

**Korea Western Power Co., Ltd.**

(incorporated with limited liability under the laws of the Republic of Korea)

U.S.\$2,000,000,000**Global Medium Term Note Program**

This offering circular (the “Offering Circular”) replaces and supersedes in its entirety the previous offering circular dated September 5, 2014 describing the U.S.\$2,000,000,000 Global Medium Term Note Program (the “Program”) of Korea Western Power Co., Ltd. (the “Issuer” or the “Company”). Any Notes (as defined below) issued under the Program on or after the date of this Offering Circular are issued subject to the provisions described herein. Under the Program, the Issuer may from time to time issue notes (the “Notes”) denominated in any currency agreed between the Issuer and the relevant Dealer (as defined below).

The Notes may be issued in bearer or registered form (respectively “Bearer Notes” and “Registered Notes”). The maximum aggregate nominal amount of all Notes from time to time outstanding under the Program will not exceed U.S.\$2,000,000,000 (or its equivalent in other currencies calculated as described herein), subject to increase as described herein.

The Notes may be issued on a continuing basis to one or more of the Dealers specified under “Summary” and any additional Dealer appointed under the Program from time to time by the Issuer (each, a “Dealer” and together, the “Dealers”), which appointment may be for a specific issue or on an ongoing basis. References in this Offering Circular to the “relevant Dealer” shall, in the case of an issue of Notes being (or intended to be) subscribed by more than one Dealer, be to all Dealers agreeing to purchase such Notes.

Approval in-principle has been received from the Singapore Exchange Securities Trading Limited (the “SGX-ST”) in connection with the Program and application will be made for the listing and quotation of Notes that may be issued pursuant to the Program, which Notes are agreed, at or prior to the time of issue thereof, to be so listed on the SGX-ST. Such permission will be granted when such Notes have been admitted for listing and quotation on the SGX-ST. The SGX-ST assumes no responsibility for the correctness of any of the statements made, opinions expressed or reports contained in this Offering Circular. Approval in-principle from, admission to the Official List of, and the listing and quotation of any Notes on, the SGX-ST are not to be taken as an indication of the merits of the Issuer, the Program or the Notes.

Notice of the aggregate nominal amount of Notes, interest (if any) payable in respect of Notes, the issue price of Notes and any other terms and conditions not contained herein which are applicable to each Tranche (as defined under “Terms and Conditions of the Notes”) of Notes will be set out in a pricing supplement (the “Pricing Supplement”) which, with respect to Notes to be listed on the SGX-ST, will be delivered to the SGX-ST before the date of listing of the Notes of such Tranche.

The Program provides that Notes may be listed on such other or further stock exchange(s) as may be agreed between the Issuer and the relevant Dealer. The Issuer may also issue unlisted Notes.

Investing in the Notes involves certain risks that are described in the “Risk Factors” section beginning on page 63 of this Offering Circular.

The Notes of each Series will be in either bearer form, with or without interest coupons attached, or registered form, without interest coupons attached. Bearer Notes will be issued only outside the United States to non-U.S. persons in reliance on the exemption from registration provided by Regulation S under the U.S. Securities Act of 1933, as amended (the “Securities Act”), and Registered Notes may be issued both outside the United States to non-U.S. persons in reliance on the exemption from registration provided by Regulation S and within the United States or to U.S. persons in private transactions (i) to “qualified institutional buyers” within the meaning of Rule 144A under the Securities Act (“QIBs”) or (ii) to “accredited investors” (as defined in Rule 501(a)(1), (2), (3) or (7) under the Securities Act) that are institutions (“Institutional Accredited Investors”) who agree to purchase the Notes for their own account and not with a view to the distribution thereof. Bearer Notes are subject to U.S. tax law requirements. Subject to certain exceptions, the Notes may not be offered or sold, or in the case of Bearer Notes delivered, in the United States or its possessions or to, or for the benefit of, U.S. persons (as defined in Regulation S under the Securities Act or, in the case of Bearer Notes, the U.S. Internal Revenue Code of 1986, as amended (the “Code”)). See “Form of the Notes” for additional description of the manner in which Notes will be issued. Notes are subject to certain restrictions on transfer. See “Subscription and Sale and Transfer and Selling Restrictions.”

The Issuer may agree with any Dealer that Notes may be issued in a form not contemplated by the Terms and Conditions of the Notes herein, in which event (in the case of Notes intended to be listed on the SGX-ST) a supplementary Offering Circular, if appropriate, will be submitted to the SGX-ST and made available which will describe the effect of the agreement reached in relation to such Notes.

Arranger

Citigroup

Dealers

BNP PARIBAS

Citigroup

HSBC

The date of this Offering Circular is May 29, 2018.

The Issuer, having made all reasonable enquiries, confirms that this Offering Circular contains or incorporates all information which is material in the context of the issue and offering of Notes, that the information contained or incorporated by reference in this Offering Circular is true and accurate in all material respects and is not misleading in any material respect, that the opinions and intentions expressed in this Offering Circular are honestly held and have been reached after considering all relevant circumstances and are based on reasonable assumptions and that there are no other facts the omission of which would, in the context of the issue and offering of the Notes, make this Offering Circular as a whole or any information or the expression of any opinions or intentions in this Offering Circular misleading in any material respect. The Issuer accepts responsibility accordingly.

This Offering Circular is to be read in conjunction with all documents which are deemed to be incorporated herein by reference. See “Documents Incorporated by Reference.” This Offering Circular should be read and construed on the basis that such documents are incorporated in and form part of this Offering Circular.

No representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Dealers as to the accuracy or completeness of the information contained or incorporated by reference in this Offering Circular or any other information provided by the Issuer in connection with the Program, the Issuer or the issue and offering of the Notes. No Dealer accepts any liability in relation to the information contained or incorporated by reference in this Offering Circular or any other information provided or purported to be provided by any of the Dealers on its behalf or by the Issuer in connection with the Program, the Issuer or the issue or offering of the Notes. The Dealers accordingly disclaim all and any liability whether arising in tort or contract or otherwise which it might otherwise have in respect of this Offering Circular or any such information or statement.

No person is or has been authorized by the Issuer to give any information or to make any representation which is not contained in or which is not consistent with this Offering Circular or any other information supplied by or on behalf of the Issuer in connection with the Program or the Notes and, if given or made, such information or representation must not be relied upon as having been authorized by the Issuer or any of the Dealers.

Neither this Offering Circular nor any other information supplied in connection with the Program or any Notes (i) is intended to provide the basis of any credit or other evaluation or (ii) should be considered as a recommendation or constitute an invitation or offer by the Issuer or any of the Dealers to any of its recipients to purchase any Notes. Each investor contemplating purchasing any Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer. Neither this Offering Circular nor any other information supplied in connection with the Program or the issue of any Notes constitutes an offer or invitation by or on behalf of the Issuer or any of the Dealers to any person to subscribe for or to purchase any Notes.

Neither the delivery of this Offering Circular nor the offering, sale or delivery of any Notes shall in any circumstances imply that the information contained herein concerning the Issuer is correct at any time subsequent to the date hereof or that any other information supplied in connection with the Program is correct as of any time subsequent to the date indicated in the document containing the same. The Dealers expressly do not undertake to review the financial condition or affairs of the Issuer during the life of the Program or to advise any investor in the Notes of any information coming to their attention. Investors should review the most recently published documents incorporated by reference in this Offering Circular when deciding whether or not to purchase any Notes.

The Notes in bearer form are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to United States persons, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the Code and the regulations promulgated thereunder.

This Offering Circular does not constitute an offer to sell or the solicitation of an offer to buy any Notes in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Offering Circular and the offer or sale of Notes may be restricted by law in certain jurisdictions. Neither the Issuer nor any of the Dealers represent that this Offering Circular may be lawfully distributed, or that any Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer or the Dealers which would permit a public offering of any Notes or distribution of this document in any jurisdiction where action for that purpose is required. Accordingly, no Notes may be offered or sold, directly or indirectly, and neither this Offering Circular nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Offering Circular or any Notes come must inform themselves about, and observe, any such restrictions on the distribution of this Offering Circular and the offering and sale of Notes. In particular, there are restrictions on the distribution of this Offering Circular and the offer or sale of Notes in the United States, the European Economic Area (the “EEA”), the United Kingdom, Japan, Korea, Switzerland, Singapore and Hong Kong. See “Subscription and Sale and Transfer and Selling Restrictions.”

In making an investment decision, investors must rely on their own examination of the Issuer and the terms of the Notes being offered, including the merits and risks involved. The Notes have not been approved or disapproved by the U.S. Securities and Exchange Commission or any other securities commission or other regulatory authority in the United States, nor have the foregoing authorities approved this Offering Circular or confirmed the accuracy or determined the adequacy of the information contained in this Offering Circular. Any representation to the contrary is unlawful.

The final terms (or Pricing Supplement, as the case may be) in respect of any Series (as defined under “Terms and Conditions of the Notes”) of Notes may include information entitled “MiFID II Product Governance,” which will outline the target market assessment in respect of the Notes of any such Series and which channels for distribution of the Notes are appropriate, and if such information is included, any person subsequently offering, selling or recommending the Notes (a “distributor”) should take into consideration the target market assessment; however, a distributor subject to Directive 2014/65/EU (as amended, “MiFID II”) will be responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the target market assessment) and determining the appropriate distribution channels.

For the purpose of the MiFID Product Governance rules under EU Delegated Directive 2017/593 (the “MiFID Product Governance Rules”), each of the Arranger and Dealers will be deemed not to be a manufacturer unless determined otherwise, the determination of which will be made in relation to each issue of Notes with respect to the Arranger and each Dealer.

If the final terms (or Pricing Supplement, as the case may be) in respect of any Series of Notes includes a legend entitled “Prohibition of Sales to EEA Retail Investors,” the Notes of any such Series are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the EEA. For these purposes: (a) the expression “retail investor” means a person who is one (or more) of the following: (i) a

retail client as defined in point (11) of Article 4(1) of MiFID II; (ii) a customer within the meaning of Directive 2002/92/EC, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in the Prospectus Directive (as defined below); and (b) the expression “offer” includes the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe for the Notes. Consequently, no key information document required by Regulation (EU) No 1286/2014 (the “PRIIPs Regulation”) for offering or selling the Notes or otherwise making them available to retail investors in the EEA will be prepared and therefore, offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

This Offering Circular has been prepared on the basis that, except to the extent sub-paragraph (ii) below may apply, any offer of Notes in any Member State of the EEA (each, a “Member State”) will be made pursuant to an exemption under the Prospectus Directive from the requirement to publish a prospectus for offers of Notes. Accordingly, any person making or intending to make an offer in that Member State of Notes which are the subject of an offering contemplated in this Offering Circular as completed by final terms in relation to the offer of those Notes may only do so (i) in circumstances in which no obligation arises for the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive, in each case, in relation to such offer, or (ii) if a prospectus for such offer has been approved by the competent authority in that Member State or, where appropriate, approved in another Member State and notified to the competent authority in that Member State and (in either case) published, all in accordance with the Prospectus Directive, provided that any such prospectus has subsequently been completed by final terms which specify that offers may be made other than pursuant to Article 3(2) of the Prospectus Directive in that Member State and such offer is made in the period beginning and ending on the dates specified for such purpose in such prospectus or final terms, as applicable, and the Issuer has consented in writing to its use for the purpose of such offer. Except to the extent sub-paragraph (ii) above may apply, neither the Issuer nor any Dealer has authorized, nor do they authorize, the making of any offer of Notes in circumstances in which an obligation arises for the Issuer or any Dealer to publish or supplement a prospectus for such offer.

For the purposes of the foregoing, the expression “Prospectus Directive” means Directive 2003/71/EC (as amended, including by Directive 2010/73/EU), and includes any relevant implementing measure in the Member State.

This Offering Circular is only being distributed to and is only directed at (i) persons who are outside the United Kingdom or (ii) investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the “Order”) or (iii) high net worth entities, and other persons to whom it may lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order (all such persons together being referred to as “relevant persons”). The Notes will only be available to, and any invitation, offer or agreement to subscribe for, purchase or otherwise acquire such Notes will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely on this Offering Circular or any of its contents.

None of the Dealers or the Issuer makes any representation to any investor in the Notes regarding the legality of its investment under any applicable laws. Any investor in the Notes should be able to bear the economic risk of an investment in the Notes for an indefinite period of time.

U.S. INFORMATION

This Offering Circular is being submitted on a confidential basis in the United States to a limited number of QIBs or Institutional Accredited Investors (each as defined under “*Form of the Notes*”) for informational use solely in connection with the consideration of the purchase of the Notes being offered hereby. Its use for any other purpose in the United States is not authorized. It may not be copied or reproduced in whole or in part nor may it be distributed or any of its contents disclosed to anyone other than the prospective investors to whom it is originally submitted.

The Notes may be offered and sold outside the United States to non-U.S. persons pursuant to Regulation S under the Securities Act (“Regulation S”). Registered Notes may be offered or sold within the United States only to QIBs or to Institutional Accredited Investors, in either case in transactions exempt from registration under the Securities Act. Each U.S. purchaser of Registered Notes is hereby notified that the offer and sale of any Registered Notes to it may be being made in reliance upon the exemption from the registration requirements of the Securities Act provided by Rule 144A under the Securities Act (“Rule 144A”).

Purchasers of Definitive IAI Registered Notes (as defined under “Form of the Notes”) will be required to execute and deliver an IAI Investment Letter (as defined under “Terms and Conditions of the Notes”). Each purchaser or holder of Definitive IAI Registered Notes, Notes represented by a Rule 144A Global Note or any Notes issued in registered form in exchange or substitution therefor (together, “Legended Notes”) will be deemed, by its acceptance or purchase of any such Legended Notes, to have made certain representations and agreements intended to restrict the resale or other transfer of such Notes as set out in “*Subscription and Sale and Transfer and Selling Restrictions*.” Unless otherwise stated, terms used in this paragraph have the meanings given to them in “*Form of the Notes*.”

The distribution of this Offering Circular and the offer, sale or delivery of Notes may be restricted by law in certain jurisdictions. Persons into whose possession this Offering Circular or any Notes come must inform themselves about, and observe, any such restrictions. The Notes have not been and will not be registered under the Securities Act, and may include Notes that are in bearer form that are subject to U.S. tax law requirements and limitations. Subject to certain exceptions, the Notes may not be offered, sold or delivered within the United States or to U.S. persons. For a description of certain restrictions on offers and sales of Notes and on distribution of this Offering Circular, see “Subscription and Sale and Transfer and Selling Restrictions.”

CERTAIN DEFINED TERMS AND CONVENTIONS

All references herein to “Korea” are to the Republic of Korea, and all references herein to the “Government” are to the Government of the Republic of Korea. All references to “we”, “our”, “us”, “ourselves”, “our company”, “KOWEPO”, the “Company” or the “Issuer” herein are references to Korea Western Power Co., Ltd. and, as the context may require, its subsidiaries.

All references herein to “U.S. dollars”, “dollars”, “US\$”, “U.S.\$” and “\$” refer to the currency of the United States of America, all references herein to “Korean Won”, “Won” and “₩” refer to the currency of Korea, all references herein to “€” or “Euro” refer to the uniform currency of the European Union, all references herein to “£” refer to the currency of the United Kingdom, all references herein to “Japanese yen” and “¥” refer to the currency of Japan, all references herein to “S\$” refer to the currency of Singapore and all references herein to “A\$” refer to the currency of the Commonwealth of Australia.

Any discrepancies in any table between totals and sums of the amounts listed are due to rounding. The Issuer maintains its accounts in Won. This Offering Circular contains translations of certain Won amounts into U.S. dollars at specified rates solely for the convenience of the reader. These translations should not be construed as representations that the Won amounts actually represent such U.S. dollar amounts or could have been or could be converted into U.S. dollars at any particular rate, or at all. Unless otherwise specified, all conversions of Won into U.S. dollars were made at the base rate under the market average exchange rate system, announced by Seoul Money Brokerage Services, Ltd. in Seoul, between U.S. dollars and Won, rounded to the nearest tenth of one Won (the “Market Average Exchange Rate”). Unless otherwise specified, the translations of Won into U.S. dollars as of and for the year ended December 31, 2017 have been made at the Market Average Exchange Rate in effect on March 31, 2018, which was Won 1,066.5 to U.S.\$1.00. For a discussion of historical information regarding the rate of exchange between Won and the U.S. dollar, see “Exchange Rates.”

Information regarding market position, growth rates and other industry data pertaining to the Issuer’s business used throughout this Offering Circular has been compiled from internal surveys, market research, publicly available information and industry publications. Industry publications generally state that the information that they contain has been obtained from sources believed to be reliable but that the accuracy and completeness of that information is not guaranteed. Similarly, internal surveys, industry forecasts and market research, while the Issuer believes them to be reliable, have not been independently verified, and neither the Issuer nor Dealers make any representation as to the accuracy of that information.

FORWARD-LOOKING STATEMENTS

Certain statements in this Offering Circular constitute “forward-looking statements”, including statements regarding the Issuer’s expectations and projections for future operating performance and business prospects. The words “believe”, “expect”, “anticipate”, “estimate”, “project”, “will”, “aim”, “will likely result”, “will continue”, “intend”, “plan”, “contemplate”, “seek to”, “future”, “objective”, “goal”, “should”, “will pursue” and similar expressions or variations of these expressions identify forward-looking statements. In addition, all statements other than statements of historical facts included in this Offering Circular, including, without limitation, those regarding the Issuer’s financial position and results, business strategy, plans and objectives of management for future operations, including development plans and objectives relating to the Issuer’s products and services, are forward-looking statements. Such forward-looking statements and any other projections contained in this Offering Circular (whether

made by the Issuer or any third party) involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements to be materially different from the future results, performance or achievements expressed or implied by forward-looking statements. Such forward-looking statements are based on current beliefs, assumptions, expectations, estimates and projections regarding the Issuer's present and future business strategies and the environment in which the Issuer will operate in the future. Among the important factors that could cause some or all of those assumptions not to occur or cause the Issuer's actual results, performance or achievements to differ materially from those in the forward-looking statements include, among other things, the Issuer's ability to successfully implement its business strategy and its safety policies, the condition of and changes in the Korean, Asian or global economies, the Issuer's growth and expansion, including whether the Issuer succeeds in its capital investment program to increase its installed capacity, changes in interest rates and changes in government regulation and licensing of its businesses in Korea and in other jurisdictions where the Issuer may operate, and the change in the price of electricity sold by the Issuer. Additional factors that could cause the Issuer's actual results, performance or achievements to differ materially include, but are not limited to, those discussed under "*Risk Factors*." Any forward-looking statements contained in this Offering Circular speak only as of the date of this Offering Circular. Each of the Issuer and the Dealers expressly disclaims any obligation or undertaking to release, publicly or otherwise, any updates or revisions to any forward-looking statement contained herein to reflect any change in the Issuer's expectations with regard thereto or any change in events, conditions, assumptions or circumstances on which any such statement was based.

ENFORCEMENT OF CIVIL LIABILITIES

The Issuer is a corporation organized under the laws of Korea. All of the officers and directors named herein reside outside the United States and all or a substantial portion of the assets of the Issuer and its officers and directors are located outside the United States. As a result, it may not be possible for investors to effect service of process outside Korea upon the Issuer or such persons, or to enforce judgments against them obtained in courts outside Korea predicated upon civil liabilities of the Issuer or its directors and officers under laws other than Korean law, including any judgment predicated upon United States federal securities laws. The Issuer has been advised by Shin & Kim, its counsel as to matters of Korean law, that there is doubt as to the enforceability in Korea in original actions or in actions for enforcement of judgments of United States courts of civil liabilities predicated solely upon the federal securities laws of the United States.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

The Issuer's financial information as of and for the years ended December 31, 2015, 2016 and 2017 included in this Offering Circular is derived from the Issuer's audited consolidated financial statements included elsewhere in this Offering Circular. Such financial statements have been prepared in accordance with the International Financial Reporting Standards as adopted by the Korean Accounting Standards Board ("K-IFRS"), which may differ in certain respects from International Financial Reporting Standards as adopted by the International Accounting Standards Board ("IFRS") or applied in other countries. The Issuer's financial information as of March 31, 2018 and for the three-month periods ended March 31, 2017 and 2018 included in this Offering Circular is derived from the Issuer's unaudited condensed consolidated interim financial statements included elsewhere in this Offering Circular. Such financial statements have been prepared in accordance with K-IFRS No. 1034 "Interim Financial Reporting." In making an investment decision, investors must rely upon their own independent examination of the Issuer, the terms of this offering and the most recent financial information, including the risks involved. Potential

investors should consult their own professional advisers for an understanding of the differences between K-IFRS and IFRS, and how these differences affect the financial information contained in this Offering Circular. This Offering Circular should not be considered as a recommendation by any of the Dealers that any recipient of this Offering Circular should purchase the Notes.

DOCUMENTS INCORPORATED BY REFERENCE

The following documents published or issued from time to time after the date hereof shall be deemed to be incorporated in, and to form part of, this Offering Circular:

- (a) the publicly available audited consolidated annual financial statements and the interim consolidated financial statements (if any) of the Issuer for the most recent financial period; see “General Information” for a description of the financial statements currently regularly published by the Issuer; and
- (b) all supplements or amendments to this Offering Circular circulated by the Issuer from time to time,

except that any statement contained herein or in a document which is deemed to be incorporated by reference herein shall be deemed to be modified or superseded for the purpose of this Offering Circular to the extent that a statement contained in any such subsequent document which is deemed to be incorporated by reference herein modifies or supersedes such earlier statement (whether expressly, by implication or otherwise). Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Offering Circular.

The Issuer will provide, without charge, to each person to whom a copy of this Offering Circular has been delivered, upon the request of such person, a copy of any or all of the documents deemed to be incorporated herein by reference unless such documents have been modified or superseded as specified above. Requests for such documents should be directed to the Issuer at its registered office set out at the end of this Offering Circular.

If the terms of the Program are modified or amended in a manner which would make this Offering Circular, as so modified or amended, inaccurate or misleading, a new Offering Circular will be prepared.

The documents incorporated herein by reference constitute an integral part of this Offering Circular and contain certain material information regarding the Issuer and the securities offered hereby. You represent and warrant to the Dealers and the Issuer that you have examined those documents as well as this Offering Circular in forming your investment decision.

AVAILABLE INFORMATION

To permit compliance with Rule 144A in connection with any resales or other transfers of Notes that are “restricted securities” within the meaning of the Securities Act, the Issuer has undertaken in the Program Agreement to furnish, upon the request of a holder of such Notes or any beneficial interest therein, to such holder or to a prospective purchaser designated by him or her, the information required to be delivered under Rule 144A(d)(4) under the Securities Act if, at the time of the request, the Issuer is neither a reporting company under Section 13 or Section 15(d) of the U.S. Securities Exchange Act of 1934, as amended (the “Exchange Act”), nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder.

GENERAL DESCRIPTION OF THE PROGRAM

Under the Program, the Issuer may from time to time issue Notes denominated in any currency, subject as set out herein. A summary of the terms and conditions of the Program and the Notes appears below. The applicable terms of any Notes will be agreed upon between the Issuer and the relevant Dealer prior to the issue of the Notes and will be set out in the Terms and Conditions of the Notes endorsed on, or incorporated by reference into, the Notes, as modified and supplemented by the applicable Pricing Supplement attached to, or endorsed on, such Notes, as more fully described under “*Form of the Notes*” below.

This Offering Circular and any supplement will only be valid for the offering of Notes in an aggregate nominal amount which, when added to the aggregate nominal amount then outstanding of all Notes previously or simultaneously issued under the Program, does not exceed U.S.\$2,000,000,000 or its equivalent in other currencies. For the purpose of calculating the U.S. dollar equivalent of the aggregate nominal amount of Notes issued under the Program from time to time:

- (a) the U.S. dollar equivalent of Notes denominated in another Specified Currency (as specified in the applicable Pricing Supplement in relation to the Notes, described under “*Form of the Notes*”) shall be determined, at the discretion of the Issuer, either as of the date on which agreement is reached for the issue of Notes or on the preceding day on which commercial banks and foreign exchange markets are open for business in London, in each case on the basis of the spot rate for the sale of the U.S. dollar against the purchase of such Specified Currency in the London foreign exchange market quoted by any leading international bank selected by the Issuer on the relevant day of calculation;
- (b) the U.S. dollar equivalent of Dual Currency Notes, Index Linked Notes and Partly Paid Notes (each as specified in the applicable Pricing Supplement in relation to the Notes, described under “*Form of the Notes*”) shall be calculated in the manner specified above by reference to the original nominal amount on issue of such Notes (in the case of Partly Paid Notes regardless of the subscription price paid); and
- (c) the U.S. dollar equivalent of Zero Coupon Notes (as specified in the applicable Pricing Supplement in relation to the Notes, described under “*Form of the Notes*”) and other Notes issued at a discount or premium shall be calculated in the manner specified above by reference to the net proceeds received by the Issuer for the relevant issue.

TABLE OF CONTENTS

	Pages
SUMMARY.....	1
FORM OF THE NOTES	7
TERMS AND CONDITIONS OF THE NOTES	26
USE OF PROCEEDS.....	61
EXCHANGE RATES.....	62
RISK FACTORS	63
CAPITALIZATION	80
SELECTED FINANCIAL AND OTHER DATA	81
THE KOREAN ELECTRICITY INDUSTRY	84
BUSINESS	93
MANAGEMENT.....	117
TAXATION.....	121
BOOK-ENTRY CLEARANCE SYSTEMS	134
SUBSCRIPTION AND SALE AND TRANSFER AND SELLING RESTRICTIONS	138
GENERAL INFORMATION	149
INDEX TO FINANCIAL STATEMENTS.....	F-1

In connection with the issue of any Tranche of Notes, the Dealer or Dealers (if any) named as the Stabilizing Manager(s) (or person(s) acting on behalf of any Stabilizing Manager(s)) in the applicable Pricing Supplement may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilizing Manager(s) (or person(s) acting on behalf of the Stabilizing Managers) will undertake stabilization action. Any stabilization action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Tranche of Notes is made and, if begun, may be ended at any time, but it must end (unless otherwise indicated in the applicable pricing supplement) no later than the earlier of 30 days after the issue date of the relevant Tranche of Notes and 60 days after the date of the allotment of the relevant Tranche of Notes. Any stabilization action or over-allotment must be conducted by the relevant Stabilizing Manager(s) (or person(s) acting on behalf of any Stabilizing Manager(s)) in accordance with all applicable laws and rules.

SUMMARY

The Company

Overview

We were established on April 2, 2001 as one of six generation subsidiaries (“Generation Subsidiaries”) of Korea Electric Power Corporation (“KEPCO”). The Generation Subsidiaries generate over 80% of the electricity in Korea. As of March 31, 2018, we had a domestic generation capacity of 11,311 megawatts, or approximately 9.7% of the total electricity generation capacity in Korea (excluding plants generating electricity primarily for private or emergency use). In 2015, 2016, 2017 and the three months ended March 31, 2017 and 2018, we sold 46,132, 47,451, 44,099, 11,312 and 13,025 GWh, respectively, to KEPCO through the Korea Power Exchange (“KPX”). KEPCO is currently the sole electricity transmission and distribution company in Korea.

Total demand for electricity in Korea increased by 1.3% in 2015, 2.8% in 2016 and 2.2% in 2017, in each case, year on year, according to KEPCO, and the consumption of electric power is expected to continue to increase by 2.1% per annum from 2017 to 2031, according to the Government’s Eighth Basic Plan. We plan to continue to make substantial capital expenditures to expand our generation capacity and enhance our generating systems in the future, including with respect to the generation of renewable energy.

