	65,521	(60,388)	(521,114)	153,007	2,677,226		2,499,511
Leased aircraft and leased engines		7,053,136	80,362	-	(864,189)	1,700,920	7,970,229		7,441,162
Aircraft parts		109,007	17,061	(5,677)	(12,162)	-	108,229		101,045
Others		139,704	35,491	(16,980)	(38,140)	27,665	147,740		137,933
Construction -in-progress		1,179,702	662,215	(11,525)	-	(517,099)	1,313,293		1,226,115
	₩	14,189,336	905,989	(127,392)	(1,487,832)	1,399,989	14,880,090	$	13,892,344

(c) For the year ended December 31, 2012, the Group capitalized borrowing costs of ₩ 3,408,558 thousand as construction-in-progress. For the determination of borrowing costs, the Group used the interest rate on funds specifically for the purpose of obtaining a qualifying asset and other general funds whose interest rates are 5.33% and 3.54%~5.39%, respectively, for the year ended December 31, 2012.

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12. Intangible Assets

(a) Intangible assets as of December 31, 2012 and 2011 are summarized as follows:

(In millions of won)

		2012			2011		
		Acquisition cost	Accumulated amortization	Book value	Acquisition cost	Accumulated amortization	Book value
Goodwill	₩	2,480	-	2,480	2,347	-	2,347
Facility usage rights		228,894	(104,225)	124,669	332,514	(191,673)	140,841
Development costs		41,943	(16,598)	25,345	47,655	(18,680)	28,975
Other intangible assets (*)		191,668	(29,553)	162,115	192,716	(22,053)	170,663
	₩	464,985	(150,376)	314,609	575,232	(232,406)	342,826

(*) Primarily include capitalized expenditures in connection with ERP system and membership.

(b) Changes in carrying amount of intangible assets for the year ended December 31, 2012 are as follows:

(In millions of won and in thousands of US dollars)

		Goodwill	Facility usage rights	Development costs	Other intangible assets	Total
Net balance at January 1, 2012	₩	2,347	140,841	28,975	170,663	342,826
Acquisition		-	-	-	1,396	1,396
Amortization		-	(10,096)	(3,630)	(9,240)	(22,966)
Disposal		-	-	-	(726)	(726)
Other		133	(6,076)	-	22	(5,921)
Net balance at December 31, 2012	₩	2,480	124,669	25,345	162,115	314,609
(Note 4)	$	2,315	116,393	23,663	151,354	293,725

13. Pledged Assets and Guarantees

Pledged assets and guarantees provided as collateral for the Group as of December 31, 2012 are summarized as follows:

(In millions of won and in thousands of foreign currency, except share data)

In relation to	Pledged assets	Provided to	Borrowing amount	Collateralized amount
Short-term and long-term borrowings, etc.	Aircraft and engines	Korea Development Bank	USD 710,465	KRW 120,000
			JPY 4,000,000	USD 662,640
	Facility usage rights		KRW 214,302	KRW 140,000
	Land / buildings			KRW 820,900
				USD 303,905
				NLG 1,143
		Korea Exchange Bank	USD 37,000	KRW 73,000
		Kookmin Bank	KRW 11,280	KRW 20,544
	Aircraft and engines	Korea EXIM Bank	USD 28,831	USD 361,029
		NACF(*)	USD 156,075	KRW 240,000
			KRW 298,571	USD 199,115
				KRW 60,000
				USD 120,000
	Land			KRW 192,000
	Aircraft and engines	Hana Bank and others	USD 142,299	USD 254,096
	Facility usage rights		KRW 13,740	KRW 45,500
	Land			USD 136
	Land / buildings	NACF(*)	KRW 75,000	KRW 102,000
		Korea Exchange Bank	USD 10,007	USD 10,007
Fixed collateral	Land / buildings	LIG Insurance Co., Ltd. and others	-	KRW 7,400
				USD 5,000
Contract performance guarantee	Non-current investments -Government and public bonds	Defense Procurement Agency	-	-
		Seoul Regional Communications Office	-	-
Investees' borrowings		CheongnaCC-1st	-	244,800 shares
Guarantees		Korea Software Financial Cooperative	-	2,207 shares
Guaranteed loans	Investments in associates - Hanjin Transportation Co.,Ltd.		KRW 5,327	110,373 shares
	Investments in associates - Hanjin Shipping Holdings Co., Ltd.	Korea Exchange Bank	KRW 21,297	986,067 shares
Short-term and long-term borrowings, etc.	Investments in associates - S-Oil Corporation			31,983,586 shares
	Investments in subsidiaries - Hanjin Energy Co., Ltd.	Hana Bank and others	KRW 1,064,662	35,200 shares
Airport facility usage fee contract	Short-term and long-term financial instruments	Korea Airport Corporation and others	-	KRW 207

(*) National Agricultural Cooperative Federation

In addition, the Group has provided leased aircraft and leased engines as collateral to the lessor for the obligations under finance leases.

14. Other Liabilities and Provision for Leased Aircraft Maintenance

(a) Other liabilities as of December 31, 2012 and 2011 are summarized as follows:

(In millions of won and in thousands of US dollars)

		2012	2011		2012 (Note 4)
Other current liabilities:					
Income taxes payable	₩	10,980	11,125	$	10,251
Financial derivative liabilities		31,666	26,517		29,564
Withholdings, etc.		108,449	114,893		101,251
		151,095	152,535		141,066
Other non-current liabilities:					
Provision for leased aircraft maintenance		82,462	102,707		76,988
Financial derivative liabilities		4,292	8,643		4,007
Other provision		5,719	7,488		5,339
Long-term withholdings, etc.		21,902	36,371		20,449
		114,375	155,209		106,783
	₩	265,470	307,744	$	247,849

(b) Changes in the carrying amount of the provision for leased aircraft maintenance for the years ended December 31, 2012 and 2011 are as follows:

(In millions of won and in thousands of US dollars)

		2012	2011		2012 (Note 4)
Beginning balance	₩	102,707	136,427	$	95,889
Charged to profit or loss		37,113	37,943		34,649
Utilization		(57,358)	(71,663)		(53,551)
Ending balance	₩	82,462	102,707	$	76,988

The Group has maintenance obligations related to the operating leases. In order to fulfill their obligations, the Group estimated and recognized as a provision for leased aircraft maintenance by anticipating future maintenance costs since it is probable that an outflow of resources embodying economic benefits will be required to settle the obligations.

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15. Short-term Borrowings

Short-term borrowings as of December 31, 2012 and 2011 are summarized as follows:

(In millions of won and in thousands of US dollars)

Borrowings from	Annual interest rate		2012	2011		2012 (Note 4)
Korea Development Bank - Singapore branch	3M LIBOR + 2.45%	₩	32,133	34,599	$	30,000
Korea Development Bank	3M LIBOR + 2.75% ~ 3.15% 6M KDB rate + 1.65% 12M KDB rate + 1.03% ~ 1.12%		527,397	230,660		492,388
Korea EXIM Bank	3M LIBOR + 2.65% ~ 2.85%		107,110	115,330		100,000
Kookmin Bank	3M LIBOR + 2.90% ~ 3.00% 5.84%		66,266	74,198		61,867
Hana Bank	3M LIBOR + 2.90% 3M CD Rate + 1.60%		139,857	144,834		130,573
NACF	3M LIBOR + 3.52% 4.79%		162,844	223,797		152,034
Korea Exchange Bank	3M LIBOR + 3.20%		93,186	86,498		87,000
Bank of China	3M LIBOR + 2.25%		53,555	57,665		50,000
BBCN	3.00%		146	-		137
Woori Bank	3M LIBOR + 3.10% ~ 3.28%		53,555	23,066		50,000
Shinhan Bank	5.00%		5,000	5,000		4,668
Hana Bank and others	3M CD Rate + 2.20%		24,224	14,890		22,616
Others	-		343	277		321
		₩	1,265,616	1,010,814	$	1,181,604

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16. Long-term Debt

(a) Bonds

The non-guaranteed bonds issued and outstanding as of December 31, 2012 and 2011 are summarized as follows:

(In millions of won and in thousands of US dollars)

