

# ANNUAL REPORT 2017



2017 ANNUAL REPORT

# PRIDE OF THE AEROSPACE

KAI, a company that leads the aerospace industry in Korea.  
KAI will become the international first class business by growth based on continuous challenges and innovation.



04	CEO Message
06	2017 KAI News
08	KAI History
10	Business Overview
22	Financial Report
28	Financial Statements
35	Independent Auditor's Report

# Contents



## MESSAGE FROM THE CEO

### Dear Customers and Shareholders,

I sincerely thank you for taking a constant interest in and showing support for KAI.

In 2017, KAI learned precious lessons and had time to grow.

Despite all the difficulties that the company's revenue and profit declined due to tough international and domestic business conditions and various risks reflected, every member of KAI has kept struggling to normalize the management conditions and is currently making the past hard times a new growth engine of KAI.

The development of Korean type fighters (KF-X) and light-armed and civil helicopters (LAH/LCH), a large-scale national project, is successfully under way, and the mass production of Surion helicopters that people were concerned for a while has been normalized as well.

We also kept the promise with foreign clients by accomplishing the delivery of FA-50 to the Philippines on schedule, and confirmed the faith of the clients of KAI as we won the second export contract for the T-50 with Thailand, sales contract for the F-16 depot maintenance with the US Air Force, and contract for additional offer of police helicopters.

Our risk in management was solved substantially, by the payment of amount receivable of Iraq project, and the export project for commercial aircraft structure exceeded 1 trillion won of sales, being a solid growth engine of KAI.

In particular, the aviation maintenance (MRO) project that is promoted to become a new growth engine is expected to contribute a lot more to the nation's economic growth and job creation as we have been designated as 'Government Support Aviation MRO Business'.

KAI, not only basic managerial activities which maximize the stockholder value, but will have a social responsibility and make an effort for continued growth by active communication with various related parties as a leading company in Korea's aerospace and defense industry.

KAI will perform the basic management operations maximizing the shareholders' value as well as endeavor to grow constantly by active communications with various interested parties as a leading business that plays a pivotal role in Korean aerospace and defense industries.

Hence, KAI will go along its own way by doing as follows.

#### **We will equip ourselves with a management system at the level of a global company.**

Last year, KAI launched the management innovation committee and arranged lots of tasks to improve through external consultations and internal discussions. Also we performed reorganizing the company to make it flexible and produced a foundation for efficient management.

To guarantee the soundness and reliability of financial accounting system, we will construct relevant system at the early stages and set up the management system that satisfies the global standard.



**We will focus on the technological innovation and enhancement of core abilities.**

It is deemed necessary to secure the core technologies and capabilities to preoccupy a dominant position and compete with prominent aviation businesses. Therefore, KAI will set up the creative and dynamic R&D environment, and enhance the development capabilities through continued challenges and technologic innovation.

We will also conduct studies on core technologies through preemptive investment and carry forward strategic alliances with foreign advanced companies, as a part of endeavor to secure the future core capabilities to supplement inadequate technologies.

**We will solidify our social responsibility and role of co-existing company.**

We will not only keep performing social contributing activities that we're currently doing, but also take care of wishes from the nation and local communities to fulfill our social responsibility.

We will construct the co-existence model for mutual development that enables KAI and its partners to grow together.

We will settle the labor-company culture from communication and harmony, while we endeavor to become a company trusted and beloved by our citizens and clients.

**We will take the lead in the development of aerospace and national defense.**

From now on, KAI, a national company specializing in aerospace and defense that represents Korea, will perform business under a sense of responsibility. Based on the higher morality and transparency, we will achieve the public interest and perform a pivotal role in the development of aerospace and national defense industries.

We will strengthen the base of exportation industrialization by aggressively expanding the market share in the international market and leading the creation of quality jobs that enables everyone to realize dreams and hopes on a global stage.

We will make a new takeoff by becoming the world 5th aerospace systems integrated enterprise by 2030 under a challenging spirit that creates three future and passion that considers the shareholders and clients.

We would like to solicit your never-changing warm interest and support. Thank you.

March, 2018  
Korea Aerospace Industries, Ltd.  
President & CEO Kim Jo-Won



### First shipment of T-50IQ #1~6

On February 27, T-50IQ #1~6 were disassembled and packed in the aircraft warehouse and shipped. The project was to supply to the Ministry of National Defense of Iraq and won by an export contract worth over \$1.1 billion for 24 units of T-50 and pilot training session signed in December 2013. The contract covers 24 units of T-50, repair work, support equipment, training session, and arm equipment. KAI will ship 24 aircrafts in turn in April 2018.



### Contract worth 380 billion won with Airbus

On February 28, KAI has received the contract award worth 380 billion won with Airbus. It was the first contract in 2017 and calls KAI for the supply of Wing Top Panel for A320 with Airbus for 5 years from 2026 through 2030. Since the first supply contract with Airbus in 2001, the production quantity of Wing Top Panel under contracts have continued to rise. KAI is currently in charge of more than 40% of A320 sales.



### Successful business achievement – supply of final KT-1P Peru on time

The project was completed as 20 units of KT-1P, a Peru exported type aircraft, was delivered to the Peru Air Force. To celebrate the successful delivery, 'Ceremony for Successful Delivery of KT-1P Peru Final Units' was held in the Peru Air Force base in Las Palmas, Lima, on April 7. Since KAI won the export contract of 20 KT-1P Peru units in 2012, the first 4 units was produced at KAI facilities, and the rest 16 units were produced at the plant of Seman, a Peruvian company. It implies the industrial cooperation between two countries involved with the exportation to Peru, including the plant construction in Peru, was done successfully.



### Designated as a prime contractor for the development of bus platform of Korea Multi-Purpose Satellite (KOMPSAT) #7

KAI has received the contract award for development of bus platform of Korea Multi-Purpose Satellite (KOMPSAT) #7 conducted by MSIT and KARI in late April and began production. A total budget of 310 billion won will be invested to the project, and KARI will lead the development of system and payload, while we will manage the development of bus platform. The launch is scheduled by 2021. The Korea Multi-Purpose Satellite (KOMPSAT) #7 will be utilized in various fields including the national security, analysis on climate change, management of territorial resources, disaster plan, and the like.

### Delivery of 12 units of FA-50PH light fighter to the Philippines

On July 4, the delivery of 12 units of FA-50PH light fighter to the Philippines was made successfully. To commemorate the delivery, '70th Anniversary of the Day of Air Force and Delivery Ceremony for the FA-50PH Final Units' was held in the Angeles Clark base. Since we have signed an export contract for 12 units of FA-50PH worth \$420 million with the Philippines in March 2014, the first 2 units were delivered within 18 months from the contract date, and the rest 10 units were delivered by direct flight in 5 separate times from December 2016 to May 2018.





### Commemoration event for the launch of #1 LCH front fuselage

On July 24, every member of KAI held the commemoration event for the launch of front fuselage for #1 LCH prototype in the assembly plant. The event was attended by the staff and executives, and people concerned from Airbus Helicopters. The attendees celebrated the launch, production, and design of front fuselage by utilizing domestic technologies and fulfilling the standards of international certification in the LCH industry, and decided to attempt for successful development of LCH. The front fuselage will be used in the assembly line of #1 unit in France, and the roll-out of #1 prototype is scheduled in May 2018.



### Additional purchase of 8 T-50 units by Thailand

The Royal Thai Air Force has decided to purchase 8 more units of T-50 on July 29. This is the second trading following the one for 4 units in 2015. The RTAF has selected T-50 to substitute for their outdated L-39, which is an advanced trainer jet from Czech and training system aircrafts, and decided to adopt 12 units to their squadron. 4 units of T-50TH training system aircrafts, on the contract by 2015 worth \$110 million, is scheduled to be delivered to Thailand in the early 2018.



### Kim Jo-Won, a new president and CEO of KAI

On October 26, with all staff and executives attending, the inauguration of president and CEO Kim Jo-Won was held at the headquarters. In the ceremony, Kim had his inauguration speech and emphasized improving management transparency and company credibility, employees' endeavor required to achieve sales of 20 trillion won by 2030, being together with the local community, and pride and modesty. Kim added he will endeavor to make KAI the global aerospace systems integrated enterprise.



### Sales contract of F-16 depot maintenance with the US Air Force

On October 27, KAI has received the contract award worth \$48 million for depot maintenance and bus platform reinforcement for F-16 aircraft with the US Air Force. Under the contract, we will conduct the depot maintenance and bus platform reinforcement jobs for around 90 units of F-16 owned by #5 and #7 US PACAF for 5 years from October 2018 to September 2022. As we obtained this maintenance business license, we can expect winning more contracts on MRO business for the aircrafts owned by the US. A positive influence on the APT project and MRO complex project of Sichuan Airlines is anticipated as well.