Based on our “Create the best energy in harmony with human, technology and environment” vision, we strive to establish our position as a leader in the electricity generation industry both domestically and internationally by enhancing our operational efficiency, selectively pursuing new business opportunities abroad and effectively responding to increasingly stringent regulations governing the power generation industry. In particular, given a shift in the energy paradigm that focuses on the environment, we are fully committed to increasing the portion of electricity we generate using renewable and alternative energy sources, for example, by continuing to invest in promising independent power producers (“IPPs”) and community energy system (“CES”) projects that focus on renewable energy sources. We aim to increase the generation capacity of renewable energy in our product mix to 20% by 2030.

As of March 31, 2018, we had total installed generation capacity of 11,311 megawatts, of which 6,100 megawatts, 1,400 megawatts, 3,387 megawatts, 78 megawatts and 346 megawatts were attributable to our coal-fired units, oil-fired units, LNG-combined cycle units, renewable energy units and integrated gasification combined cycle units (“IGCC”), respectively. We generated sales of Won 4,225 billion, Won 4,180 billion, Won 4,222 billion, Won 1,240 billion and Won 1,395 billion in 2015, 2016, 2017 and the three months ended March 31, 2017 and 2018, respectively, and our profit for the period was Won 300 billion, Won 393 billion, Won 103 billion, Won 180 billion and Won 93 billion in 2015, 2016, 2017 and the three months ended March 31, 2017 and 2018, respectively.

We are a corporation incorporated with limited liability under the laws of Korea. Our registered office is located at 285, Jungang-ro, Taean-eup, Taean-gun, Chungcheongnam-do 32140, Korea. Our website address is <http://www.iwest.co.kr>.

THE PROGRAM

The following summary does not purport to be complete and is taken from, and is qualified in its entirety by, the remainder of this offering circular and, in relation to the terms and conditions of any particular Tranche of Notes, the applicable Pricing Supplement. Capitalized terms and expressions defined in “Form of the Notes” and “Terms and Conditions of the Notes” below shall have the same meanings in this summary.

Issuer	Korea Western Power Co., Ltd.
Description	Global Medium Term Note Program
Arranger	Citigroup Global Markets Limited
Dealers	BNP Paribas, Citigroup Global Markets Limited, The Hongkong and Shanghai Banking Corporation Limited and any other Dealers appointed in accordance with the Program Agreement.
Certain Restrictions	Each issue of Notes denominated in a currency in respect of which particular laws, guidelines, regulations, restrictions or reporting requirements apply will only be issued in circumstances which comply with such laws, guidelines, regulations, restrictions or reporting requirements from time to time (see “Subscription and Sale and Transfer and Selling Restrictions”) including the following restrictions applicable at the date of this Offering Circular. Notes having a maturity of less than one year from the date of issue will, if the proceeds of the issue are accepted in the United Kingdom, constitute deposits for the purposes of the prohibition on accepting deposits contained in section 19 of the Financial Services and Markets Act 2000 unless they are issued to a limited class of professional investors and have a denomination of at least £100,000 or its equivalent. See “Subscription and Sale and Transfer and Selling Restrictions.”
Fiscal Agent	Citicorp International Limited
Principal Paying Agent	Citibank, N.A., London Branch
Registrar	Citibank, N.A., London Branch
Program Size	Up to U.S.\$2,000,000,000 (or its equivalent in other currencies calculated as described under “ <i>General Description of the Program</i> ”) outstanding at any time. The Issuer may increase the amount of the Program in accordance with the terms of the Program Agreement.
Distribution	Notes may be distributed by way of private or public placement and in each case on a syndicated or non-syndicated basis.

Currencies	Subject to any applicable legal or regulatory restrictions, any currency agreed between the Issuer and the relevant Dealer.
Redenomination	The applicable Pricing Supplement may provide that certain Notes may be redenominated in Euros (to the extent permitted under the applicable Korean laws and regulations). The relevant provisions applicable to any such redenomination are contained in Condition 5 (<i>Redenomination</i>).
Maturities	Such maturities as may be agreed between the Issuer and the relevant Dealer, subject to such minimum or maximum maturities as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the Issuer or the relevant Specified Currency.
Issue Price	The Notes may be issued on a fully-paid or a partly-paid basis and at an issue price which is at par or at a discount to, or premium over, par.
Form of Notes	The Notes will be issued in bearer or registered form as described in “ <i>Form of the Notes</i> .” Registered Notes will not be exchangeable for Bearer Notes and vice versa.
Fixed Rate Notes	Fixed Rate Notes will bear fixed interest payable on such date or dates as may be agreed between the Issuer and the relevant Dealer and on redemption and will be calculated on the basis of such Day Count Fraction (as defined in “Terms and Conditions of the Notes”) as may be agreed between the Issuer and the relevant Dealer.
Floating Rate Notes	<p>Floating Rate Notes will bear interest at a rate determined:</p> <p>(i) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2006 ISDA Definitions (as published by the International Swaps and Derivatives Association, Inc., and as amended and updated as at the Issue Date of the first Tranche of the Notes of the relevant Series); or</p> <p>(ii) on the basis of a reference rate appearing on the agreed screen page of a commercial quotation service; or</p> <p>(iii) on such other basis as may be agreed between the Issuer and the relevant Dealer.</p> <p>The margin (if any) relating to such floating rate will be agreed between the Issuer and the relevant Dealer for each Series of Floating Rate Notes.</p>

Index Linked Notes	<p>Payments of principal in respect of Index Linked Redemption Notes or of interest in respect of Index Linked Interest Notes will be calculated by reference to such index and/or formula or to changes in the prices of securities or commodities or to such other factors as the Issuer and the relevant Dealer may agree.</p>
Other Provisions in Relation to Floating Rate Notes and Index Linked Interest Notes	<p>Floating Rate Notes and Index Linked Interest Notes may also have a maximum interest rate, a minimum interest rate or both.</p> <p>Interest on Floating Rate Notes and Index Linked Interest Notes in respect of each Interest Period, as agreed prior to issue by the Issuer and the relevant Dealer, will be payable on such Interest Payment Dates, and will be calculated on the basis of such Day Count Fraction, as may be agreed between the Issuer and the relevant Dealer.</p>
Dual Currency Notes	<p>Payments (whether in respect of principal or interest and whether at maturity or otherwise) in respect of Dual Currency Notes will be made in such currencies, and based on such rates of exchange, as the Issuer and the relevant Dealer may agree.</p>
Zero Coupon Notes	<p>Zero Coupon Notes will be offered and sold at a discount to their nominal amount and will not bear interest other than in the case of late payment.</p>
Redemption	<p>The applicable Pricing Supplement will indicate either that the relevant Notes cannot be redeemed prior to their stated maturity (other than in specified installments, if applicable, or for taxation reasons or following an Event of Default) or that such Notes will be redeemable at the option of the Issuer and/or the Noteholders upon giving notice to the Noteholders or the Issuer, as the case may be, on a date or dates specified prior to such stated maturity and at a price or prices and on such other terms as may be set forth in the applicable Pricing Supplement.</p> <p>The applicable Pricing Supplement may provide that Notes may be redeemable in two or more installments of such amounts and on such dates as are indicated in the applicable Pricing Supplement.</p>
Denomination of Notes	<p>Notes will be issued in such denominations as may be agreed between the Issuer and the relevant Dealer except that the minimum denomination of each Note will be such as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the relevant Specified Currency.</p>

	<p>Unless otherwise stated in the applicable Pricing Supplement, the minimum denomination of each Definitive IAI Registered Note will be U.S.\$500,000 or its approximate equivalent in other Specified Currencies.</p>
Taxation.	<p>All payments in respect of the Notes will be made without deduction for or on account of withholding taxes imposed by any Tax Jurisdiction (as defined in Condition 10 (<i>Taxation</i>)), subject as provided in Condition 10 (<i>Taxation</i>). In the event that any such deduction is made, the Issuer will, save in certain limited circumstances provided in Condition 10 (<i>Taxation</i>), be required to pay additional amounts to cover the amounts so deducted.</p>
Certain Covenants	<p>The terms of the Notes will contain limitations on liens, consolidation, merger and sale of assets, sale and leaseback transactions and certain other covenants, as further described in Condition 4 (<i>Certain Covenants</i>).</p>
Cross-acceleration	<p>The terms of the Notes will contain a cross-acceleration provision as further described in Condition 12 (<i>Events of Default</i>).</p>
Status of the Notes	<p>The Notes will constitute direct, unconditional, unsubordinated and, subject to the provisions of Condition 4 (<i>Certain Covenants</i>), unsecured obligations of the Issuer and will rank <i>pari passu</i> among themselves and (except for certain obligations required to be preferred by law) equally with all other unsecured obligations (other than subordinated obligations, if any) of the Issuer, from time to time outstanding.</p>
Listing.	<p>Approval in-principle has been received from the SGX-ST in connection with the Program and application will be made for the listing and quotation of Notes that may be issued pursuant to the Program and which Notes are agreed, at or prior to the time of issue thereof, to be so listed on the SGX-ST. Such permission will be granted when such Notes have been admitted for listing and quotation on the SGX-ST. For so long as any Notes are listed on the SGX-ST and the rules of the SGX-ST so require, such Notes, if traded on the SGX-ST, will be traded in a minimum board lot size of S\$200,000 (or its equivalent in foreign currencies). The Notes may also be listed on such other or further stock exchange(s) as may be agreed between the Issuer and the relevant Dealer in relation to each Series or Tranche. Unlisted Notes may also be issued. The applicable Pricing Supplement will state whether or not the relevant Notes are to be listed and, if so, on which stock exchange(s).</p>

Governing Law

The Notes will be governed by, and construed in accordance with New York law.

Selling Restrictions

There are restrictions on the offer, sale and transfer of the Notes in the United States, the EEA, the United Kingdom, Korea, Japan, Switzerland, Singapore, Hong Kong and such other restrictions as may be required in connection with the offering and sale of a particular Tranche of Notes. See “Subscription and Sale and Transfer and Selling Restrictions.”

FORM OF THE NOTES

Certain capitalized terms used herein are defined in the “*Terms and Conditions of the Notes.*” Any reference herein to Euroclear and/or Clearstream and/or DTC shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system in the applicable Pricing Supplement.

The Notes of each Series will be in either bearer form, with or without interest coupons attached, or registered form, without interest coupons attached. Bearer Notes will be issued outside the United States in reliance on Regulation S and Registered Notes will be issued both outside the United States in reliance on the exemption from registration provided by Regulation S and within the United States in reliance on Rule 144A or another available exemption from the registration requirements of the Securities Act. Bearer Notes will also be subject to U.S. tax restrictions described below.

Bearer Notes

Each Tranche of Bearer Notes will be initially issued in the form of either a temporary bearer global note (a “Temporary Bearer Global Note”) or a permanent bearer global note (“Permanent Bearer Global Note” and together with Temporary Bearer Global Notes, the “Bearer Global Notes”) as indicated in the applicable Pricing Supplement, which, in either case, will be delivered on or prior to the original issue date of the Tranche to a common depositary (the “Common Depositary”) for Euroclear Bank SA/NV (“Euroclear”) and Clearstream Banking S.A. (“Clearstream”). Bearer Notes issued under the TEFRA D Rules will be initially issued in the form of Temporary Bearer Global Note. While any Bearer Note is represented by a Temporary Bearer Global Note, payments of principal, interest (if any) and any other amount payable in respect of the Notes due prior to the Exchange Date (as defined below) will be made against presentation of the Temporary Bearer Global Note only to the extent that certification (in a form annexed to the Agency Agreement) to the effect that the beneficial owners of interests in such Bearer Note are not U.S. persons or persons who have purchased for resale to any U.S. person, as required by U.S. Treasury regulations, has been received by Euroclear and/or Clearstream and Euroclear and/or Clearstream, as applicable, has given a similar certification (based on the certifications it has received) to the Principal Paying Agent, as required by U.S. Treasury Regulations.

From the date (the “Exchange Date”) which is 40 days after a Temporary Bearer Global Note is issued, interests in such Temporary Bearer Global Note will be exchangeable (free of charge) by the Noteholder either for (i) interests in a Permanent Bearer Global Note of the same Series or (ii) definitive Bearer Notes of the same Series with, where applicable, receipts, interest coupons and talons attached (as indicated in the applicable Pricing Supplement), in each case against certification of beneficial ownership as described above unless such certification has already been given. Definitive Bearer Notes will only be delivered outside the United States. The holder of an interest in a Temporary Bearer Global Note will not be entitled to collect any payment of interest, principal or other amount due on or after the Exchange Date unless, upon due certification, exchange of the interest in the Temporary Bearer Global Note for an interest in a Permanent Bearer Global Note or for definitive Bearer Notes is improperly withheld or refused.

Payments of principal, interest (if any) or any other amounts on a Permanent Bearer Global Note will be made through Euroclear and/or Clearstream against presentation or surrender (as the case may be) of the Permanent Bearer Global Note without any requirement for certification.

The applicable Pricing Supplement will specify that a Permanent Bearer Global Note will be exchangeable (free of charge), in whole but not in part, for definitive Bearer Notes with, where

applicable, receipts, interest coupons and talons attached upon either (i) not less than 60 days' written notice from Euroclear and/or Clearstream (acting on the instructions of any holder of an interest in such Permanent Bearer Global Note) to the Principal Paying Agent as described therein or (ii) only upon the occurrence of an Exchange Event. For these purposes, "Exchange Event" means that (i) an Event of Default (as defined in Condition 12 (*Events of Default*)) has occurred and is continuing, (ii) the Issuer has been notified that both Euroclear and Clearstream have been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and no successor clearing system is available or (iii) the Issuer has or will become subject to adverse tax consequences which would not be suffered were the Notes represented by the Permanent Bearer Global Note in definitive form. For so long as the Notes are listed on the SGX-ST and the rules of the SGX-ST so require, in the event that the Permanent Bearer Global Note is exchanged for definitive Bearer Notes, the Issuer will appoint and maintain a Paying Agent in Singapore (unless the Issuer obtains an exemption from the SGX-ST) where the Notes may be presented or surrendered for payment or redemption. In addition, in the event that the Permanent Bearer Global Note is exchanged for definitive Bearer Notes, an announcement of such exchange shall be made by or on behalf of the Issuer through the SGX-ST and such announcement will include all material information with respect to the delivery of the definitive Bearer Notes, including details of the Paying Agent in Singapore. In the event of the occurrence of an Exchange Event, Euroclear and/or Clearstream (acting on the instructions of any holder of an interest in such Permanent Bearer Global Note) may give notice to the Principal Paying Agent requesting exchange and, in the event of the occurrence of an Exchange Event as described in (iii) above, the Issuer may also give notice to the Principal Paying Agent requesting exchange. Any such exchange shall occur not later than 45 days after the date of receipt of the first relevant notice by the Principal Paying Agent.

The following legend will appear on all Bearer Notes which have a maturity of more than 365 days (including unilateral rollovers and extensions) and on all talons, receipts and interest coupons relating to such Notes:

"ANY UNITED STATES PERSON WHO HOLDS THIS OBLIGATION WILL BE SUBJECT TO LIMITATIONS UNDER THE UNITED STATES INCOME TAX LAWS, INCLUDING THE LIMITATIONS PROVIDED IN SECTIONS 165(j) AND 1287(a) OF THE INTERNAL REVENUE CODE."

The sections referred to provide that United States holders, with certain exceptions, will not be entitled to deduct any loss on Bearer Notes, receipts or interest coupons and will not be entitled to capital gains treatment of any gain on any sale, disposition, redemption or payment of principal in respect of such Notes, receipts or interest coupons.

Notes which are represented by a Bearer Global Note will only be transferable in accordance with the rules and procedures for the time being of Euroclear or Clearstream, as the case may be.

Registered Notes

The Registered Notes of each Tranche offered and sold in reliance on Regulation S, which will be sold to non-U.S. persons outside the United States, will initially be represented by a global note in registered form (a "Regulation S Global Note"). Prior to expiry of the distribution compliance period (as defined in Regulation S) applicable to each Tranche of Notes, beneficial

interests in a Regulation S Global Note may not be offered or sold to, or for the account or benefit of, a U.S. person except as otherwise provided in Condition 2 (Transfers of Registered Notes) and may not be held otherwise than through Euroclear or Clearstream and such Regulation S Global Note will bear a legend regarding such restrictions on transfer.

The Registered Notes of each Tranche may only be offered and sold in the United States or to U.S. persons in private transactions (i) to “qualified institutional buyers” within the meaning of Rule 144A under the Securities Act (“QIBs”) or (ii) to “accredited investors” (as defined in Rule 501(a)(1), (2), (3) or (7) under the Securities Act) that are institutions (“Institutional Accredited Investors”) who agree to purchase the Notes for their own account and not with a view to the distribution thereof. The Registered Notes of each Tranche sold to QIBs will be represented by a global note in registered form (a “Rule 144A Global Note” and, together with a Regulation S Global Note, the “Registered Global Notes”).

Registered Global Notes will either (i) be deposited with a custodian for, and registered in the name of a nominee of, DTC for the accounts of its participants, including Euroclear and Clearstream or (ii) be deposited with a common depository for, and registered in the name of a common nominee of, Euroclear and Clearstream, as specified in the applicable Pricing Supplement. Persons holding beneficial interests in Registered Global Notes will be entitled or required, as the case may be, under the circumstances described below, to receive physical delivery of definitive Notes in fully registered form. Unless otherwise stated in the applicable Pricing Supplement, the minimum denomination of each Global Note shall be €100,000 or its approximate equivalent in other Specified Currencies.

The Registered Notes of each Tranche sold to Institutional Accredited Investors will be in definitive form, registered in the name of the holder thereof (“Definitive IAI Registered Notes”). Unless otherwise set forth in the applicable Pricing Supplement, Definitive IAI Registered Notes will be issued only in minimum denominations of U.S.\$500,000 and integral multiples of U.S.\$1,000 in excess thereof (or the approximate equivalents in the applicable Specified Currency). Definitive IAI Registered Notes will be subject to the restrictions on transfer set forth therein and will bear the restrictive legend described under “*Subscription and Sale and Transfer and Selling Restrictions.*” Institutional Accredited Investors that hold Definitive IAI Registered Notes may elect to hold such Notes through DTC, but transferees acquiring the Notes in transactions exempt from Securities Act registration pursuant to Regulation S or Rule 144 under the Securities Act (if available) may do so upon satisfaction of the requirements applicable to such transfer as described under “*Subscription and Sale and Transfer and Selling Restrictions.*” The Rule 144A Global Note and the Definitive IAI Registered Notes will be subject to certain restrictions on transfer set forth therein and will bear a legend regarding such restrictions.

Payments of principal, interest and any other amount in respect of the Registered Global Notes will, in the absence of provisions to the contrary, be made to the person shown on the Register (as defined in Condition 8(d) (*Payments — Payments in Respect of Registered Notes*)) as the registered holder of the Registered Global Notes. None of the Issuer, any Paying Agent or the Registrar will have any responsibility or liability for any aspect of the records relating to or payments or deliveries made on account of beneficial ownership interests in the Registered Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

Payments of principal, interest or any other amount in respect of the Registered Notes in definitive form will, in the absence of provision to the contrary, be made to the persons shown on the Register on the relevant Record Date (as defined in Condition 8(d) (*Payments — Payments in Respect of Registered Notes*)) immediately preceding the due date for payment in the manner provided in that Condition.

Interests in a Registered Global Note will be exchangeable (free of charge), in whole but not in part, for definitive Registered Notes only upon the occurrence of an Exchange Event. For these purposes, “Exchange Event” means that (i) an Event of Default has occurred and is continuing, (ii) in the case of Notes registered in the name of a nominee for DTC, either DTC has notified the Issuer that it is unwilling or unable to continue to act as depository for the Notes and no alternative clearing system is available or DTC has ceased to constitute a clearing agency registered under the Exchange Act, (iii) in the case of Notes registered in the name of a nominee for a common depository for Euroclear and Clearstream, the Issuer has been notified that both Euroclear and Clearstream have been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and, in any such case, no successor clearing system is available or (iv) the Issuer has or will become subject to adverse tax consequences which would not be suffered were the Notes represented by the Registered Global Note in definitive form. For so long as the Notes are listed on the SGX-ST and the rules of the SGX-ST so require, in the event that the Registered Global Note is exchanged for definitive Registered Notes, the Issuer will appoint and maintain a Paying Agent in Singapore (unless the Issuer obtains an exemption from the SGX-ST) where the Notes may be presented or surrendered for payment or redemption. In addition, in the event that the Registered Global Note is exchanged for definitive Registered Notes, an announcement of such exchange shall be made by or on behalf of the Issuer through the SGX-ST and such announcement will include all material information with respect to the delivery of the definitive Registered Notes, including details of the Paying Agent in Singapore. In the event of the occurrence of an Exchange Event, DTC, Euroclear and/or Clearstream (acting on the instructions of any holder of an interest in such Registered Global Note) may give notice to the Registrar requesting exchange and, in the event of the occurrence of an Exchange Event as described in (iv) above, the Issuer may also give notice to the Registrar requesting exchange. Any such exchange shall occur not later than 10 days after the date of receipt of the first relevant notice by the Registrar.

Transfer of Interests

Interests in a Registered Global Note may, subject to compliance with all applicable restrictions, be transferred to a person who wishes to hold such interest in another Registered Global Note or in the form of a Definitive IAI Registered Note and Definitive IAI Registered Notes may, subject to compliance with all applicable restrictions, be transferred to a person who wishes to hold such Notes in the form of an interest in a Registered Global Note. No beneficial owner of an interest in a Registered Global Note will be able to transfer such interest, except in accordance with the applicable procedures of DTC, Euroclear and Clearstream, in each case to the extent applicable. Registered Notes are also subject to the restrictions on transfer set forth therein and will bear a legend regarding such restrictions. See “Subscription and Sale and Transfer and Selling Restrictions.”

General

Pursuant to the Agency Agreement, the Principal Paying Agent or the Registrar, as the case may be, shall arrange that, where a further Tranche of Notes is issued which is intended to form a

single Series with an existing Tranche of Notes, the Notes of such further Tranche shall be assigned a Common Code and ISIN and, where applicable, a CUSIP and CINS number which are different from the Common Code, ISIN, CUSIP and CINS assigned to Notes of any other Tranche of the same Series until at least the expiry of the distribution compliance period applicable to the Notes of such Tranche and, for Bearer Notes subject to the certification requirements under U.S. Treasury regulations, until at least the Notes represented by interests in a temporary Global Note are exchanged for Notes represented by an interest in a permanent Global Note or for definitive Bearer Notes.

For so long as any of the Notes is represented by a Global Note held on behalf of Euroclear and/or Clearstream, each person (other than Euroclear or Clearstream) who is for the time being shown in the records of Euroclear or of Clearstream as the holder of a particular nominal amount of such Notes (in which regard any certificate or other document issued by Euroclear or Clearstream as to the nominal amount of such Notes standing to the account of any person shall be conclusive and binding for all purposes except in the case of manifest error) shall be treated by the Issuer and its agents as the holder of such nominal amount of such Notes for all purposes other than with respect to the payment of principal or interest on such nominal amount of such Notes, for which purpose the bearer of the relevant Bearer Global Note or the registered holder of the relevant Registered Global Note shall be treated by the Issuer and its agents as the holder of such nominal amount of such Notes in accordance with and subject to the terms of the relevant Global Note and the expressions “Noteholder” and “holder of Notes” and related expressions shall be construed accordingly.

So long as DTC or its nominee is the registered owner or holder of a Registered Global Note, DTC or such nominee, as the case may be, will be considered the sole owner or holder of the Notes represented by such Registered Global Note for all purposes under the Agency Agreement and such Notes except to the extent that in accordance with DTC’s published rules and procedures any ownership rights may be exercised by its participants or beneficial owners through participants.

Any reference herein to Euroclear and/or Clearstream and/or DTC shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in the applicable Pricing Supplement.

A Note may be accelerated by the holder thereof in certain circumstances described in Condition 12 (*Events of Default*). In such circumstances, where any Registered Note is still represented by a Global Note and the Global Note (or any part thereof) has become due and repayable in accordance with the Terms and Conditions of such Notes and payment in full of the amount due has not been made in accordance with the provisions of the Global Note then holders of interests in such Global Note credited to their accounts with DTC may require DTC to deliver Definitive Notes in registered form in exchange for their interest in such Global Note in accordance with DTC’s standard operating procedures.

For so long as the Notes are listed on the SGX-ST and the rules of the SGX-ST so require, in the event that the Global Note is exchanged for definitive Notes, the Issuer will appoint and maintain a Paying Agent in Singapore (unless the Issuer obtains an exemption from the SGX-ST) where the Notes may be presented or surrendered for payment or redemption. In addition, in the event that the Global Note is exchanged for definitive Notes, an announcement of such exchange shall be made by or on behalf of the Issuer through the SGX-ST and such announcement will include all material information with respect to the delivery of the definitive Notes, including details of the Paying Agent in Singapore.

Form of Applicable Pricing Supplement

Set out below is the form of Pricing Supplement which will be completed for each Tranche of Notes issued under the Program.

[MIFID II PRODUCT GOVERNANCE — Solely for the purposes of the manufacturer’s product approval process, the target market assessment in respect of the securities has led to the conclusion that: (i) the target market for the securities is eligible counterparties and professional clients only, each as defined in Directive 2014/65/EU (as amended, “MiFID II”); and (ii) all channels for distribution of the securities to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the securities (a “distributor”) should take into consideration the manufacturer’s target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the securities (by either adopting or refining the manufacturer’s target market assessment) and determining the appropriate distribution channels.]

[PROHIBITION OF SALES TO EEA RETAIL INVESTORS — The securities are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (“EEA”). For these purposes: (a) the expression “retail investor” means a person who is one (or more) of the following: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, “MiFID II”); (ii) a customer within the meaning of Directive 2002/92/EC, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in Directive 2003/71/EC, as amended; and (b) the expression “offer” includes the communication in any form and by any means of sufficient information on the terms of the offer and the securities to be offered so as to enable an investor to decide to purchase or subscribe for the securities. Consequently, no key information document required by Regulation (EU) No 1286/2014 (the “PRIIPs Regulation”) for offering or selling the securities or otherwise making them available to retail investors in the EEA has been prepared and therefore, offering or selling the securities or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.]

[Date]

Korea Western Power Co., Ltd.

**Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes]
under the U.S.\$2,000,000,000
Global Medium Term Note Program**

This document constitutes the Pricing Supplement relating to the issue of Notes described herein. Terms used herein shall be deemed to be defined as such for the purposes of the Terms and Conditions of the Notes (the “Conditions”) set forth in the Offering Circular dated May 29, 2018. This Pricing Supplement is supplemental to and must be read in conjunction with such Offering Circular.

[The following alternative language applies if the first tranche of an issue which is being increased was issued under an Offering Circular with an earlier date.]

Terms used herein shall be deemed to be defined as such for the purposes of the Terms and Conditions of the Notes (the “Conditions”) set forth in the Offering Circular dated [*original date*]. The Pricing Supplement contains the final terms of the Notes and must be read in conjunction with the Offering Circular dated [*current date*], except in respect of the Conditions which are extracted from the Offering Circular dated [*original date*] and are attached hereto.]

[Include whichever of the following apply or specify as “Not Applicable” (N/A). Note that the numbering should remain as set out below, even if “Not Applicable” is indicated for individual paragraphs or subparagraphs.]