Series	Issue date	Maturity	Annual interest rate		2012	2011	2012 (Note 4)
25-2nd	07.02.08	12.02.08	-	₩	-	100,000	$ -
26-2nd	07.05.25	12.05.25	-		-	100,000	-
27-2nd	07.09.17	12.09.17	-		-	50,000	-
29-2nd	07.11.12	12.11.12	-		-	40,000	-
30-2nd	08.03.06	13.03.06	5.00%		100,000	100,000	93,362
31-2nd	08.05.14	13.05.14	5.00%		80,000	80,000	74,690
34-3rd	09.02.12	12.02.12	-		-	250,000	-
35th	09.04.09	12.04.09	-		-	200,000	-
36-1st	09.08.06	12.08.06	-		-	230,000	-
36-2nd	09.08.06	14.08.06	7.20%		70,000	70,000	65,353
36-3rd	09.08.06	12.08.06	-		-	86,498	-
37-1st	09.10.29	12.10.29	-		-	100,000	-
37-2nd	09.10.29	14.10.29	7.10%		100,000	100,000	93,362
38-1st	10.02.04	13.02.04	5.95%		100,000	100,000	93,362
38-2nd	10.02.04	15.02.04	6.90%		200,000	200,000	186,724
39th	10.04.15	13.01.15	3M LIBOR + 4.45%		64,266	69,198	60,000
40th	10.08.02	13.08.02	5.10%		300,000	300,000	280,086
41st	11.02.08	14.02.08	4.82%		300,000	300,000	280,086
42-1st	11.05.16	14.05.16	4.78%		300,000	300,000	280,086
42-2nd	11.05.16	14.05.16	3M LIBOR + 2.50%		214,220	230,660	200,000
43-1st	11.08.08	14.08.08	4.55%		300,000	300,000	280,086
43-2nd	11.08.08	16.08.08	5.03%		300,000	300,000	280,086
44-1st	12.02.08	15.02.08	4.29%		200,000	-	186,724
44-2nd	12.02.08	16.08.08	4.52%		150,000	-	140,043
44-3rd	12.02.08	15.02.08	3M JPY LIBOR + 3.25%		124,750	-	116,469
45th	12.02.27	15.02.27	3M JPY LIBOR + 2.50%		124,750	-	116,469
46-1st	12.07.19	15.07.19	3.58%		150,000	-	140,043
46-2nd	12.07.19	17.07.19	3.98%		250,000	-	233,405
47-1st	12.10.08	17.10.18	3.61%		50,000	-	46,681
47-2nd	12.10.08	19.10.18	4.16%		247,359	-	230,940
48th	12.11.13	14.11.23	6M LIBOR + 2.20%		107,110	-	100,000
49-1st	12.12.13	17.12.13	3.95%		60,000	-	56,017
49-2nd	12.12.13	18.12.13	4.16%		70,000	-	65,353
49-3rd	12.12.13	19.12.13	4.36%		170,000	-	158,715
Arirang Bond	12.11.02	17.11.02	4.12%		224,417	-	209,520
					4,356,872	3,606,356	4,067,662
Present value discounts					(11,405)	(9,944)	(10,647)
					4,345,467	3,596,412	4,057,015
Less current portion of bonds, net of present value discounts					(643,464)	(1,154,896)	(600,752)
				₩	3,702,003	2,441,516	$ 3,456,263

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16. Long-term Debt, Continued

(b) Long-term borrowings

Long-term borrowings as of December 31, 2012 and 2011 are summarized as follows:

(In millions of won and in thousands of US dollars)

	Annual interest rate		2012	2011		2012 (Note 4)
Bank of Communication	3M LIBOR + 3.95%	₩	64,266	40,366	$	60,000
Hana Bank	-		-	57,665		-
	3M LIBOR + 3.20%		65,378	88,276		61,038
	3M CD Rate + 1.53% 3M LIBOR + 0.60% ~ 3.52%		100,051	156,817		93,410
Hana Bank and others	3M CD Rate + 1.70% ~ 2.00%		1,040,438	1,099,015		971,373
Industrial Bank of Korea	4.35%		4,000	4,000		3,576
Kookmin Bank	3.00%		11,280	12,210		10,531
Korea Development Bank	Fiscal Financing Special Account Rate + 0.75%		13,087	22,822		12,218
	4.15%		11,000	11,000		9,834
	-		-	50,000		-
	Fiscal Financing Special Account Rate + 0.75% 3M LIBOR + 0.57% ~ 3.35% 3M JPY LIBOR + 3.70%		473,697	517,497		442,253
Korea Exchange Bank	3M LIBOR + 2.30% ~ 2.55%		44,937	94,780		41,954
Korea Exchange Bank - LA	KEB BASE RATE + 0.65%		10,389	11,598		9,699
Korea EXIM Bank	3M LIBOR + 1.65%		30,880	64,013		28,830
Korea Finance Corporation	3M LIBOR + 2.20% ~ 3.23%		167,096	225,444		156,004
Korea Resources Corporation	-		-	2,950		-
	-		-	650		-
	2.60% ~ 3.20%		3,864	264		3,608
NACF	3M CD rate + 2.00% 3M LIBOR + 3.25% ~ 4.35% 5.34%		307,191	383,961		286,800
	3M LIBOR + 0.60% ~ 2.30% 3M CD Rate + 1.70% ~ 2.04% 4.59%		194,098	59,988		181,214
National Federation of Fisheries Cooperatives	3M LIBOR + 4.40%		53,555	57,665		50,000
NH Investment & SecuritiesCo., Ltd. and others	-		-	115,330		-
Shinhan Bank	3M LIBOR + 2.10%		43,735	63,807		40,832
Societe Generale	3M LIBOR + 0.60%		9,945	54,321		9,285
Woori Bank	-		-	57,665		-
	3M LIBOR + 1.97%		64,691	43,036		60,397
			2,713,578	3,295,140		2,533,450
Present value discount			(3,007)	(5,265)		(2,809)
Less current portion of long-term borrowings			(671,368)	(988,995)		(626,801)
		₩	2,039,203	2,300,880	$	1,903,840

16. Long-term Debt, Continued

(c) Obligation under finance leases

Obligation under finance leases as of December 31, 2012 and 2011 are summarized as follows:

(In millions of won and in thousands of US dollars)

	Annual interest rate	2012	2011	2012 (Note 4)
ANSETT	3.88%	₩ 49,728	61,200	$ 46,427
Arirang Ltd.	5.55%	85,768	115,753	80,075
BCLL	4.43%	75,167	70,149	70,177
CIT	3.69% ~ 4.43%	79,710	92,078	74,419
Constituion Aircraft Leasing 3 Ltd.	9.57%	19,792	23,382	18,478
Dooley Aviation Ltd.	3M LIBOR + 2.10%	180,954	215,703	168,942
Duria Aviation Ltd.	6M LIBOR + 0.98%	17,736	27,819	16,559
KALECA03 Aviation Limited	3M JPY LIBOR + 0.15%	31,412	49,465	29,327
KALECA10 Aviation Limited	3M LIBOR + 0.59%	147,018	173,768	137,259
KALECA11 Aviation Limited	3M LIBOR + 0.85%	886,291	1,048,993	827,459
KALECA11-2 Aviation Ltd.	3M LIBOR + 0.85%	222,558	262,792	207,785
KALEDC (2011) Ltd.	3M LIBOR + 1.12%	38,781	46,203	36,207
KE Atomos Ltd.	3M LIBOR + 1.50%	61,588	83,614	57,500
KE Augustus Ltd.	4.55%	68,080	97,241	63,561
KE Cayman Leasing Ltd.	3M JPY LIBOR + 1.39%	32,234	60,580	30,094
KE Celtics Ltd.	3M LIBOR + 4.75%	17,405	33,734	16,250
KE Evergreen Ltd.	3M LIBOR + 4.41%	25,706	46,132	24,000
KE Export Leasing Ltd.	3M LIBOR + 0.30% ~ 1.25% 4.55% ~ 5.35%	1,154,886	1,548,348	1,078,224
KE Export Leasing (2011) Ltd.	3M LIBOR + 0.27%	453,733	532,999	423,614
KE Harmony Ltd.	3M EUR LIBOR + 1.35%	8,444	42,115	7,883
KE Innisfree Ltd.	3M LIBOR + 1.64%	9,572	24,949	8,937
KE Jumbos V Ltd.	5.38%	78,084	109,306	72,901
KE Octavius Ltd.	4.76%	144,552	201,585	134,957
KE PC2018 Ltd.	3M LIBOR + 3.45%	32,294	50,226	30,150
KE U Simjo Ltd.	4.70%	7,010	22,205	6,545
KUBAEK	3M LIBOR + 2.05%	98,071	117,099	91,561
Millenium KAL Ltd.	-	-	34,455	-
Mugunghwa Ltd.	6M LIBOR + 3.60%	47,308	60,210	44,168
Peninsula Aviation Ltd.	6M LIBOR + 3.60%	44,305	55,375	41,364
SKYTEAM2010 Limited	3M LIBOR + 3.50%	18,744	28,256	17,500
Sumisho Aircraft Asset Management B.V.	5.73%	12,919	17,602	12,061
GECAS	4.43%	172,494	-	161,044
KE Cayman Leasing (2012)	3M JPY LIBOR + 2.90%	107,522	-	100,385
KE Export Leasing (2011-II) Ltd.	3M LIBOR + 0.75% ~0.90%	319,393	-	298,191
KE Export Leasing (2012) Ltd.	3M LIBOR + 1.05%	496,679	-	463,708
KALECA12 AVIATION Ltd.	3M JPY LIBOR + 0.71%	275,013		256,757
KE WINNER Leasing, Ltd.	3M LIBOR + 2.86%	107,163	-	100,049
Others	-	-	41	-
		5,628,114	5,353,377	5,254,518
Less current portion of obligation under finance leases, net of present value discounts		(918,147)	(893,895)	(857,200)
		₩ 4,709,967	4,459,482	$ 4,397,318