### Contract on machining structure project for wings of Boeing 777X

On July 11, KAI has received a new contract award for wing machining structure of B777X, a new aircraft, and commercial aircraft with Boeing. The contract is on the project worth \$550 million for the next 12 years. Furthermore, the existing contract for B787 and B777 plane structure was renewed, and consequently, a total amount of contracts reached \$650 million. This implies, in the long run, we obtained a stable quantity of a large scale aircraft structure under the contract and based on that, we are planning for the expansion of civil project area through constant innovation and discovery of distinguished competitiveness.



## 1999

- 12. 14 Incorporation registration and designation as a company specializing in national defense by MOTIE

## 2000

- 02. 15 Designated as a company specializing in aircraft sector by the Special Act in the Defense Industry
- 04. 19 Completed the project phase 1 for Korean type fighter (KF-16)
- 07. 07 Contract for additional production and supply of Korean type fighter (KF-16)
- 10. 19 Won the 2000 Idea Management Grand Prize
- 10. 23 Disposal contract of Seosan plant with Hyundai Motor Company
- 11. 03 Held a ceremony for rollout of #1 unit of KT-1 Basic Trainer
- 12. 05 Contract with the Agency for Defense Development for FLIR equipment development project
- 12. 29 Completed the Korean Light Reconnaissance Helicopter (KLH) project

## 2001

- 01. 06 Paid-in capital increase of 3 stockholder companies worth 100.2 billion won
- 02. 15 Received the price of Seosan plant worth 73.8 billion won and reimbursed borrowings
- 02. 22 Contract for KT-1 Basic Trainer with Indonesia
- 02. 28 Debt-equity swap for creditors worth 72.8 billion won
- 04. 02 Contract for A320 Wing Structure export with Airbus UK
- 10. 31 Rollout of the prototype T-50 #1, a state-of-the-art supersonic trainer

## 2002

- 04. 23 A380 Jumbo Aircraft Wing contract worth over \$100 million
- 07. 23 F-15K wing and fuselage export contract with Boeing
- 08. 20 Succeeded the maiden flight of T-50 supersonic trainer
- 08. 28 Opened the Aerospace Museum
- 10. 04 Conducted supply of UAV #1 prototype
- 10. 25 Received certification of ISO-AS9100 Quality Management System in sector of design, development and production of aircraft
- 12. 27 Ranked no. 1 in 10 Korean New Technologies by technology for <Development of T-50 supersonic aircraft system>

## 2003

- 01. 03 Received the presidential prize for 2002 Excellent Defense Companies in R&D sector
- 02. 12 Export contract for Apache Attack Helicopter (AH-64D) Fuselage
- 02. 19 Succeeded the supersonic flight of T-50 state-of-the-art trainer
- 04. 23 Shipment of #1 unit of KT-1B to Indonesia
- 04. 19 Shipment of #1 unit of A380 wing low panel
- 06. 25 Delivered #1 unit of KFP-2 (KC#81)
- 11. 28 Won the Iron Tower Order of Industrial Service Merit for the 40th Trade Day
- 12. 16 Mass production contract for modification and installation of FLIR (Forward Looking Infrared) for naval helicopters
- 12. 17 Mass production contract for KO-1 Forward Airborne Controller
- 12. 19 Mass production contract for T-50 supersonic aircraft

## 2004

- 01. 28 Export contract worth \$300 million for horizontal/vertical empennage of B737
- 04. 14 Shipment of #1 unit of Apache Attack Helicopter (AH-64D) Fuselage
- 06. 02 Received CMMI Level 3 Certification for aircraft software/system
- 06. 19 Began joint international development of 427IFR helicopter
- 10. 29 Contract for development of Navy LYNX helicopter electronic warfare equipment
- 11. 03 F-5E/F life extension project contract
- 11. 23 Service contract for research on fighter design technology
- 12. 13 Selected as preferred bidder for Naval Maritime Patrol Aircraft (P-3) Program Phase II

## 2005

- 01. 05 Conducted test flight of T-50 Trainer with Lee Han-Ho, a Navy Chief of Staff
- 02. 25 Received certification from international qualified test agency
- 03. 21 Technology introduction and co-production contract for Naval Maritime Patrol Aircraft (P-3) and began official production
- 04. 13 Succeeded the first flight of domestic developed KO-1 Forward Airborne Controller
- 04. 18 Released F-15K #1 localized unit of wings and front fuselage
- 05. 25 Export contract for the second batch of KT-1 Basic Trainer to Indonesia
- 06. 01 Kick-Off of 6 Sigma to guarantee the global competitiveness
- 06. 29 Agreement on Smart UAV Technology Development Program Phase II
- 07. 27 Shipped KO-1 Forward Airborne Controller #1
- 08. 17 Held Inauguration Ceremony of Air Technical Advisory Board
- 08. 30 Launch ceremony for T-50 supersonic trainer and #1 light fighter unit from mass production
- 11. 03 Ceremony for completion of advanced commercial aircraft assembly plant
- 11. 08 Succeeded A-50 AAM launch test
- 11. 20 Launched T-50 supersonic aircraft at the Dubai Air Show
- 12. 07 Exhibition of KT-1 at LIMA Air Show, Malaysia
- 12. 09 Contract for Multipurpose Utility Satellite #3 and #5 Program

## 2006

- 01. 18 T-50 selected as one of 10 Scientific Technology News in 2005 by KOFST
- 02. 08 Visit of the supreme commander from Turkey
- 02. 20 Production contract for 429 helicopter body with Bell
- 02. 23 Concluded MOU for joint development of the Next Generation Passenger Aircraft A350
- 03. 08 Commenced kickoff of XKT-1 (export type model of KT-1) assembly
- 05. 02 Selected as provider of F-16 modification and repair program for US Air Forces Korea
- 05. 30 Won the IR 52 Jang Young-Shil Award
- 06. 07 Formal contract for development of Korean Helicopter Program (KHP)
- 07. 20 Export contract for fuselage structure of A321 aircraft
- 08. 13 Reduction of capital stock without refund worth 254 billion won for improving financial structure
- 08. 24 Paid-in capital increase of 3 stockholder companies worth 90 billion won
- 09. 12 Debt-equity swap worth 120 billion won of Korea Development Bank
- 09. 19 Construction completion of commercial aircraft assembly plant at the headquarters
- 10. 17 Sales contract of T-50/TA-50 worth 1.5 trillion won with DAPA
- 12. 20 Held rollout ceremony of KO-1 Forward Airborne Controller final unit from mass production

## 2007

- 02. 21 T-50 nominated for UAE next generation trainer
- 02. 21 T-50 won the Grand Prize from 2006 Jang Young-Shil Award
- 04. 12 Sales agency contract for complete 429 helicopter
- 06. 20 KT-1 designated as a basic trainer for Turkey
- 08. 03 Export contract for 40 KT-1 units plus 15 units with options with Turkey
- 10. 18 Export contract for wing structure for aircrafts of Airbus
- 10. 28 Won the Prime Minister Award of 2007 Scientific Innovation Award
- 11. 06 Achieved 2,000 mishap free test flights of T-50 test unit
- 12. 06 Delivered F-15K front fuselage final unit
- 12. 06 Contract for ROK Navy P-3C Simulator development program
- 12. 10 Export contract of A-10 wing structure for US Air Force with Boeing
- 12. 28 XKT-1 Basic Trainer export type won the Gold Prize 2007 Korea Technology Awards

## 2008

- 03. 03 Held proclamation ceremony for Management Innovation Phase II
- 03. 17 Contract for T-50 as Black Eagle demonstrator by KAI-DAPA worth around 220 billion won
- 03. 19 Contract for B747-8 structure worth \$340 million with Vought
- 03. 25 Delivered T-50 final unit from first approved mass production
- 06. 13 Concluded development agreement for small general aircraft with MOLIT
- 12. 02 Concluded support agreement worth 1 trillion won
- 12. 16 Third export contract for KT-1 with Indonesia
- 12. 26 Contract for FA-50 modification development program

## 2009

- 01. 06 Began final assembly of Korean Utility Helicopter (KUH)