[If the Notes have a maturity of less than one year from the date of their issue, the minimum denomination may need to be £100,000 or its equivalent in any other currency]

1. Issuer: Korea Western Power Co., Ltd.
2. (i) Series Number: [●]
(ii) Tranche Number: [●]
(If re-opening fungible with an existing Series, details of that Series, including the date on which the Notes become fungible)
(iii) Reopening: [Yes/No] [Specify terms of initial or eventual fungibility]
3. Specified Currency or Currencies: [●]
4. Aggregate Nominal Amount:
(i) Series: [●]
(ii) Tranche: [●]
5. (i) Issue Price of Tranche: [●]% of the Aggregate Nominal Amount [plus accrued interest from [insert date] (in the case of fungible re-opening issues only, if applicable)].
(ii) Net Proceeds: [●]
(Required only for listed issues)
(iii) Use of Proceeds [as described in the offering circular/describe]: [●]

6. (i) Specific Denominations: [●]
(in the case of Registered Notes, this means the minimum integral amount in which transfers can be made)
(N.B. In the case of Registered Notes, this means the minimum integral amount in which transfers can be made. For Registered Global Notes, consider including language substantially to the following effect (however, appropriate amendments should be made for different currencies) “[€ 100,000] and integral multiples of [€ 1,000] in excess thereof”)
(N.B. For Bearer Notes with a Specified Denomination and higher integral multiples above the minimum denomination, consider including language substantially to the following effect (however, appropriate amendments should be made for different currencies):
“[U.S.\$200,000] and integral multiples of [U.S.\$1,000] in excess thereof, up to and including [U.S.\$499,000] and, for so long as the Notes are represented by a Global Note (as defined below) and Euroclear and Clearstream so permit, the Notes shall be tradable only in the minimum authorized denomination of [U.S.\$200,000] and higher integral multiples of [U.S.\$1,000], notwithstanding that no definitive notes will be issued with a denomination above [U.S.\$499,000].”)
[(in the case of Registered Notes, this means the minimum integral amount in which transfers can be made)]
- (ii) Calculation Amount [●]
(If there is only one Specified Denomination, insert the Specified Denomination. If there is more than one Specified Denomination, insert the highest common factor. N.B. there must be a common factor in the case of two or more Specified Denominations)
7. (i) Issue Date: [●]
- (ii) Interest Commencement Date: [●]
8. Maturity Date: [Fixed rate — specify date/Floating rate — Interest Payment Date falling in or nearest to [specify month and year]]*

* [Specify if different from that stated in the offering circular]

9. Interest Basis: [% Fixed Rate]
[[LIBOR/EURIBOR] +/-% Floating Rate]
[Zero Coupon]
[Index Linked Interest]
[Dual Currency Interest]
[specify other]
(further particulars specified below)
10. Redemption/Payment Basis: [Redemption at par]
[Index Linked Redemption]
[Dual Currency Redemption]
[Partly Paid]
[Installment]
[specify other]
11. Change of Interest Basis or Redemption/Payment Basis: [Specify details of any provisions for change of Notes into another Interest Basis or Redemption/Payment Basis]
12. Put/Call Options: [Investor Put]
[Issuer Call]
[(further particulars specified below)]
13. Status of the Notes: Senior
14. Listing: [Singapore Exchange Securities Trading Limited/
specify other/None]
15. Method of Distribution: [Syndicated/Non-syndicated]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

16. Fixed Rate Note Provisions [Applicable/Not Applicable]

(If not applicable, delete the remaining subparagraphs of this paragraph)
- (i) Rate(s) of Interest: [●]% per annum [payable [annually/semi-annually/
quarterly] in arrears] (If payable other than annually,
consider amending Condition 6 (Interest))
- (ii) Interest Payment Date(s): [●]in each year up to and including the Maturity
Date]/[specify other]) (NB: This will need to be
amended in the case of long or short coupons)
- (iii) Fixed Coupon Amount(s): [●] per Calculation Amount
*(applicable to Notes in
definitive form)*

- (iv) Broken Amount(s): *(applicable to Notes in definitive form)* ☒ per Calculation Amount payable on the Interest Payment Date falling [in/on] ☒ [Insert particulars of any initial or final broken interest amounts which do not correspond with the Fixed Coupon Amount]
- (v) Day Count Fraction: [30/360 or Actual/Actual (ICMA) or specify other]
- (vi) Determination Date(s): ☒ in each year
- [Insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon.*
- NB: This will need to be amended in the case of regular interest payment dates which are not of equal duration.*
- NB: Only relevant where Day Count Fraction is Actual/Actual (ICMA)]*
- (vii) Other terms relating to the method of calculating interest for Fixed Rate Notes: [None/Give details]
17. Floating Rate Note Provisions [Applicable/Not Applicable]
- (If not applicable, delete the remaining subparagraphs of this paragraph)*
- (i) Specified Period(s)/Specified Interest Payment Dates: ☒
- (ii) Business Day Convention: [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/ *[specify other]*]
- (iii) Additional Business Centre(s) ☒
(Insert New York City for U.S. dollar denominated Notes to be held through DTC and for non-U.S. dollar denominated Notes where exchange into U.S. dollars is contemplated for DTC participants holding through Euroclear and Clearstream)
- (iv) Manner in which the Rate of Interest and Interest Amount is to be determined: [Screen Rate Determination/ISDA Determination/ *specify other*]

- (v) Party responsible for calculating the Rate of Interest and Interest Amount (if not the Agent): [●]
- (vi) Screen Rate Determination:
- Reference Rate: [●]
(Either LIBOR, EURIBOR or other, although additional information is required if other — including fallback provisions in the Agency Agreement)
 - Interest Determination Date(s): [●]
(Second London business day prior to the start of each Interest Period if LIBOR (other than Sterling or Euro LIBOR), first day of each Interest Period if Sterling LIBOR and the second day on which the TARGET2 System is open prior to the start of each Interest Period if EURIBOR or Euro LIBOR)
 - Relevant Screen Page: [●]
(In the case of EURIBOR, if not Reuters Page EURIBOR 01 ensure it is a page which shows a composite rate or amend the fallback provisions appropriately)
- (vii) ISDA Determination:
- Floating Rate Option: [●]
(if not on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2006 ISDA Definitions, the Issuer shall describe the basis here)
 - Designated Maturity: [●]
 - Reset Date: [●]
- (viii) Margin(s) [+/-][●] % per annum
- (ix) Rate of Interest: [+/-][●] % per annum
- (x) Maximum Rate of Interest: [●] % per annum
- (xi) Day Count Fraction: [●] % per annum

	[Actual/Actual (ISDA) or Actual/Actual Actual/365 Actual/365 (Fixed)] Actual/365 (Sterling) Actual/360 30/360, 360/360 or Bond Basis 30E/360, or Eurobond Basis 30E/360 (ISDA) Other] <i>(See Condition 6 (Interest) for alternatives)</i>
(xii) Fall back provisions, rounding provisions and any other terms relating to the method of calculating interest on Floating Rate Notes, if different from those set out in the Conditions:	[●]
18. Zero Coupon Note Provisions	[Applicable/Not Applicable] <i>(If not applicable, delete the remaining subparagraphs of this paragraph)</i>
(i) Accrual Yield:	[●] % per annum
(ii) Reference Price:	[●]
(iii) Any other formula/basis of determining amount payable:	[●]
(iv) Day Count Fraction in relation to Early Redemption Amounts and late payment:	[Condition 9(e) (Redemption and Purchase — Early Redemption Amounts) — (iii) and Condition 9(j) — <i>(Redemption and Purchase — Late Payment on Zero Coupon Notes) apply//specify other]</i> <i>(Consider applicable day count fraction if not U.S. dollar denominated)</i>
19. Index Linked Interest Note Provisions	[Applicable/Not Applicable] <i>(If not applicable, delete the remaining subparagraphs of this paragraph)</i>
(i) Index/Formula	[Give or annex details]
(ii) Calculation Agent responsible for calculating the principal and/or interest due:	[●]

- (iii) Provisions for determining Coupon where calculation by reference to Index and/or Formula is impossible or impracticable: ☐
- (iv) Specified Period(s)/Specified Interest Payment Dates: ☐
- (v) Business Day Convention [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/specify other]
- (vi) Additional Business Center(s): ☐
- (vii) Minimum Rate of Interest: ☐% per annum
- (viii) Maximum Rate of Interest: ☐% per annum
- (ix) Day Count Fraction: ☐% per annum
- [Actual/Actual (ISDA) or Actual/Actual Actual/365
Actual/365 (Fixed)]
Actual/365 (Sterling)
Actual/360 30/360, 360/360 or Bond Basis
30E/360, or Eurobond Basis
30E/360 (ISDA)
Other]
(See Condition 6 (Interest) for alternatives)
20. Dual Currency Note Provisions [Applicable/Not Applicable]
- (If not applicable, delete the remaining subparagraphs of this paragraph)*
- (i) Rate of Exchange/method of calculating Rate of Exchange: *[give details]*
- (ii) Calculation Agent, if any, responsible for calculating the principal and/or interest payable: ☐

- (iii) Provisions applicable where calculation by reference to Rate of Exchange impossible or impracticable: ☐
- (iv) Person at whose option Specified Currency(ies) is/are payable: ☐

PROVISIONS RELATING TO REDEMPTION

21. Issuer Call: ☐ [Applicable/Not Applicable]

(If not applicable, delete the remaining subparagraphs of this paragraph)

(i) Optional Redemption Date(s): ☐

(ii) Optional Redemption Amount of each Note and method, if any, of calculation of such amount(s): ☐ per Calculation Amount

(iii) If redeemable in part: ☐

(a) Minimum Redemption Amount: ☐

(b) Maximum Redemption Amount: ☐

(iv) Notice period (if other than as set out in the Conditions): ☐

(N.B. If setting notice periods which are different to those provided in the Conditions, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Agent)

22. Investor Put: ☐ [Applicable/Not Applicable] (If not applicable, delete the remaining subparagraphs of this paragraph)

(i) Optional Redemption Date(s): ☐

- | | |
|--|--|
| (ii) Optional Redemption Amount of each Note and method, if any, of calculation of such amount(s): | [●] per Calculation Amount |
| (iii) Notice period (if other than as set out in the Conditions): | [●]
<i>(N.B. If setting notice periods which are different to those provided in the Conditions, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Agent)</i> |
23. Final Redemption Amount of each Note: [●] [per Calculation Amount/specify other]
24. Early Redemption Amount of each Note payable on redemption for taxation reasons or on event of default and/or the method of calculating the same (if required or if different from that set out in Condition 9(e) (Redemption and Purchase —Early Redemption Amounts)): [●]

GENERAL PROVISIONS APPLICABLE TO THE NOTES

25. Form of Notes: [Bearer Notes:
- [Temporary Bearer Global Note exchangeable for a Permanent Bearer Global Note which is exchangeable for Definitive Notes [on 60 days' notice given at any time/only upon an Exchange Event]* FN]
- [Temporary Bearer Global Note exchangeable for Definitive Notes on and after the Exchange Date* FN]

* N.B. - Regard should be given to the specific requirements of the relevant clearing system(s), if any.

Ensure that this is consistent with the wording in the "Form of the Notes" section in the offering circular and the Notes themselves. The exchange upon notice/at any time options should not be expressed to be applicable if the Specified Denomination of the Notes in paragraph 6 includes language substantially to the following effect: "[U.S.\$200,000] and integral multiples of [U.S.\$1,000] in excess thereof up to and including [U.S.\$499,000]."

Noteholders will not have the right to exchange such Global Notes for Definitive Notes other than upon the occurrence of an Exchange Event.

[Permanent Bearer Global Note exchangeable for Definitive Notes [on 60 days' notice given at any time/only upon an Exchange Event]* FN]** FN

[Registered Notes:

Regulation S Global Note (U.S.\$[●] nominal amount) registered in the name of a nominee for [DTC/a common depositary for Euroclear and Clearstream]/ Rule 144A Global Note (U.S.\$[●] nominal amount) registered in the name of a nominee for [DTC/ a common depositary for Euroclear and Clearstream]/ Definitive IAI Registered Notes (*specify nominal amounts*)]

- | | | |
|-----|--|---|
| 26. | Additional Financial Center(s) or other special provisions relating to Payment Dates: | [Not Applicable/give details]
<i>(Note that this item relates to the place of payment and not Interest Period end dates to which items 17(iii) and 19(vi) relate; insert New York City for U.S. dollar denominated Notes to be held through DTC)</i> |
| 27. | Talons for future Coupons or Receipts to be attached to Definitive Bearer Notes (and dates on which such Talons mature): | [Not Applicable/give details] |
| 28. | Details relating to Partly Paid Notes: amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences of failure to pay, including any right of the Issuer to forfeit the Notes and interest due on late payment: | [Not Applicable/give details. <i>NB: new forms of Global Note may be required for Partly Paid issues</i>] |
| 29. | Details relating to Installment Notes: | |
| | (i) Installment Amount(s): | [Not Applicable/give details] |
| | (ii) Installment Date(s): | [Not Applicable/give details] |

** May not be used if TEFRA D applies.

30. Redenomination applicable: Redenomination [not] applicable
[(If Redenomination is applicable, specify the applicable Day Count Fraction and any provisions necessary to deal with floating rate interest calculation (including alternative reference rates))]
31. Other terms or special conditions: [Not Applicable/give details]

DISTRIBUTION

32. (i) If syndicated, names of Managers: [Not Applicable/give names]
- (ii) Stabilizing Manager (if any): [Not Applicable/give name]
33. If non-syndicated, name of relevant Dealer: [●]
34. Whether TEFRA D or TEFRA C rules applicable or TEFRA rules not applicable: [TEFRA D/TEFRA C/TEFRA not applicable (for Bearer Notes with a maturity of one year or less (including unilateral rollovers and extensions) or Registered Notes)]*
35. Prohibition of sales to EEA retail investors: [Applicable/Not Applicable]
36. Additional selling restrictions: [Not Applicable/give details]

OPERATIONAL INFORMATION

37. Any clearing system(s) other than Euroclear and Clearstream and the relevant identification number(s): [Not Applicable/give name(s) and number(s)]
38. Delivery: Delivery [against/free of] payment
39. In the case of Registered Notes, specify the location of the office of the Registrar if other than New York: Not applicable/[Luxembourg]
40. Additional Paying Agent(s) (if any): [●]

* Where TEFRA D is applicable, a Note must be issued in the form of a Temporary Bearer Global Note exchangeable upon U.S. tax certification for a Permanent Bearer Global Note or for Definitive Notes.

ISIN: [●]

Common Code: [●]

CUSIP: [●]

CINS: [●]

(insert here any other relevant codes)

LISTING APPLICATION

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

This Pricing Supplement comprises the details required to list the issue of Notes described herein pursuant to the listing of the U.S.\$2,000,000,000 Global Medium Term Note Program of Korea Western Power Co., Ltd.

RESPONSIBILITY

The Issuer accepts responsibility for the information contained in this Pricing Supplement.
Signed on behalf of the Issuer:

By: _____
Duly authorized signatory
Name:
Title:

If the applicable Pricing Supplement specifies any modification to the Terms and Conditions of the Notes as described herein, it is envisaged that, to the extent that such modification relates only to Conditions 1 (*Form, Denomination and Title*), 5 (*Redenomination*), 6 (*Interest*), 8 (*Payments*), 9 (*Redemption and Purchase* (except Condition 9(b) (*Redemption and Purchase — Redemption for tax reasons*))), 13 (*Replacement of Notes, Receipts, Coupons and Talons*), 14 (*Agents*), 15 (*Exchange of Talons*), 16 (*Notices*) (insofar as such Notes are not listed or admitted to trade on any stock exchange) or 18 (*Further Issues*), they will not necessitate the preparation of a supplement to this Offering Circular. If the Terms and Conditions of the Notes of any Series are to be modified in any other respect, a supplement to this Offering Circular will be prepared, if appropriate.

TERMS AND CONDITIONS OF THE NOTES

The following are the Terms and Conditions of the Notes which will be incorporated by reference into each Global Note (as defined below) and each definitive Note, in the latter case only if permitted by the relevant stock exchange (if any) and agreed by the Issuer and the relevant Dealer at the time of issue but, if not so permitted and agreed, such definitive Note will have endorsed thereon or attached thereto such Terms and Conditions. The applicable Pricing Supplement in relation to any Tranche of Notes may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with the following Terms and Conditions, replace or modify the following Terms and Conditions for the purpose of such Notes. The applicable Pricing Supplement (or the relevant provisions thereof) will be endorsed upon, or attached to, each Global Note and definitive Note. Reference should be made to “*Form of the Notes*” for a description of the content of Pricing Supplements which will specify which of such terms are to apply in relation to the relevant Notes. Reference herein to “Condition” shall be to the Terms and Conditions set forth below.

This Note is one of a Series (as defined below) of Notes issued by Korea Western Power Co., Ltd. (the “Issuer”) pursuant to the Agency Agreement (as defined below).

References herein to the “Notes” shall be references to the Notes of this Series and shall mean:

- (i) in relation to any Notes represented by a global Note (a “Global Note”), units of the lowest Specified Denomination in the Specified Currency;
- (ii) any Global Note;
- (iii) any definitive Notes in bearer form (“Bearer Notes”) issued in exchange for a Global Note in bearer form; and
- (iv) any definitive Notes in registered form (“Registered Notes”) (whether or not issued in exchange for a Global Note in registered form).

The Notes, the Receipts (as defined below) and the Coupons (as defined below) have the benefit of an Agency Agreement dated April 27, 2012, as supplemented by the first supplemental agreement dated September 17, 2013 and the second supplemental agreement dated May 29, 2018 (such Agency Agreement as amended and/or supplemented and/or restated from time to time, the “Agency Agreement”) and made between the Issuer, Citicorp International Limited as fiscal agent, Citibank, N.A., London Branch as principal paying agent, calculation agent, transfer agent, exchange agent and registrar (each a “Fiscal Agent”, a “Paying Agent”, a “Calculation Agent”, a “Transfer Agent”, an “Exchange Agent” and a “Registrar”, as applicable, each of which term including any successor thereto or additional such agent appointed pursuant to the terms of the Agency Agreement, and collectively, the “Agents”).

Interest-bearing definitive Bearer Notes have interest coupons (“Coupons”) and, if indicated in the applicable Pricing Supplement, talons for further Coupons (“Talons”) attached on issue. Any reference herein to Coupons or coupons shall, unless the context otherwise requires, be deemed to include a reference to Talons or talons. Definitive Bearer Notes repayable in installments have receipts (“Receipts”) for the payment of the installments of principal (other than the final installment) attached on issue. Registered Notes and Global Notes do not have Receipts, Coupons or Talons attached on issue.

The Pricing Supplement for this Note (or the relevant provisions thereof) is attached to or endorsed on this Note and supplements these Terms and Conditions and may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with these Terms and Conditions, replace or modify these Terms and Conditions for the purposes of this Note. References to the “applicable Pricing Supplement” are to the Pricing Supplement (or the relevant provisions thereof) attached to or endorsed on this Note.

Any reference to “Noteholders” or “holders” in relation to any Notes shall mean (in the case of Bearer Notes) the holders of the Notes and (in the case of Registered Notes) the persons in whose name the Notes are registered and shall, in relation to any Notes represented by a Global Note, be construed as provided below. Any reference herein to “Receiptholders” shall mean the holders of the Receipts and any reference herein to “Couponholders” shall mean the holders of the Coupons and shall, unless the context otherwise requires, include the holders of the Talons.

As used herein, “Tranche” means Notes which are identical in all respects (including as to listing) and “Series” means a Tranche of Notes together with any further Tranche or Tranches of Notes which are (i) expressed to be consolidated and form a single series and (ii) identical in all respects except for their respective Issue Dates, Interest Commencement Dates (if applicable) and/or Issue Prices (if applicable).

Copies of the Agency Agreement are available for inspection during normal business hours at the specified office of each of the Agents. Copies of the applicable Pricing Supplement are obtainable during normal business hours at the specified office of each of the Agents except that, if this Note is an unlisted Note of any Series, the applicable Pricing Supplement will only be obtainable by a Noteholder holding one or more unlisted Notes of that Series and such Noteholder must produce evidence satisfactory to the Issuer and the relevant Agent as to its holding of such Notes and identity. The Noteholders, the Receiptholders and the Couponholders are deemed to have notice of, and are entitled to the benefit of, all the provisions of the Agency Agreement and the applicable Pricing Supplement which are applicable to them. The statements in these Terms and Conditions include summaries of, and are subject to, the detailed provisions of the Agency Agreement.

Words and expressions defined in the Agency Agreement or used in the applicable Pricing Supplement shall have the same meanings where used in these Terms and Conditions unless the context otherwise requires or unless otherwise stated and provided that, in the event of inconsistency between the Agency Agreement and the applicable Pricing Supplement or between the Terms and Conditions and the applicable Pricing Supplement, the applicable Pricing Supplement will prevail.

1. FORM, DENOMINATION AND TITLE

The Notes may be in bearer form or in registered form as specified in the applicable Pricing Supplement and, in the case of definitive Notes, will be serially numbered, in the Specified Currency and the Specified Denomination(s). Except as provided in Condition 2, Notes of one Specified Denomination may not be exchanged for Notes of another Specified Denomination and Bearer Notes may not be exchanged for Registered Notes and *vice versa*.

This Note may be a Fixed Rate Note, a Floating Rate Note, a Zero Coupon Note, an Index Linked Interest Note, a Dual Currency Interest Note or a combination of any of the foregoing, depending upon the Interest Basis shown in the applicable Pricing Supplement.

This Note may be an Index Linked Redemption Note, an Installment Note, a Dual Currency Redemption Note, a Partly Paid Note or a combination of any of the foregoing, depending upon the Redemption/Payment Basis shown in the applicable Pricing Supplement.

This Note may also be a Limited Recourse Note, as indicated in the applicable Pricing Supplement.

Definitive Bearer Notes are issued with Coupons attached, unless they are Zero Coupon Notes in which case references to Coupons and Couponholders in these Terms and Conditions are not applicable.

Subject as set out below, title to the Bearer Notes, Receipts and Coupons will pass by delivery and title to the Registered Notes will pass upon registration of transfers in accordance with the provisions of the Agency Agreement. The Issuer and any Agent will (except as otherwise required by law) deem and treat the bearer of any Bearer Note, Receipt or Coupon and the registered holder of any Registered Note as the absolute owner thereof (whether or not overdue and notwithstanding any notice of ownership or writing thereon or notice of any previous loss or theft thereof) for all purposes but, in the case of any Global Note, without prejudice to the provisions set out in the next succeeding paragraph.

For so long as any of the Notes is represented by a Global Note held on behalf of Euroclear Bank S.A./ N.V. (“Euroclear”) and/or Clearstream Banking, *société anonyme* (“Clearstream”), each person (other than Euroclear or Clearstream who is for the time being shown in the records of Euroclear or of Clearstream as the holder of a particular nominal amount of such Notes in which regard any certificate or other document issued by Euroclear or Clearstream as to the nominal amount of such Notes standing to the account of any person shall be conclusive and binding for all purposes except in the case of manifest error) shall be treated by the Issuer and the Agents as the holder of such nominal amount of such Notes for all purposes other than with respect to the payment of principal or interest on such nominal amount of such Notes, for which purpose the bearer of the relevant Bearer Global Note or the registered holder of the relevant Registered Global Note shall be treated by the Issuer and any Agent as the holder of such nominal amount of such Notes in accordance with and subject to the terms of the relevant Global Note and the expressions “Noteholder” and “holder of Notes” and related expressions shall be construed accordingly.

For so long as The Depository Trust Company (“DTC”) or its nominee is the registered owner or holder of a Registered Global Note, DTC or such nominee, as the case may be, will be considered the sole owner or holder of the Notes represented by such Registered Global Note for all purposes under the Agency Agreement and the Notes except to the extent that in accordance with DTC’s published rules and procedures any ownership rights may be exercised by its participants or beneficial owners through participants.

Notes which are represented by a Global Note will be transferable only in accordance with the rules and procedures for the time being of DTC, Euroclear and Clearstream, as the case may be. References to DTC, Euroclear and/or Clearstream shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in the applicable Pricing Supplement.

2. TRANSFERS OF REGISTERED NOTES

(a) *Transfers of Interests in Registered Global Notes*

Transfers of beneficial interests in Registered Global Notes will be effected by DTC, Euroclear or Clearstream, as the case may be, and, in turn, by other participants and, if appropriate, indirect participants in such clearing systems acting on behalf of beneficial transferors and transferees of such interests. A beneficial interest in a Registered Global Note will, subject to compliance with all applicable legal and regulatory restrictions, be transferable for Notes in definitive form or for a beneficial interest in another Registered Global Note only in the authorized denominations set out in the applicable Pricing Supplement and only in accordance with the rules and operating procedures for the time being of DTC, Euroclear or Clearstream, as the case may be, and in accordance with the terms and conditions specified in the Agency Agreement. Transfers of a Registered Global Note registered in the name of a nominee for DTC shall be limited to transfers of such Registered Global Note, in whole but not in part, to another nominee of DTC or to a successor of DTC or such successor's nominee.

(b) *Transfers of Registered Notes in Definitive Form*

Subject as provided in paragraphs (e), (f) and (g) below, upon the terms and subject to the conditions set forth in the Agency Agreement, a Registered Note in definitive form may be transferred in whole or in part, in the authorized denominations set out in the applicable Pricing Supplement. In order to effect any such transfer (i) the holder or holders must (A) surrender the Registered Note for registration of the transfer of the Registered Note, or the relevant part of the Registered Note, at the specified office of the Registrar or any Transfer Agent, with the form of transfer thereon duly executed by the holder or holders thereof or his or their attorney or attorneys duly authorized in writing and (B) complete and deposit such other certifications as may be required by the Registrar or, as the case may be, the relevant Transfer Agent and (ii) the Registrar or, as the case may be, the relevant Transfer Agent must, after due and careful enquiry, be satisfied with the documents of title and the identity of the person making the request. Any such transfer will be subject to such reasonable regulations as the Issuer and the Registrar may from time to time prescribe (the initial such regulations being set out in Schedule 7 to the Agency Agreement). Subject as provided above, the Registrar or, as the case may be, the relevant Transfer Agent will, within three business days (being for this purpose a day on which banks are open for business in the city where the specified office of the Registrar or, as the case may be, the relevant Transfer Agent is located) of the request (or such longer period as may be required to comply with any applicable fiscal or other laws or regulations), authenticate and deliver, or procure the authentication and delivery of, at its specified office to the transferee or (at the risk of the transferee) send by uninsured mail, to such address as the transferee may request, a new Registered Note in definitive form of a like aggregate nominal amount to the Registered Note (or the relevant part of the Registered Note) transferred. In the case of the transfer of part only of a Registered Note in definitive form, a new Registered Note in definitive form in respect of the balance of the Registered Note not transferred will be so authenticated and delivered or (at the risk of the transferor) sent to the transferor.

(c) *Registration of Transfer upon Partial Redemption*

In the event of a partial redemption of Notes under Condition 9 (*Redemption and Purchase*), the Issuer shall not be required to register the transfer of any Registered Note, or part of a Registered Note, called for partial redemption.

(d) ***Costs of Registration***

Noteholders will not be required to bear the costs and expenses of effecting any registration of transfer as provided above, except for any costs or expenses of delivery other than by regular uninsured mail and except that the Issuer may require the payment of a sum sufficient to cover any stamp duty, tax or other governmental charge that may be imposed in relation to the registration.