December 31, 2012

16. Long-term Debt, Continued

(c) Obligation under finance leases, continued

In relation to the finance leases, the Group has been provided guarantees in the amount of USD 3,366 million by the Export-Import Bank of the United States and other financial institutions as of December 31, 2012.

Minimum lease payments and present value of long-term obligation under finance leases as of December 31, 2012 are summarized as follows:

(In millions of won and in thousands of US dollars)

		Obligation under finance leases		Obligation under finance leases (Note 4)
Less than one year	₩	1,043,635	$	974,358
One year to five years		2,948,023		2,752,332
More than five years		2,115,795		1,975,348
		6,107,453		5,702,038
Present value discounts		(479,339)		(447,520)
Present value of obligation under finance leases	₩	5,628,114	$	5,254,518

(d) Asset-backed securitization loans

The asset-backed securitization ("ABS") loans of the Group are obtained from various special purpose entities which are not consolidated and entailed the sales of the beneficial rights of receiving a certain amount of cash flows from the future receivables of the Group to several financial institutions. Details of the ABS loans as of December 31, 2012 and 2011 are summarized as follows:

(In millions of won and in thousands of US dollars)

	Annual interest rate		2012	2011		2012 (Note 4)
KAL- 4th ABS	6.85%	₩	240,000	360,000	$	224,069
KAL- 5th ABS	1.25%		156,545	387,357		146,153
KAL- 6th ABS	1.55%		113,420	234,449		105,891
KAL- 7th ABS	4.57%		470,000	500,000		438,801
KAL- 8th ABS	1M LIBOR + 2.00%		205,651	344,837		192,000
			1,185,616	1,826,643		1,106,914
Less current portion of ABS loans			(598,137)	(573,814)		(558,432)
		₩	587,479	1,252,829	$	548,482

16. Long-term Debt, Continued

(e) Other financial liabilities

Other financial liabilities as of December 31, 2012 and 2011 are summarized as follows:

(In millions of won and in thousands of US dollars)

		2012		2011	
		Current	Non-current	Current	Non-current
Leasehold deposits received	₩	-	20,528	-	22,132
Guaranteed loans(*)		18,660	73,123	18,660	91,782
Present value discounts on guaranteed loans		(1,299)	(19,338)	(1,299)	(27,204)
	₩	17,361	74,313	17,361	86,710
US dollars in thousands (Note 4)	$	16,209	69,380		

(*) Guaranteed loans
The Group has agreed to assume certain guaranteed liabilities of Hanjin Shipping Co., Ltd. with Korea Exchange Bank and other financial institutions, pursuant to the Government Guidelines for the Rationalization of the Marine Industry. As of December 31, 2012, all liabilities relate to the Group are accounted for as guaranteed loans. The guaranteed loans have no interest, and are payable in equal installments over 15 years. In accordance with the repayment schedule, the Group made its first installment payment in 2003 and the final installment will be due in 2017.

(f) The maturity of certain long-term financial liabilities as of December 31, 2012 are summarized as follows:

(In millions of won)

December 31		Bonds	Long-term borrowings	Obligation under finance leases	Asset-backed securitization loans	Guaranteed loans	Total
2013	₩	644,266	671,368	1,043,635	598,137	18,660	2,976,066
2014		1,291,330	1,708,873	874,438	357,479	18,660	4,250,780
2015		899,500	221,511	772,086	120,000	18,335	2,031,432
2016		450,000	53,832	693,799	110,000	18,080	1,325,711
2017		584,417	36,733	607,701	-	18,048	1,246,899
Thereafter		487,359	21,261	2,115,794	-	-	2,624,414
	₩	4,356,872	2,713,578	6,107,453	1,185,616	91,783	14,455,302

December 31, 2012

17. Employee Benefits

(a) Details of defined benefit plans as of December 31, 2012 and 2011 are summarized as follows:

(In millions of won and in thousands of US dollars)

		2012	2011		2012 (Note 4)
Present value of defined benefit obligations	₩	1,229,019	1,029,002	$	1,147,436
Contribution to national pension plan		(8,687)	(9,502)		(8,110)
Fair value of plan assets		(352,460)	(330,651)		(329,064)
	₩	867,872	688,849	$	810,262

(b) Changes in carrying amount of the present value of defined benefit obligations for the years ended December 31, 2012 and 2011 are summarized as follows:

(In millions of won and in thousands of US dollars)

		2012	2011		2012 (Note 4)
Defined benefit obligations at the beginning of period	₩	1,029,002	907,041	$	960,696
Current service costs		120,787	108,099		112,769
Interest expenses		41,241	41,510		38,503
Actuarial losses		122,548	88,993		114,413
Benefits paid by the plan		(83,276)	(120,561)		(77,748)
Transfer from affiliates		650	1,198		607
Other		(1,933)	2,722		(1,804)
Defined benefit obligations at the end of period	₩	1,229,019	1,029,002	$	1,147,436

(c) Changes in carrying amount of the fair value of plan assets for the years ended December 31, 2012 and 2011 are summarized as follows:

(In millions of won and in thousands of US dollars)

		2012	2011		2012 (Note 4)
Fair value of plan assets at the beginning of period	₩	330,651	345,372	$	308,702
Expected returns on plan assets		11,316	14,566		10,565
Actuarial gains (losses)		377	(2,821)		352
Contribution to plan assets		37,340	15,079		34,861
Benefits paid by the plan		(27,284)	(41,250)		(25,472)
Others		60	(295)		56
Fair value of plan assets at the end of period	₩	352,460	330,651	$	329,064

17. Employee Benefits, Continued

(d) The components of retirement benefit costs for the years ended December 31, 2012 and 2011 are summarized as follows:

(In millions of won and in thousands of US dollars)

		2012	2011		2012 (Note 4)
Current service costs	₩	120,787	108,099	$	112,769
Interest expense		41,241	41,510		38,503
Expected returns on plan assets		(11,316)	(14,566)		(10,565)
	₩	150,712	135,043	$	140,707

(e) The principal actuarial assumptions used as of December 31, 2012 and 2011 are summarized as follows:

	2012	2011
Discount rate	3.21% ~ 4.31%	3.92% ~ 4.31%
Expected rate of return on plan assets	3.28% ~ 5.08%	2.90% ~ 5.36%
Increase in average salary	4.40% ~ 5.30%	3.40% ~ 5.30%

(f) Actuarial gain (losses) recognized in other comprehensive loss for the years ended December 31, 2012 and 2011 are summarized as follows:

(In millions of won and in thousands of US dollars)

		2012	2011		2012 (Note 4)
Actuarial losses of defined benefit plan	₩	(122,548)	(88,993)	$	(114,413)
Actuarial gains (losses) of plan assets		377	(2,821)		352
	₩	(122,171)	(91,814)	$	(114,061)

(g) Recognized amount in other comprehensive loss relating to retirement and severance benefits as of December 31, 2012 and 2011 are as follows:

(In millions of won and in thousands of US dollars)

		2012	2011		2012 (Note 4)
Balance at December 31,2011	₩	(113,767)	(42,152)	$	(106,215)
Actuarial losses		(94,074)	(71,615)		(87,829)
Balance at December 31,2012	₩	(207,841)	(113,767)	$	(194,044)

18. Deferred Revenue

The Group manages its frequent flyer program, "SKYPASS", a customer loyalty program, which provides incentives through accrued mileage such as bonus flight tickets and seat class upgrades in addition to other benefits to customers of the Group and Group's alliance companies. The Group allocates the fair value of the consideration received in respect of the sales into the award credits and service revenue. The award credits' portion of sales price is not recognized as revenue until the obligation has been performed. The Group's deferred income in connection with the SKYPASS system in the consolidated statement of financial position as of December 31, 2012 amounted to ₩ 1,519,039 million, including ₩ 42,344 million of advance receipts from customers and ₩ 1,476,695 million of deferred revenue.