04. 14	Concluded cooperation agreement for SME in aerospace industry
04. 30	Conducted company presentation on Korean aerospace industry
07. 31	Held rollout ceremony of prototype Korean Utility Helicopter (KUH) 'Surion'
09. 02	Won the IR52 Jang Young-Shil Award for development of avionics integrated test equipment
09. 23	Selected as provider of A350 XWB NLG Bay
10. 21	Held roll-out ceremony for KT-1T Turkey export type #1 unit
12. 08	Management agreement for the Aviation Camp
12. 22	Received a format certification for KT-1T Turkey Export Type Basic Trainer for the first time in Korea

## 2010

01. 22	MOU on aircraft MRO business between Chungcheongbukdo and KAI
01. 25	Succeeded first flight of Turkish Basic Trainer KT-1T #1 unit from mass production
02. 09	Began production of E737 AWACS
02. 22	Conducted the Aviation Trial Camp
03. 10	Succeeded maiden flight of Surion, Korean Utility Helicopter (KUH)
03. 26	Contract for supervision and development of Multipurpose Utility Satellite 3A satellite bus platform
04. 20	Agreement for creation of SME R&D fund
04. 28	Conducted kickoff of Utility Satellite 3A development
05. 04	Conducted first flight test of FA-50 modification and development program
05. 13	Achieved ROKAF full operational capability of T-50 advanced trainer
05. 25	Delivered T-50B (Black Eagle) #1 unit
07. 07	Completed the A-350 Wing Rib Plant
07. 27	Shipped KT-1T #1 and #2
10. 05	Completed delivery of P-3 Maritime Patrol Aircraft #8
10. 12	Agreement on cooperation for Aviation Camp between KAI-KED
10. 20	Agreement to fund-raise for SMEs in national defense industry
10. 20	Completed delivery of P-3C Simulator
10. 29	Completed delivery of TA-50 Training System
11. 01	Opening of R&D center in Daejeon
12. 09	Received the MND Minister's Commendation for excellent business management firms
12. 16	Selected as depot maintenance provider for the US Navy's H-53 helicopter
12. 16	Received the MOE Minister's Commendation for Aviation Camp in 2010 Korea Science and Culture Awards
12. 23	Succeeded first flight of T-50 export type with embedded software adopted
12. 31	Contract for serial production of Surion, Korean Utility Helicopter (KUH)

## 2011

01. 24	Released TA-50, a lead-in fighter variant, aircraft #1
02. 11	Rollout of KC-100 commercial aircraft
02. 22	Foundation of KAI-EC
03. 02	UAV PBL contract
03. 22	Achieved 3,000 mishap free test flights of T-50
05. 04	Conducted first flight of FA-50, a Korean type light fighter
05. 23	Designated as 'Supplier of the Year 2010' by Boeing, US
05. 25	Export contract for T-50 to Indonesia
06. 30	Initial Public Offering (IPO)
07. 26	Contract for KF-X conceptual development
10. 07	Contract for LAH prototype development
10. 17	A320 Wing Structures contract worth \$600 million with Airbus
11. 15	Delivered E-737 domestic FOAK #2
12. 23	Contract for Surion, Korean Utility Helicopter (KUH)
12. 28	Serial production contract for FA-50

## 2012

01. 19	Began final assembly of Surion mass production #1 unit
01. 27	Won the grand prize for The Bell BEST IPO Business
02. 27	Held proclamation ceremony for joint growth of large, medium & small companies
03. 20	Opening of customer training center
03. 20	Contract for A320 WBP monopolistic supply
05. 31	Produced Utility Satellite 3A bus platform
06. 26	Completed final delivery of a lead-in fighter variant, TA-50
07. 27	Opening Ceremony for Aviation Center, Education Donation Experience Hall
09. 07	Commemoration ceremony for 10th ceremony of maiden flight of T-50 prototype
11. 07	Contract for exporting the basic trainer KT-1 to Peru
12. 28	Contract for system development business for UAV, Next Military Patrol

## 2013

03. 27	Contract for Airbus A321 additional fuselage structure
04. 22	Contract for Boeing airframe (B737, B777, AH-64E)
05. 06	Contract for FA-50 Light Combat Aircraft follow-on production
07. 01	Contract for development of Surion marines assault version
07. 18	Opening of Aerospace-IT Fusion Innovation Center
08. 20	Conducted first delivery of FA-50 from serial production
09. 10	Conducted first delivery of T-50i Indonesia Export Type to Indonesia
11. 07	Completed construction of KAI Sancheong Plant
12. 12	Contract for T-50IQ to Iraq
12. 19	Contract for 2nd lot of Surion serial production
12. 24	Conducted first delivery of Surion for the Korean National Police Department
12. 27	Contract for follow-on Surion #3 for the Korean national Police

## 2014

01. 20	Selected as prime contractor of Korean Launcher assembly system
03. 28	FA-50 Philippines export contract
07. 22	Selected as LAH/LCH preferred bidder
08. 05	Contract for medevac helicopter development
10. 22	Held initial operation capability ceremony of KT-1P Multipurpose Aircraft
10. 30	Held FA-50 Initial operation capability ceremony

## 2015

01. 19	Conducted first flight of assault version of KUH
02. 11	Obtained the commercial aircraft design approval (AP1020) from Airbus
03. 30	Selected as preferred bidder for KF-X project
04. 22	Held the launch ceremony for KT-1P Peru #1 Rollout
06. 25	Agreement of LAH system development contract and LCH core technology development project
07. 07	Selected as preferred bidder for CAS (Compact Advanced Satellite)
07. 29	Renewed the corporate image
09. 07	Contract award for CAS (Compact Advanced Satellite)
09. 17	Export contract for 40 T-50TH units with Thailand
10. 05	Conducted first flight of Air force practical aircraft (KT-100)
10. 20	Contract for 4# helicopter for the National Police Agency
12. 05	Contract for the Korea Forest Service helicopter
12. 17	Held USAF export Trainer (APT) Roll-out ceremony
12. 28	Contract for the Korea Fighter Development (KF-X) system development
12. 30	Contract for Surion Jeju water bomber helicopter

## 2016

01. 07	Contract for co-development of KF-X with Indonesia
01. 21	Conference of launching the KF-X fighter system development business
01. 28	Conducted first flight of Surion medevac helicopter
03. 17	Selected as one of 100 grand excellent companies in job creation
05. 11	Held Force Integration event of KT-100 for Air Force Introduction course education
06. 02	Conducted first flight of T-50A, US export type advanced trainer
07. 15	Contract for exporting the basic trainer KT-1 to Senegal
09. 23	Contract for technology transfer of medium satellite with KARI
10. 10	Composite material plant and complex building completion ceremony
10. 24	Contract award for Surion #5 for the Korean national Police
11. 28	Achieved 5,000 times of accident-free test-flight of T-50 aircraft
12. 01	PBL Contract Phase II Program for T-50 aircraft
12. 05	Awarded 1 billion-dollar export tower
12. 20	Completed Surion-based medevac helicopter development
12. 27	Won a Surion Contract Phase III and serial production contract for amphibious task helicopter

## 2017

03. 27	Selected as a bidder for supervising company of Multipurpose Utility Satellite #7 development
04. 11	Supply contract for Embraer E2 and KC-390 wing structure
04. 27	Contract for supervision of Multipurpose Utility Satellite #7 development with KARI
07. 10	Supply contract for Boeing B777X Wing Rib
07. 29	Contract for additional export of 8 T-50TH units to Thailand
10. 31	Contract for US Air Force F-16 repair program
12. 18	Selected as a specialized business for aircraft MRO service
12. 26	Sales contract for additional 3 units of Chamsuri helicopter



T-50 : Advanced trainer aircraft for fighter pilot training

## T-50 Family

T-50, a state-of-the-art supersonic trainer jointly developed by KAI and Lockheed Martin from US to train combat pilots, is being operated by Korean Air Force. It has been evaluated as the most suitable trainer for future combat jets with its superior capabilities and high training effectiveness proved by improving the trial flight's performances and time records, and especially, it has demonstrated its stability through a mishap-free flight record.

Korea has become the 12th nation that developed a supersonic aircraft by the development of T-50, and become the 6th nation that exports supersonic aircrafts as a contract for export to Indonesia was concluded in 2011. The market share in international markets of advanced trainer and light fighter is expanding through the export contracts with Iraq in 2013, the Philippines in 2014, and Thailand in 2015.

We are expecting we would get a dominant position in the market of advanced trainer if KAI wins the contract for APT program that it participates in with Lockheed Martin from US.