(e) ***Transfers of Interests in Regulation S Global Notes***

Prior to expiry of the applicable Distribution Compliance Period (as defined below), transfers by the holder of, or of a beneficial interest in, a Regulation S Global Note to a transferee in the United States or who is a U.S. person will only be made:

- (i) upon receipt by the Registrar of a written certification substantially in the form set out in Schedule 5 of the Agency Agreement, amended as appropriate (a “Transfer Certificate”), copies of which are available from the specified office of the Registrar or any Transfer Agent, from the transferor of the Note or beneficial interest therein to the effect that such transfer is being made:
 - (A) to a person whom the transferor reasonably believes is a QIB in a transaction meeting the requirements of Rule 144A; or
 - (B) to a person who is an Institutional Accredited Investor, in which case the Transfer Certificate must be accompanied by a duly executed investment letter from the relevant transferee substantially in the form set out in Schedule 6 of the Agency Agreement (an “IAI Investment Letter”); or
- (ii) otherwise pursuant to the Securities Act or an exemption therefrom, subject to receipt by the Issuer of such satisfactory evidence as the Issuer may reasonably require, which may include an opinion of U.S. counsel, that such transfer is in compliance with any applicable securities laws of any State of the United States,

and, in each case, in accordance with any applicable securities laws of any State of the United States or any other jurisdiction.

In the case of (A) above, such transferee may take delivery through a Legended Note (as defined below) in global or definitive form and, in the case of (B) above, such transferee may take delivery only through a Legended Note in definitive form. After expiry of the applicable Distribution Compliance Period (i) beneficial interests in Regulation S Global Notes registered in the name of a nominee for DTC may be held through DTC directly, by a participant in DTC, or indirectly through a participant in DTC and (ii) such certification requirements will no longer apply to such transfers.

(f) ***Transfers of Interests in Legended Notes***

Transfers of Legended Notes or beneficial interests therein may be made:

- (i) to a transferee who takes delivery of such interest through a Regulation S Global Note, upon receipt by the Registrar of a duly completed Transfer Certificate from the transferor to the effect that such transfer is being made in accordance with Regulation S

and that in the case of a Regulation S Global Note registered in the name of a nominee for DTC, if such transfer is being made prior to expiry of the applicable Distribution Compliance Period, the interests in the Notes being transferred will be held immediately thereafter through Euroclear and/or Clearstream; or

- (ii) to a transferee who takes delivery of such interest through a Legended Note:
 - (A) where the transferee is a person whom the transferor reasonably believes is a QIB in a transaction meeting the requirements of Rule 144A, without certification; or
 - (B) where the transferee is an Institutional Accredited Investor, subject to delivery to the Registrar of a Transfer Certificate from the transferor to the effect that such transfer is being made to an Institutional Accredited Investor, together with a duly executed IAI Investment Letter from the relevant transferee; or
- (iii) otherwise pursuant to the Securities Act or an exemption therefrom, subject to receipt by the Issuer of such satisfactory evidence as the Issuer may reasonably require, which may include an opinion of U.S. counsel, that such transfer is in compliance with any applicable securities laws of any State of the United States,

and, in each case, in accordance with any applicable securities laws of any State of the United States or any other jurisdiction.

Notes transferred by Institutional Accredited Investors to QIBs pursuant to Rule 144A or outside the United States pursuant to Regulation S will be eligible to be held by such QIBs or non-U.S. investors through DTC, Euroclear or Clearstream, as appropriate, and the Registrar will arrange for any Notes which are the subject of such a transfer to be represented by the appropriate Registered Global Note, where applicable.

Upon the transfer, exchange or replacement of Legended Notes, or upon specific request for removal of the Legend, the Registrar shall deliver only Legended Notes or refuse to remove the Legend, as the case may be, unless there is delivered to the Issuer such satisfactory evidence as may reasonably be required by the Issuer, which may include an opinion of U.S. counsel, that neither the Legend nor the restrictions on transfer set forth therein are required to ensure compliance with the provisions of the Securities Act.

(g) ***Exchanges and Transfers of Registered Notes Generally***

Holders of Registered Notes in definitive form, other than Institutional Accredited Investors, may exchange such Notes for interests in a Registered Global Note of the same type at any time.

(h) ***Definitions***

In this Condition, the following expressions shall have the following meanings:

“Distribution Compliance Period” means the period that ends 40 days after the completion of the distribution of each Tranche of Notes, as certified by the relevant Dealer (in the case of a non-syndicated issue) or the relevant Lead Manager (in the case of a syndicated issue);

“Institutional Accredited Investor” means “accredited investors” (as defined in Rule 501(a)(1), (2), (3) or (7) under the Securities Act that are institutions;

“Legended Note” means Registered Notes in definitive form that are issued to Institutional Accredited Investors and Registered Notes (whether in definitive form or represented by a Registered Global Note) sold in private transactions to QIBs in accordance with the requirements of Rule 144A;

“QIB” means a “qualified institutional buyer” within the meaning of Rule 144A; “Regulation S” means Regulation S under the Securities Act;

“Regulation S Global Note” means a Registered Global Note representing Notes sold outside the United States in reliance on Regulation S;

“Rule 144A” means Rule 144A under the Securities Act;

“Rule 144A Global Note” means a Registered Global Note representing Notes sold in the United States or to QIBs; and

“Securities Act” means the United States Securities Act of 1933, as amended.

3. STATUS OF NOTES

The Notes and any relative Receipts and Coupons are direct, unconditional, unsubordinated and (subject to the provisions of Condition 4 (*Certain Covenants*)) unsecured obligations of the Issuer and rank *pari passu* among themselves and (except for certain obligations required to be preferred by law) equally with all other unsecured obligations (other than subordinated obligations, if any) of the Issuer, from time to time outstanding.

4. CERTAIN COVENANTS

(a) *Limitation on Liens*

The Issuer will not itself, and will not permit any Restricted Subsidiary (as defined below) to, create, incur, issue or assume or guarantee any External Indebtedness (as defined below) secured by any mortgage, charge, pledge, encumbrance or other security interest (a “Lien”) on any Restricted Property without in any such case effectively providing that the Notes (together with, if the Issuer shall so determine, any other indebtedness of the Issuer or such Restricted Subsidiary then existing or thereafter created) are secured equally and ratably with or prior to such secured External Indebtedness unless, after giving effect thereto, the aggregate principal amount of all such secured External Indebtedness, plus Attributable Debt (as defined below) of the Issuer and its Restricted Subsidiaries in respect of sale and leaseback transactions as described under “*Limitation upon Sale and Leaseback Transactions*” below, in each case entered into after the date of the issuance of the Notes, would not exceed 10% of Consolidated Net Tangible Assets (as defined below).

The foregoing restriction will not apply to External Indebtedness secured by:

- (i) any Lien existing on any Restricted Property prior to the acquisition thereof by the Issuer or any of its Restricted Subsidiaries or arising after such acquisition pursuant to contractual commitments entered into prior to and not in contemplation of such acquisition;

- (ii) any Lien on any Restricted Property securing External Indebtedness incurred or assumed for the purpose of financing the purchase price thereof or the cost of construction, improvement or repair of all or any part thereof, *provided* that such Lien attaches to such Restricted Property concurrently with or within 12 months after the acquisition thereof or completion or construction, improvement or repair thereof;
- (iii) any Lien existing on any Restricted Property of any Restricted Subsidiary prior to the time such Restricted Subsidiary becomes a Subsidiary of the Issuer or arising after such time pursuant to contractual commitments entered into prior to and not in contemplation thereof;
- (iv) any Lien securing External Indebtedness owing to the Issuer or to a Restricted Subsidiary; or
- (v) any Lien arising out of the refinancing, extension, renewal or refunding of any External Indebtedness secured by any Lien permitted by any of the foregoing clauses or existing at the date of the issuance of the Notes, *provided* that such External Indebtedness is not increased and is not secured by any additional Restricted Property.

For the purposes of Conditions 4(a) and 4(b), the giving of a guarantee which is secured by a Lien on a Restricted Property, and the creation of a Lien on a Restricted Property to secure External Indebtedness which existed prior to the creation of such Lien, shall be deemed to involve the creation of indebtedness in an amount equal to the principal amount guaranteed or secured by such Lien; but the amount of indebtedness secured by Liens on Restricted Properties shall be computed without cumulating the underlying indebtedness with any guarantee thereof or Lien securing the same.

(b) *Limitation upon Sale and Leaseback Transactions*

The Issuer will not itself, and will not permit any Restricted Subsidiary to, enter into any arrangement, after the date of the issuance of the Note, with any person providing for the leasing by the Issuer or any Restricted Subsidiary of any Restricted Property which has been or is to be sold or transferred to such person or to any other person to whom funds are advanced by such person on the security of such Restricted Property (a “sale and leaseback transaction”), unless (a) the Attributable Debt of the Issuer and its Restricted Subsidiaries in respect thereof and in respect of all other sale and leaseback transactions entered into after the date of the issuance of the Notes (other than transactions permitted by clause (b) below) plus the aggregate principal amount of External Indebtedness secured by Liens on Restricted Property then outstanding (excluding any such External Indebtedness secured by Liens described in clause (i) through (v) under “*Limitation on Liens*” above) without equally and ratably securing the Notes, would not exceed 10% of Consolidated Net Tangible Assets or (b) the Issuer or a Restricted Subsidiary within 12 months after such sale and leaseback transactions, applies to the retirement of External Indebtedness, which is not subordinate to the Notes, of the Issuer or a Restricted Subsidiary an amount equal to the greater of (i) the net proceeds of the sale or transfer of the property or other assets which are the subject of such sale and leaseback transactions or (ii) the fair market value of the Restricted Property so leased (in each case as determined by the Issuer).

The foregoing restriction shall not apply to any transaction (x) between the Issuer and a Restricted Subsidiary or between Restricted Subsidiaries or (y) involving a lease for a temporary period not exceeding three years by the end of which it is intended that the use of such Restricted Property by the lessee will be discontinued.

(c) ***Consolidation, Merger and Sale of Assets***

The Issuer will not consolidate with, merge or amalgamate into or transfer its assets substantially as an entirety to any corporation or convey or transfer its properties and assets substantially to any person, except as provided herein and in the Agency Agreement. The Issuer, without the consent of any Noteholder, may consolidate with, or merge into, or sell, transfer, lease or convey its assets substantially as an entirety (each a “transaction”) to any corporation organized under the laws of Korea, *provided* that (a) any successor corporation expressly assumes the Issuer’s obligations under the Notes and the Agency Agreement, (b) after giving effect to the transaction, no Event of Default and no event which, after notice or lapse of time or both, would become an Event of Default, shall have occurred and be continuing, (c) if, as a result of any such transaction, properties or assets of the Issuer or a Restricted Subsidiary would become subject to a Lien which would not be permitted under these Terms and Conditions, the Issuer or such successor corporation, as the case may be, shall take such steps as shall be necessary effectively to secure the Notes (together with, if the Issuer shall so determine, any other indebtedness of the Issuer or such Subsidiary then existing or thereafter created which is not subordinate to the notes) equally and ratably with (or prior to) all indebtedness secured thereby and (d) the Issuer has delivered to the Fiscal Agent a certificate executed by a duly authorized officer of the Issuer and an opinion of counsel as to matters of law stating that such consolidation, merger, sale, transfer, lease or conveyance and, if a supplemental agreement is required in connection with such transaction, such supplemental agreement comply with the Agency Agreement and the Notes and that all conditions precedent herein provided for relating to such transaction have been complied with.

(d) ***Certain Definitions***

In these Conditions, the following expressions have the following meanings:

“Attributable Debt” means, as to any lease, at the date of determination, the total net amount of rent required to be paid under such lease during the remaining term thereof including renewal terms at the option of the lessor (excluding amounts on account of maintenance and repairs, insurance, taxes, assessments, water rates and similar charges and contingent rents), discounted from their respective due dates at the rate of interest borne by the Notes, at the date of determination, compounded annually.

“Consolidated Net Tangible Assets” means the total amount of assets of the Issuer and its consolidated Subsidiaries, including investments in unconsolidated Subsidiaries, after deducting therefrom (a) all current liabilities (excluding any current liabilities constituting Long-term Debt by reason of their being renewable or extendible) and (b) all goodwill, trade names, trademarks, patents, unamortized debt discount and expense and other like intangible assets, all as set forth on the most recent audited annual balance sheet of the Issuer and its consolidated Subsidiaries and computed in accordance with International Financial Reporting Standards, as adopted by the Korean Accounting Standards Board.

“External Indebtedness” means any obligation for the payment or repayment of money borrowed which is denominated in a currency other than the currency of Korea and which has a final maturity of one year or more from its date of incurrence or issuance.

“Long-term Debt” means any note, bond, debenture or other similar evidence of indebtedness of money borrowed having a maturity of more than one year from the date such evidence of indebtedness was incurred or having a maturity of less than one year but by its terms being renewable or extendible, at the option of the borrower beyond one year from the date such evidence on indebtedness was incurred.

“person” means any individual, corporation, partnership, joint venture, association, joint stock company, trust, unincorporated organization or government or any agency or political subdivision thereof.

“Restricted Property” means any generation facility located in Korea, whether at the date of the issuance of the Notes owned or thereafter acquired, including any land, buildings, structures or machinery and other fixtures that constitute any such facility, or portion thereof, other than any such facility, or portion thereof, reasonably determined by the Issuer’s board of directors not to be of material importance to the total business conducted by the Issuer and its Subsidiaries as a whole.

“Restricted Subsidiary” means any Subsidiary that owns Restricted Property.

“Subsidiary” means any corporation or other entity of which securities or other ownership interests having ordinary voting power to elect a majority of the board of directors or other persons performing similar functions are at the time directly or indirectly owned by the Issuer.

5. REDENOMINATION

(a) *Redenomination*

Where redenomination is specified in the applicable Pricing Supplement as being applicable, the Issuer may, without the consent of the Noteholders, the Receiptholders and the Couponholders, on giving prior notice to the Agent, DTC, Euroclear and Clearstream and at least 30 days’ prior notice to the Noteholders in accordance with Condition 16 (*Notices*), elect that, with effect from the Redenomination Date specified in the notice, the Notes shall be redenominated in Euro.

The election will have effect as follows:

- (i) the Notes and the Receipts shall be deemed to be redenominated into Euro with a principal amount for each Note and Receipt equal to the principal amount of that Note or Receipt in the Specified Currency, converted into Euro at the Established Rate (as defined below), rounded to the nearest Euro 0.01 if the conversion results in an amount involving a fraction of Euro 0.01, provided that, if the Issuer determines that the then market practice in respect of the redenomination into Euro of internationally offered securities is different from the provisions specified above, such provisions shall be deemed to be amended so as to comply with such market practice and the Issuer shall promptly notify the Noteholders, the stock exchange (if any) on which the Notes may be listed and the Agents of such deemed amendments;
- (ii) save to the extent that an Exchange Notice has been given in accordance with paragraph (iv) below, the amount of interest due in respect of the Notes will be calculated by reference to the aggregate principal amount of Notes presented (or, as the case may be, in respect of which Coupons are presented) for payment by the relevant holder and the amount of such payment shall be rounded down to the nearest Euro 0.01;
- (iii) if definitive Notes are required to be issued after the Redenomination Date (as defined below), they shall be issued at the expense of the Issuer in the denominations of Euro 1,000, Euro 10,000, Euro 100,000 and (but only to the extent of any remaining amounts less than Euro 1,000 or such smaller denominations as the Agent may approve) Euro 0.01 and such other denominations as the Agent shall determine and notify to the Noteholders;

- (iv) if issued prior to the Redenomination Date, all unmatured Coupons denominated in the Specified Currency (whether or not attached to the Notes) will become void with effect from the date on which the Issuer gives notice (the “Exchange Notice”) that replacement Euro-denominated Notes, Receipts and Coupons are available for exchange (provided that such securities are so available) and no payments will be made in respect of them. The payment obligations contained in any Notes and Receipts so issued will also become void on that date although those Notes and Receipts will continue to constitute valid exchange obligations of the Issuer. New Euro-denominated Notes, Receipts and Coupons will be issued in exchange for Notes, Receipts and Coupons denominated in the Specified Currency in such manner as the Agent may specify and as shall be notified to the Noteholders in the Exchange Notice. No Exchange Notice may be given less than 15 days prior to any date for payment of principal or interest on the Notes;
- (v) after the Redenomination Date, all payments in respect of the Notes, the Receipts and the Coupons, other than payments of interest in respect of periods commencing before the Redenomination Date, will be made solely in Euro as though references in the Notes to the Specified Currency were to Euro. Payments will be made in Euro by credit or transfer to a Euro account (or any other account to which Euro may be credited or transferred) specified by the payee or, at the option of the payee, by a Euro cheque;
- (vi) if the Notes are Fixed Rate Notes and interest for any period ending on or after the Redenomination Date is required to be calculated for a period ending other than on an Interest Payment Date (as specified in the applicable Pricing Supplement), it will be calculated by applying the Rate of Interest to each Specified Denomination, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention;
- (vii) if the Notes are Floating Rate Notes, the applicable Pricing Supplement will specify any relevant changes to the provisions relating to interest; and
- (viii) such other changes shall be made to this Condition as the Issuer may decide, after consultation with the Agent, and as may be specified in the notice, to conform it to conventions then applicable to instruments denominated in Euro.

(b) **Definitions**

In these Conditions, the following expressions have the following meanings:

“Established Rate” means the rate for the conversion of the Specified Currency (including compliance with rules relating to rounding in accordance with applicable European Community regulations) into Euro established by the Council of the European Union pursuant to Article 123 of the Treaty;

“Euro” means the lawful currency of the Member States of the European Union that have adopted the single currency in accordance with the Treaty;

“Redenomination Date” means (in the case of interest bearing Notes) any date for payment of interest under the Notes or (in the case of Zero Coupon Notes) any date, in each case specified by the Issuer in the notice given to the Noteholders pursuant to paragraph (a) above and which falls on or after the date on which the country of the Specified Currency first participates in the third stage of European economic and monetary union; and

“Treaty” means the Treaty establishing the European Community (signed in Rome on March 25, 1957), as amended from time to time.

6. INTEREST

(a) *Interest on Fixed Rate Notes*

Each Fixed Rate Note bears interest on its outstanding nominal amount (or, if it is a Partly Paid Note, the amount paid up) from (and including) the Interest Commencement Date at the rate(s) per annum equal to the Rate(s) of Interest. Interest will be payable in arrears on the Interest Payment Date(s) in each year up to (and including) the Maturity Date.

Except as provided in the applicable Pricing Supplement, the amount of interest payable on each Interest Payment Date in respect of the Fixed Interest Period ending on (but excluding) such date will amount to the Fixed Coupon Amount. Payments of interest on any Interest Payment Date will, if so specified in the applicable Pricing Supplement, amount to the Broken Amount so specified.

As used in these Terms and Conditions, “Fixed Interest Period” means the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date.

If interest is required to be calculated for a period other than a Fixed Interest Period, such interest shall be calculated by applying the Rate of Interest to each Specified Denomination, multiplying such sum by the applicable Day Count Fraction (as defined below), and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention.

“Day Count Fraction” means, in respect of the calculation of an amount of interest, in accordance with this Condition 6(a):

- (i) if “**Actual/Actual (ICMA)**” is specified in the applicable Pricing Supplement:
 - (A) in the case of Notes where the number of days in the relevant period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (the “Accrual Period”) is equal to or shorter than the Determination Period during which the Accrual Period ends, the number of days in such Accrual Period divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Dates (as specified in the applicable Pricing Supplement) that would occur in one calendar year; or
 - (B) in the case of Notes where the Accrual Period is longer than the Determination Period during which the Accrual Period ends, the sum of:
 - (1) the number of days in such Accrual Period falling in the Determination Period in which the Accrual Period begins divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year; and

- (2) the number of days in such Accrual Period falling in the next Determination Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year; and
- (ii) if “30/360” is specified in the applicable Pricing Supplement, the number of days in the period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (such number of days being calculated on the basis of a year of 360 days with 12 30-day months) divided by 360.

In these Conditions:

“Determination Period” means each period from (and including) a Determination Date to but excluding the next Determination Date (including, where either the Interest Commencement Date or the final Interest Payment Date is not a Determination Date, the period commencing on the first Determination Date prior to, and ending on the first Determination Date falling after, such date); and

“sub-unit” means, with respect to any currency other than Euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, with respect to Euro, one cent.

(b) *Interest on Floating Rate Notes and Index Linked Interest Notes*

(i) *Interest Payment Dates*

Each Floating Rate Note and Index Linked Interest Note bears interest on its outstanding nominal amount (or, if it is a Partly Paid Note, the amount paid up) from (and including) the Interest Commencement Date and such interest will be payable in arrears on either:

- (A) the Specified Interest Payment Date(s) in each year specified in the applicable Pricing Supplement; or
- (B) if no Specified Interest Payment Date(s) is/are specified in the applicable Pricing Supplement, each date (each such date, together with each Specified Interest Payment Date, an “Interest Payment Date”) which falls the number of months or other period specified as the Specified Period in the applicable Pricing Supplement after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

Such interest will be payable in respect of each Interest Period (which expression shall, in these Terms and Conditions, mean the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date).

If a Business Day Convention is specified in the applicable Pricing Supplement and (x) if there is no numerically corresponding day on the calendar month in which an Interest Payment Date should occur or (y) if any Interest Payment Date would otherwise fall on a day which is not a Business Day, then, if the Business Day Convention specified is:

- (1) in any case where Specified Periods are specified in accordance with Condition 6 (*Interest-(b)(i)(B)*) above, the Floating Rate Convention, such Interest Payment Date (i) in the case of (x) above, shall be the last day that is a Business Day in the relevant

month and the provisions of (B) below shall apply mutatis mutandis or (ii) in the case of (y) above, shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event (A) such Interest Payment Date shall be brought forward to the immediately preceding Business Day and (B) each subsequent Interest Payment Date shall be the last Business Day in the month which falls the Specified Period after the preceding applicable Interest Payment Date occurred; or

- (2) the Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day; or
- (3) the Modified Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event such Interest Payment Date shall be brought forward to the immediately preceding Business Day; or
- (4) the Preceding Business Day Convention, such Interest Payment Date shall be brought forward to the immediately preceding Business Day.

In these Conditions, “Business Day” means a day which is both:

- (A) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in London, New York and any Additional Business Center specified in the applicable Pricing Supplement; and
- (B) either (1) in relation to any sum payable in a Specified Currency other than Euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial center of the country of the relevant Specified Currency (if other than London, New York and any Additional Business Center and which if the Specified Currency is Australian dollars or New Zealand dollars shall be Melbourne or Wellington, respectively) or (2) in relation to any sum payable in Euro, a day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET2) System (the “TARGET2 System”) is open.

(ii) *Rate of Interest*

The Rate of Interest payable from time to time in respect of Floating Rate Notes and Index Linked Interest Notes will be determined in the manner specified in the applicable Pricing Supplement.

(A) *ISDA Determination for Floating Rate Notes*

Where ISDA Determination is specified in the applicable Pricing Supplement as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will be the relevant ISDA Rate plus or minus (as indicated in the applicable Pricing Supplement) the Margin (if any). For the purposes of this subparagraph (A), “ISDA Rate” for an Interest Period means a rate equal to the Floating Rate that would be determined by the Agent under an interest

rate swap transaction if the Agent were acting as Calculation Agent for that swap transaction under the terms of an agreement incorporating the 2006 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc. and as amended and updated as at the Issue Date of the first Tranche of the Notes (the “ISDA Definitions”) and under which:

- (1) the Floating Rate Option is as specified in the applicable Pricing Supplement;
- (2) the Designated Maturity is a period specified in the applicable Pricing Supplement; and
- (3) the relevant Reset Date is either (i) if the applicable Floating Rate Option is based on the London inter-bank offered rate (“LIBOR”) or on the Euro-zone inter-bank offered rate (“EURIBOR”), the first day of that Interest Period or (ii) in any other case, as specified in the applicable Pricing Supplement.

For the purposes of this subparagraph (A), the terms “Floating Rate”, “Calculation Agent”, “Floating Rate Option”, “Designated Maturity” and “Reset Date” shall have the meanings given to those terms in the ISDA Definitions.

(B) Screen Rate Determination for Floating Rate Notes

Where Screen Rate Determination is specified in the applicable Pricing Supplement as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will, subject as provided below, be either:

- (1) the offered quotation; or
- (2) the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate which appears or appear, as the case may be, on the Relevant Screen Page (as specified in the applicable Pricing Supplement) as at 11:00 a.m. (London time, in the case of LIBOR, or Brussels time, in the case of EURIBOR) on the Interest Determination Date in question plus or minus (as indicated in the applicable Pricing Supplement) the Margin (if any), all as determined by the Agent. If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Agent for the purpose of determining the arithmetic mean (rounded as provided above) of such offered quotations.

The Agency Agreement contains provisions for determining the Rate of Interest in the event that the Relevant Screen Page is not available or if, in the case of (1) above, no such offered quotation appears or, in the case of (2) above, fewer than three such offered quotations appear, in each case as at the time specified in the preceding paragraph.

If the Reference Rate from time to time in respect of Floating Rate Notes is specified in the applicable Pricing Supplement as being other than LIBOR or EURIBOR, the Rate of Interest in respect of such Notes will be determined as provided in the applicable Pricing Supplement.

(iii) *Minimum Rate of Interest and/or Maximum Rate of Interest*

If the applicable Pricing Supplement specifies a Minimum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph (ii) above is less than such Minimum Rate of Interest, the Rate of Interest for such Interest Period shall be such Minimum Rate of Interest.

If the applicable Pricing Supplement specifies a Maximum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph (ii) above is greater than such Maximum Rate of Interest, the Rate of Interest for such Interest Period shall be such Maximum Rate of Interest.

(iv) *Determination of Rate of Interest and Calculation of Interest Amounts*

The Agent, in the case of Floating Rate Notes, and the Calculation Agent, in the case of Index Linked Interest Notes, will at or as soon as practicable after each time at which the Rate of Interest is to be determined, determine the Rate of Interest for the relevant Interest Period. In the case of Index Linked Interest Notes, the Calculation Agent will notify the Agent of the Rate of Interest for the relevant Interest Period as soon as practicable after calculating the same.

The Agent will calculate the amount of interest (the “Interest Amount”) payable on the Floating Rate Notes or Index Linked Interest Notes in respect of each Specified Denomination for the relevant Interest Period. Each Interest Amount shall be calculated by applying the Rate of Interest to each Specified Denomination, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention.

“Day Count Fraction” means, in respect of the calculation of an amount of interest in accordance with this Condition 6(b):

- (A) if “Actual/Actual (ISDA)” or “Actual/Actual” is specified in the applicable Pricing Supplement, the actual number of days in the Interest Period divided by 365 (or, if any portion of that Interest Period falls in a leap year, the sum of (1) the actual number of days in that portion of the Interest Period falling in a leap year divided by 366 and (2) the actual number of days in that portion of the Interest Period falling in a non-leap year divided by 365);
- (B) if “Actual/365 (Fixed)” is specified in the applicable Pricing Supplement, the actual number of days in the Interest Period divided by 365;
- (C) if “Actual/365 (Sterling)” is specified in the applicable Pricing Supplement, the actual number of days in the Interest Period divided by 365, or in the case of an Interest Payment Date falling in a leap year, 366;
- (D) if “Actual/360” is specified in the applicable Pricing Supplement, the actual number of days in the Interest Period divided by 360;

- (E) if “30/360”, “360/360” or “Bond Basis” is specified in the applicable Pricing Supplement, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“Y₁” is the year, expressed as a number, in which the first day of the Interest Period falls;

“Y₂” is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“M₁” is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

“M₂” is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“D₁” is the first calendar day, expressed as a number, of the Interest Period, unless such number is 31, in which case D₁ will be 30; and

“D₂” is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31 and D₁ is greater than 29, in which case D₂ will be 30;

- (F) if “30E/360” or “Eurobond Basis” is specified in the applicable Pricing Supplement, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“Y₁” is the year, expressed as a number, in which the first day of the Interest Period falls;

“Y₂” is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“M₁” is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

“M₂” is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“D₁” is the first calendar day, expressed as a number, of the Interest Period, unless such number is 31, in which case D₁ will be 30; and

“D₂” is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31, in which case D₂ will be 30;

- (G) if “30E/360 (ISDA)” is specified in the applicable Pricing Supplement, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“Y₁” is the year, expressed as a number, in which the first day of the Interest Period falls;

“Y₂” is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“M₁” is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

“M₂” is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“D₁” is the first calendar day, expressed as a number, of the Interest Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D₁ will be 30; and

“D₂” is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case, D₂ will be 30.