19. Capital Stock and Capital Surplus

(a) As of December 31, 2012, the number of shares authorized to issue, the number of shares issued and the share par value of the Parent Company are 250,000,000 shares, 71,971,631 shares of ordinary shares (1,379,177 shares of preferred shares) and ₩5,000, respectively.

(b) Capital surplus as of December 31, 2012 and 2011 are summarized as follows:

(In millions of won and in thousands of US dollars)

		2012	2011		2012 (Note 4)
Additional paid-in capital	₩	191,056	191,057	$	178,374
Others		40,081	41,963		37,420
	₩	231,137	233,020	$	215,794

20. Capital Adjustments and Other Equity

(a) Capital adjustments as of December 31, 2012 and 2011 are summarized as follows:

(In millions of won and in thousands of US dollars)

		2012	2011		2012 (Note 4)
Treasury stock(*)	₩	(64,964)	(64,964)	$	(60,652)
Discounts on stocks issuance		(1,640)	(1,251)		(1,531)
Others		824	1,737		769
	₩	(65,780)	(64,478)	$	(61,414)

(*) In accordance with Article 165-2 of the Financial Investment Services and Capital Market Act, the Group acquired 4,437,327 shares of registered common stock and 11,869 shares of preferred stock which will be resold according to the market situation hereafter and credited them as capital adjustment.

(b) Accumulated other comprehensive loss as of December 31, 2012 and 2011 are summarized as follows:

(In millions of won and in thousands of US dollars)

		2012	2011		2012 (Note 4)
Gain on valuation of long-term investment securities	₩	36,316	21,889	$	33,905
Effective portion of changes in fair value of cash flow hedges		(7,824)	(6,712)		(7,305)
Change in capital adjustments - equity method accounted investments		(25,997)	(20,405)		(24,271)
Foreign currency translation difference		(8,976)	(8,652)		(8,380)
	₩	(6,481)	(13,880)	$	(6,051)

December 31, 2012

21. Selling, General and Administrative Expenses

Details of selling, general and administrative expenses for the years ended December 31, 2012 and 2011 are summarized as follows:

(In millions of won and in thousands of US dollars)

		2012	2011		2012
					(Note 4)
Salary	₩	298,014	279,869	$	278,232
Retirement benefit costs		30,818	29,213		28,772
Depreciation		17,711	17,243		16,535
Rental		18,803	17,773		17,555
Sales commission		348,191	445,949		325,078
Advertising		105,822	105,252		98,797
Welfare		56,186	60,136		52,456
Training		7,696	9,949		7,185
Communications		41,214	50,480		38,478
Taxes and dues		21,917	24,700		20,462
Facility maintenance		7,893	7,738		7,369
Commission		118,845	142,992		110,956
Others		84,599	76,823		78,985
	₩	1,157,709	1,268,117		1,080,860

22. Other Income and Expenses

Other income and expenses for the years ended December 31, 2012 and 2011 are summarized as follows:

(In millions of won and in thousands of US dollars)

		2012	2011		2012 (Note 4)
Other income:					
Gains on foreign currency transactions	₩	303,336	411,823	$	283,200
Gains on foreign currency translation		824,180	67,595		769,471
Reversal of allowance for doubtful accounts		870	4,710		812
Rental revenues		-	5		-
Gains on disposal of property, aircraft and equipment		29,784	6,614		27,807
Miscellaneous gains		23,615	42,399		22,048
		1,181,785	533,146		1,103,338
Other expenses:					
Other bad debt expenses	₩	6,556	1,875	$	6,121
Losses on foreign currency transactions		233,917	402,013		218,390
Losses on foreign currency translation		198,220	339,098		185,062
Losses on disposal of property, aircraft and equipment		142,659	65,353		133,189
Losses on disposals of intangible assets		585	-		546
Losses on valuation of inventories		2,167	3,447		2,023
Impairment losses on intangible assets		50	142		47
Donations		22,565	16,660		21,067
Miscellaneous losses		58,636	24,819		54,743
		665,355	853,407		621,188
Net other income (expenses)	₩	516,430	(320,261)	$	482,150

December 31, 2012

23. Finance Income and Costs

Finance income and costs for the years ended December 31, 2012 and 2011 are summarized as follows:

(In millions of won and in thousands of US dollars)

		2012	2011		2012 (Note 4)
Finance income:					
Interest income	₩	42,672	33,384	$	39,839
Dividend income		2,303	1,741		2,150
Gains on valuation of financial derivatives		59,039	42,394		55,120
Gains on transactions of financial derivatives		17,349	17,938		16,198
Gains on disposal of investments in associates		-	860		-
		121,363	96,317		113,307
Finance costs:					
Interest expense	₩	575,230	570,594	$	537,046
Losses on disposals of available-for-sale financial assets		18	-		17
Impairment losses on investments in associates		3,443	98,974		3,214
Losses on valuation of financial derivatives		22,433	43,139		20,944
Losses on transactions of financial derivatives		4,722	6,890		4,409
		605,846	719,597		565,630
Net finance costs	₩	(484,483)	(623,280)	$	(452,323)

24. Income Tax Expense

(a) The components of the income tax expense for the years ended December 31, 2012 and 2011 are summarized as follows:

(In millions of won and in thousands of US dollars)

		2012	2011		2012 (Note 4)
Current income tax expense	₩	17,623	16,363	$	16,453
Changes in temporary difference		141,937	(96,219)		132,515
Income tax refund		(6,912)	(6,191)		(6,453)
Items recorded directly in equity		27,679	24,674		25,842
Income tax expense (benefit)	₩	180,327	(61,373)	$	168,357

(b) The income tax benefit calculated by applying statutory tax rates to the Group's profit (loss) before income taxes differs from the actual tax expense (benefit) in the consolidated statement of comprehensive income (loss) for the years ended December 31, 2012 and 2011 for the following reasons:

(In millions of won and in thousands of US dollars)

		2012	2011		2012 (Note 4)
Profit (loss) before income taxes	₩	432,237	(269,032)	$	403,545
Income tax expense (benefit) computed at statutory rate		114,617	(65,132)		107,009
Adjustments:					
Non-deductible expense		2,427	7,037		2,266
Adjustments for prior year		39,976	(9,278)		37,322
Income tax effects on share of profit of investments in associates and subsidiaries		21,508	1,697		20,080
Others		1,799	4,303		1,680
Income tax expense (benefit)	₩	180,327	(61,373)	$	168,357
Effective tax rate		41.72%	-		41.72%

December 31, 2012

25. Earnings (Loss) per Share

Basic earnings (loss) per share for the years ended December 31, 2012 and 2011 are summarized as follows:

(In millions of won and in thousands of US dollars, except share data and earnings (loss) per share)

		2012		2011			2012	
		Continuing operations	Dis-continued operation	Continuing operations	Dis-continued operation		Continuing operations	Dis-continued operation
							(Note 4)	
Profit (loss) for the year of the owners of the Parent Company	₩	244,779	1,634	(221,716)	2,895	$	228,530	1,526
Weighted-average number of common shares outstanding		67,534,304	67,534,304	67,534,304	67,534,304		67,534,304	67,534,304
Basic earnings (loss) per share in won and US dollars	₩	3,625	24	(3,283)	43	$	3.39	0.02

Diluted earnings per share are not calculated for the years ended December 31, 2012 and 2011, because there are no potentially dilutive instruments as of December 31, 2012 and 2011.