- 1 FA-50 : Light attack aircraft equipped with a tactical data link, precision guided munitions, protection equipment and night mission capabilities
- 2 T-50I : Exported to the Indonesian Air Force
- 3 T-50IQ : Exported to the Iraqi Air Force
- 4 T-50TH : Exported to the Thai Air Force
- 5 FA-50PH : Exported to the Filipino Air Force



**KT-1** : Basic and intermediate trainer for fighter pilot training

## KT-1 Family

KT-1, an aircraft developed by indigenous technology, is a basic trainer for basic and intermediate level of training for combat pilots and is being operated by the Korean Air Force.

KT-1, which proved its stability in actual operations by mishap-free flight record, is equipped with the superior flight characteristics and performances among the international aircrafts at the same level, and especially its easy spin entering and recovery performance are preminent.

KT-1 has begun the generation of exportation of Korean aircraft by exports to Indonesia, Turkey, Peru, and Senegal, and is expected to have more success in a lot more countries since it can be adjusted to various customer requirements.



- 1** KA-1 : Airfield controlled aircraft equipped with weapons in operation in the Korean Air Force
- 2** KT-1B : Basic trainer exported to the Indonesian Air Force
- 3** KT-1T : Basic trainer exported to the Turkish Air Force
- 4** KT-1P : Basic trainer exported to the Peruvian Air Force



**KUH** : ROK Armed Forces' helicopter for air transportation of troops

## KUH Family

KUH (Surion), an aircraft developed by domestic technology, is the first Korean utility helicopter for transportation of troops that made Korea the 11th helicopter producer, and has been operated by ROK Army since the end of 2012.

Surion is capable to execute missions in Korean peninsula having lots of mountainous areas and hover at approximately 2,700m high, the height of Mt. Baekdu, and has been designed to lessen the pilots' burden of mission with AFCS (Automatic Flight Control System) installed. Nowadays, the helicopter designed based on Surion has been adopted as the National Police Agency's helicopter and is being operated. Also the helicopters for Korea's Forest Service, Jeju's Fire Department, and Maritime Police are in development.

The development of landing utility helicopter for marine landing operations of the Marine Corps has finished; the mass production of landing utility helicopter is under way. We are preparing for the mass production of medical evacuation helicopter for urgent evacuation of patients in critical condition as the development phase has completed.

We are expecting the market expansion for utility helicopters and success in customized exportation of Surion due to its outstanding performances and technologies.



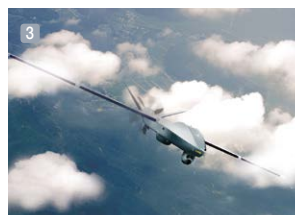
- 1 Amphibious helicopter** : Maritime helicopter on landing ships for landing missions
- 2 Medevac helicopter** : Helicopter for medical evacuation of patients in combat / common use
- 3 Police helicopter** : Helicopter for mission operations of Korean police
- 4 Maritime police helicopter** : Helicopter to perform operations such as cracking down on maritime crimes



RQ-101(Night Intruder 300) : Korean first corps-level UAV used in army operations

## UAV Unmanned Air Vehicle

Night Intruder 300, a Korean first UAV for reconnaissance, executes missions including regional supervision, reconnaissance, and target acquisition, and is being operated by ROK Army. We have completed the performance upgrade program for imagery detecting system, ground equipment localization, and function improvement in 2015 causing the enhancement of supervision and reconnaissance capabilities for Night Intruder 300. We are conducting the development of corps level unmanned aircraft system for operations of ROK Army, performing in-house studies to develop unmanned vertical take-off and landing craft (VTOL), and obtaining and accumulating the core technologies that cover the entire process of design, production, automatic flight, ground control, and flight test required for UAV development to prepare for the future generation of UAV.



- 1 **Devil Killer** : Small suicide UAV to hit in a rapid respond to the enemy attack
- 2 **The rotary unmanned air vehicle** :  
Vertical take-off and landing UAV suitable for combat and commercial use
- 3 **Next-generation corps level UAV** :  
High-performance UAV for surveillance and reconnaissance in mission area
- 4 **Unmanned combat aerial vehicle** :  
Highly maneuverable stealth UAV for future combats

# Business OVERVIEW



**KC-100(Naraon)** : Private complete aircraft for leisure, industry and flight training

## KC-100 Small Civil Air Vehicle

KC-100 (Naraon), a 4-seater small air vehicle made of the latest composites, is Korean first commercial aircraft that has been approved both by the Ministry of Land, Infrastructure and Transport of Korea and the Federal Aviation Authority of US fulfilling the international-level certification conditions. This resulted in the extension of Bilateral Aviation Safety Agreement (BASA) in October 2014 to enlarge the agreement scope to small air vehicles.

Having adopted the engine with cutting-edge electronic engine control equipment and using latest composite materials, KC-100 was designed to become an eco-friendly aircraft that enhances fuel efficiency and reduces carbon dioxide emission. Its state-of-the-art integrated aviation equipment raised the degree of convenience of operation and safety.

KC-100 will be utilized in the fields of air transportation, leisure and sport, fire prevention, supervision on coastal areas, patrol, and pilot training, as well as for business operations. KC-100 is now in operation since KAI concluded a contract with the Korea Air Force Academy for KT-100, as a trainer for cadets, and the delivery of KT-100 was implemented from April 2016 to June 2017.



- 1 2 KC-100(Naraon)
- 3 4 KT-100(trainer for cadets)
- 5 KC/KT-100 integrated electronic aviation equipment



**Airbus A350XWB** : Wing and fuselage structure (WR&NLGB) globally co-developed

## Airframe Aero Structure

KAI, as a major Tier-1 partner for international aircraft manufacturers such as Boeing and Airbus, has participated in the global co-development implementing the design, analysis, production and delivery of large aircraft structures. Especially, the programs for B787 wing structure and A350 aircraft wing and fuselage structure that we have taken part in from the early stages of design and analysis have completed its final step of production, and the delivery is currently implemented.

KAI was selected as the Supplier of the Year in 2010 and 2012 and one of Top 20 Suppliers by Boeing and Airbus as it received credit for accumulated technologies, compliance with deadlines, and customer satisfaction activities proved in business operations. We also completed the development of A350 derivative type on time in 2015, which led to the first acquisition of design approval in Asia, and was awarded the "Best Performer", a prize for excellent providers in quality and timeliness.

We have installed production equipment and system through the contracts for large-scale programs to handle increases in production amount for B737 empennage and A320 wing upper/lower structures. We won the contract award in 2017 for wing ribs of 777X, the most advanced aircraft of Boeing, and the development is under way aiming for the first delivery in June 2018. KAI has become a wing structure provider for mid-size aircraft of Boeing and Airbus. Accordingly more successes in cooperation are expected as a co-development partner in the development of new cutting-edge commercial aircraft.



**Boeing B787-9** :  
Composite materials wing structure (FTE) globally co-developed



**E-737** : Airborne Early Warning & Control (AEW&C) of the ROK Air Force for air surveillance, communications and combat capability enhancements

## Upgrade & Modification

### Performance Enhancements through Aircraft Modification

Performance upgrade program requires the most advanced technologies at R&D level, as the goal of program is to upgrade the performance of aircrafts in operation by aircraft modifications and enhancements to cope with modified air missions and added functions.

KAI purchased P-3, a retired aircraft of the US Navy, implemented service life extension and avionics equipment upgrade, and provided the Navy with P-3CK Maritime Patrol and the Air Force with E-737 Peace-Eye. We are also proceeding the delivery of C-130, an aircraft with improved mission equipment. KAI is scheduled to participate in the performance upgrade program to reinforce the performances of S-3, CH-47 and UH-60, improve Korea's Flight discontinuation and enlarge the scope of mission capabilities. KAI also will meet the demands for Korean aircrafts' performance upgrade by indigenous technologies, contribute to strengthening the national defense, and lead the performance upgrade businesses for the creation of a new market.