(v) *Notification of Rate of Interest and Interest Amounts*

The Agent will cause the Rate of Interest and each Interest Amount for each Interest Period and the relevant Interest Payment Date to be notified to the Issuer and any stock exchange on which the relevant Floating Rate Notes or Index Linked Interest Notes are for the time being listed and notice thereof to be published in accordance with Condition 16 (*Notices*) as soon as practicable after their determination but in no event later than the fourth London Business Day thereafter. Each Interest Amount and Interest Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without prior notice in the event of an extension or shortening of the Interest Period. Any such amendment will be promptly notified to each stock exchange on which the relevant Floating Rate Notes or Index Linked Interest Notes are for the time being listed and to the Noteholders in accordance with Condition 16 (*Notices*). For the purposes of this paragraph, the expression “London Business Day” means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for general business in London.

(vi) *Certificates to be Final*

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 6(b) (*Interest — Interest on Floating Rate Notes and Index Linked Interest Notes*), whether by the Agent or, if applicable, the Calculation Agent, shall (in the absence of willful default, bad faith or manifest error) be binding on the Issuer, the Agent, the Calculation Agent (if applicable), the other

Agents and all Noteholders, Receiptholders and Couponholders and (in the absence as aforesaid) no liability to the Issuer, the Noteholders, the Receiptholders or the Couponholders shall attach to the Agent or the Calculation Agent (if applicable) in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

(c) ***Interest on Dual Currency Interest Notes***

The rate or amount of interest payable in respect of Dual Currency Interest Notes shall be determined in the manner specified in the applicable Pricing Supplement.

(d) ***Interest on Partly Paid Notes***

In the case of Partly Paid Notes (other than Partly Paid Notes which are Zero Coupon Notes), interest will accrue as aforesaid on the paid-up nominal amount of such Notes and otherwise as specified in the applicable Pricing Supplement.

(e) ***Accrual of Interest***

Each Note (or in the case of the redemption of part only of a Note, that part only of such Note) will cease to bear interest (if any) from the date for its redemption unless, upon due presentation thereof, payment of principal is improperly withheld or refused. In such event, interest will continue to accrue until whichever is the earlier of:

- (i) the date on which all amounts due in respect of such Note have been paid; and
- (ii) five days after the date on which the full amount of the moneys payable in respect of such Note has been received by the Agent or the Registrar, as the case may be, and notice to that effect has been given to the Noteholders in accordance with Condition 16 (*Notices*).

7. LIMITED RECOURSE

The amounts payable in respect of the Limited Recourse Notes shall be determined in the manner specified in the applicable Pricing Supplement.

8. PAYMENTS

(a) ***Method of Payment***

Subject as provided below:

- (i) payments in a Specified Currency other than Euro will be made by credit or transfer to an account in the relevant Specified Currency (which, in the case of a payment in Japanese yen to a non-resident of Japan, shall be a non-resident account) maintained by the payee with, or, at the option of the payee, by a cheque in such Specified Currency drawn on, a bank in the principal financial center of the country of such Specified Currency (which, if the Specified Currency is Australian dollars or New Zealand dollars, shall be Melbourne or Wellington, respectively); and
- (ii) payments in Euro will be made by credit or transfer to a Euro account (or any other account to which Euro may be credited or transferred) specified by the payee or, at the option of the payee, by a Euro cheque.

Payments will be subject in all cases to any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 10 (*Taxation*). References to “Specified Currency” will include any successor currency under applicable law.

(b) *Presentation of Definitive Bearer Notes, Receipts and Coupons*

Payments of principal in respect of definitive Bearer Notes will (subject as provided below) be made in the manner provided in this Condition 8 only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of definitive Bearer Notes, and payments of interest in respect of definitive Bearer Notes will (subject as provided below) be made as aforesaid only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of Coupons, in each case at the specified office of any Paying Agent outside the United States (which expression, as used herein, means the United States of America (including the States and the District of Columbia, its territories, its possessions and other areas subject to its jurisdiction)).

Payments of installments of principal (if any) in respect of definitive Bearer Notes, other than the final installment, will (subject as provided below) be made in the manner provided in paragraph (a) above against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the relevant Receipt in accordance with the preceding paragraph. Payment of the final installment will be made in the manner provided in paragraph (a) above only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the relevant Bearer Note in accordance with the preceding paragraph. Each Receipt must be presented for payment of the relevant installment together with the definitive Bearer Note to which it appertains. Receipts presented without the definitive Bearer Note to which they appertain do not constitute valid obligations of the Issuer. Upon the date on which any definitive Bearer Note becomes due and repayable, unmatured Receipts (if any) relating thereto (whether or not attached) shall become void and no payment shall be made in respect thereof.

Fixed Rate Notes in definitive bearer form (other than Dual Currency Notes, Index Linked Notes or Long Maturity Notes (as defined below)) should be presented for payment together with all unmatured Coupons appertaining thereto (which expression shall for this purpose include Coupons falling to be issued on exchange of matured Talons), failing which the amount of any missing unmatured Coupon (or, in the case of payment not being made in full, the same proportion of the amount of such missing unmatured Coupon as the sum so paid bears to the sum due) will be deducted from the sum due for payment. Each amount of principal so deducted will be paid in the manner mentioned above against surrender of the relative missing Coupon at any time before the expiry of six years after the Relevant Date (as defined in Condition 10 (*Taxation*)) in respect of such principal (whether or not such Coupon would otherwise have become void under Condition 11(*Prescription*)) or, if later, six years from the date on which such Coupon would otherwise have become due, but in no event thereafter.

Upon any Fixed Rate Note in definitive bearer form becoming due and repayable prior to its Maturity Date, all unmatured Talons (if any) appertaining thereto will become void and no further Coupons will be issued in respect thereof.

Upon the date on which any Floating Rate Note, Dual Currency Note, Index Linked Note or Long Maturity Note in definitive bearer form becomes due and repayable, unmatured Coupons and Talons (if any) relating thereto (whether or not attached) shall become void and no payment or, as the case may be, exchange for further Coupons shall be made in respect thereof. A “Long Maturity

Note” is a Fixed Rate Note (other than a Fixed Rate Note which on issue had a Talon attached) whose nominal amount on issue is less than the aggregate interest payable thereon provided that such Note shall cease to be a Long Maturity Note on the Interest Payment Date on which the aggregate amount of interest remaining to be paid after that date is less than the nominal amount of such Note.

If the due date for redemption of any definitive Bearer Note is not an Interest Payment Date, interest (if any) accrued in respect of such Note from (and including) the preceding Interest Payment Date or, as the case may be, the Interest Commencement Date shall be payable only against surrender of the relevant definitive Bearer Note.

(c) *Payments in respect of Bearer Global Notes*

Payments of principal and interest (if any) in respect of Notes represented by any Global Note in bearer form will (subject as provided below) be made in the manner specified above in relation to definitive Bearer Notes and otherwise in the manner specified in the relevant Global Note against presentation or surrender, as the case may be, of such Global Note at the specified office of any Paying Agent outside the United States. A record of each payment made against presentation or surrender of any Global Note in bearer form, distinguishing between any payment of principal and any payment of interest, will be made on such Global Note by the relevant Paying Agent to which it was presented and such record shall be *prima facie* evidence that the payment in question has been made.

(d) *Payments in Respect of Registered Notes*

Payments of principal (other than installments of principal prior to the final installment) in respect of each Registered Note (whether or not in global form) will be made against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the Registered Note at the specified office of the Registrar or any of the Paying Agents. Such payments will be made by transfer to the Designated Account (as defined below) of the holder (or the first named of joint holders) of the Registered Note appearing in the register of holders of the Registered Notes maintained by the Registrar (the “Register”) at the close of business on the third business day (being for this purpose a day on which banks are open for business in the city where the specified office of the Registrar is located) before the relevant due date. Notwithstanding the previous sentence, if (i) a holder does not have a Designated Account or (ii) the principal amount of the Notes held by a holder is less than U.S.\$250,000 (or its approximate equivalent in any other Specified Currency), payment will instead be made by a cheque in the Specified Currency drawn on a Designated Bank (as defined below). For these purposes, “Designated Account” means the account (which, in the case of a payment in Japanese yen to a non-resident of Japan, shall be a non-resident account) maintained by a holder with a Designated Bank and identified as such in the Register and “Designated Bank” means (in the case of payment in a Specified Currency other than Euro) a bank in the principal financial center of the country of such Specified Currency (which, if the Specified Currency is Australian dollars or New Zealand dollars, shall be Melbourne or Wellington, respectively) and (in the case of a payment in Euro) any bank which processes payments in Euro.

Payments of interest and payments of installments of principal (other than the final installment) in respect of each Registered Note (whether or not in global form) will be made by a cheque in the Specified Currency drawn on a Designated Bank and mailed by uninsured mail on the business day in the city where the specified office of the Registrar is located immediately preceding the relevant due date to the holder (or the first named of joint holders) of the

Registered Note appearing in the Register at the close of business on the day on which DTC, Euroclear and/or Clearstream, as applicable to the extent such Registered Note is cleared and settled through such facility, is open for business, immediately preceding the relevant due date (the “Record Date”) at his address shown in the Register on the Record Date and at his risk. Upon application of the holder to the specified office of the Registrar not less than three business days in the city where the specified office of the Registrar is located before the due date for any payment of interest in respect of a Registered Note, the payment may be made by transfer on the due date in the manner provided in the preceding paragraph. Any such application for transfer shall be deemed to relate to all future payments of interest (other than interest due on redemption) and installments of principal (other than the final installment) in respect of the Registered Notes which become payable to the holder who has made the initial application until such time as the Registrar is notified in writing to the contrary by such holder. Payment of the interest due in respect of each Registered Note on redemption and the final installment of principal will be made in the same manner as payment of the principal amount of such Registered Note.

Holders of Registered Notes will not be entitled to any interest or other payment for any delay in receiving any amount due in respect of any Registered Note as a result of a cheque posted in accordance with this Condition arriving after the due date for payment or being lost in the post. No commissions or expenses shall be charged to such holders by the Registrar in respect of any payments of principal or interest in respect of the Registered Notes.

All amounts payable to DTC or its nominee as registered holder of a Registered Global Note in respect of Notes denominated in a Specified Currency other than U.S. dollars shall be paid by transfer by the Registrar to an account in the relevant Specified Currency of the Exchange Agent on behalf of DTC or its nominee for conversion into and payment in U.S. dollars in accordance with the provisions of the Agency Agreement.

None of the Issuer or the Agents will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Registered Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

(e) *General Provisions Applicable to Payments*

The holder of a Global Note shall be the only person entitled to receive payments in respect of Notes represented by such Global Note and the Issuer will be discharged by payment to, or to the order of, the holder of such Global Note in respect of each amount so paid. Each of the persons shown in the records of Euroclear, Clearstream or DTC as the beneficial holder of a particular nominal amount of Notes represented by such Global Note must look solely to Euroclear, Clearstream or DTC, as the case may be, for his share of each payment so made by the Issuer to, or to the order of, the holder of such Global Note.

Notwithstanding the foregoing provisions of this Condition, if any amount of principal and/or interest in respect of Bearer Notes is payable in U.S. dollars, such U.S. dollar payments of principal and/or interest in respect of such Notes will be made at the specified office of a Paying Agent in the United States if:

- (i) the Issuer has appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment in U.S. dollars at such specified offices outside the United States of the full amount of principal and interest on the Bearer Notes in the manner provided above when due;

- (ii) payment of the full amount of such principal and interest at all such specified offices outside the United States is illegal or effectively precluded by exchange controls or other similar restrictions on the full payment or receipt of principal and interest in U.S. dollars; and
- (iii) such payment is then permitted under United States law without involving, in the opinion of the Issuer, adverse tax consequences to the Issuer.

(f) ***Payment Day***

If the date for payment of any amount in respect of any Note, Receipt or Coupon is not a Payment Day, the holder thereof shall not be entitled to payment until the next following Payment Day in the relevant place and shall not be entitled to further interest or other payment in respect of such delay. For these purposes, “Payment Day” means any day which (subject to Condition 11 (*Prescription*)) is:

- (i) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in:
 - (A) in the case of Notes in definitive form only, the relevant place of presentation;
 - (B) London; and
 - (C) any Additional Financial Center specified in the applicable Pricing Supplement;
- (ii) either (1) in relation to any sum payable in a Specified Currency other than Euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial center of the country of the relevant Specified Currency (which if the Specified Currency is Australian dollars or New Zealand dollars shall be Melbourne or Wellington, respectively) or (2) in relation to any sum payable in Euro, a day on which the TARGET2 System is open; and
- (iii) in the case of any payment in respect of a Registered Global Note denominated in a Specified Currency other than U.S. dollars and registered in the name of DTC or its nominee and in respect of which an accountholder of DTC (with an interest in such Registered Global Note) has elected to receive any part of such payment in U.S. dollars, a day on which commercial banks are not authorized or required by law or regulation to be closed in New York City.

(g) ***Interpretation of Principal and Interest***

Any reference in these Terms and Conditions to principal in respect of the Notes shall be deemed to include, as applicable:

- (i) any additional amounts which may be payable with respect to principal under Condition 10 (*Taxation*);
- (ii) the Final Redemption Amount of the Notes;
- (iii) the Early Redemption Amount of the Notes;

- (iv) the Optional Redemption Amount(s) (if any) of the Notes;
- (v) in relation to Notes redeemable in installments, the Installment Amounts;
- (vi) in relation to Zero Coupon Notes, the Amortized Face Amount (as defined in Condition 9(e) (*Redemption and Purchase — Early Redemption Amounts*)); and
- (vii) any premium and any other amounts (other than interest) which may be payable by the Issuer under or in respect of the Notes.

Any reference in these Conditions to interest in respect of the Notes shall be deemed to include, as applicable, any additional amounts which may be payable with respect to interest under Condition 10 (*Taxation*).

9. REDEMPTION AND PURCHASE

(a) *Redemption at Maturity*

Unless previously redeemed or purchased and cancelled as specified below, each Note (including each Index Linked Redemption Note and Dual Currency Redemption Note) will be redeemed by the Issuer at its Final Redemption Amount specified in, or determined in the manner specified in, the applicable Pricing Supplement in the relevant Specified Currency on the Maturity Date.

(b) *Redemption for Tax Reasons*

The Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time (if this Note is neither a Floating Rate Note, an Index Linked Interest Note nor a Dual Currency Interest Note) or on any Interest Payment Date (if this Note is either a Floating Rate Note, an Index Linked Interest Note or a Dual Currency Interest Note), on giving not less than 30 nor more than 60 days' notice to the Agent and, in accordance with Condition 16 (*Notices*), the Noteholders (which notice shall be irrevocable), if:

- (i) on the occasion of the next payment due under the Notes, the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 10 (*Taxation*) as a result of any change in, or amendment to, the laws of a Tax Jurisdiction (as defined in Condition 10 (*Taxation*)) or any regulations or rulings promulgated thereunder or any change in the application or official interpretation of such laws or regulations or rulings, or any change in the application or official interpretation of, or any execution of or amendment to, any treaty or treaties affecting taxation to which the Tax Jurisdiction is a party, which change or amendment becomes effective on or after the date on which agreement is reached to issue the first Tranche of the Notes; and
- (ii) such obligation cannot be avoided by the Issuer taking reasonable measures available to it,

provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts were a payment in respect of the Notes then due.

Prior to the publication of any notice of redemption pursuant to this Condition, the Issuer shall deliver to the Agent a certificate signed by an authorized officer stating that the Issuer is

entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred, and an opinion of independent legal advisers of recognized standing to the effect that the Issuer has or will become obliged to pay such additional amounts as a result of such change or amendment.

Notes redeemed pursuant to this Condition 9(b) will be redeemed at their Early Redemption Amount referred to in paragraph (e) below together (if appropriate) with interest accrued to (but excluding) the date of redemption.

(c) *Redemption at the Option of the Issuer (“Issuer Call”)*

If Issuer Call is specified in the applicable Pricing Supplement, the Issuer may, having given:

- (i) not less than 15 nor more than 30 days’ notice to the Noteholders in accordance with Condition 16 (*Notices*); and
- (ii) not less than 15 days before the giving of the notice referred to in (i), notice to the Agent and, in the case of a redemption of Registered Notes, the Registrar;

(which notices shall be irrevocable and shall specify the date fixed for redemption), redeem all or some only of the Notes then outstanding on any Optional Redemption Date and at the Optional Redemption Amount(s) specified in, or determined in the manner specified in, the applicable Pricing Supplement together, if appropriate, with interest accrued to (but excluding) the relevant Optional Redemption Date. Any such redemption must be of a nominal amount not less than the Minimum Redemption Amount and not more than the Maximum Redemption Amount in each case as may be specified in the applicable Pricing Supplement. In the case of a partial redemption of Notes, the Notes to be redeemed (“Redeemed Notes”) will be selected individually by lot, in the case of Redeemed Notes represented by definitive Notes, and in accordance with the rules of Euroclear and/or Clearstream and/or DTC, in the case of Redeemed Notes represented by a Global Note, not more than 30 days prior to the date fixed for redemption (such date of selection being hereinafter called the “Selection Date”). In the case of Redeemed Notes represented by definitive Notes, a list of the serial numbers of such Redeemed Notes will be published in accordance with Condition 16 (*Notices*) not less than 15 days prior to the date fixed for redemption. The aggregate nominal amount of Redeemed Notes represented by definitive Notes shall bear the same proportion to the aggregate nominal amount of all Redeemed Notes as the aggregate nominal amount of definitive Notes outstanding bears to the aggregate nominal amount of the Notes outstanding, in each case on the Selection Date, provided that, such first mentioned nominal amount shall, if necessary, be rounded downwards to the nearest integral multiple of the Specified Denomination and the aggregate nominal amount of Redeemed Notes represented by a Global Note shall be equal to the balance of the Redeemed Notes. No exchange of the relevant Global Note will be permitted during the period from (and including) the Selection Date to (and including) the date fixed for redemption pursuant to this paragraph (c) and notice to that effect shall be given by the Issuer to the Noteholders in accordance with Condition 16 (*Notices*) at least five days prior to the Selection Date.

(d) *Redemption at the Option of the Noteholders (Investor Put)*

If Investor Put is specified in the applicable Pricing Supplement, upon the holder of any Note giving to the Issuer in accordance with Condition 16 (*Notices*) not less than 15 nor more than 30 days’ notice the Issuer will, upon the expiry of such notice, redeem, subject to, and in

accordance with, the terms specified in the applicable Pricing Supplement, such Note on the Optional Redemption Date and at the Optional Redemption Amount together, if appropriate, with interest accrued to (but excluding) the Optional Redemption Date. Registered Notes may be redeemed under this Condition 9(d) in any multiple of their lowest Specified Denomination.

To exercise the right to require redemption of this Note the holder of this Note must deliver, at the specified office of the Paying Agent (in the case of Bearer Notes) or the Registrar (in the case of Registered Notes) at any time during normal business hours of such Paying Agent or, as the case may be, the Registrar falling within the notice period, a duly completed and signed notice of exercise in the form (for the time being current) obtainable from any specified office of any Paying Agent or, as the case may be, the Registrar (a “Put Notice”) and in which the holder must specify a bank account (or, if payment is required to be made by cheque, an address) to which payment is to be made under this Condition and, in the case of Registered Notes, the nominal amount thereof to be redeemed and, if less than the full nominal amount of the Registered Notes so surrendered is to be redeemed, an address to which a new Registered Note in respect of the balance of such Registered Notes is to be sent subject to and in accordance with the provisions of Condition 2 (*Transfer of Registered Notes — Transfers of Registered Notes in Definitive Form*). If this Note is in definitive form, the Put Notice must be accompanied by this Note or evidence satisfactory to the relevant Paying Agent concerned that this Note will, following delivery of the Put Notice, be held to its order or under its control.

Any Put Notice given by a holder of any Note pursuant to this paragraph shall be irrevocable except where prior to the due date of redemption an Event of Default shall have occurred and be continuing in which event such holder, at its option, may elect by notice to the Issuer to withdraw the notice given pursuant to this paragraph and instead to declare such Note forthwith due and payable pursuant to Condition 12 (*Events of Default*).

(e) *Early Redemption Amounts*

For the purpose of paragraph (b) above and Condition 12 (*Events of Default*), each Note will be redeemed at its Early Redemption Amount calculated as follows:

- (i) in the case of a Note with a Final Redemption Amount equal to the Issue Price, at the Final Redemption Amount thereof;
- (ii) in the case of a Note (other than a Zero Coupon Note but including an Installment Note and a Partly Paid Note) with a Final Redemption Amount which is or may be less or greater than the Issue Price or which is payable in a Specified Currency other than that in which the Note is denominated, at the amount specified in, or determined in the manner specified in, the applicable Pricing Supplement or, if no such amount or manner is so specified in the applicable Pricing Supplement, at its nominal amount; or
- (iii) in the case of a Zero Coupon Note, at an amount (the “Amortized Face Amount”) calculated in accordance with the following formula:

$$\text{Early Redemption Amount} = \text{RP} \times (1 + \text{AY})^y$$

where:

“RP” means the Reference Price; and

“AY” means the Accrual Yield expressed as a decimal; and

“y” is a fraction the numerator of which is equal to the number of days (calculated on the basis of a 360-day year consisting of 12 months of 30 days each) from (and including) the Issue Date of the first Tranche of the Notes to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Note becomes due and repayable and the denominator of which is 360, or on such other calculation basis as may be specified in the applicable Pricing Supplement.

(f) ***Installments***

Installment Notes will be redeemed in the Installment Amounts and on the Installment Dates. In the case of early redemption, the Early Redemption Amount will be determined pursuant to paragraph (e) above.

(g) ***Partly Paid Notes***

Partly Paid Notes will be redeemed, whether at maturity, early redemption or otherwise, in accordance with the provisions of this Condition and the applicable Pricing Supplement.

(h) ***Purchases***

The Issuer or any Subsidiary of the Issuer may at any time purchase Notes (provided that, in the case of definitive Bearer Notes, all unmatured Receipts, Coupons and Talons appertaining thereto are purchased therewith) at any price in the open market or otherwise. If purchases are made by tender, tenders must be available to all Noteholders alike.

Notes held by the Issuer and its Subsidiaries are not “outstanding” for the purpose of Condition 17 (*Meetings of Noteholders and Modification*).

(i) ***Cancellation***

All Notes which are redeemed will forthwith be cancelled (together with all unmatured Receipts, Coupons and Talons attached thereto or surrendered therewith at the time of redemption). All Notes so cancelled (together with all unmatured Receipts, Coupons and Talons cancelled therewith) shall be forwarded to the Agent and cannot be reissued or resold.

(j) ***Late Payment on Zero Coupon Notes***

If the amount payable in respect of any Zero Coupon Note upon redemption of such Zero Coupon Note pursuant to paragraph (a), (b), (c) or (d) above or upon its becoming due and repayable as provided in Condition 12 (*Events of Default*) is improperly withheld or refused, the amount due and repayable in respect of such Zero Coupon Note shall be the amount calculated as provided in paragraph (e)(iii) above as though the references therein to the date fixed for the redemption or the date upon which such Zero Coupon Note becomes due and payable were replaced by references to the date which is the earlier of:

- (i) the date on which all amounts due in respect of such Zero Coupon Note have been paid; and
- (ii) five days after the date on which the full amount of the moneys payable in respect of such Zero Coupon Notes has been received by the Agent or the Registrar and notice to that effect has been given to the Noteholders in accordance with Condition 16 (*Notices*).

10. TAXATION

All payments of principal and interest by the Issuer in respect of the Notes, Receipts and Coupons will be made without withholding or deduction for or on account of any present or future taxes or duties of whatever nature imposed or levied by or on behalf of any Tax Jurisdiction unless such withholding or deduction is required by law. In such event, the Issuer will pay such additional amounts as shall be necessary in order that the net amounts received by the holders of the Notes, Receipts or Coupons after such withholding or deduction shall equal the respective amounts of principal and interest which would otherwise have been receivable in respect of the Notes, Receipts or Coupons, as the case may be, in the absence of such withholding or deduction; *provided* that no such additional amounts shall be payable with respect to any Note, Receipt or Coupon:

- (a) presented for payment (where presentation is required) in the Republic of Korea (provided the Notes can also be presented at an office of a Paying Agent outside of the Republic of Korea); or
- (b) where such withholding or deduction is imposed on a payment to a holder who is liable for such taxes or duties in respect of such Note, Receipt or Coupon by reason of his having some connection with a Tax Jurisdiction other than the mere holding of such Note, Receipt or Coupon; or
- (c) presented for payment (where presentation is required) more than 30 days after the Relevant Date (as defined below) except to the extent that the holder thereof would have been entitled to an additional amount on presenting the same for payment on such 30th day assuming that day to have been a Payment Day (as defined in Condition 8(f) (*Payments — Payment Day*))); or
- (d) where such withholding or deduction is imposed on a payment to a holder who would be able to avoid such withholding or deduction by either (i) presenting (where presentation is required) the relevant Note, Receipt or Coupon to another Paying Agent or (ii) making a declaration of non-residence or other similar claim for exemption to the relevant tax authority if, after having been requested to make such a declaration or claim, such holder fails to do so; or
- (e) any combination of (a),(b),(c) or (d) above.

Nor will additional amounts be paid with respect to any payment on a Note, Receipt or Coupon to a holder who is a fiduciary, a partnership, a limited liability company or other than the sole beneficial owner of that payment to the extent that payment would be required by the laws of a Tax Jurisdiction (or any political subdivision thereof) to be included in the income, for tax purposes, of a beneficiary or settlor with respect to the fiduciary, a member of that partnership, an interest holder in a limited liability company or a beneficial owner who would not have been entitled to the additional amounts had that beneficiary, settlor, member or beneficial owner been the holder.

As used herein:

- (i) “Tax Jurisdiction” means Republic of Korea or any political subdivision or any authority thereof or therein having power to tax; and

- (ii) the “Relevant Date” means the date on which such payment first becomes due, except that, if the full amount of the moneys payable has not been duly received by the Agent or the Registrar, as the case may be, on or prior to such due date, it means the date on which, the full amount of such moneys having been so received, notice to that effect is duly given to the Noteholders in accordance with Condition 16 (*Notices*).

The obligation to pay additional amounts shall not apply to (a) any estate, inheritance, gift, sales, transfer, personal property or any similar tax, assessment or other governmental charge or (b) any tax, assessment or other governmental charge which is payable otherwise than by deduction or withholding from payments of principal of, or interest or premium on, the Notes, Receipts or Coupons; provided that, except as otherwise set forth in these Terms and Conditions and in the Agency Agreement, the Issuer shall pay all stamp and other duties, if any, which may be imposed by the Republic of Korea or the United Kingdom or any respective political subdivision thereof or any taxing authority of or in the foregoing, with respect to the Agency Agreement or as a consequence of the initial issuance of the Notes.