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26. Transactions and Balances with Related Parties

(a) Details of relationships as of December 31, 2012 are as follows:

Relationship	Name
Associates and Joint Ventures	Hanjin Transportation Co., Ltd., S-Oil Corporation Hanjin Shipping Holdings Co.,Ltd. and Others
Others	Hanjin Shipping Co., Ltd. and Others

(b) Significant transactions which occurred in the normal course of business with related parties for the years ended December 31, 2012 and 2011 are summarized as follows:

(In millions of won and in thousands of US dollars)

		2012		2011			2012	
		Sales and others	Purchase and others	Sales and others	Purchase and others		Sales and others	Purchase and others
							(Note 4)	
Associates and Joint Ventures	₩	18,847	493,169	19,581	453,141	$	17,596	460,432
Others		8,815	24,538	2,555	4,111		8,230	22,909

(c) Account balances with related parties as of December 31, 2012 and 2011 are summarized as follows:'

(In millions of won and in thousands of US dollars)

		2012		2011			2012	
		Receivables	Payables	Receivables	Payables		Receivables	Payables
							(Note 4)	
Associates and Joint Ventures	₩	8,407	39,542	3,491	49,273	$	7,849	36,917
Others		1,188	3,168	378	6,575		1,109	2,958

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26. Transactions and Balances with Related Parties, Continued

(d) Details of guarantees which the Group has provided for related parties as of December 31, 2012 are summarized as follows:

(In millions of won and in thousands of foreign currency)

Name		Guaranteed amounts	Financial institutions
Grandstar Cargo International Airlines Co., Ltd.	USD	22	Bank of China
Hanjin Transportation Co., Ltd.	KRW	75,537	Woori Bank and others
Hanjin Heavy Industries & Construction Holdings Co., Ltd.	KRW	32,015	Korea Development Bank and others

(e) Details of guarantees which have been provided to the Group by related parties as of December 31, 2012 are summarized as follows:

(In millions of won)

Name		Guaranteed amounts	Financial institutions
Hanjin Transportation Co., Ltd.	₩	115,869	
Hanjin Shipping Co., Ltd.(*)		116,321	Korea Exchange Bank and other financial institutions
Hanjin Heavy Industries & Construction Holdings Co., Ltd.		115,869	

(*) Since Hanjin Shipping Co., Ltd. (a new company) was spun off from Hanjin Shipping Holdings Co., Ltd. (a surviving company) as of December 1, 2009, Hanjin Shipping Holdings Co., Ltd. jointly provides a guarantee for the long-term liabilities.

(f) Key management personnel compensation in total for the years ended December 31, 2012 and 2011 are as follows:

(In millions of won and in thousands of US dollars)

Compensation details		2012	2011		2012 (Note 4)
Short-term employee benefits	₩	3,916	3,780	$	3,656
Retirement benefit costs		4,877	2,396		4,553

December 31, 2012

27. Derivative Instruments and Hedge Accounting

(a) Details of derivatives as of December 31, 2012 are summarized as follows:

Type of transactions	Accounting policy	Financial institutions	Description of contract
Currency option	Trading	Nomura Financial Investment (Korea) Co., Ltd.	USD 40,000,000
Oil-price option	Hedging	JP Morgan and five other financial institutions	8,800,000 BBL
Oil-price swaps	Hedging	Hana Bank	500,000 BBL
Cross-currency interest rate swaps	Trading	Korea Development Bank and two other financial institutions	USD 440,642,363
	Trading	Hana Daetoo Securities Co., Ltd.	KRW 15,000,000,000
Interest rate swaps	Trading	Hana Bank	KRW 230,000,000,000
	Hedging	Hana Bank	KRW 400,000,000,000
Total return swaps(*)	Trading	Hana Daetoo Securities Co., Ltd.	KRW 25,139,347,854

(*) Total return swap (TRS)

As of December 31, 2012, the Group entered into TRS agreement with Hana Daetoo Securities Co., Ltd. on the common shares of Grandstar Cargo Int'l Airlines Co., Ltd.

(b) Details of the gains and losses on derivatives as of and for the year ended December 31, 2012 are summarized as follows:

(In millions of won)

Derivative instruments		Accumulated other comprehensive income (loss)	Valuation gain	Valuation loss	Transaction gain	Transaction loss
Currency option	₩	-	2,923	-	7,675	-
Oil-price option		719	3,231	16,837	6,067	3,361
Oil-price swaps		-	1,680	-	-	1,360
Cross-currency interest rate swaps		-	47,781	-	3,607	-
Interest swaps		(8,543)	3,424	259	-	1
Total return swaps		-	-	5,337	-	-
	₩	(7,824)	59,039	22,433	17,349	4,722

28. Commitments and Contingencies

(a) As of December 31, 2012, the Group is provided with guarantees amounting to ₩ 31,218 million and ₩ 66,430 million by Seoul Guarantee Insurance Company and Engineering Financial Cooperative, respectively, for guarantees of various contracts of the Group and USD 3 million by Hana Bank in connection with purchase of equipment.

(b) Credit Line and L/C agreements as of December 31, 2012 are summarized as follows:

(In millions of won and in thousands of US dollars)

	Financial institutions	Currency	Limit
Credit line agreement	Hana Bank and others	KRW	150,000
	Woori Bank and others	USD	137,000
Letters of credit	Korea Development Bank and others	USD	91,435
Borrowings	Hana Bank and others	KRW	1,389,773

(c) As of December 31, 2012, the Group has one outstanding promissory note pledged as collateral to the Korea Defense Industry Association.

(d) As of December 31, 2012, various claims, lawsuits and complaints arising from airline service operations are pending against the Group. Management believes that the Group has adequate insurance coverage against these claims and that the ultimate outcome of these cases will not have any material adverse effect on the financial performance and position of the Group.

In regard to an alleged anti-trust violation relating to the Group and other parties colluding on price fixing of air cargo services, the Group made a plea to the United States Department of Justice on August 1, 2007 for the payment of fines totaling USD 300 million to be paid in annual installments up to 2012. Accordingly, the Group made fine payments of USD 50 million respectively in 2007, and 2008, and the rest will be paid through 2011 to 2015 under an agreement with United States Department of Justice. The amounts of ₩ 53,555 million and ₩ 133,888 million are included in other accounts payables and long-term non-trade payables, respectively, as of December 31, 2012. In addition, the Group is currently under an investigation by Swiss Competition Commission, etc. for allegedly colluding on price fixing. As of December 31, 2012, the Group cannot reasonably estimate the potential loss from this investigation.

In connection with the anti-trust violation that has been mentioned above, various other parties that have also filed lawsuits against the Company are still awaiting the results of claimed damages from the United States, Canada and Australia District Court. As of December 31, 2012, the Company cannot reasonably estimate the potential loss from this proceeding.

(e) The Group has entered into various contracts with manufacturers, such as The Boeing Company to purchase aircrafts. The amount of such contracts is approximately USD 7,759 million as of December 31, 2012.

28. Commitments and Contingencies, Continued

(f) Operating lease contracts

The Group has entered into operating lease agreements to lease 21 aircrafts and certain aircraft parts from International Lease Finance Corporation, Gecas Technical Services Ltd. and other lessors. The Group has also entered into an operating lease agreement for using the cargo terminal at JFK International Airport in the United States with the New York City Industrial Development Agency ("IDA").

The schedule of lease payments of December 31, 2012 is summarized as follows:

(In millions of won and in thousands of US dollars)

		2012		2012 (Note 4)
2013.1.1 ~ 2013.12.31	₩	120,686	$	112,675
2014.1.1 ~ 2014.12.31		114,125		106,549
2015.1.1 ~ 2015.12.31		107,086		99,978
2016.1.1 ~ 2016.12.31		101,716		94,964
2017.1.1 ~ 2017.12.31		72,915		68,075
Thereafter		204,096		190,548
	₩	720,624	$	672,789

Meanwhile, the Group has opened an import letter of credit with Korea Development Bank for the guarantee of payments on the aircraft operating lease and maintenance reserve up to USD 27 million and in regard to operating lease agreement with IDA, the Group has opened an import letter of credit with Kookmin Bank for a guarantee up to USD 65 million as of December 31, 2012.

(g) The Group and four other airlines including Air France entered into a joint use agreement of the JFK Airport in New York and established Terminal One Group Association ("TOGA") to cooperate the Terminal One of JFK Airport. They have provided TOGA with a joint guarantee up to USD 296 million for each terminal usage fees.