- 1 LYNX** : Helicopter in operation by the ROK Navy equipped with improved FLIR
- 2 P-3CK** : Maritime Patrol Aircraft capable of early warning, reconnaissance and antisubmarine missions
- 3 UH-60** : Helicopter in operation by the ROK Army, Air Force and Navy equipped with improved FLIR
- 4 HH-47** : Helicopter in operation by the ROK Air Force equipped with improved FLIR





**H-53** : Helicopter in operation by the US Navy and Marines for heavy-lift / long-range transportation, mine detection and removal, and search and rescue

## MRO Maintenance, Repair and Overhaul

KAI, to carry out its duties as a comprehensive aircraft producer capable of aircraft development, production and test and evaluation, is implementing aircraft MRO (Maintenance Repair Overhaul) program for aircraft service life and follow-up support for domestic and overseas aircrafts' operation. Utilizing the infrastructure of a comprehensive producer, we have constantly performed depot maintenance for many of military aircraft like F-16, H-53 P-CK and the police Helicopters, modification program for Early Warning E-737(AEW&C) and performance upgrade program for P-3CK and C-130. In addition, we won the contract award for the US Air Force's F-16 depot maintenance worth \$48.8m in October 2017 and begun implementation in January 2018. We received the AMO (Approved Maintenance Organization) Certificate in 2013 to enter the commercial aircrafts MRO market, and submitted the business proposal for the Establishment of Independent MRO company under the Aircraft MRO Promotion Act (Jan.2015), a government program aiming for aviation safety reinforcement, capital outflow prevention, and job creation to become one of G7 aviation superpowers in 2020. Consequently KAI was selected as the sole 'Government-Supported Aviation MRO Business' in December 2017. Henceforward KAI will establish a limited partnership corporation with domestic and overseas firms including KAC and Airlines, and form an MRO cluster between the HQ and 2nd plant to build a basis for development toward the market hub for Asian aircraft MRO market. KAI also fulfills the obligations as a provider for stable operations and maintenance of KT-1, T-50, and KUH families, the aircrafts developed by KAI, and enhancing the operation rate and stable management of clients' aircrafts through PBL (Performance Based Logistics) services. KAI will enter overseas MRO market for commercial and military aircrafts based on global competitiveness, cultivate the MRO sector as a future growth engine of KAI, contribute to the safe flights of domestic airlines and attempt to find a new growth engine of Korea and progress of aviation industry.



- 1 A-10** : Replacement of main wings with newly developed ones
- 2 B737** : Conducted repair work on platform
- 3 PBL Pilot Program** : PBL for the KT/A-1 and the RQ-101(UAV) aircraft sustainment
- 4 PBL Business Expansion** : PBL for the FA-50 aircraft's sustainment



Formation flight training

## Training System Ground Based Training System

KAI owns the world best technologies and experience for training system as well as aircraft development system and comprehensive logistics support system to provide training for pilots and maintenance technicians during the aircrafts' service life.

We cooperate organically with clients in the whole process of planning, development, production, and delivery, required to the achievement of certain level of training that our clients want, in the development of training sessions and training tools and follow-up services.

Especially the delivery of KT-100 simulator and T-50 Thailand simulator in 2017, KAI has proven its capability for technologies and business operation, and KAI reaffirmed its credit as a leading business in Korean and international markets of aviation training system by winning the contracts for KUH type amphibious task helicopter simulator, F-15K maintenance training equipment, and FA-50 the Philippines simulator.

KAI ranked the 18th place on the list of businesses conducting development/delivery of simulator in 2017, according to Military Simulation & Training Magazine. Currently we are performing the national program KF-X, simulator development program involved in LAH training system and T-50 Iraq training system development, and simulator training for foreign pilots, and working with Lockheed Martin from US to win the contracts for training system on advanced pilot trainers which will take the lead in training market.

KAI, as a leading business in domestic market of virtual training, is striving to enter the various areas of virtual training including Live-Virtual-Constructive (LVC) environment building program and exclusive exportation, and through such effort, KAI will promote the training system industry to become a new growth engine for the nation.



- 1 KT-1 Simulator
- 2 T-50 Simulator
- 3 (K)F-16 Simulator
- 4 KUH Simulator
- 5 P-3C Simulator



**Korea Multi-Purpose Satellite(KOMPSAT) #7 :**  
World-class ultra definition (0.3m) EO/IR satellite under development by KAI

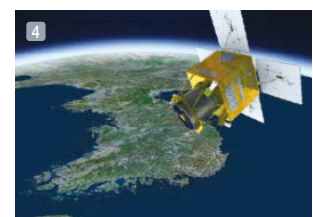
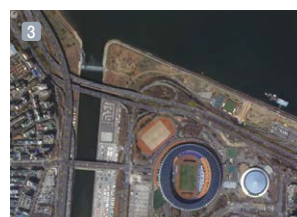
## Space Program Satellites and Launcher Business

KAI is the sole company that participated in the entire development programs of bus platform ranging KOMPSAT #1, #2, #3, and #5, a series of Korea Multi-Purpose Satellite which are 1 ton class highly reliable satellites. Based on the accumulated technologies and experience, KAI has successfully implemented the development of bus platform of KOMPSAT #3A, which was launched in 2015, and contributed to establishing a Standard platform of Korean satellite.

Following the development of KOMPSAT #3A, we also are performing a leading role in developing bus platform of KOMPSAT #6 and #7, and gradually expanding the business scope as we participate in the development of 3 ton Geostationary Korea Multi-Purpose Satellite (Geo-KOMPSAT) #2A/2B, while we have been performing as a prime contractor of Compact Advanced Satellite 500(CAS 500) #2, scheduled to be launched in 2020 based on the technologies and know-hows from co-development of #1 with KARI. We will continue to develop satellites capable of meeting domestic and overseas demands for various satellites such as 500kg mid-size ones and 3 ton class satellites to become a representative firm in satellite manufacturing.

In the field of space launch vehicle, KAI is implementing the tasks to obtain independent technology on launch vehicle by participations in the Korea Space Launch Vehicle (KSLV-II) system assembly and first stage propellant tank development. KAI, which has received the core technology in Launch vehicle system through conducting joint program with KARI, is securing experience and technologies, and will become a firm specializing in launch service.

Under the government policy which aims to gradually transfer the space development tasks to industries, we will implement space programs of government by stages, prepare for commercialization of satellites and launch vehicles, and grow as a Korean representative firm in the industry of space program through growth with relevant domestic firms and entrance to the international market.



- 1 Final assembly of Korea Multi-Purpose Satellite(KOMPSAT) #3A
- 2 Launch of Korea Multi-Purpose Satellite(KOMPSAT) #3A
- 3 Image of Korea Multi-Purpose Satellite(KOMPSAT) #3A at Jamsil Stadium
- 4 Configuration of Compact Advanced Satellite 500(CAS 500) #2



KF-X : The next generation Korean Fighter Program



## KF-X Korean Fighter Development

KF-X project is a large-scale national program worth around 8 trillion won from 2015 through 2026 led by Korean government for international co-development of Korean fighter (KF-X), a fighter equipped with functions for combat operations, to supplement the lack of national defense power due to the retirement of aircrafts F-4 and F-5 of the Air Force, with Indonesia.

On December 28 2015, KAI won the contract for KF-X system development with the Defense Acquisition Program Administration, and implemented various meetings including a kick-off meeting on KF-X system on January 21 2016, system requirement review (SRR) in March 2016, and system function review (SFR) in December. We are planning to complete the fundamental design and proceed to the detailed design in June 2018.

This program conducted by KAI is to be co-developed by Korea and Indonesia, divide production cost, secure economical quantity of mass production, and conduct risk management to develop Korean fighter that satisfies the operation capabilities for the Korean Army within permitted schedule and cost. KF-X will be designed as a fighter capable of securing air superiority within the defense area, precision strike to the enemy, and incapacitating territorial and maritime infiltration, and henceforward, KF-X will be utilized with advanced combat jets F-15K and F-35, as the bases forces to perform coordinated operations.

KAI, through the KF-X development program, will devote to the reinforcement of the Korean Air Force, and become a growth engine leading the aviation industry.



LAH : Light Armed Helicopter

## LCH/LAH Light Civil Helicopter / Light Armed Helicopter

Light Civil Helicopter(LCH) and Light Armed Helicopter(LAH) development program is to develop a competitive LCH for the international market as well as LAH to replace aged combat helicopters in operation, such as 500MD or AH-1S, by developing 10,000 pounds class commercial and armed helicopters. LCH/LAH development was launched in June 2015. The LCH will receive certificate in 2020 and LAH development will be completed in 2022.

To add various mission equipment to LCH and enable more varied operations, KAI and AH will conduct joint modification and development of EC-155. The LAH development will be conducted in connection with LCH to produce an armed helicopter which will perform the integrated combat missions and satisfy the capability requirements of ROK Army by economical development that maximizes utilization of commercial and combat compositions and introduction of operator-centred avionics system and domestically developed weapons/fire control system. LCH/LAH development program is a new growth engine with concentrated capabilities from industrial and academic fields to elevate the Korea aviation industry, and is expected to make a great contribution in the expansion of aviation infrastructure, growth of affiliated businesses, economic vitalization and job creation.