11. PRESCRIPTION

The Notes (whether in bearer or registered form), Receipts and Coupons will become void unless presented for payment within a period of six years (in the cases of both principal and interest) after the Relevant Date (as defined in Condition 10 (*Taxation*)) therefor.

There shall not be included in any Coupon sheet issued on exchange of a Talon any Coupon the claim for payment in respect of which would be void pursuant to this Condition or Condition 8(b) (*Payments — Presentation of Definitive Bearer Notes, Receipts and Coupons*) or any Talon which would be void pursuant to Condition 8(b) (*Payments — Presentation of Definitive Bearer Notes, Receipts and Coupons*).

12. EVENTS OF DEFAULT

The occurrence and continuance of the following events will constitute events of default (“Events of Default”):

- (a) default in the payment of any installment of interest upon any of the Notes, whether at maturity, upon redemption or otherwise, as and when the same shall become due and payable, and continuance of such default for a period of 30 days; or
- (b) default in the payment of all or any part of the principal of any of the Notes, whether at maturity, upon redemption or otherwise, as and when the same shall become due and payable, whether at maturity, upon acceleration or redemption or otherwise and continuance of such default for a period of seven days; or
- (c) failure on the part of the Issuer duly to observe or perform any other of the covenants or agreements on the part of the Issuer contained in these Terms and Conditions or in the Agency Agreement for a period of 60 days after the date on which written notice specifying such failure, stating that notice is a “Notice of Default” under these Terms and Conditions and demanding that the Issuer remedy the same, shall have been given by registered or certified mail, return receipt requested, to the Issuer or to Issuer at the office of the Agent by the holders of at least 10% in aggregate principal amount of the Notes at the time outstanding; or

- (d) any External Indebtedness of the Issuer in the aggregate principal amount of U.S.\$15,000,000 or more either (i) becoming due and payable prior to the due date for payment thereof by reason of acceleration thereof following default by the Issuer or (ii) not being repaid at, and remaining unpaid after, maturity as extended by the period of grace, if any, applicable thereto, or any guarantee given by the Issuer in respect of External Indebtedness of any other Person in the aggregate principal amount of U.S.\$15,000,000 or more not being honored when, and remaining dishonored after becoming, due and called, *provided* that, if any such default under any such External Indebtedness shall be cured or waived, then the default under these Terms and Conditions by reason thereof shall be deemed to have been cured and waived; or
- (e) certain events of bankruptcy, insolvency or reorganization with respect to the Issuer, or the Issuer ceasing to carry on the whole or substantially the whole of its business or make any general assignment for the benefit of creditors, or enter into any composition with its creditors, or take corporate action in furtherance of any such action (other than in furtherance of the Plan of Restructuring (as defined below)).

If any one or more of the above Events of Default shall occur and be continuing then any holder of a Note may, by written notice to the Issuer at the specified office of the Agent, effective upon the date of receipt thereof by the Agent, declare any Notes held by the holder to be forthwith due and payable whereupon the same shall become forthwith due and payable at the Early Redemption Amount (as described in Condition 9(e) (*Redemption and Purchase — Early Redemption Amounts*)), together with accrued interest (if any) to the date of repayment, without presentment, demand, protest or other notice of any kind.

“Plan of Restructuring” means the Plan for Restructuring the Electricity Industry in Korea as issued on January 21, 1999 by the Ministry of Trade, Industry and Energy (formerly the Ministry of Knowledge Economy) of Korea, (A) as it has been amended, modified and supplemented by (i) the Act on Promotion of Restructuring of the Electricity Power Industry (Act No: 6282) as promulgated on December 23, 2000, (ii) the Basic Plan for Privatization of Power Generation Companies as issued on April 9, 2002 by the Committee for Privatization of Public Enterprises and (iii) the Basic Plan of Electricity Supply and Demand as promulgated in February 2013 and as amended, modified or supplemented from time to time or (B) as it may be amended, modified or supplemented from time to time as required by, or in accordance with, applicable law or relevant governmental authorities.

13. REPLACEMENT OF NOTES, RECEIPTS, COUPONS AND TALONS

Should any Note, Receipt, Coupon or Talon be lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Agent (in the case of Bearer Notes, Receipts or Coupons) or the Registrar (in the case of Registered Notes) upon payment by the claimant of such costs and expenses as may be incurred in connection therewith and on such terms as to evidence and indemnity as the Issuer may reasonably require. Mutilated or defaced Notes, Receipts, Coupons or Talons must be surrendered before replacements will be issued.

14. AGENTS

The names of the initial Agents and their initial specified offices are set out below.

The Issuer is entitled to vary or terminate the appointment of any Agent and/or appoint additional or other Agents and/or approve any change in the specified office through which any Agent acts, provided that:

- (a) there will at all times be an Agent and a Registrar;
- (b) so long as the Notes are listed on any stock exchange, there will at all times be a Paying Agent (in the case of Bearer Notes) and a Transfer Agent (in the case of Registered Notes) with a specified office (outside the United States in the case of Bearer Notes) in such place as may be required by the rules and regulations of the relevant stock exchange (or any other relevant authority);
- (c) so long as any of the Registered Global Notes payable in a Specified Currency other than U.S. dollars are held through DTC or its nominee, there will at all times be an Exchange Agent with a specified office in New York or London; and
- (d) for so long as the Notes are listed on the Singapore Exchange Securities Trading Limited (the “SGX-ST”) and the rules of the SGX-ST so require, in the event that the Global Note is exchanged for definitive Notes, the Issuer will appoint and maintain a Paying Agent in Singapore (unless the Issuer obtains an exemption from the SGX-ST) where the Notes may be presented or surrendered for payment or redemption. In addition, in the event that the Global Note is exchanged for definitive Notes, an announcement of such exchange shall be made by or on behalf of the Issuer through the SGX-ST and such announcement will include all material information with respect to the delivery of the definitive Notes, including details of the Paying Agent in Singapore.

In addition, the Issuer shall forthwith appoint a Paying Agent having a specified office in New York City in the circumstances described in Condition 8(e) (*Payments — General Provisions Applicable to Payments*). Any variation, termination, appointment or change shall only take effect (other than in the case of insolvency, when it shall be of immediate effect) after not less than 30 or more than 45 days’ prior notice thereof shall have been given to the Noteholders in accordance with Condition 16 (*Notices*).

In acting under the Agency Agreement, the Agents act solely as agents of the Issuer and do not assume any obligation to, or relationship of agency or trust with, any Noteholders, Receipholders or Couponholders. The Agency Agreement contains provisions permitting any entity into which any Agent is merged or converted or with which it is consolidated or to which it transfers all or substantially all of its assets to become the successor agent.

15. EXCHANGE OF TALONS

On and after the Interest Payment Date on which the final Coupon comprised in any Coupon sheet matures, the Talon (if any) forming part of such Coupon sheet may be surrendered at the specified office of the Agent or any other Paying Agent in exchange for a further Coupon sheet including (if such further Coupon sheet does not include Coupons to (and including) the final date for the payment of interest due in respect of the Note to which it appertains) a further Talon, subject to the provisions of Condition 11 (*Prescription*).

16. NOTICES

All notices regarding the Bearer Notes will be deemed to be validly given if published (i) in a leading English language daily newspaper of general circulation in London and (ii) if and for so long as the Bearer Notes are listed on the SGX-ST and the rules of the SGX-ST so require, a leading newspaper of general circulation in Singapore. It is expected that such publication will be made in the *Financial Times* in London and the *Business Times* in Singapore. The Issuer shall also ensure that notices are duly published in a manner which complies with the rules of any stock exchange (or any other relevant authority) on which the Bearer Notes are for the time being listed. Any such notice will be deemed to have been given on the date of the first publication or, where required to be published in more than one newspaper, on the date of the first publication in all required newspapers.

All notices regarding the Registered Notes will be deemed to be validly given if sent by first class mail or (if posted to an address overseas) by airmail to the holders (or the first named of joint holders) at their respective addresses recorded in the Register and will be deemed to have been given on the fourth day after mailing and, in addition, for so long as any Registered Notes are listed on a stock exchange and the rules of that stock exchange (or any other relevant authority) so require, such notice will be published in a daily newspaper of general circulation in the place or places required by those rules.

Until such time as any definitive Notes are issued, there may, so long as any Global Notes representing the Notes are held in their entirety on behalf of Euroclear and/or Clearstream and/or DTC, be substituted for such publication in such newspaper(s) the delivery of the relevant notice to Euroclear and/or Clearstream and/or DTC for communication by them to the holders of the Notes and, in addition, for so long as any Notes are listed on a stock exchange and the rules of that stock exchange (or any other relevant authority) so require, such notice will be published in a manner specified by those rules. Any such notice shall be deemed to have been given to the holders of the Notes one day after the day on which the said notice was given to Euroclear and/or Clearstream and/or DTC.

Notices to be given by any Noteholder shall be in writing and given by lodging the same, together (in the case of any Note in definitive form) with the relative Note or Notes, with the Agent (in the case of Bearer Notes) or the Registrar (in the case of Registered Notes). While any of the Notes are represented by a Global Note, such notice may be given by any holder of a Note to the Agent or the Registrar through Euroclear and/or Clearstream and/or DTC, as the case may be, in such manner as the Agent, the Registrar and Euroclear and/or Clearstream and/or DTC, as the case may be, may approve for this purpose.

17. MEETINGS OF NOTEHOLDERS, MODIFICATION AND WAIVER

The Agency Agreement contains provisions for convening meetings of the Noteholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of the Notes, the Receipts, the Coupons or any of the provisions of the Agency Agreement. Such a meeting may be convened by the Issuer or Noteholders holding not less than 10% in nominal amount of the Notes for the time being remaining outstanding. The quorum at any such meeting for passing an Extraordinary Resolution is one or more persons holding or

representing not less than 50% in nominal amount of the Notes for the time being outstanding, or at any adjourned meeting one or more persons being or representing Noteholders whatever the nominal amount of the Notes so held or represented, except that at any meeting the business of which includes the modification of certain provisions of the Notes, the Receipts or the Coupons (including modifying the date of maturity of the Notes or any date for payment of interest thereon, reducing or cancelling the amount of principal or the rate of interest payable in respect of the Notes or altering the currency of payment of the Notes, the Receipts or the Coupons), the quorum shall be one or more persons holding or representing not less than two-thirds in nominal amount of the Notes for the time being outstanding, or at any adjourned such meeting one or more persons holding or representing not less than one-third in nominal amount of the Notes for the time being outstanding. An Extraordinary Resolution passed at any meeting of the Noteholders shall be binding on all the Noteholders, whether or not they are present at the meeting, and on all Receiptholders and Couponholders.

The Agent and the Issuer may agree, without the consent of the Noteholders, Receiptholders or Couponholders, to:

- (i) any modification (except as mentioned above) of the Notes, the Receipts, the Coupons or the Agency Agreement which is not prejudicial to the interests of the Noteholders; or
- (ii) any modification of the Notes, the Receipts, the Coupons or the Agency Agreement which is of a formal, minor or technical nature or is made to correct a manifest error or to comply with mandatory provisions of the law.

Any such modification shall be binding on the Noteholders, the Receiptholders and the Couponholders and any such modification shall be notified to the Noteholders in accordance with Condition 16 (*Notices*) as soon as practicable thereafter.

The Agency Agreement also provides that quorum and voting requirements for certain resolutions which may affect the Notes of more than one Series shall be deemed to require separate meetings for the holders of such Series so affected.

18. FURTHER ISSUES

The Issuer may from time to time without the consent of the Noteholders, the Receiptholders or the Couponholders, create and issue further notes with the same terms and conditions as the Notes in all respects except for the amount and date of the first payment of interest thereon so that such further issue shall be consolidated and form a single Series with the outstanding Notes; provided that further Notes in registered form must be issued with no more than *de minimis* original issue discount for U.S. federal income tax purposes, constitute a “qualified reopening” for U.S. federal income tax purposes or otherwise be treated as part of the same “issue” of debt instruments as the outstanding Notes.

19. GOVERNING LAW AND SUBMISSION TO JURISDICTION

(a) *Governing Law*

The Agency Agreement, the Notes, the Receipts and the Coupons are governed by, and shall be construed in accordance with, the law of the State of New York.

(b) ***Submission to Jurisdiction***

The Issuer irrevocably submits to the non-exclusive jurisdiction of any federal or state court located in the Borough of Manhattan, The City of New York, United States of America, in any suit, action or proceeding brought by any Noteholder, Receiptholder or Couponholder arising out of or based upon the Notes, the Receipts/ or the Coupons, and irrevocably agrees that all claims in respect of any such suit, action or proceeding may be determined in any such court. The Issuer irrevocably waives, to the fullest extent permitted under applicable law, any objection it may have to the laying of venue in any such court and any claim that any such suit, action or proceeding brought in such a court has been brought in an inconvenient forum. The Issuer hereby appoints Law Debenture Corporate Services Inc., 801 2nd Avenue, Suite 403, New York, New York 10017, United States of America, as its authorized agent (the “Authorized Agent”, which expression shall include any replacement authorized agent) upon whom process may be served in any such suit or proceeding set forth herein, it being understood that the designation and appointment of the Authorized Agent as such authorized agent shall become effective immediately without any further action on the part of the Issuer; provided that if for any reason the Authorized Agent named above ceases to act as Authorized Agent hereunder for the Issuer, the Issuer will appoint another person acceptable to the Dealers in the Borough of Manhattan, The City of New York and the State of New York, as Authorized Agent. The Issuer agrees to take any and all action as may be necessary, including the filing of any and all documents that may be necessary, to maintain such designation and appointment of the authorized agent in full force and effect. If for any reason the appointment of the Authorized Agent shall cease to be in force, the Issuer shall forthwith appoint a new agent to be the Authorized Agent and shall deliver to the Dealers and the Arranger a copy of the new Authorized Agent’s acceptance for that appointment within 30 days. Service of process upon the Authorized Agent shall be deemed, in every respect, effective service of process upon the Issuer. The parties hereto each hereby waive any right to trial by jury in any action, proceeding or counterclaim arising out of or relating to the Notes, the Receipts and/or Coupons.

(c) ***Other Documents***

The Issuer has in the Agency Agreement submitted to the jurisdiction of the courts of the State of New York and appointed an agent for service of process in terms substantially similar to those set out in this Condition 19.

20. CURRENCY INDEMNITY

If, under any applicable law and whether pursuant to a judgment being made or registered against the Issuer or in the liquidation, insolvency or analogous process of the Issuer or for any other reason, any payment under or in connection with the Agency Agreement, the Notes, the Receipts or the Coupons, as the case may be, is made or fails to be satisfied in a currency (the “other currency”) other than that in which the relevant payment is expressed to be due (the “required currency”) thereunder, then, to the extent that the payment (when converted into the required currency at the rate of exchange (as defined below) on the date of payment or, if it is not practicable for any Noteholder, Receiptholder or Couponholder, as the case may be, to purchase the required currency with the other currency on the date of payment, at the rate of exchange as soon thereafter as it is practicable for it to do so or, in the case of a liquidation, insolvency or analogous process of the Issuer, at the rate of exchange on the latest date permitted by applicable law for the determination of liabilities in such liquidation, insolvency or analogous process) actually received by any Noteholder, Receiptholder or Couponholder, as the case may be, falls short of the amount due under the terms of the Agency Agreement, the Notes, the Receipts or the Coupons, as the case may be, the Issuer shall, as a separate and independent obligation, indemnify and hold harmless such Noteholder, Receiptholder or Couponholder against the amount of such shortfall.

“Rate of exchange” means the rate at which the relevant Noteholder, Receiptholder or Couponholder, as the case may be, is able on the relevant date in London to purchase the required currency with the other currency and shall take into account any premium and other costs of exchange.

21. WAIVER OF IMMUNITY

To the extent that the Issuer has or hereafter may acquire any immunity (sovereign or otherwise) from any legal action, suit or proceeding, from jurisdiction of any court or from set-off or any legal process (whether service or notice, attachment in aid or otherwise) with respect to itself or any of its property, the Issuer hereby irrevocably waives and agrees not to plead or claim such immunity in respect of its obligations under the Agency Agreement, the Notes, the Receipts or the Coupons, as the case may be.

USE OF PROCEEDS

The net proceeds from each issue of Notes will be applied by the Issuer for its general corporate purposes and/or such other purposes as may be specified in the applicable Pricing Supplement.

EXCHANGE RATES

The table below sets forth, for the periods and dates indicated, information concerning the Market Average Exchange Rate, announced by Seoul Money Brokerage Services, Ltd., between Won and dollars and rounded to the nearest tenth of one Won. No representation is made that the Won or dollar amounts referred to herein could have been or could be converted into dollars or Won, as the case may be, at any particular rate or at all.

Period	At End of Period	Average Rate⁽¹⁾	High	Low
(Won per US\$1.00)				
2012	1,071.1	1,126.9	1,181.8	1,071.1
2013	1,055.3	1,095.0	1,159.1	1,051.5
2014	1,099.2	1,053.2	1,118.3	1,008.9
2015	1,172.0	1,131.5	1,203.1	1,068.1
2016	1,208.5	1,160.5	1,240.9	1,093.2
2017	1,071.4	1,130.8	1,208.5	1,071.4
November	1,082.4	1,105.0	1,121.2	1,082.4
December	1,071.4	1,085.8	1,093.4	1,071.4
2018 (through May 25)	1,079.7	1,072.0	1,094.3	1,057.6
January	1,071.5	1,066.7	1,071.5	1,061.3
February	1,071.0	1,079.6	1,094.3	1,068.0
March	1,066.5	1,071.9	1,081.9	1,064.3
April	1,076.2	1,067.8	1,079.7	1,057.6
May (through May 25)	1,079.7	1,076.2	1,083.8	1,066.6

Source: Seoul Money Brokerage Services, Ltd.

- (1) The average rate for each year is calculated as the average of the Market Average Exchange Rates on each business day during the relevant year (or portion thereof). The average rate for a month is calculated as the average of the Market Average Exchange Rates on each business day during the relevant month (or portion thereof).

RISK FACTORS

Prospective purchasers of the Notes should carefully consider all of the information contained in this Offering Circular, including our financial statements and related notes, in addition to the following risk factors. In particular, investors should pay attention to the fact that we are subject to the legal and regulatory environment of Korea, which in many respects differs from that which prevails in other countries.

Risks Relating to Our Business

The Government may adopt policy measures to substantially restructure the Korean electric power industry or our operational structure, which may have a material adverse effect on our business, operations and profitability.

Since our establishment, the Government has introduced successive policy initiatives to foster efficiency in the Korean electric power industry and has adopted policy measures that have substantially modified our business and operations. However, these policy initiatives have not always been fully implemented as originally planned and in some cases have been amended or replaced by new initiatives, among others, due to economic or policy considerations or a change in administration. There can be no assurance that the initiatives and plans announced by the Government will be implemented as planned or at all, or that the implementation of any such plans will not have a negative effect on our business, results of operations or financial condition.

In June 2016, the Government announced plans to reform state-owned enterprises in the energy and resources development sector, including KEPCO, our parent company, and the electric power industry in general. The Government plan involves, among other things, the gradual liberalization of the electric power industry with respect to the distribution market, as well as the initial public offering of the Generation Subsidiaries, including us, in conjunction with the sale of minority interests (20% to 30%) in such subsidiaries, by 2020. See “The Korean Electricity Industry — Restructuring of the Electricity Industry in Korea.”

In May 2017, Moon Jae-In was elected as President of Korea. Soon after assuming office, President Moon vowed to fulfill his campaign promises to reduce fine dust and pollutant emissions and ordered the (i) suspension of coal-fired generation units that have been in service for more than 30 years for the month of June 2017 and staggered, if not suspended, operations of such old coal-fired generation units during the spring season in 2018 and beyond when yellow dust storms are more frequent, (ii) accelerated decommissioning of such old coal-fired generation units and (iii) suspension of construction of new coal-fired generation units and reevaluation of coal-fired generation projects less than 10% into construction.

As of March 31, 2018, approximately 53.9% in aggregate of our total installed capacity was attributable to our coal-fired units. As such, the implementation of the above measures may reduce our sales and/or increase our costs, including capital expenditures, relating to our generation of electricity using coal as the main fuel source. Despite the fact that coal-fired units represent a smaller proportion of our total installed capacity compared to some of the other Generation Subsidiaries, continued efforts by the Government to curb the operation of coal-fired units may ultimately have a material adverse effect on our business, results of operations and financial condition.

Environmental regulations may adversely affect our operations.

We are required to comply with numerous laws and regulations relating to the protection of the environment and land use in Korea. See “Business—Environment.” These laws and regulations are constantly changing. While we believe we are in compliance with applicable environmental laws and regulations in all material respects and that we have obtained all material environmental approvals currently required to own and operate our facilities, we may incur significant costs as a result of these requirements.

In December 2010, the Government adopted the Renewable Portfolio Standard (“RPS”), under which each generation company, including us, is required to supply 10% of the total energy generated from such generation company in the form of renewable energy by 2023, with fines being levied on any generation company failing to do so in the prescribed timeline. While we did not meet the RPS targets during the first two years of implementation in 2012 and 2013 and were levied fines of Won 4.1 billion and Won 18.1 billion, respectively, for non-compliance, we did meet the RPS targets of 2.4% for 2014, 2.6% for 2015, 3.2% for 2016 and 3.6% for 2017. While we intend to increase the proportion of generation capacity from renewable energy relative to generation capacity from non-renewable energy in order to meet our RPS targets, there is no assurance that we will be able to do so quickly enough to meet the RPS targets. While we expect that additional capital expenditures to increase generation capacity from renewable energy will be covered by a corresponding increase in electricity tariff levied on end-users, which will in turn increase the amount payable to us by KEPCO, there is no assurance that the Government will in fact raise the electricity tariff to a level sufficient to fully cover such additional capital expenditures or at all.

In addition, in 2015, the Government implemented a carbon emission trading system in order to reduce the emission of greenhouse gases by 37% from 2030 business-as-usual levels in accordance with the Act on Allocation and Trading of Greenhouse Gas Emission Allowances. Under the Government’s emission trading system, the Government allocates emission allowance units to companies in certain industries, including generation companies, and such companies are allowed to emit levels of greenhouse gases based on the number of allowance units that have been allocated to them. If a company emits more than the amount of allowance units that have been allocated to it, the company must purchase additional allowance units on the emission trading system. In 2017, we emitted approximately 37 million tons of carbon equivalents, which was less than the amount of allowance units that had been allocated to us for that year. Adhering to such annual emission reduction targets is expected to result in our incurring significant compliance costs.

In December 2016, the Ministry of Trade, Industry and Energy (the “MOTIE”) and the five non-nuclear Generation Subsidiaries, including us, entered into an agreement to reduce fine dust and pollutant emissions from coal-fired generation units. The agreement calls for the Generation Subsidiaries to invest a total of Won 11.6 trillion in pollution reduction equipment in existing and new coal-fired generation units.

Failure to comply with environmental laws and regulations could have a material adverse effect on us, including closure of individual facilities not in compliance, as well as the imposition of civil or criminal liability and the imposition of liens or fines, and expenditures to bring facilities into compliance.

The introduction of the vesting contract system has been indefinitely suspended and may not achieve the desired benefits when fully implemented.

On May 20, 2014, the Electricity Business Act was amended to introduce a vesting contract system to determine the price and quantity of electricity to be sold and purchased through the KPX between the purchaser of electricity (currently, KEPCO) and the sellers of electricity (namely, the Generation Subsidiaries (including us) and IPPs).

Under the vesting contract system, electricity generators using base load fuels (such as nuclear, coal, hydro and by-product gas) at a particular generation unit were to be required to enter into a contract with the purchaser of electricity (currently, KEPCO), which would specify, among other things, the quantity of electricity to be generated and sold from such generation unit and the price at which such electricity would be sold, subject to certain adjustments.

The introduction of the vesting contract system was intended principally to prevent excessive profit-taking by low-cost producers of electricity using base load fuels (such as nuclear, coal, hydro and by-product gas) by replacing the adjusted coefficient as the basis for determining the guaranteed return to generation companies, as well as to enhance the stability of electricity supply by requiring long-term contractual arrangements for the purchase and sale of electricity and promote cost savings, productivity enhancements and operational efficiency by providing incentives and penalties depending on the degree to which the generation companies could supply electricity at costs below the contracted electricity prices.

In order to minimize undue shock to the electricity trading market in Korea, the vesting contract system was to be implemented in phases starting with by-product gas-based electricity in 2015. The rollout of the vesting contract system was further studied by a task force consisting of representatives from the Government, the KPX and generation companies. Following such study, the Government announced in June 2016 that, due to changes in the electricity business environment (including an increase in generation capacity relative to peak usage, reduced fuel costs following a decline in oil prices and greater environmental concerns related to coal-fired electricity generation), it will indefinitely suspend any further rollout of the vesting contract system beyond by-product gas-based electricity, and retain the adjusted coefficient-based electricity pricing adjustment mechanism. No assurance can be given that such system, if introduced, will not adversely affect our business, results of operation or financial condition in the future. See “The Korean Electricity Industry — Vesting Contract System.”

Our capacity expansion plans, which are based on Government projections on long-term supply and demand of electricity in Korea, may prove to be inadequate.

We make plans for expanding or upgrading our generation capacity based on the Government’s Basic National Energy Plan, as well as the Power Supply and Demand Basic Plan (the “Basic Plan”). The Basic Plan is announced and revised generally every two years by the Government.

In January 2014, the Government announced the Second Basic National Energy Plan, which is a comprehensive plan that covers the entire spectrum of energy industries in Korea, for the period from 2013 to 2035. The Second Basic National Energy Plan focuses on the following six key tasks: (i) shifting the focus of energy policy to demand management with a goal of reducing electricity demand by 15% by 2035, (ii) establishing a geographically decentralized electricity generation system so as to reduce transmission losses with a goal of supplying at least 15% of total electricity through such system by 2035, (iii) applying the latest greenhouse gas emission reduction technologies to newly constructed generation units in order to further promote safety

and environmental friendliness, (iv) strengthening exploration and procurement capabilities to enhance Korea's energy security and to ensure stable supply of energy and increasing the portion of electricity supplied from renewable sources to 11% by 2035, (v) reinforcing the system for stable supply of conventional energy, such as oil and gas and (vi) introducing in 2015 an energy voucher system in lieu of a tariff discount system for the benefit of consumers in the low income group. In addition, the Second Basic National Energy Plan revised the target level of nuclear generation capacity in Korea's electricity supply mix to 29%, compared to 41% under the First Basic National Energy Plan announced in 2008. In March 2018, the Government announced its plan to establish the Third Basic National Energy Plan by the end of 2018.

In December 2017, the Government announced the Eighth Basic Plan for the period from 2017 to 2031, which replaces and supersedes the Seventh Basic Plan for the period from 2015 to 2029, which focused on, among other things, (i) ensuring a stable supply of electricity, (ii) increasing the portion of low carbon electricity supply sources, (iii) active consumer demand management, (iv) permanent closing of operations of the Kori #1 nuclear power unit, and (v) diversifying electricity supply sources by utilizing renewable energy sources. Pursuant to the Seventh Basic Plan, our Pyeongtaek combined cycle CC1 was decommissioned in December 2017.