(h) The Group has entered into an agreement to improve its financial structure through sales and lease back agreement with creditors including Korea Development Bank on May 31, 2012.

(i) The Board of Directors of Hanjin Travel Service Co., Ltd., a subsidiary of the Parent Company, has decided to split into the Business Division (a newly established company after spin-off) and the Investment Business Division (a surviving company after spin-off, which hold shares of Jungseok Enterprise Co., Ltd., a subsidiary of the Parent Company). In addition, the Parent Company has resolved to merge the Investment Business Division, a subsidiary on January 31, 2013.

28. Commitments and Contingencies, Continued

(j) Korean Airport Service Co., Ltd. ("KAS") is granted the right since 2001 to use the facilities of Gimpo International Airport by the Korea Airports Authority ("KAA"), a government authority responsible for the management and operation of Korea's airports. KAS uses the contributed facilities for free for 20 years. The property value of the contributed facilities at the date of contribution is accounted for as a facilities usage right, and it is amortized over 20 years. KAS recognizes the amount of amortization as an expense when incurred.

KAS has also contributed certain ground handling facilities constructed by KAS at the Incheon International Airport, in accordance with the agreement with the Ministry of Construction and Transportation dated March 9, 2001, in exchange for facilities usage rights for those facilities for 20 years.

On October 16, 1999, KAS was granted a free usage right for additional contributed facilities for 12 years in accordance with an agreement with Incheon International Airport Foreign Carrier Cargo Terminal Co., Ltd. KAS records the property value (amounting to ₩ 16,570 million) of the additional contributed facilities at the date of contribution as a usage right, and amortizes over a free usage period. KAS recognizes the amount of amortization as an expense when incurred.

(k) The Group has entered into an agreement to participate in the recapitalization of Hanjin Energy Co., Ltd. through additional capital injection or subordinated loans if Hanjin Energy Co., Ltd. is unable to repay its loans in the amount of ₩ 1,064,662 million (Long-term borrowings ₩ 1,040,438 million, short-term borrowings ₩ 24,224 million). Such loans were borrowed by Hanjin Energy Co., Ltd. from 10 financial institutions including Hana Bank.

(l) In 2001, KAL Hotel Network Co., Ltd. ("KHN") entered into an agreement with the Incheon International Airport for the operation of a hotel facility in which KHN has been granted the right to operate and manage the hotel as well as the right to use the land, where the hotel is constructed for a period of 50 years of free use period upon the completion of construction dated August 28, 2003. After the 50 years of free use period, KHN may continue to operate and manage the hotel by paying a certain amount of fees to the Incheon International Airport subject to the future negotiation and agreement of both parties.

In 2002, KHN entered into a technical service and royalty agreement with Hotel Project System Pte., Ltd., a subsidiary of HYATT International Corporation, in relation to the development, operation and marketing, and management service at the commencement of the hotel operation.

In 2009, KHN, Incheon International Airport, and International Business Center (IBC) have signed a concession agreement regarding the development project. According to the contract, KHN has been granted the right to operate and manage the land as well as the ownership of the facility during the 50 year period from the starting date of the operating hotel. If the agreement is expired or terminated, facilities built on the land should be demolished. KHN, however, can request for an extension of period of the land use.

The Parent Company made a commitment under paid-in-capital increase with National Agricultural Cooperative Federation ("NACF") in order to secure repayment of KHN's debt of ₩ 98,000 million borrowed from NACF in the case of KHN has insufficient funds to repay the principal and interests.

28. Commitments and Contingencies, Continued

(m) In 2003, Hanjin Information Systems & Telecommunication Co., Ltd. ("HIST") entered into a Service outsourcing agreement with the Parent Company for providing domestic network operation, maintenance and other related services.

(n) As of December 31, 2012, Topas Co., Ltd. ("TOPAS") has an airline participation Agreement with 120 airline companies including the Parent Company, for the purpose of reservation and issuance of airline tickets and entered into a hosting support contract with the Parent Company in connection with providing Computer Reservation System service and TOPAS terminal lease contract with travel agencies.

As of December 31, 2012, TOPAS has agreements with HIST for use of HIST`s information system and maintenance of its information system and facilities.

(o) In December 2009, Jungseok Enterprise Co., Ltd. entered into a long-term lease agreement with Inha University Hospital and 1st base floor neighbourhood living facilities in Inha University Hospital from January 2010 till July, 2025 and with regard to the rent payment, Junseok Enterprise Co., Ltd. paid 4,169,930 thousand(VAT included) in advance and recognized as long-term prepaid expenses.

(p) Major contingencies of WLD Co., Ltd. are described as follows:

On March 30, 2011, WLD Co., Ltd. entered into an agreement regarding "Wang San Marina business" with Incheon and Yongyu-mueui Project Management Co.,Ltd.

Details of the agreement are as follows:

	Details of agreement
Location:	143 Eurwang-dong, Jung-gu, Incheon, Korea
Amount of total investment:	Approx. ₩150 billion
Business content:	Business for construction of yacht tournament course which scheduled to be held in 2014 Incheon Asia Games

WLD CO., Ltd. shall be constructed Wang San Marina business, including yacht tournament course for 2014 Incheon Asia Games in a timely manner and cooperate successful holding and operation of yacht tournament course for the 2014 Incheon Asia Games, and must be invested rest of amount excluding Wang San Marina operating expenses that is with government grants, freeway road costs that will be open by the government and other infrastructure costs.

Meanwhile, the Parent Company made a commitment under Paid-in-Capital Increase with Korea Development Bank ("KDB") in order to secure repayment of WLD Co., Ltd.'s debt borrowed from KDB in the case of WLD Co., Ltd. has insufficient funds to repay the principal and interests. If the WLD Co., Ltd. makes a borrowing from the KDB, it has been set for pledging related deposits, assigning collateral and collateraling securities of land and building for this business to acquire.

28. Commitments and Contingencies, Continued

(q) On June 30, 2011, the Parent Company entered into an agreement with Korea Land & Housing Corporation and Inchon Development & Tourism Corporation about a project related to the "Attraction of Incheon Free Economic Zone, Yeongjong Sky City Airways Airplane Engine Maintenance Centre."

Major terms of the agreement include investment of ₩120 billion by the Parent Company for construction of an Airplane Engine Maintenance Centre and acquisition of related land located at 779-11 Unbuk-dong, Jung-gu, Incheon, Korea.

Meanwhile, the Parent Company shall not provide land, such as for collateral or guarantee for a period of five years after the Parent Company first entered into an agreement for land (in July 2011) which is recognized in construction-in-process as of December 31, 2012. In addition, the Parent Company shall not dispose or rent out to third parties for the period of five years after transfer of ownership. Finally, the Parent Company shall maintain the portion of its foreign investors' ownership to be higher than 10% for at least five years after the engagement date under the Foreign Direct Investment Policy.

29. Classification of Expenses by Nature

Details of expenses by nature for the years ended December 31, 2012 and 2011 are summarized as follows:

(In millions of won and in thousands of US dollars)

		2012	2011		2012 (Note 4)
Employee benefits	₩	1,705,706	1,580,009	$	1,592,481
Welfare		274,415	268,747		256,199
Depreciation and amortization		1,516,112	1,333,497		1,415,472
Rent		234,303	277,996		218,750
Fuel & oil charges		4,829,837	4,626,228		4,509,231
Airport related costs		767,648	697,303		716,691
Sales commission		352,828	450,039		329,407
Others (*)		2,720,230	2,559,277		2,539,660
	₩	12,401,079	11,793,096	$	11,577,891

(*) Others include maintenance, repair and overhaul costs for aircrafts and engines, service costs for passenger, facility charges, etc.

30. Financial Risk Management

The Group's activities are exposed to a variety of financial risks: credit risk, liquidity risk and market risk (comprised of foreign exchange risk, interest rate risk and fluctuation risk of oil prices).

The treasury department monitors and manages the financial risk arising from the Group's underlying operations in accordance with the risk management policies and procedures authorized by the board of directors.

(a) Foreign exchange risk

The Group is exposed to foreign exchange risk arising from a high proportion of export sales, which are denominated in foreign currencies. The Group's primary exposure is to the US dollar and JPY and the Group manages risk related to fluctuations in foreign exchange in order to stabilize operating activities. The Group consistently evaluates foreign risk according to the Group's own guidelines for foreign exchange and transaction policy.