1 2 LAH : Light Armed Helicopter

3 4 LCH : Light Civil Helicopter



2017 ANNUAL REPORT

# TOTAL SOLUTION PROVIDER IN AEROSPACE

Takeoff to world no.5 aerospace systems  
integrated enterprise,  
KAI makes an energetic flight once again  
aiming for 20 trillion won of  
annual sales by 2030.





# Financial Report

- The General Condition of the Corporation
- Business Progress and Performance
- The Holding Company, the Affiliated Companies and Corporate Combination Agenda
- Current State of Sales Performance and Asset for Recent 3 Years
- Assignment the corporation has to cope with
- Current State of Major Shareholders
- Directors and Audit Condition
- Major Creditors Condition
- Current State of Investment on the Corporation, the Corporation and Affiliated Companies or Other Companies of Affiliated Companies of the Corporation
- The important fact known after Settlement Term
- The important factor about other operation

## 1. The General Condition of the Corporation

### 1) The purpose of corporation

- ① Design, manufacturing, sales, lease, modification, and service business for industrial gas turbines, aircraft, space ships, satellite body, and their components
- ② Overseas construction, trade and its agency
- ③ Technology service business
- ④ Business in real estate
- ⑤ Business in maintenance, lease, business, commission sale, transportation of aircraft
- ⑥ Composite materials
- ⑦ Aircraft, space ships, satellite body, industrial gas turbines related simulator business
- ⑧ Design, manufacturing, sales business for electronic equipment and components in aerospace and defense industries
- ⑨ Manufacturing, modification, repair, service, and supply business of military material and equipment
- ⑩ Manufacturing, sales and service business for photograph, catalogue and other printed matters
- ⑪ Management and administration of aerospace museum
- ⑫ Economical planting business
- ⑬ Software sales and development consulting business
- ⑭ Translation/Interpretation service business
- ⑮ The entire supplementary business related to the business above

### 2) Contents of the important business

Development and production of fixed/rotary wing aircraft and airframe components

### 3) Current states of factories

(As of December 31, 2017)

Names of factory and laboratory	Details of the important business	Location
HEADQUARTER	Production of aircraft and airframe components	78, Gongdan 1 street, Sanam-myun, Sacheon-si, Gyeongnam
SACHEON 2nd Factory	Production of aircraft	64, Hanggongro, Sacheon-eup, Sacheon-si, Gyeongnam
SANCHEONG factory	Production of substructures of aircraft wings	2436 street, Chinhwangyeongro, Geumseomyeon, Sancheonggun, Gyeongnam
DAEJEON R&D CENTER	Aircraft advanced research & development	7, Banseokro, Yuseong-gu, Daejeon

### 4) Current states of employees

(As of December 31, 2017, Person)

Classification	Production work	Technical work	R & D	Management support	Marketing Total Remark	Total	Remark
Male	1,345	454	1,360	325	278	3,762	
Female	1	17	62	32	31	143	
<b>Total</b>	<b>1,346</b>	<b>471</b>	<b>1,422</b>	<b>357</b>	<b>309</b>	<b>3,905</b>	

### 5) Information on shares

#### ① Type and number of stocks issued

(In millions of Korean won)

Type of stock	Number of stock	Amount	Proportion	Remark
Common stock	97,475,107 shares	487,376	100.0%	

#### ② Changes in capital - Number of authorized stocks : 200,000,000 shares

(In millions of Korean won)

Date	Type	Price per share	Number of Stocks issued	Capital increase	Capital after capital increase	Remark
1999. 10. 1	Common stock	5,000 won	57,840,000 shares	289,200	289,200	Investment in kind
2001. 1. 7	Common stock	5,000 won	20,040,000 shares	100,200	389,400	Paid-in capital increase
2001. 3. 1	Preferred stock	5,000 won	14,561,000 shares	72,807	462,207	Investment conversion
2006. 8. 13	Preferred stock	5,000 won	(8,023,000) shares	(40,117)	422,090	Reduction of capital
2006. 8. 13	Common stock	5,000 won	(42,912,000) shares	(214,559)	207,531	Reduction of capital
2006. 8. 24	Common stock	5,000 won	18,000,000 shares	90,000	297,531	Paid-in capital increase
2006. 9. 12	Common stock	5,000 won	24,000,000 shares	120,000	417,531	Investment conversion
2006. 11. 7	Common stock	5,000 won	1,400,000 shares	6,999	424,530	Employee stock
2006. 12. 19	Common stock	5,000 won	1,066,000 shares	5,330	429,860	Employee stock
2011. 2. 28	Preferred stock	5,000 won	(497,000) shares	(2,484)	427,376	Reduction of capital
2011. 2. 28	Preferred stock	5,000 won	(6,041,000) shares	(30,206)	397,170	Conversion to common stock
2011. 2. 28	Common stock	5,000 won	6,041,000 shares	30,206	427,376	Exercise the right of conversion
2011. 6. 28	Common stock	5,000 won	12,000,000 shares	60,000	487,376	Paid-in capital increase



③ General information on stocks

- A. Settlement date : 31, Dec
- B. Closing period of shareholder's list : from Jan. 1 to Jan. 7
- C. Standard date : 31, Dec
- D. Type of stocks : 1, 5, 10, 50, 100, 500, 1000, 10000 stock certificates(total 8 types)
- E. Announcement Ways : www.koreaaero.com / The Korea Economic Daily
- F. Agency for Stock business : Korea Securities Depository  
(Place for Stock business handling : Busan International Finance Center - Munhyeon-dong, Nam-gu, Busan Metropolitan City, 40 geumyungno)

6) Details on the private loan

(As of 31, Dec, 2017 / In millions of Korean won)

Type	Date of issue	Price	Interest rate	balance	Date of Repayment	Remark
The 18 <sup>th</sup> Publicly offered private loan	2014. 8. 22	200,000	2.868%		2017. 8. 22	National Pension, etc
The 19 <sup>th</sup> Publicly offered private loan	2016. 4. 11	200,000	1.803%	200,000	2019. 4. 11	National Pension, etc
The 20-1 <sup>th</sup> Publicly offered private loan	2017. 5. 31	100,000	2.042%	100,000	2020. 5. 31	National Pension, etc
The 20-2 <sup>nd</sup> Publicly offered private loan	2017. 5. 31	100,000	2.429%	100,000	2020. 5. 31	National Pension, etc

## 2. Business Progress and Performance

1) Current state of production for principal businesses

(In millions of Korean won)

Products	Classification	Production performance	
		The 19 <sup>th</sup> period	The 18 <sup>th</sup> period
Domestic		919,076	1,093,923
Export		1,168,455	1,398,526
<b>Total</b>		<b>2,087,531</b>	<b>2,492,449</b>

2) Current state of sale for products and goods

(In millions of Korean won)

Products	Classification	Sales performance	
		The 19 <sup>th</sup> period	The 18 <sup>th</sup> period
Domestic		816,124	1,148,340
Export		1,256,125	1,797,991
<b>Total</b>		<b>2,072,249</b>	<b>2,946,331</b>

3) Current state of major capital investment and financing

(In millions of Korean won)

Type	Investing amount	Financing	Remark
The Estate, Building, Structure	14,541	Internal Reverses	
Machine, Computation equipment etc	180,844	Internal Reverses	

## 3. The Holding Company, the Affiliated Companies and Corporate Combination Agenda

1) Current state of the holding company \_ Not applicable

2) Current state of the affiliated companies

(Share, %)

Companies			Relationship with our corporation		
Name	Address	Type of main business	Numbers of holding shares	Rate of holdings	Relation for Business
Korea Aerospace FW.Inc	USA TX. Fort Worth	Service	100 shares	100.0%	Yes
KAI EC	463, Cheongparo, Jung-gu, Seoul	Marketing	2,550,000 shares	51.0%	Yes

3) Current state of interlocking directorates in the holding, affiliated companies

Interlocking directorates		Interlocking Companies		
Name	Position	Name of Company	Position	Assigned task
Choi Sang-yeol	Managing Director	KAI EC	Director	

## 4. Current State of Sales Performance and Asset for Recent 3 Years

### 1) Sales performance

The Summarized Statement of profit and loss

(In millions of Korean won)

Options	The 19 <sup>th</sup> period	The 18 <sup>th</sup> period	The 17 <sup>th</sup> period
I. Sales	2,072,249	2,946,331	3,039,737
II. Cost of sales	2,097,187	2,489,732	2,531,359
III. Gross profit	(24,938)	456,599	508,378
IV. Selling, general and administrative expenses	183,935	136,506	128,675
V. Operating profit	(208,873)	320,093	379,703
VI. Income except for Operating	40,857	95,592	89,962
VII. Cost except for Operating	152,266	98,551	126,592
VIII. Profit before income tax	(320,282)	317,134	343,073
IX. Income tax expense	(85,096)	52,333	83,880
X. Profit (Loss) for the year	(235,186)	264,801	259,193
XI. Other comprehensive income	(3,702)	5,315	(21,075)
XII. Total comprehensive income (loss) for the year	(238,888)	270,116	238,118