The Eighth Basic Plan focuses on, among other things, (i) increasing efforts to address environmental and safety concerns, including reducing greenhouse gas emission and yellow dust, (ii) decreasing the portion of electricity supplied using nuclear and coal energy, (iii) increasing the portion of electricity supplied from renewable energy, in particular solar and wind power, and (iv) promoting the replacement of coal with LNG as an energy source by reducing the gap in expenses incurred in using the respective fuel types, for example, by adjusting the consumption tax rates applicable to the respective fuel types. Furthermore, the Eighth Basic Plan includes the following implementing measures: (i) six new nuclear generation units in planning stages will not be constructed, (ii) the extension of life of ten decrepit nuclear generation units will not be granted, (iii) Wolsong #1 unit will not count as part of domestic energy generation capacity, (iv) seven decrepit coal-fired generation plants will be retired by 2022, (v) six other coal-fired generation plants shall be converted to LNG fuel use and (vi) domestic renewable energy generation capacity shall be expanded to 58.5 gigawatts by 2030. Pursuant to the Eighth Basic Plan, our Seoincheon combined cycle CC1 through CC8 (with aggregate installed capacity of 1,800 megawatts) and Pyeongtaek thermal #1 through #4 (with aggregate installed capacity of 1,400 megawatts) are subject to decommissioning in 2023 and 2024, respectively. We are, as of the date of this Offering Circular, analyzing the potential impact that the implementation of the Eighth Basic Plan may have on our future operations and performance, including with regard to our capital expenditure plans.

We cannot assure you that the Second Basic National Energy Plan, the Eighth Basic Plan or any future plans to be subsequently adopted will successfully achieve their intended goals, the foremost of which is to ensure, through carefully calibrated capacity expansion and other means, balanced overall electricity supply and demand in Korea at affordable rates to end users while promoting efficiency and environmental friendliness in the consumption and production of electricity. If there is a significant variance between the projected electricity supply and demand considered in planning our capacity expansions and the actual electricity supply and demand, or if these plans otherwise fail to meet their intended goals or have other unintended consequences, this may result in inefficient use of our capital, mispricing of electricity and undue financing costs on our part, which may have a material adverse effect on our results of operations, financial condition and cash flows.

We are dependent on fuel imported from overseas suppliers in currencies other than Won under contracts with varying quantity and duration, and rising fuel costs, if not fully passed through to KEPCO, could adversely affect our results of operations.

Fuel costs constituted 68.4%, 62.5%, 64.9%, 56.9% and 64.9% of our sales, and 79.1%, 74.9%, 73.1%, 74.9% and 76.6% of our cost of sales, in 2015, 2016, 2017 and the three months ended March 31, 2017 and 2018, respectively. A substantial amount of our fuel costs are incurred to purchase bituminous coal from sources outside of Korea at prices determined in part by prevailing market prices in currencies other than Won, primarily the U.S. dollar. In addition, we purchase a significant portion of our fuel requirements under contracts with limited quantity and duration. See “Business — Fuel.”

Substantially all of our bituminous coal requirements are imported from approximately 20 suppliers located in Australia, Indonesia, Russia, South Africa and the United States under long-term or spot contracts. Approximately 81.6%, 71.1%, 89.0%, 66.7% and 96.6% of our bituminous coal requirements were purchased under long-term contracts in 2015, 2016, 2017 and the three months ended March 31, 2017 and 2018, respectively, with the remaining requirements being purchased on the spot market. Approximately 37.9%, 29.0%, 23.0%, 8.2% and 1.9% of our annual bituminous coal requirements were imported from Australia, Indonesia, Russia, South Africa and the United States, respectively, in the three months ended March 31, 2018. We purchase oil through a competitive open bidding process with other bidders, including Korean refiners, based on the spot market price of oil in Singapore. We purchase all of our LNG for our domestic units from Korea Gas Corporation (“KOGAS”) under a long-term supply contract.

In recent years, the prices of fuel, including bituminous coal and LNG, have fluctuated significantly. If fuel prices increase sharply within a short span of time, we may be unable to secure requisite fuel supplies at prices that we were able to obtain during prior periods. In addition, any significant interruption or delay in the supply of fuel (bituminous coal and LNG in particular) from any of our suppliers could cause us to purchase fuel on the spot market at prices higher than the prices available under existing supply contracts, resulting in an increase in fuel cost.

While increases in our fuel costs are fully passed through to KEPCO in its purchase of electricity from us under the current cost-based pool system, such pass-through is subject to a two-month time lag, and accordingly, fuel cost increases, including cost increases resulting from the depreciation of the Won against the U.S. dollar or other currencies, could adversely affect our results of operations if the price of electricity payable to us by KEPCO does not timely capture such fuel cost increases for the relevant financial reporting period. Furthermore, in determining the adjusted coefficient for the marginal price component of the price of electricity sold by us to KEPCO by way of KPX, the Cost Evaluation Committee, a committee composed of representatives from the Government, KEPCO and the Generation Subsidiaries, including us, considers various factors, including the market prices of fuels, electricity tariff rates and their impact on the relative fair investment returns for KEPCO and the Generation Subsidiaries, including us, among others. Therefore, in the event of a sustained or rapid rise in fuel costs which impact is not sufficiently offset by a corresponding rise in electricity tariff rates in a timely manner and as a result would significantly hurt KEPCO’s profitability, the adjusted coefficient may be set at a level which would have the effect of lowering the fair investment return for the Generation Subsidiaries, including us, and, in turn, the overall profitability of our operations.

We anticipate substantial capital expenditures, which will require additional debt incurrence in the future.

We anticipate that substantial capital expenditures will be required in the future for construction of additional generation facilities as discussed in “Business — Capital Investment Program.” In 2015, 2016, 2017 and the three months ended March 31, 2017 and 2018, we spent Won 1,582 billion, Won 657 billion, Won 645 billion, Won 171 billion and Won 91 billion, respectively, on capital expenditures, which represent the sum of acquisitions of property, plant and equipment and intangible assets in our statements of cash flows. We have budgeted Won 1,101 billion (including amounts already expended in 2018), Won 1,328 billion, Won 1,861 billion and Won 1,904 billion for our capital expenditures and investment in associates and joint ventures for 2018, 2019, 2020 and 2021, respectively. The budgeted amounts may vary from the actual amounts of our capital expenditures for a variety of reasons, including changes in the number of units to be constructed and the timing of such construction, changes in rates of exchange between the Won and foreign currencies, changes in interest rates and other factors. For example, in December 2017, the Government announced its plans to increase the portion of renewable energy generated in Korea to 20% of the total energy generated in Korea by 2030, which calls for the Generation Subsidiaries, including us, to make significant investments in the construction and operation of power plants fueled by renewable energy. In preparation for such plans, we have estimated a total of approximately Won 6 trillion to be expended through 2030. Although we plan to fund a majority of our capital expenditures with net cash from operating activities, no assurance can be given that we will be able to do so. We expect that a portion of our future capital expenditures will need to be financed through foreign currency borrowings in the international capital markets, as well as borrowings of Korean Won in the domestic capital market. It is possible that the required financing may not be available to us or that the cost at which such financing may be available may not be acceptable to us. In addition to funding requirements relating to our capital investment program, payments of principal and interest on indebtedness will require considerable capital resources. If we are unable to obtain debt financing at acceptable rates on a timely basis, or at all, we may be unable to meet our funding requirements or debt repayment obligations, which could have a material adverse impact on our business and results of operations and could lead to a decline in the market value of the Notes.

Recently, in light of the general policy guidelines of the Government for public enterprises (including us) in general to reduce their respective overall debt levels, including by way of disposing of equity interests in unprofitable subsidiaries and other non-core assets, we are currently evaluating ways to reduce our debt levels. We cannot provide assurances that we will be able to successfully reduce debt burdens to a level contemplated by the Government or to a level that would be optimal for our capital structure. If we fail to reduce debt burdens to a level contemplated by the Government or the measures taken by us to reduce debt levels have unintended adverse consequences, such developments may have an adverse effect on our business, results of operation and financial condition.

The movement of the Won against the U.S. dollar and other currencies may have a material adverse effect on us.

The Won has fluctuated significantly against major currencies from time to time. Depreciation of the Won against the U.S. dollar and other foreign currencies typically results in a material increase in the cost of fuel and equipment purchased by us from overseas since the prices for substantially all of the fuel and a significant portion of the equipment we purchase are denominated in currencies other than the Won, generally in U.S. dollars. Changes in foreign exchange rates may also impact the cost of servicing our foreign currency-denominated debt. As of

March 31, 2018, 21.5% of our sum of debentures (net of discount) and long-term borrowings (including the current portion thereof), before accounting for swap transactions, was denominated in foreign currencies, principally U.S. dollars. In addition, as is the case with LNG purchased from KOGAS, even if we make payments in Won for certain sources of fuel and equipment, some of these sources of fuel may originate from other countries and their prices may be affected accordingly by the exchange rates between the Won and foreign currencies, especially the U.S. dollar. Since substantially all of our sales are denominated in Won, we must generally obtain foreign currencies through foreign currency-denominated financings or from foreign currency exchange markets to make such purchases or service such debt. As a result, any significant depreciation of the Won against the U.S. dollar or other major foreign currencies may have a material adverse effect on our profitability and results of operations.

Our risk management procedures may not prevent losses in debt and foreign currency positions.

We manage interest rate exposure in our debt positions by limiting our variable-rate and fixed-rate exposures to percentages of total debt and by monitoring the effects of market changes in interest rates. We also actively manage the risks inherent in our foreign currency positions, which incorporate both our foreign currency-denominated assets and debt. For example, we enter into foreign currency contracts to hedge a majority of our imported bituminous coal requirements purchased in U.S. dollars, which is our primary foreign currency exposure. In addition, we hedge all of our U.S. dollar debt exposure through foreign currency swap contracts. We measure the potential loss using risk analysis software and enter into derivatives to hedge the exposure when the possible loss reaches a certain percentage of our total capitalization. To the extent we have unhedged positions or our hedging and other risk management procedures do not work as planned, our results of operations and financial condition could be adversely affected.

Unexpected events, including natural disasters, may increase our cost of doing business or disrupt our operations.

The occurrence of one or more unexpected events, including fires, tornadoes, tsunamis, hurricanes, earthquakes, floods and other forms of severe weather in Korea or in other countries where we operate or where our suppliers or customers are located could adversely affect our operations and financial performance. In addition, the normal operations of our facilities may be interrupted by accidents caused by operating hazards, power supply disruptions, equipment failures, natural disasters or other events. Any interruption (partial or complete) to our operations at our facilities as a result of any such accidents or otherwise could materially and adversely affect our business, financial condition and results of operations. For example, as a result of a fire that broke out at our Taean #2 in May 2018, Taean #2 will be shut down for approximately six months. There can be no assurance that such events will not occur in the future or that our production capacity will not be materially and adversely impacted as a result of such events.

Our insurance coverage may not be sufficient.

We have obtained a general commercial insurance policy to insure against fire and natural disasters up to Won 14,298 billion and mechanical accidents up to Won 3,280 billion. We also have marine cargo insurance in respect of imported fuel and procurement with insurance coverage of U.S.\$20 million per shipment, as well as general vehicle insurance. We also maintain directors' and officers' liability insurance.

While we believe that we carry insurance coverage meeting the expected standards in our industry, our insurance and indemnity policies do not cover all of the assets that we own and operate and do not cover all types or amounts of loss which could arise in connection with the ownership and operation of our power plants. We do not maintain insurance for business interruptions, terrorist attacks or war. As a result, significant accidents with damages over our “per occurrence” amount limitations that affect our assets, or other events for which we are not insured, such as an act of terrorism, could have a material adverse impact on our business and results of operations and could lead to a decline in the market value of the Notes. See “Business — Insurance.”

An increase in consumption tax on our fuel sources may have a material adverse effect on our business, operations and profitability.

Effective July 2014, largely based on policy considerations of tax equity among different types of fuel sources as well as environmental concerns, the Government applied consumption tax to bituminous coal, which previously had not been subject to consumption tax unlike other types of fuel such as LNG and bunker oil. Pursuant to the amended Individual Consumption Tax Act, effective as of April 1, 2018, the base tax rate (which is subject to certain adjustments) is Won 36 per kilogram for bituminous coal; however, due to concerns on the potential adverse effect on industrial activities, the applicable tax rate is applied differently based on the net heat generation amount. The currently applicable tax rate for bituminous coal is Won 33 per kilogram for net heat generation of less than 5,000 kilocalories, Won 36 per kilogram for net heat generation of 5,000 to 5,500 kilocalories and Won 39 per kilogram for net heat generation of 5,500 kilocalories or more. In contrast, the currently applicable tax rate for LNG is Won 60 per kilogram.

Bituminous coal is a significant fuel source for our electricity generation in terms of electricity output, accounting for 67.5%, 65.3%, 80.8%, 78.2% and 75.7% of our entire fuel in 2015, 2016, 2017, and the three months ended March 31, 2017 and 2018, respectively. We paid Won 265 billion, Won 318 billion, Won 447 billion, Won 95 billion and Won 128 billion in consumption taxes with respect to the use of bituminous coal in 2015, 2016, 2017 and the three months ended March 31, 2017 and 2018, respectively. While we expect that additional fuel costs due to any further increase in consumption tax on our fuel sources, bituminous coal, oil and LNG in particular, will be covered by a corresponding increase in the system marginal price of electricity sold by us to KEPCO, there is a time lag between our purchase of coal and our sale of electricity, which may adversely affect our cash flow, results of operation and financial condition.

Labor unrest may adversely affect our operations.

As of March 31, 2018, approximately 59.2% of our employees were members of the Korea Western Power Labor Union, which membership comprises entirely of our employees, and approximately 7.5% of our employees were members of the Korean Power Plant Industry Union, of which employees of other non-nuclear Generation Subsidiaries are also members. In 2002, the Government’s plan to restructure and privatize KEPCO’s non-nuclear Generation Subsidiaries resulted in a six-week strike by the labor unions of the non-nuclear Generation Subsidiaries to protest the Government’s plan. Although the strike did not materially disrupt the supply of electricity or have a material adverse impact on our business and results of operations, and a large-scale strike has not happened since then, we cannot assure you that a large-scale strike will not occur again in the future, that such labor unrest will be satisfactorily resolved or that such labor unrest will not materially disrupt the supply of electricity or have a material adverse effect on our business or results of operations.

Our business may be materially and adversely affected by legal claims and regulatory actions against us.

We are subject to the risk of legal claims and regulatory actions in the ordinary course of business, which may expose us to substantial monetary damages and legal costs, injunctive relief, criminal and civil penalties, sanctions against our management and employees and regulatory restrictions on our operations, as well as reputational harm. See “—We may be exposed to potential claims made by current or previous employees for unpaid wages and may also incur increased labor costs as a result of the expansion of the scope of ordinary wages.”

In addition, in May 2018, the Daegu District Court sentenced Dong Sop Kim, one of our standing directors, to 3 years in prison and imposed a Won 95 million fine for accepting bribes totaling Won 45 million in return for manipulating terms relating to renewable energy certificates. The case was appealed to the Daegu High Court in May 2018, where it is currently pending. We expect to appoint a successor director to replace Mr. Kim, whose term has expired, at the general meeting of shareholders to be held in June 2018. See “Business—Legal and Regulatory Proceedings.”

We are unable to predict the final outcome of such proceedings and other lawsuits, arbitration proceedings and regulatory actions. An adverse determination in any such proceedings may result in monetary damages, regulatory sanctions and financial liability as well as reputational harm to us, which in turn may have a material adverse effect on our business, results of operations and financial condition.

We may be exposed to potential claims made by current or previous employees for unpaid wages and may also incur increased labor costs as a result of the expansion of the scope of ordinary wages.

Under the Labor Standards Act and Labor Severance Payment Security Act of Korea, the amount of compensation to which an employee is legally entitled, such as overtime allowance for night shifts or work performed outside of working hours as well as severance pay, is determined by the definition of “ordinary wage.”

Prior to the Supreme Court’s decision as described below, the Ministry of Labor had released guidelines which recognized base salary and certain fixed monthly allowances as the components of ordinary wage. Pursuant to such guidelines, many companies excluded fixed bonuses paid bimonthly, quarterly or semi-annually from the definition of ordinary wage in calculating overtime allowances, although certain lower courts had held that fixed bonuses, whether paid monthly or not, should be included in the definition of ordinary wage if such bonuses are paid regularly to all employees.

On December 18, 2013, the Supreme Court of Korea delivered a decision which provided a standard rule for determining what kinds of payments should be included as part of ordinary wage. According to this decision, fixed bonuses paid regularly are included in ordinary wage, and any collective bargaining agreement or labor-management agreement which provides for exclusion of such regular bonuses from the scope of ordinary wage is void as such provision is in violation of the mandatory provisions of Korean law. However, with respect to wage agreements executed on or prior to December 18, 2013, the Supreme Court of Korea further ruled that an employee’s claim for extra payments will not be granted on principles of good faith if such claim imposes an

unexpected financial burden on the employer and results in material managerial difficulty or poses a threat to the existence of the employer, to the extent that such claim is made on the basis of rescission of any existing wage agreement that sets the total amount of wage but excludes regular bonus payments from the scope of ordinary wage.

As a result of such ruling by the Supreme Court of Korea, we became subject to a number of lawsuits involving hundreds of our current and former employees for unpaid ordinary wages. As of March 31, 2018 we have paid Won 8 billion to the plaintiffs of such lawsuits. We cannot presently assure you that there will not be further lawsuits in relation to ordinary wage or that the foregoing reserve amount will be sufficient to cover any additional ordinary wage payments or other compensation and damages arising from the present or future litigation.

We may face greater competition in the future.

We compete with other non-nuclear Generation Subsidiaries and, to a lesser extent, with IPPs for the sale of electricity in Korea. The IPPs accounted for 16.8%, 18.5%, 22.2%, 21.4% and 26.5% of total power sold on the KPX in terms of volume in 2015, 2016, 2017 and the three months ended March 31, 2017 and 2018, respectively. As of December 31, 2017, there were 18 IPPs in Korea based on data from the KPX.

Under the Electricity Business Act, the CES enables regional districts to source electricity from IPPs without having to undergo the cost-based pool system used by us to distribute electricity nationwide. A supplier of electricity under the CES must be authorized by the Korea Electricity Regulatory Commission (the “KOREC”) and be approved by the MOTIE. The purpose of this system is to decentralize electricity supply and thereby reduce transmission costs and improve the efficiency of energy use. These entities do not supply electricity on a national level but are licensed to supply electricity on a limited basis to their respective districts under the CES. As of March 31, 2018, the aggregate generation capacity of suppliers participating in the CES amounted to approximately 6% of the total electricity generation capacity in Korea (excluding plants generating electricity primarily for private or emergency use). Wider adoption of the CES would likely erode our market position in the generation of electricity in Korea and may have a material adverse effect on our business, growth, sales and profitability.

While high initial investment costs are an effective barrier to entry for newcomers in the industry, our existing competitors are planning to make substantial investments in expanding their power generation capacity. If such capacity expansion outpaces the general demand for electricity in Korea, the price of electricity in Korea may decrease, which may have a material adverse effect on our results of operations.

We may not be successful in implementing new business strategies.

As part of our overall business strategy, we plan to undertake new, or expand existing, projects such as expanding generation capacity under the applicable Basic Plan, strengthening our renewable energy generation capabilities under the RPS initiative and expanding in overseas markets, particularly in the construction and operation of power plants which may lead to increased potential liabilities.

Due to their inherent uncertainties, such new and expanded strategic initiatives expose us to a number of risks and challenges, including the following:

- unanticipated capital expenditures and additional compliance requirements;
- less growth or profit than we currently anticipate with no assurance that such business activities will become profitable;
- failure to identify and enter into alternative business areas in a timely fashion, putting us at a disadvantage vis-a-vis competitors, particularly in overseas markets; and
- failure to hire or retain personnel who are able to supervise and conduct the relevant business activities.

As part of our business strategy, particularly in relation to overseas expansion, fuel sources procurement and renewable energy development, we may also, on a selective basis, seek, evaluate or engage in potential acquisitions, mergers, combinations or other similar opportunities, including with existing or future joint ventures and strategic alliances. The prospects of these initiatives are uncertain, and there can be no assurance that we will be able to successfully implement or grow new ventures, and these ventures may prove more difficult or costly than we presently expect. In addition, we regularly review the profitability and growth potential of our businesses. As a result of such review, we may decide to exit from or reduce the resources that we allocate to new business ventures in the future. There is a risk that these ventures may not achieve profitability or operational efficiencies to the extent that we presently expect and we may fail to recover investments or expenditures we have already made. Any of the foregoing may have a material adverse effect on our reputation, business, financial condition, results of operations and cash flows.

We plan to pursue international expansion opportunities that may subject us to different or greater risk from those associated with our domestic operations.

While our operations have, to date, been primarily based in Korea, we plan to expand, on a selective basis, our overseas operations in the future. In particular, we plan to further diversify the geographic focus of our operations from Asia to the rest of the world, including North America. We also plan to expand our project portfolio, which has to date involved technical advice and development of energy fuels, to include the construction and operation of power plants as well as generation business using biomass and other renewable energy sources pursuant to the Clean Development Mechanism (“CDM”). The CDM is defined in the Kyoto Protocol and allows industrialized countries to meet their emission reduction commitments with reduced impact on their economies by investing in emission reductions wherever it is relatively cheaper and accessible globally.

Overseas operations generally carry risks that are different from those we face in our domestic operations. These risks include:

- challenges of complying with multiple foreign laws and regulatory requirements, including tax laws and laws regulating our operations and investments;
- volatility of overseas economic conditions, including fluctuations in foreign currency exchange rates;

- difficulties in enforcing creditors' rights in foreign jurisdictions;
- risk of expropriation and exercise of sovereign immunity where the counterparty is a foreign government;
- difficulties in establishing, staffing and managing foreign operations;
- differing labor regulations;
- political and economic instability, natural calamities, war and terrorism;
- lack of familiarity with local markets and competitive conditions;
- changes in applicable laws and regulations in Korea that affect foreign operations; and
- obstacles to the repatriation of earnings and cash.

Any failure by us to recognize or respond to these differences may adversely affect the success of our operations in those markets, which in turn could materially and adversely affect our business and results of operations.

Risks Relating to Korea

Unfavorable financial and economic conditions in Korea and globally may have a material adverse impact on our financial condition and results of operations.

We are incorporated in Korea, where most of our assets are located and most of our income is generated. As a result, we are subject to political, economic, legal and regulatory risks specific to Korea, and our business, results of operations and financial condition are largely dependent on developments relating to the Korean economy. The Korean economy is closely integrated with, and is significantly affected by, developments in the global economy and financial markets.

Due to recent liquidity and credit concerns and volatility in the global financial markets, the value of the Won relative to the U.S. dollar and other foreign currencies and the stock prices of Korean companies have fluctuated significantly in recent years. In particular, the global financial markets continue to experience significant volatility in light of the slowdown of economic growth in China and other major emerging economies as well as concerns regarding the financial difficulties affecting many governments worldwide, including southern Europe and Latin America. In addition, political and social instability in various countries in the Middle East and Northern Africa, including Iraq, Syria and Egypt, as well as in Ukraine and Russia, have resulted in an increase in volatility in the global financial markets. Accordingly, the overall prospects for the Korean and global economies in 2018 and beyond remain uncertain. Any future deterioration of the Korean or global economy could adversely affect our business, financial condition and results of operations.

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

- difficulties in the financial sectors in Europe and elsewhere and increased sovereign default risks in selected countries and the resulting adverse effects on the global financial markets;

- adverse conditions or uncertainty in the economies of countries and regions that are important export markets for Korea, such as China, the United States, Europe and Japan, or in emerging market economies in Asia or elsewhere, as well as increased uncertainty in the wake of a referendum in the United Kingdom in June 2016, in which the majority of voters voted in favor of an exit from the European Union (“Brexit”);
- declines in consumer confidence and a slowdown in consumer spending;
- adverse changes or volatility in foreign currency reserve levels, commodity prices (including oil prices), exchange rates (including fluctuation of the U.S. dollar, the euro or Japanese yen exchange rates or revaluation of the Chinese renminbi and the overall impact of Brexit on the value of the Korean Won), interest rates, inflation rates or stock markets;
- the emergence of the Chinese economy, 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), as well as a slowdown of economic growth and financial instability in China;
- the investigations of large Korean business groups and their senior management for possible misconduct;
- increased sovereign default risk in select countries and the resulting adverse effects on the global financial markets;
- a continuing rise in the level of household debt and increasing delinquencies and credit defaults by retail and small- and medium-sized enterprise borrowers in Korea;
- the economic impact of any pending or future free trade agreements or of any changes to existing free trade agreements;
- social and labor unrest;
- decreases in the market prices of Korean real estate;
- a decrease in tax revenues and a substantial increase in the Government’s expenditures for fiscal stimulus measures, unemployment compensation and other economic and social programs that, together, would lead to an increased Government budget deficit;
- financial problems or lack of progress in the restructuring of Korean business groups, other large troubled companies, their suppliers or the financial sector;
- loss of investor confidence arising from corporate accounting irregularities and corporate governance issues concerning certain Korean business groups;
- increases in social expenditures to support an aging population in Korea or decreases in economic productivity due to the declining population size in Korea;
- geo-political uncertainty and risk of further attacks by terrorist groups around the world;

- the occurrence of severe health epidemics in Korea and other parts of the world, including an outbreak of severe acute respiratory syndrome, swine or avian flu, Ebola or the Middle East respiratory syndrome;
- deterioration in economic or diplomatic relations between Korea and its trading partners or allies, including deterioration resulting from trade disputes or disagreements in foreign policy (such as the controversy between Korea and China regarding the deployment of a Terminal High Altitude Area Defense system in Korea by the United States in March 2017 and the ensuing economic and other retaliatory measures by China against Korea during the remainder of 2017);
- political uncertainty or increasing strife among or within political parties in Korea;
- natural or man-made disasters that have a significant adverse economic or other impact on Korea or its major trading partners;
- hostilities or political or social tensions involving Russia and oil producing countries in the Middle East and North Africa, and any material disruption in the global supply of oil or sudden increase in the price of oil; and
- an increase in the level of tensions or an outbreak of hostilities between North Korea and Korea or the United States.

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

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

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

- In August 2015, two Korean soldiers were injured in a landmine explosion near the Korean demilitarized zone. Claiming the landmines were set by North Koreans, the Korean army re-initiated its propaganda program toward North Korea utilizing loudspeakers near the demilitarized zone. In retaliation, the North Korean army fired artillery rounds on the loudspeakers, resulting in the highest level of military readiness for both Koreas.
- In March 2010, a Korean naval vessel was destroyed by an underwater explosion, killing many of the crewmen on board. The Government formally accused North Korea of causing the sinking, while North Korea denied responsibility. Moreover, in November 2010, North Korea fired more than one hundred artillery shells that hit Korea's Yeonpyeong Island near the Northern Limit Line, which acts as the de facto maritime boundary between Korea and North Korea on the west coast of the Korean peninsula, causing casualties and significant property damage. The Government condemned North Korea for the attack and vowed stern retaliation should there be further provocation.

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

Although bilateral summits between the two Koreas were held on April 27, 2018 and May 26, 2018, and a potential summit between the United States and North Korea is scheduled for June 12, 2018, there can be no assurance that the level of tensions affecting the Korean peninsula will not escalate in the future. Any further increase in tensions, which may occur, for example, if North Korea experiences a leadership crisis, high-level contacts between Korea and North Korea break down or further military hostilities occur, could have a material adverse effect on the Korean economy and on our business, financial condition and results of operations and the price of the Notes, including a downgrade in our credit rating or of the Notes.