The book value of monetary assets and liabilities other than functional currency as of December 31, 2012 are summarized as follows:

(In millions of won)

		USD	JPY	Others
Assets denominated in foreign currency:				
Cash and cash equivalents	₩	155,613	18,875	90,499
Trade receivables		180,026	49,367	224,186
Other receivables		271,930	125,869	9,890
	₩	607,569	194,111	324,575
Liabilities denominated in foreign currency:				
Borrowings	₩	7,950,227	952,215	8,444
Trade accounts and notes payable		372,004	34,657	29,407
Other liabilities		151,816	114,338	762
	₩	8,474,047	1,101,210	38,613

The Group's equity and income (loss) would increase or decrease if the foreign exchange rates were to change. The below sensitivity analysis is based on hypothetical fluctuations of foreign exchange rates against Korean won as of end of reporting period. The Group assumes that other variables such as foreign exchange rates are not changed by the sensitive analysis. The details for the effect profit (loss) before income taxes for the years ended December 31, 2012 and 2011 are summarized as follows:

(In millions of won)

		2012		2011	
		10% Up	10% Down	10% Up	10% Down
Financial assets in foreign currency	₩	112,625	(112,625)	122,488	(122,488)
Financial liabilities in foreign currency		(961,387)	961,387	(993,313)	993,313
	₩	(848,762)	848,762	(870,825)	870,825

30. Financial Risk Management, Continued

(b) Interest rate risk

The Group's liabilities are exposed to interest rate risk on loans. In order to minimize the actual interest expense, the Group continuously monitors the current status of market interest rates, makes predictions on market data and performs reviews methods for borrowing. Also, the Group's management monitors the level of interest rates and maintains the balance of borrowings at variable rates and fixed rates.

A hypothetical change of 0.5% in the variable interest rate would have impacted profit (loss) before income taxes for the years ended December 31, 2012 and 2011 as follows:

(In millions of won)

		2012		2011	
		50bp increase	**50bp decrease**	**50bp increase**	**50bp decrease**
Profit (loss) before income tax	₩	(42,931)	42,931	(41,580)	41,580

(c) Fluctuation risk of oil prices

A hypothetical change of 10% in oil prices would have impacted operating income (loss) for the years ended December 31, 2012 and 2011 as follows:

(In millions of won)

		2012		2011	
		10% Up	**10% Down**	**10% Up**	**10% Down**
Operating income (loss)	₩	(482,984)	482,984	(462,623)	462,623

30. Financial Risk Management, Continued

(d) 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. Management believes the Group maintains adequate sources of liquidity to settle short-term financial liabilities. In addition, based on periodic analysis of expected cash outflows, the Group also considers other alternatives, including seeking additional external financing or disposition of financial instruments for investment purposes, to mitigate liquidity risk.

Aggregate maturities of the Group's financial liabilities, including estimated interest, as of December 31, 2012 are summarized as follows:

(In millions of won)

		Within 1 year	2~5 years	Over 5 years	Total
Bonds	₩	829,173	3,575,848	487,359	4,892,380
Long-term borrowings		735,893	2,122,598	20,287	2,878,778
Obligation under finance leases		1,043,635	2,948,023	2,115,795	6,107,453
Asset-backed securitization loans		654,108	631,264	-	1,285,372
Guaranteed loans		18,660	73,123	-	91,783
Long-term non-trade payables		57,859	133,888	-	191,747
Leasehold deposits received		-	20,545	-	20,545
	₩	3,339,328	9,505,289	2,623,441	15,468,058

30. Financial Risk Management, Continued

(e) 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. The Group has transacted with customers before evaluating their credit ratings, and has collateral from customers to prevent possibility of default.

The book value of financial assets means maximum exposure in respect of credit and counterparty risk. The maximum exposure as of December 31, 2012 and 2011 are summarized as follows:

(In millions of won)

		2012	2011
Cash and cash equivalents(*1)	₩	1,456,351	1,453,939
Other financial asset		295,286	343,281
Trade receivables(*2)		840,119	943,821
Other receivables		81,632	93,640
Guaranteed deposits		322,265	314,977
	₩	2,995,653	3,149,658

(*1) Cash on hand is excluded.

(*2) The aging of trade receivables as of December 31, 2012 are summarized as follows:

(In millions of won)

		Book value	Within 6 months	6 months ~ 1 years	1 ~ 2 years	Over 3 years
Trade receivables	₩	847,112	831,759	8,438	4,317	2,598
Present value discount		(46)	(46)	-	-	-
Allowance for doubtful accounts		(6,947)	(6,792)	(85)	(44)	(26)
	₩	840,119	824,921	8,353	4,273	2,572

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30. Financial Risk Management, Continued

(f) Fair value

The Group shall classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy shall have the following levels:

	Significance of the inputs
Level 1	Quoted prices 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 or indirectly
Level 3	Inputs for the asset or liability that are not based on observable market data

Current levels of financial instruments measured at fair value as of December 31, 2012 and 2011 are summarized as follows:

(In millions of won)

		Level 1	Level 2	Level 3	Total
December 31, 2012					
Other financial assets (*)	₩	81,592	-	21,197	102,789
Derivative instrument assets		-	48,848	-	48,848
Derivative instrument liabilities		-	35,958	-	35,958
December 31, 2011					
Other financial assets (*)		63,026	-	21,197	84,223
Derivative instrument assets		-	22,335	-	22,335
Derivative instrument liabilities		-	35,160	-	35,160

(*) Also, as of December 31, 2012 and December 31, 2011, the amount of available-for-sale financial assets that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are amount of ₩ 51,796 million and ₩ 54,260 million, respectively.

30. Financial Risk Management, Continued

(g) Management of capital risk

The fundamental goal of capital management is to maintain sound financial structure. As for this to be maintained, the Group uses debt ratio as an indicator of capital management. The debt ratio is calculated as net liability divided by total equity. The capital structure is monitored and managed by the board of directors, and the overall capital risk management policy is analyzed by the same method used for last period.

Details of accounts which are managed for capital management purposes as of December 31, 2012 and 2011 are summarized as follows:

(In millions of won)

		2012	2011
Net liabilities:			
Borrowings	₩	15,206,530	15,159,062
Cash and cash equivalents		(1,465,499)	(1,465,748)
Other financial assets		(295,286)	(343,281)
	₩	13,445,745	13,350,033
Equity	₩	2,904,383	2,768,952
Debt ratio		463%	482%

31. Cash Generated from Operations

Details of cash flows from operations for the years ended December 31, 2012 and 2011 are summarized as follows:

(In millions of won and in thousands of US dollars)

		2012	2011		2012 (Note 4)
Profit (loss) from continuing operations	₩	251,910	(207,659)	$	235,188
Adjustments for:					
Retirement benefit costs		150,712	135,044		140,708
Depreciation and amortization		1,516,112	1,333,497		1,415,472
Bad debt expenses		505	2,652		471
Other bad debt expenses		6,556	1,875		6,121
Losses (gain) on foreign currency translation, net		(625,960)	271,503		(584,409)
Losses on disposals of property, aircraft and equipment, net		112,874	58,739		105,381
Losses on disposals of intangible assets, net		585	-		546
Losses on valuations of inventories		2,167	3,447		2,023
Impairment losses on intangible assets		50	142		47
Interest expense		575,230	570,594		537,046
Losses on disposals of available-for-sale financial assets		18	-		17
Impairment losses on investments in associates		3,443	98,974		3,214
Losses (gain) on valuations of financial derivatives, net		(36,607)	745		(34,177)
Share of net profits of equity accounted investees		(81,733)	(221,896)		(76,308)
Reversal of allowance for doubtful accounts		(870)	(4,710)		(812)
Interest income		(42,672)	(33,384)		(39,839)
Dividend income		(2,303)	(1,741)		(2,150)
Gains on disposal of investments in associates		-	(861)		-
Others		(1,624)	42		(1,517)
Income tax expense (benefit)		180,327	(61,373)		168,357
Changes in:					
Trade receivables		89,284	(49,036)		83,357
Other receivables		7,295	13,537		6,811
Prepayments		(90,798)	12,593		(84,771)
Other current assets		(7,711)	15,356		(7,199)
Inventories		(57,344)	(82,724)		(53,537)
Long-term prepaid expenses		19,265	(7,382)		17,986
Trade accounts and notes payable		(39,056)	54,192		(36,463)
Other accounts payable		26,498	(119,342)		24,739
Advance receipts from customers		68,672	156,505		64,114
Accrued expenses		62,389	(79,750)		58,248
Other current liabilities		(6,680)	17,175		(6,237)
Other financial liabilities		64	100		60
Deferred revenue		114,057	121,992		106,486
Defined benefit obligation		10,874	27,653		10,152
Payment of severance benefit		(83,276)	(120,561)		(77,748)
Other non-current liabilities		(1,984)	(36,270)		(1,852)
Cash generated from operations	₩	2,120,269	1,869,668	$	1,979,525

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32. Discontinued Operation

(a) In 2012, the Group sold Incheon International Airport Oiling Facility ("IIFF"), a subsidiary of the Parent Company. Accordingly, IIFF's results are separately presented in the statement of comprehensive income (loss) as discontinued operation. The comparative statement of comprehensive income has been restated accordingly.