### 2) Financial state

Summarized statement of financial position

(In millions of Korean won)

Options	The 19 <sup>th</sup> period	The 18 <sup>th</sup> period	The 17 <sup>th</sup> period
I. Current Asset	1,974,525	2,023,912	1,912,706
II. Noncurrent Asset	1,191,698	956,928	895,452
<b>Total Asset</b>	<b>3,166,223</b>	<b>2,980,840</b>	<b>2,808,158</b>
I. Current Liability	1,207,795	939,910	921,442
II. Noncurrent Liability	818,023	595,354	672,266
<b>Total liabilities</b>	<b>2,025,818</b>	<b>1,535,264</b>	<b>1,593,708</b>
I. Share capital	487,376	487,376	487,376
II. Share premium	124,077	124,077	124,077
III. Retained earnings	517,210	823,269	592,508
IV. Other components of equity	11,742	10,854	10,489
<b>Total equity</b>	<b>1,140,405</b>	<b>1,445,576</b>	<b>1,214,450</b>
<b>Total Liabilities and Equity</b>	<b>3,166,223</b>	<b>2,980,840</b>	<b>2,808,158</b>

## 5. Assignment the corporation has to cope with

Not applicable

## 6. Current State of Major Shareholders

(Share, %)

Name of Shareholder	Number of holding shares	Rate of holdings(%)	Transaction with the corporation	Remark
The Export-Import Bank of Korea	25,745,964 shares	26.4%	A typical financial transaction	Common stock
National Pension Service	6,424,553 shares	6.6%	No	Common stock
Hanwha Techwin	5,847,511 shares	6.0%	Yes	Common stock
Hana Financial Investment	4,731,037 shares	4.9%	No	Common stock
BLACKROCK GLOBAL FUNDS	1,947,104 shares	2.0%	No	Common stock
Employee Stock Ownership Association	1,525,467 shares	1.6%	No	Common stock

## 7. Directors and Audit Condition

Classification	Name	Position	Assigned Task	Transaction with the corporation	Remark
Standing	Kim Jo-Won	Internal Director (CEO)	Management Generalization	Non	
Non-Standing	Kim Yeong-han	Other Non-executive Director		Non	Hanwha Techwin, Executive director
Non-Standing	Lee Pal-Sung	Outside Director, The audit committee		Non	
Non-Standing	Lee Dong-Ho	Outside Director, Audit Committee		Non	
Non-Standing	Kim Tae-Young	Outside Director, Audit Committee		Non	

## 8. Major Creditors Condition

(In millions of Korean won, Share)

Name of Creditors	Credit Amount	Number of holding stocks	Rate of holdings	Remark
NH Bank	47,391	0	0.0%	

## 9. Current State of Investment on the Corporation, the Corporation and Affiliated Companies or Other Companies of Affiliated Companies of the Corporation

(Share, Account, %)

Name of other companies	Investment and Financial Company	Invested in other companies		Invested in other companies	
		Number of holding shares(Inc.)	Rate of holding accounts	Number of holding shares(Inc.)	Rate of holding accounts
S&K Aerospace	Our Corporation	200,000 shares	29.4%		
Korea Defense Industry Association	Our Corporation	78,920 accounts	15.2%		
Korea Software Financial Cooperative	Our Corporation	151 accounts	Under 1%		
Korea Aerospace FW. Inc	Our Corporation	100 shares	100%		
KAI EC	Our Corporation	2,550,000 shares	51.0%		
Korea Surface Treatment Co. Ltd.	Our Corporation	190,000 shares	29.69%		

## 10. The important fact known after Settlement Term

Not applicable

## 11. The important factor about other operation

Not applicable

2017 ANNUAL REPORT

# INNOVATION IN AEROSPACE

Move more boldly on the road no one has taken,  
but act more cautiously in the long run,  
KAI's innovation to challenge  
the limit continues.





# Financial Statements

- Consolidated Statements of Financial Position
- Consolidated Statements of Comprehensive Income
- Consolidated Statements of Changes in Equity
- Consolidated Statements of Cash Flows

## Consolidated Statements of Financial Position

December 31, 2017 and 2016

Korea Aerospace Industries, Ltd. and Subsidiary

(In thousands of Korean won)

Account	2017		2016	
<b>Assets</b>				
<b>I. Current assets</b>		<b>1,974,524,973</b>		<b>2,023,911,666</b>
Cash and cash equivalents	227,100,460		53,578,894	
Short-term financial instruments	6,255,266		16,090,272	
Trade receivables	421,847,670		550,441,942	
Due from customers for contract work	382,784,585		536,601,943	
Other short-term financial assets	17,167,642		36,157,046	
Inventories	464,115,988		506,266,182	
Other assets	455,253,402		324,775,387	
<b>II. Non-current assets</b>		<b>1,191,698,035</b>		<b>956,928,457</b>
Long-term available-for-sale financial assets	30,517,992		27,064,803	
Other long-term financial assets	9,275,195		7,974,449	
Investments in associate and joint venture	6,667,467		5,566,348	
Property, plant and equipment	547,324,600		522,062,503	
Intangible assets	359,958,939		246,031,334	
Deferred income tax assets	237,953,842		148,229,020	
<b>Total assets</b>		<b>3,166,223,008</b>		<b>2,980,840,123</b>
<b>Liabilities and Equity</b>				
<b>I. Current liabilities</b>		<b>1,207,795,312</b>		<b>939,910,354</b>
Trade payables	133,631,739		280,803,104	
Other short-term financial liabilities	248,578,595		164,587,877	
Short-term borrowings	470,374,129		99,521,595	
Current portion of debentures			200,000,000	
Due to customers for contract work	227,745,589		56,805,547	
Income tax payable	15,364,060		65,908,710	
Other short-term liabilities	112,101,200		72,283,521	
<b>II. Non-current liabilities</b>		<b>818,022,539</b>		<b>595,354,166</b>
Long-term borrowings	30,018,700		45,711,576	
Long-term debentures payable	399,381,110		199,452,326	
Other long-term financial liabilities	28,798,991		23,661,852	
Net defined benefit liabilities	332,610,107		298,723,051	
Other provisions	13,028,759		12,497,559	
Other long-term liabilities	14,184,872		15,307,802	
<b>Total liabilities</b>		<b>2,025,817,851</b>		<b>1,535,264,520</b>
<b>I. Equity attributable to owners of the parent</b>		<b>1,140,405,157</b>		<b>1,445,575,603</b>
Share capital	487,375,535		487,375,535	
Share premium	124,077,486		124,077,486	
Retained earnings	517,210,256		823,269,142	
Other components of equity	11,741,880		10,853,440	
<b>II. Non-controlling interests</b>				
<b>Total equity</b>		<b>1,140,405,157</b>		<b>1,445,575,603</b>
<b>Total liabilities and equity</b>		<b>3,166,223,008</b>		<b>2,980,840,123</b>

# Consolidated Statements of Comprehensive Income

Years Ended December 31, 2017 and 2016

Korea Aerospace Industries, Ltd. and Subsidiary

(In thousands of Korean won, except per share amounts)

Account	2017		2016	
<b>I. Sales</b>		<b>2,072,249,142</b>		<b>2,946,330,610</b>
<b>II. Cost of sales</b>		<b>2,097,187,494</b>		<b>2,489,732,134</b>
<b>III. Gross profit (loss)</b>		<b>(24,938,352)</b>		<b>456,598,476</b>
Selling, general and administrative expenses	183,934,902		136,506,067	
<b>IV. Operating profit (loss)</b>		<b>(208,873,254)</b>		<b>320,092,409</b>
Other income	3,691,946		13,072,443	
Other expenses	26,225,490		24,843,136	
Financial income	36,845,576		82,182,881	
Financial expenses	125,950,588		73,675,821	
Share of profit of associates accounted for using equity method	319,038		336,952	
Share of loss of associates accounted for using equity method	89,567		31,975	
<b>V. Profit (Loss) before income tax</b>		<b>(320,282,339)</b>		<b>317,133,753</b>
Income tax expense (benefit)	(85,096,486)		52,332,665	
<b>VI. Profit (Loss) for the year</b>		<b>(235,185,853)</b>		<b>264,801,088</b>
<b>Profit (Loss) attributable to :</b>				
Owners of the parent company	(235,185,853)		264,801,088	
Non-controlling interest				
<b>VII. Other comprehensive income</b>		<b>(3,701,521)</b>		<b>5,314,691</b>
<b>Items that will not be reclassified subsequently to profit or loss:</b>				
Remeasurement of net defined benefit liabilities	(6,055,356)		6,530,486	
Income tax effect of other comprehensive income	1,465,396		(1,580,378)	
<b>Items to be subsequently reclassifiable to profit or loss:</b>				
Gain on valuation of long-term available-for-sale financial assets	105,063		464,499	
Foreign currency translation differences	(50,856)		12,493	
Share of other comprehensive income of associates	859,657			
Income tax effect of other comprehensive income	(25,425)		(112,409)	
<b>VIII. Total comprehensive income (loss) for the year</b>		<b>(238,887,374)</b>		<b>270,115,779</b>
<b>Total comprehensive income attributable to :</b>				
Owners of the parent company	(238,887,374)		270,115,779	
Non-controlling interest				
<b>IX. Earnings per share attributable to owners of the parent company (in Korean won)</b>				
Basic earnings(losses) per share		(2,413)		2,717
Diluted earnings(losses) per share		(2,413)		2,717

## Consolidated Statements of Changes in Equity

Years Ended December 31, 2017 and 2016

Korea Aerospace Industries, Ltd. and Subsidiary

(In thousands of Korean won)

Account	Equity attributable to owners of the parent company				Non-controlling interests	Total
	Share capital	Share premium	Retained earnings	Other components of equity		
<b>Balance at January 1, 2016</b>	<b>487,375,535</b>	<b>124,077,486</b>	<b>592,507,989</b>	<b>10,488,857</b>		<b>1,214,449,867</b>
<b>Total comprehensive income</b>						
Profit for the year			264,801,088			264,801,088
Gains on valuation of available-for-sale financial assets				352,090		352,090
Foreign currency translation differences				12,493		12,493
Remeasurement of net defined benefit liabilities			4,950,108			4,950,108
<b>Total comprehensive income</b>			<b>269,751,196</b>	<b>364,583</b>		<b>270,115,779</b>
<b>Transactions with owners</b>						
Cash dividends			(38,990,043)			(38,990,043)
<b>Total transactions with owners</b>			<b>(38,990,043)</b>			<b>(38,990,043)</b>
<b>Balance at December 31, 2016</b>	<b>487,375,535</b>	<b>124,077,486</b>	<b>823,269,142</b>	<b>10,853,440</b>		<b>1,445,575,603</b>
<b>Balance at January 1, 2017</b>	<b>487,375,535</b>	<b>124,077,486</b>	<b>823,269,142</b>	<b>10,853,440</b>		<b>1,445,575,603</b>
<b>Total comprehensive income</b>						
Loss for the year			(235,185,853)			(235,185,853)
Gains on valuation of available-for-sale financial assets				79,638		79,638
Foreign currency translation differences				(50,855)		(50,855)
Remeasurement of net defined benefit liabilities			(4,589,960)			(4,589,960)
Share of other comprehensive income of associates				859,657		859,657
<b>Total comprehensive income (loss)</b>			<b>(239,775,813)</b>	<b>888,440</b>		<b>(238,887,373)</b>
<b>Transactions with owners</b>						
Cash dividends			(66,283,073)			(66,283,073)
<b>Total transactions with owners</b>			<b>(66,283,073)</b>			<b>(66,283,073)</b>
<b>Balance at December 31, 2017</b>	<b>487,375,535</b>	<b>124,077,486</b>	<b>517,210,256</b>	<b>11,741,880</b>		<b>1,140,405,157</b>



# Consolidated Statements of Cash Flows

| Years Ended December 31, 2017 and 2016

Korea Aerospace Industries, Ltd. and Subsidiary

(In thousands of Korean won)

Account	2017	2016
<b>I. Cash Flows from operating activities</b>		
Profit (Loss) for the year	(235,185,853)	264,801,088
Adjustments	396,106,965	270,808,099
Changes in operating assets and liabilities	22,731,307	(300,692,000)
Interest received	1,220,622	810,704
Interest paid	(26,498,659)	(12,836,123)
Income tax paid	(53,732,708)	(77,606,875)
<b>Net cash inflow from operating activities</b>	<b>104,641,674</b>	<b>145,284,893</b>
<b>II. Cash flows from investing activities</b>		
Net changes from short-term financial instruments	9,835,045	1,289,306
Net changes from long-term financial instruments		(4,610)
Proceeds from disposal of available-for-sale financial assets		3,700
Acquisition of available-for-sale financial assets	(3,348,125)	(2,670,300)
Increase in other financial assets		(2,014,589)
Decrease in other financial assets	375,231	3,803,321
Proceeds from disposal of property, plant and equipment	50,712	860,549
Acquisition of property, plant and equipment	(78,906,533)	(81,874,014)
Proceeds from disposal of intangible assets		497,273
Acquisition of intangible assets	(195,396,338)	(100,587,133)
Receipt of governments grants	51,557,829	21,971,011
<b>Net cash outflow from investing activities</b>	<b>(215,832,179)</b>	<b>(158,725,486)</b>
<b>III. Cash flows from financing activities</b>		
Net changes from short-term borrowings	353,510,110	(143,041,417)
Proceeds from long-term borrowings		38,700,000
Repayment of debentures	(200,000,000)	
Proceeds from debentures	199,550,160	199,452,600
Payment of dividends	(66,282,665)	(38,989,803)
<b>Net cash inflow from financial activities</b>	<b>286,777,605</b>	<b>56,121,380</b>
<b>IV. Effects of exchange rate changes on cash and cash equivalents</b>	<b>(2,065,534)</b>	<b>167,213</b>
<b>V. Net increase in cash and cash equivalents</b>	<b>173,521,566</b>	<b>42,848,000</b>
<b>VI. Cash and cash equivalents at the beginning of the year</b>	<b>53,578,894</b>	<b>10,730,894</b>
<b>VII. Cash and cash equivalents at the end of the year</b>	<b>227,100,460</b>	<b>53,578,894</b>

## Accountant's Report by Council of Commissioners

To the Board of Korea Aerospace Industries, Ltd.

I report the following result of audit on the 19th business year accounting and business of Korea Aerospace Industries, Ltd., for the period from 1, Jan, 2017 to 31th, Dec, 2017 as the Independent auditor to the company.

### 1. Outline of Audit Method

The financial statement consolidated financial statement and the related supplementary schedules have been thoroughly reviewed for the accounting audit.

Other audit methods including comparison, inspection, attendance, research etc. have been applied when they were deemed necessary.

I have attended necessary board meetings as a part of the audit and, when necessary, I received the operation report covering sales activities and accessed to important documentation as a part of the audit methods.

### 2. Statements of the Financial Position, Consolidated Financial Position and Inclusive Profit & Loss, Consolidated Inclusive Profit & Loss

Statements of the financial position, consolidated financial position and inclusive profit & loss, consolidated inclusive profit & loss in this report are properly reporting the financial state and business performances of the corporate in accordance with legislation and articles of association.

### 3. Statement of Earning Appropriation

Statement of earning appropriation is written properly in accordance with the legislation and articles of association.

### 4. Business Report

Business report is showing accurate the state of corporate in accordance with the legislation and articles of association.

March 14, 2018  
Korea Aerospace Industries, Ltd.  
Appointed Auditor Lee Dong-Ho

# Independent Auditor's Report

To the Board of Directors and Shareholders of  
Korea Aerospace Industries, Ltd.

We have audited the accompanying consolidated financial statements of Korea Aerospace Industries, Ltd. and its subsidiary (collectively referred to as the "Group"), which comprise the consolidated statements of financial position as at December 31, 2017 and 2016, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies and other explanatory information.

## Management's Responsibilities for the Financial Statements

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

## Auditor's Responsibilities

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

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

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

## Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of Korea Aerospace Industries, Ltd. and its subsidiary as at December 31, 2017 and 2016, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with Korean IFRS.

Seoul, Korea  
March 21, 2018

This report is effective as of March 21, 2018, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying consolidated financial statements and notes thereto. Accordingly, the readers of the audit report should understand that there is a possibility that the above audit report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

2017 ANNUAL REPORT

# TO ENHANCE THE FUTURE VALUE

Despite of the hardships and sufferings, KAI,  
raising the future value of Korean aviation and  
space technology by endless effort,  
will never stop flapping wings.