(b) Total assets and liabilities of IIFF relate to discontinued operations as of December 31, 2011 are summarized as follows:

(In millions of won)

Assets			Liabilities		
Total current assets	₩	61,887	**Total current liabilities**	₩	1,385
Cash and cash equivalents		642	Other current liabilities		1,385
Other financial assets		57,500	**Total non-current liabilities**		937
Trade & Other receivables		3,505	Defined benefit obligation		600
Other current assets		226	Deferred tax liabilities		337
Inventories		14			
Total non-current assets		6,251			
Property, aircraft and equipment, net		35			
Intangible assets, net		6,216			
Other non-current assets		-			
Total assets	₩	68,138	**Total liabilities**	₩	2,322

(c) Profit from discontinued operations for the years ended December 31, 2012 and 2011 are summarized as follows:

(In millions of won and in thousands of US dollars)

		2012	2011		2012 (Note 4)
Revenue	₩	15,263	23,375	$	14,250
Cost of revenue		10,149	14,681		9,475
Gross profit		5,114	8,694		4,775
Operating income		4,156	7,551		3,880
Income (loss) before income taxes		5,629	8,589		5,255
Income taxes		1,168	681		1,090
Profit from discontinued operations	₩	4,461	7,908	$	4,165

32. Discontinued Operation, Continued

(d) Cash flows from discontinued operations for the years ended December 31, 2012 and 2011 are summarized as follows:

(In millions of won and in thousands of US dollars)

		2012	2011		2012 (Note 4)
Net cash provided by operating activities	₩	10,011	16,253	$	9,346
Net cash from (used in) investing activities		59,551	(14,105)		55,598
Net cash used in financing activities		(70,268)	(2,536)		(65,604)
Net decrease in cash and cash equivalents from discontinued operations	₩	(706)	(388)	$	(660)

33. Segment Information

(a) Operating segments by the nature of services and products are summarized as follows:

Segment	Products or services	Major customers
Air transportation	Transporting passengers and cargoes	Individual customers, Entities, Governments, etc.
Aerospace	Maintaining aircraft and manufacturing aircraft parts	Boeing Commercial, Defense Procurement agency, etc.
In-flight meals	Catering for in-flight meals	Foreign airlines, etc.
Hotel and limousine	Land transport and accommodations	Individual customers, etc.

(b) The segment information of operating segments as of and for the years ended December 31, 2012 and 2011 are summarized as follows:

(In millions of won)

		2012						
		Air transportation	Aerospace	In-flight meals	Hotel and limousine	Others	Consolidation adjustments	After consolidation
Total sales	₩	12,185,623	621,915	221,710	132,830	474,338	(916,780)	12,719,636
Internal sales		(378,938)	(124,189)	(141,315)	(41,484)	(230,854)	916,780	-
Net sales	₩	11,806,685	497,726	80,395	91,346	243,484	-	12,719,636
Operating income	₩	239,496	21,841	25,386	4,280	57,406	(29,852)	318,557
Depreciation and amortization		(1,457,556)	(23,881)	(5,853)	(10,005)	(24,917)	6,100	(1,516,112)
Total assets		19,569,088	934,331	82,714	613,127	3,477,823	(1,703,681)	22,973,402
Total liabilities								20,069,019

December 31, 2012

33. Segment Information, Continued

(b) The segment information of operating segments as of and for the years ended December 31, 2012 and 2011 are summarized as follows, continued:

(In thousands of US dollars)

		2012 (Note 4)						
		Air transportation	Aerospace	In-flight meals	Hotel and limousine	Others	Consolidation adjustments	After consolidation
Total sales	$	11,376,737	580,632	206,993	124,013	442,850	(855,924)	11,875,301
Internal sales		(353,784)	(115,945)	(131,934)	(38,730)	(215,531)	855,924	-
Net sales	$	11,022,953	464,687	75,059	85,283	227,319	-	11,875,301
Operating income	$	223,598	20,391	23,701	3,996	53,594	(27,870)	297,410
Depreciation and amortization		(1,360,803)	(22,296)	(5,464)	(9,341)	(23,263)	5,695	(1,415,472)
Total assets		18,270,085	872,310	77,223	572,427	3,246,965	(1,590,590)	21,448,420
Total liabilities								18,736,830

(In millions of won)

		2011						
		Air transportation	Aerospace	In-flight meals	Hotel and limousine	Others	Consolidation adjustments	After consolidation
Total sales	₩	11,762,042	545,864	196,193	159,226	397,825	(815,441)	12,245,709
Internal sales		(332,132)	(152,253)	(125,084)	(35,851)	(170,121)	815,441	-
Net sales	₩	11,429,910	393,611	71,109	123,375	227,704	-	12,245,709
Operating income	₩	370,031	12,241	21,067	(11,224)	55,321	5,177	452,613
Depreciation and amortization		(1,275,569)	(21,554)	(5,793)	(13,562)	(17,019)	-	(1,333,497)
Total assets		19,210,495	846,908	87,743	412,946	3,426,997	(1,596,746)	22,388,343
Total liabilities								19,619,391

December 31, 2012

33. Segment Information, Continued

(c) Geographical information as of and for the years ended December 31, 2012 and 2011 are summarized as follows:

(In millions of won)		2012				
		Domestic				
		Domestic demand	Export	Overseas	Consolidation adjustments	After consolidation
Total sales	₩	2,414,451	11,167,039	54,926	(916,780)	12,719,636
Internal sales		(879,633)	-	(37,147)	916,780	-
Net sales	₩	1,534,818	11,167,039	17,779	-	12,719,636
Operating income (loss)	₩	350,116		(1,707)	(29,852)	318,557
Total assets		24,396,136		280,946	(1,703,680)	22,973,402
Total liabilities						20,069,019

(In thousands of US dollars)		2012 (Note 4)				
		Domestic				
		Domestic demand	Export	Overseas	Consolidation adjustments	After consolidation
Total sales	$	2,254,179	10,425,767	51,279	(855,924)	11,875,301
Internal sales		(821,243)	-	(34,681)	855,924	-
Net sales	$	1,432,936	10,425,767	16,598	-	11,875,301
Operating income (loss)	$	326,875		(1,595)	(27,870)	297,410
Total assets		22,776,712		262,297	(1,590,589)	21,448,420
Total liabilities						18,736,830

(In millions of won)		2011				
		Domestic				
		Domestic demand	Export	United States	Consolidation adjustments	After consolidation
Total sales	₩	2,323,065	10,689,727	48,358	(815,441)	12,245,709
Internal sales		(809,017)	-	(6,424)	815,441	-
Net sales	₩	1,514,048	10,689,727	41,934	-	12,245,709
Operating income (loss)	₩	464,086		(16,650)	5,177	452,613
Total assets		23,867,062		118,027	(1,596,746)	22,388,343
Total liabilities						19,619,391

34. Subsequent Events

On February 21, 2013, the Board of Directors of the Parent Company resolved to transfer the Parent Company's hotels located in Jeju (transferring all assets and liabilities with respect to operation of KAL Hotel, Seogwipo KAL Hotel and Jeju Paradise Hotel) within the hotel operating segment to KAL Hotel Network Co., Ltd., a subsidiary of the Parent Company and to make investment in kind of shares of KAL Hotel Network Co., Ltd. The issue price of share and number of shares acquired are ₩100,000 and 2,265,439 shares, respectively, and amount of investment in kind is ₩226 billion (asset of ₩234 billion and liability of ₩8 billion).

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