We are subject to Korean accounting, regulatory and corporate governance standards, which differ in significant respects from those in other countries.

Companies in Korea, including us, are subject to accounting standards which differ in many respects from standards applicable in other countries, including the United States. Our financial statements are prepared in accordance with K-IFRS, which may differ in certain respects from IFRS applied in other countries. In addition, we are subject to corporate governance standards applicable to Korean companies which differ in many respects from standards applicable in other countries. There may also be less publicly available information about Korean companies, such as us, than is regularly made available by public or non-public companies in other countries. Such differences in accounting and corporate governance standards as well as less available public information could result in less than satisfactory corporate governance practices or disclosure to investors.

Risks Relating to the Notes

The Notes are subject to transfer restrictions.

The Notes will not be registered under the Securities Act or any state securities laws and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons, except to QIBs in reliance on the exemption provided by Rule 144A, to certain persons in offshore transactions in reliance on Regulation S, or, if available, pursuant to another exemption from, or in another transaction not subject to, the registration requirements of the Securities Act and, in each case, in accordance with applicable state securities laws. In addition, subject to the

conditions set forth in the Fiscal Agency Agreement (as defined in “Terms and Conditions of the Notes”), a Note may be transferred only if the principal amount of Notes transferred is at least U.S.\$200,000. For a further discussion of the transfer restrictions applicable to the Notes, see “Terms and Conditions of the Notes” and “Transfer Restrictions.”

The Notes have not been and will not be registered under the Financial Investment Services and Capital Markets Act of Korea (the “FSCMA”). Accordingly, the Notes may not be offered, sold or delivered, directly or indirectly, in Korea or to, or for the account or benefit of, any resident of Korea (as such term is defined under the Foreign Exchange Transactions Act of Korea and its Enforcement Decree), except (i) the offering of the Notes to “qualified institutional buyers” (the “Korean QIBs,” as defined in the Regulation on Issuance, Public Disclosures, Etc. of Securities of Korea) upon satisfaction of certain requirements, including that (a) the Notes are denominated, and the principal and interest payments thereunder are made, in a currency other than Korean Won, (b) the amount of the Notes acquired by such Korean QIBs in the primary market is limited to less than 20% of the aggregate issue amount of the Notes, (c) the Notes are listed on one of the major overseas securities markets designated by the Financial Supervisory Service of Korea, or certain procedures, such as registration or report with a foreign financial investment regulator, have been completed for offering of the Notes in a major overseas securities market, (d) the one-year restriction on offering, delivering or selling of Notes to a Korean resident other than a Korean QIB is expressly stated in the Notes, the relevant purchase agreement and offering circular and (e) we and the Dealers shall individually or collectively keep the evidence of fulfillment of conditions (a) through (d) above after having taken necessary actions therefor, or (ii) as otherwise permitted by applicable Korean laws and regulations.

The Notes are subject to prescription regulations in Korea.

Failure to exercise a right of action for more than a certain period of time may operate as a bar to exercise of such right. Under Korean laws, claims against the issuer in respect of the payment of principal of notes or bonds are prescribed upon the expiry of ten years, and claims for payment of interest in respect of notes or bonds are prescribed upon the expiry of five years, in each case, from the relevant due date as adjusted by any acceleration or otherwise, in respect thereof. If the Note holders fail to exercise his or her right of payment for more than the period set forth above, the Korean courts may not enforce a claim for payment for principal or interest in respect of the Notes.

There is no existing trading market for the Notes and, therefore, the Notes offer limited liquidity.

The Notes constitute a new issue of securities for which there is no existing market. Approval in-principle has been received from the SGX-ST in connection with the Program and application will be made for the listing and quotation of Notes that may be issued pursuant to the Program, which Notes are agreed, at or prior to the time of issue thereof, to be so listed on the SGX-ST. The offer and sale of the Notes is not conditioned on obtaining a listing of the Notes on the SGX-ST or any other exchange. Although the Dealers have advised us that they currently intend to make a market in the Notes, they are not obligated to do so, and any market-making activity with respect to the Notes, if commenced, may be discontinued at any time without notice in their sole discretion. For a further discussion of the Dealers’ planned market-making activities, see “Subscription and Sale and Transfer and Selling Restrictions.”

No assurance can be given as to the liquidity of, or the development and continuation of an active trading market for, the Notes. If an active trading market for the Notes does not develop or is not maintained, the liquidity and market price of the Notes may be adversely affected. If such a market were to develop, the Notes could trade at prices that may be higher or lower than the price at which the Notes are issued depending on many factors, including:

- prevailing interest rates;
- our results of operations and financial condition;
- the rate of exchange between Won and the currency of the Notes;
- political and economic developments in and affecting Korea and other regions;
- the market conditions for similar securities; and
- the financial condition and stability of the Korean financial and other sectors.

The Notes are not protected by restrictive covenants.

The Notes and the Fiscal Agency Agreement relating to the Notes do not contain restrictive financial or operating covenants or restrictions on the payment of dividends, the incurrence of indebtedness, the sale of assets or the issuance or repurchase of securities by us.

CAPITALIZATION

The following table sets forth our actual capitalization as derived from our unaudited condensed consolidated interim financial statements as of March 31, 2018 included in this Offering Circular.

The table below should be read in connection with our unaudited condensed consolidated interim financial statements and the related notes as of and for the three months ended March 31, 2018, included elsewhere in this Offering Circular.

	As of March 31, 2018	
	(In billions of Won)	(In millions of U.S.\$)⁽¹⁾
LONG-TERM DEBT:		
Debentures, net of discount (excluding current portion)	₩3,883	U.S.\$3,641
Long-term borrowings (excluding current portion)	1	1
Total long-term debt	₩3,884	U.S.\$3,642
SHAREHOLDER'S EQUITY:		
Share capital	₩1,273	U.S.\$1,194
Retained earnings ⁽²⁾	2,705	2,536
Other components of equity	(42)	(39)
Equity attributable to owners of the KOWEPO	3,936	3,691
Non-controlling interests	6	6
Total equity	3,942	3,697
Total capitalization ⁽³⁾	₩7,826	U.S.\$7,339

Notes:

- (1) The exchange rate used to convert U.S. dollars into Won is Won 1,066.5 to U.S.\$1.00, which was the Market Average Exchange Rate in effect as of March 31, 2018.
- (2) Retained earnings before appropriations include reserves.
- (3) Total capitalization is defined as the sum of debentures, net of discount (excluding current portion), long-term borrowings (excluding current portion) and total equity.
- (4) Except as disclosed herein, there has been no material change in our capitalization since March 31, 2018.

SELECTED FINANCIAL AND OTHER DATA

The following tables present selected financial and other data as of and for the years ended December 31, 2015, 2016 and 2017 and as of March 31, 2018 and for the three months ended March 31, 2017 and 2018. The selected financial and other data below have been derived from and should be read together with our consolidated financial statements as of and for the years ended December 31, 2015, 2016 and 2017 and as of March 31, 2018 and for the three months ended March 31, 2017 and 2018 and the related notes included elsewhere in this offering circular.

Our consolidated financial statements as of and for the years ended December 31, 2015, 2016 and 2017 have been prepared in accordance with K-IFRS. Our unaudited condensed consolidated interim financial statements as of March 31, 2018 and for the three months ended March 31, 2017 and 2018 have been prepared in accordance with K-IFRS No. 1034 “Interim Financial Reporting.”

	For the Year Ended December 31,				For the Three Months Ended March 31,		
	2015	2016	2017	2017 ⁽¹⁾	2017	2018	2018 ⁽¹⁾
(In billions of Won and millions of U.S. dollars, except per share data)							
Consolidated Statement of Comprehensive Income Data:							
Sales	₩4,225	₩4,180	₩4,222	U.S.\$3,959	₩1,240	₩1,395	U.S.\$1,308
Cost of sales	(3,653)	(3,487)	(3,749)	(3,515)	(943)	(1,182)	(1,108)
Gross profit	571	693	474	444	297	214	201
Selling and administrative expenses ..	(82)	(104)	(112)	(105)	(25)	(23)	(22)
Operating income	489	589	361	338	273	190	178
Other non-operating income	4	4	5	5	1	1	1
Other non-operating expenses	(0)	(1)	(6)	(6)	(0)	(0)	(0)
Other income (loss), net	2	5	(9)	(8)	5	4	3
Finance income	125	62	172	161	137	12	11
Finance expenses	(193)	(135)	(311)	(292)	(176)	(44)	(41)
Loss from associates and joint ventures	(13)	(13)	(63)	(59)	(4)	(12)	(11)
Profit before income tax	412	511	149	140	236	151	142
Income tax expense	(112)	(118)	(46)	(43)	(55)	(58)	(54)
Profit for the period	300	393	103	97	181	93	88
Total other comprehensive income (loss), net of tax	3	(3)	26	24	(11)	(5)	(4)
Total comprehensive income for the period	<u>₩303</u>	<u>₩390</u>	<u>₩129</u>	<u>U.S.\$121</u>	<u>₩170</u>	<u>₩89</u>	<u>U.S.\$83</u>
Earnings per share							
Basic and diluted earnings per share (in Won and U.S. dollars)	₩9,445	₩12,345	₩3,085	U.S.\$2.89	₩5,407	₩2,799	U.S.\$2.62

	As of December 31,				As of March 31,	
	2015	2016	2017	2017 ⁽¹⁾	2018	2018 ⁽¹⁾
(In billions of Won and millions of U.S. dollars)						
Consolidated Statement of Financial Position Data:						
Assets:						
Cash and cash equivalents	₩106	₩247	₩35	U.S.\$33	₩33	U.S.\$31
Trade and other receivables, net	525	579	654	613	703	659
Inventories	239	227	270	253	274	257
Other current assets ⁽²⁾	116	122	107	100	420	393
Non-current financial assets	120	223	153	143	148	139
Property, plant and equipment, net	7,916	8,154	8,115	7,609	8,042	7,541
Investments in associates and joint ventures	165	214	268	251	287	269
Other non-current assets ⁽³⁾	23	27	27	25	29	27
Total assets	<u>9,208</u>	<u>9,793</u>	<u>9,629</u>	<u>9,028</u>	<u>9,935</u>	<u>9,316</u>
Liabilities and shareholder's equity:						
Trade and other payables	₩348	₩380	₩278	U.S.\$261	₩419	U.S.\$393
Current financial liabilities	895	1,084	902	846	1,138	1,067
Current tax liabilities	59	86	13	13	58	55
Current non-financial liabilities	69	100	104	98	158	148
Non-current financial liabilities	4,068	3,926	4,120	3,863	3,884	3,642
Deferred tax liabilities	219	216	258	242	265	249
Other non-current liabilities ⁽⁴⁾	65	77	71	67	71	67
Total liabilities	<u>₩5,722</u>	<u>₩5,870</u>	<u>₩5,746</u>	<u>U.S.\$5,388</u>	<u>₩5,993</u>	<u>U.S.\$5,620</u>
Total equity	<u>3,486</u>	<u>3,923</u>	<u>3,882</u>	<u>3,640</u>	<u>3,942</u>	<u>3,686</u>
Total liabilities and equity	<u>₩9,208</u>	<u>₩9,793</u>	<u>₩9,629</u>	<u>U.S.\$9,028</u>	<u>₩9,935</u>	<u>U.S.\$9,316</u>
Net working capital (deficit) ⁽⁵⁾	(385)	(476)	(231)	(216)	(344)	(322)

	For the Year ended December 31,				For the Three Months Ended March 31,		
	2015	2016	2017	2017 ⁽¹⁾	2017	2018	2018 ⁽¹⁾
(In billions of Won and millions of U.S. dollars except operating data and percentages)							
Other Financial Data:							
Capital expenditures ⁽⁶⁾	₩1,582	₩657	₩645	U.S.\$605	₩171	₩91	U.S.\$85
Depreciation and amortization	425	476	591	554	139	157	147
Net cash flow from operating activities	671	867	583	547	359	437	410
Net cash flow used in investment activities	(1,557)	(711)	(750)	(703)	(155)	(419)	(393)
Net cash flow provided by (used in) financing activities	918	(16)	(44)	(41)	(98)	(0)	(0)
	As of and for the Year Ended December 31,				As of and for the Three Months Ended March 31,		
	2015	2016	2017	2018			
Operating Data:							
Total power sold (gigawatt hours).....	46,132	47,451	44,099	13,025			

Notes:

- (1) We maintain our financial statements in Won. The Won financial information as of and for the year ended December 31, 2017 and as of and for the three months ended March 31, 2018 has been translated into U.S. dollars at the exchange rate of Won 1,066.5 to U.S.\$1.00, which was the Market Average Exchange Rate in effect as of March 31, 2018.
- (2) Other current assets consist of current financial assets, current non-financial assets, assets held for sale and current income tax assets.
- (3) Other non-current assets consist of non-current trade and other receivables, intangible assets, non-current non-financial assets and deferred tax assets.
- (4) Other non-current liabilities consist of non-current trade and other payables, non-current non-financial liabilities, employee benefits obligations and non-current provisions.
- (5) Net working capital means current assets minus current liabilities.
- (6) Capital expenditures consist of acquisition of property, plant and equipment, acquisition of intangible assets and capitalized interest in our statement of cash flows.

THE KOREAN ELECTRICITY INDUSTRY

Background

Total demand for electricity in Korea increased by 1.3% in 2015, 2.8% in 2016 and 2.2% in 2017, in each case, year on year, according to KEPCO, and the consumption of electric power is expected to continue to increase by 2.1% per annum from 2017 to 2031, according to the Eighth Basic Plan.

Historically, KEPCO and the Generation Subsidiaries have made substantial expenditures for the construction of power plants and other facilities to meet increased demand for electric power. Subject to the Restructuring Plan as discussed in “— Restructuring of the Electricity Industry in Korea” below, KEPCO and the Generation Subsidiaries plan to continue to make substantial expenditures to expand and enhance their generation, transmission and distribution system in the future.

The Korean electric utility industry traces its origin to the establishment of the first electric utility company in Korea in 1898. On July 1, 1961, the industry was reorganized by the merger of Korea Electric Power Company, Seoul Electric Company and South Korea Electric Company, which resulted in the formation of Korea Electric Company. From 1976 to 1981, the Government acquired the private minority shareholdings in Korea Electric Company. After the Government had acquired all of the outstanding shares of Korea Electric Company, Korea Electric Company dissolved, and KEPCO was incorporated in 1981, assuming the assets and liabilities of Korea Electric Company. KEPCO ceased to be wholly owned by the Government in 1989 when the Government sold 21.0% of its common stock. As of March 31, 2018, the Government owned 51.1% (including indirect holdings by Korea Development Bank, which is wholly owned by the Government) of the outstanding shares of KEPCO’s common stock.

The Korea Electric Power Corporation Act requires that the Government own at least 51% of KEPCO’s capital stock. Direct or indirect ownership of more than 50% of KEPCO’s outstanding common stock enables the Government to control the approval of certain corporate matters which require a stockholders’ resolution, including approval of dividends. The rights of the Government and Korea Development Bank as holders of KEPCO’s common stock are exercised by the MOTIE in consultation with the Ministry of Strategy and Finance (the “MOSF”). To our knowledge, the Government currently has no plan to cease to own, directly or indirectly, at least 51% of KEPCO’s outstanding common stock.

Prior to the corporate reorganization effected on April 2, 2001, which created six generation subsidiaries wholly owned by KEPCO (including us), KEPCO was the principal electricity generation company in Korea. KEPCO continues to be the principal electricity transmission and distribution company in Korea, subject to the implementation of the Restructuring Plan.

Restructuring of the Electricity Industry in Korea

On January 21, 1999, the MOTIE published a plan to restructure the electricity industry (the “Restructuring Plan”). The overall objectives of the Restructuring Plan were to:

- introduce competition and thereby increase efficiency in the Korean electricity industry,
- ensure a long-term, inexpensive and stable electricity supply, and
- promote consumer convenience through the expansion of consumer choice.

The following is a description of the Restructuring Plan and the Government's position relating to the Restructuring Plan.

Phase I

During Phase I, which was the preparation stage for Phase II and lasted from January 1, 1999 to April 2, 2001, KEPCO continued to be the principal electricity generator, with several IPPs supplying electricity to it under existing power purchase agreements. On February 23, 2001, KEPCO's board of directors approved a plan to split its non-nuclear and non-hydroelectric generation capacity into five separate wholly owned generation subsidiaries, namely, Korea South-East Power Co., Ltd. ("KOSEP"), Korea East-West Power Co., Ltd. ("EWP"), Korea Southern Power Co., Ltd. ("KOSPO"), Korea Midland Power Co., Ltd. ("KOMIPO") and us, each with its own management structure, assets and liabilities. KEPCO's hydroelectric and nuclear generation capacity was transferred into a separate wholly owned generation subsidiary, Korea Hydro & Nuclear Power Co., Ltd. ("KHNP"). On March 16, 2001, KEPCO's shareholders approved the plan to establish the Generation Subsidiaries effective as of April 2, 2001.

The Government's objectives in dividing the power generation capacity into separate generation subsidiaries were principally to:

- introduce competition and thereby increase efficiency in the electricity generation industry in Korea, and
- ensure the stable supply of electricity in Korea.

Following the implementation of Phase I, KEPCO retained, until the adoption of the CES in July 2004, its monopoly position with respect to the transmission and distribution of electricity in Korea.

While KEPCO's ownership percentage of the non-nuclear and non-hydroelectric generation subsidiaries was to be decided by the ultimate form of the Restructuring Plan approved by the Government, to our knowledge, KEPCO plans to continue to retain 100% ownership of both KHNP and the transmission and distribution business.

Phase II

Phase II of the Restructuring Plan began on April 2, 2001. For Phase II, the Government introduced a competitive or bidding pool system under which KEPCO purchases power from the Generation Subsidiaries and other companies for transmission and distribution to customers. Such competitive bidding pool system, which is a cost-based system, was established on April 2, 2001. For a further description of the pool system, see "— Power Purchase — Cost-based Pool System" below.

Pursuant to the Electricity Business Act amended on December 23, 2000, the Government established the KPX on April 2, 2001 to deal with the sale of electricity and implement regulations governing the electricity market to allow for electricity distribution through a competitive bidding process. The Government also established the KOREC on April 27, 2001 to regulate the restructured Korean electricity industry and to ensure fair competition. As part of this process, the KPX established the Electricity Market Rules relating to the operation of the bidding pool system. To amend the Electricity Market Rules, the KPX must have the proposed amendment reviewed by the KOREC and then obtain the approval of the MOTIE.

The KOREC's main functions include implementation of necessary standards and measures for electricity market operation and review of matters relating to licensing participants in the Korean electricity industry. The KOREC also acts as an arbitrator in disputes involving utility rates and participants in the Korean electricity industry and consumers and investigates illegal or deceptive activities of the participants in the Korean electricity industry.

Privatization of Non-nuclear Generation Subsidiaries

In April 2002, the MOTIE released the basic privatization plan for the five non-nuclear Generation Subsidiaries, including us. KEPCO commenced the process for selling its interest in KOSEP in 2002. According to the original plan, this process was, in principle, to take the form of a sale of management control, potentially supplemented by an initial public offering as a way of broadening the investor base.

Suspension of the Plan to Form and Privatize Distribution Subsidiaries

In September 2003, the Tripartite Commission, which included, among others, representatives from the Government and the leading businesses and labor unions in Korea, established the Joint Study Group on Reforming Electricity Distribution Network to propose a methodology of introducing competition within the industry for distribution of electricity. In June 2004, based on a report published by this Joint Study Group, the Tripartite Commission issued a resolution that recommended halting the plan to form and privatize the distribution subsidiaries, and in lieu thereof, creating independent business divisions within KEPCO, namely, the "strategy business units," as a way of improving operational efficiency and internal competition among the district divisions. This resolution was adopted by the MOTIE in June 2004, and KEPCO subsequently commissioned a third party consultant to conduct a study on implementing plans related to the creation of the strategy business units and solicited comments on the study from various parties, including labor unions and the Government. Based on this study and the related comments, in September 2006, KEPCO established nine strategy business units (which, together with KEPCO's other business units, were subsequently restructured into 14 business units in February 2012) having a separate management structure with limited autonomy and separate financial accounting and performance evaluation criteria. Based on whether the strategy business units successfully achieve their intended goals of improving operational efficiency and internal competition, KEPCO may expand the use of strategy business units.

Introduction of Market-based Public Enterprise System

On August 25, 2010, the Government announced an electricity industry development plan through which the Government aims to increase efficiency through fostering competition and strengthen the autonomy of public companies. Pursuant to this plan, in December 2010, the MOTIE announced guidelines for a cooperative framework between KEPCO and the Generation Subsidiaries, and in January 2011, the five non-nuclear Generation Subsidiaries formed a "joint cooperation unit" and transferred their pumped-storage hydroelectric business units to KHNP. Furthermore, in January 2011, the six Generation Subsidiaries were officially designated as "market-oriented public enterprises," whereupon the president of each such subsidiary is required to enter into a management contract directly with the minister of the MOTIE, performance evaluation of such subsidiaries is conducted by the Public Enterprise Management Evaluation Commission, and the president and the statutory auditor of each such subsidiary are appointed by the President of Korea while the selection of outside directors is subject to approval by the minister of the MOSF. Previously, the president of each such subsidiary entered into a

management contract with KEPCO's president, performance evaluation of such subsidiaries was conducted by KEPCO's evaluation committee, and the president and the statutory auditor of each such subsidiary were appointed by, and the selection of outside directors was subject to approval by, KEPCO's president.

Power Purchase

Cost-based Pool System

Since April 2001, the purchase and sale of electricity in Korea is required to be made through the KPX, which is a statutory not-for-profit organization established under the Electricity Business Act responsible for setting the price of electricity, handling the trading and collecting relevant data for the electricity market in Korea. The suppliers of electricity in Korea consist of the Generation Subsidiaries, including us, which were spun-off from KEPCO in April 2001, and IPPs, which numbered 17 as of March 31, 2018 based on data from the Independent Power Producer Association. KEPCO distributes electricity purchased through the KPX to end users.

The price of electricity in the Korean electricity market is determined principally based on the cost of generating electricity using a system known as the "cost-based pool" system, under which the Generation Subsidiaries, including us, fully pass through changes in fuel costs to KEPCO in its purchase through KPX of electricity from the Generation Subsidiaries, including us. Under the cost-based pool system, the price of electricity has two principal components, namely the marginal price (representing, in principle, the variable cost of generating electricity) and the capacity price (representing, in principle, the fixed cost of generating electricity).

Marginal Price

The primary purpose of the marginal price is to compensate the generation companies for fuel costs, which represents the principal component of the variable costs of generating electricity. Such marginal price is referred to as the "system marginal price." The concept of marginal price under the cost-based pool system has undergone several changes in recent years in large part due to the sharp fluctuations in fuel prices. For example, prior to December 31, 2006, the marginal price operated on a two-tiered structure, namely, a "base load" marginal price applicable to electricity generated from nuclear fuels and coals, which tend to be less expensive per unit of electricity than electricity generated from LNG, oil and hydroelectric power to which a "non-base load" marginal price applied. The base load marginal price and the non-base load marginal price were generally set at levels so that electricity generated from cheaper fuels could be utilized first while ensuring a relatively fair rate of return to all generation units. However, when the price of coal rose sharply beginning in the second half of 2006, the pre-existing base load marginal price was abolished and a market cap by the name of "regulated market price" was introduced in its stead for electricity generated from base load fuels, with the regulated market price being set at a level higher than the pre-existing base load marginal price in order to compensate the Generation Subsidiaries for the rapid rise in the price of coal. However, when the price of coal continued to rise sharply above the level originally assumed in setting the regulated market price, this had the effect of undercutting KEPCO's profit margin as the purchaser of electricity from the Generation Subsidiaries, although the Generation Subsidiaries were able to maintain a better margin under the regulated market price regime than under the pre-existing base load marginal price regime. Accordingly, on May 1, 2008, the regulated market price regime was abolished, and the current system of "system marginal price" was introduced in order to set the marginal price in a more flexible way by using the concept of an "adjusted coefficient" tailored to each fuel type.

Under the system marginal price regime currently in effect, the marginal price of electricity at which the Generation Subsidiaries sell electricity to KEPCO is determined using the following formula:

$$\text{Marginal Price} = \text{Variable Cost} + [\text{System Marginal Price} - \text{Variable Cost}] * \text{Adjusted Coefficient}$$

The system marginal price represents, in effect, the marginal price of electricity at a given hour at which the projected demand for electricity and the projected supply of electricity for such hour intersect, as determined by the merit order system, which is a system used by the KPX to allocate which generation units will supply electricity for which hour and at what price. The projected demand for electricity for a given hour is determined by the KPX based on a forecast made one day prior to trading, and such forecast takes into account, among others, historical statistics relating to demand for electricity nationwide by day and by hour, after taking into account, among others, seasonality and peak-hour versus non-peak hour demand analysis. The projected supply of electricity at a given hour is determined as the aggregate of the available capacity of all generation units that have submitted bids to supply electricity for such hour. These bids are submitted to the KPX one day prior to trading.

Under the merit order system, the generation unit with the lowest variable cost of producing electricity among all the generation units that have submitted a bid for a given hour is first awarded a purchase order for electricity up to the available capacity of such unit as indicated in its bid. The generation unit with the next lowest variable cost is then awarded a purchase order up to its available capacity in its bid, and so forth, until the projected demand for electricity for such hour is met. The variable cost of the generation unit that is the last to receive the purchase order for such hour is referred to as the system marginal price, which also represents the most expensive price at which electricity can be supplied at a given hour based on the demand and supply for such hour. Generation units whose variable costs exceed the system marginal price for a given hour do not receive purchase orders to supply electricity for such hour. The variable cost of each generation unit is determined by the Cost Evaluation Committee on a monthly basis and reflected in the following month based on the fuel costs as of two months prior to such determination. The final allocation of electricity supply, however, is further adjusted on the basis of other factors, including the proximity of a generation unit to the geographical area to which power is being supplied, network and fuel constraints and the amount of power loss.

The purpose of the merit order system is to encourage generating units to reduce their electricity generation costs by making their generation process more efficient, sourcing fuels from more cost-effective sources or adopting other cost savings programs. The additional adjustment mechanism is designed to improve the overall cost-efficiency in the distribution and transmission of electricity to the end-users by adjusting for losses arising from the distribution and transmission process.

Under the merit order system, the electricity purchase allocation, the system marginal price and the final allocation adjustment are automatically determined based on an objective formula. The adjusted coefficient, the capacity price and the variable costs are determined in advance of trading by the Cost Evaluation Committee. Accordingly, a supplier of electricity cannot exercise control over the merit order system or its operations to such supplier's strategic advantage.

An adjusted coefficient applies in principle to all generation units operated by the Generation Subsidiaries and the coal-fired generation units operated by IPPs. The adjusted coefficient applicable to the generation units operated by the Generation Subsidiaries is determined based on

considerations of, among others, electricity tariff rates, the differential generation costs for different fuel types and the relative fair returns on investment in respect of KEPCO compared to the Generation Subsidiaries. The purpose of the adjusted coefficient here is to prevent electricity trading from resulting in undue imbalances as to the relative financial results among the Generation Subsidiaries as well as between KEPCO (as the purchaser of electricity) and the Generation Subsidiaries (as sellers of electricity). Such imbalances may arise from excessive profit taking by base load generators (on account of their inherently cheaper fuel cost structure compared to non-base load generators) as well as from fluctuations in fuel prices (it being the case that during times of rapid and substantial rises in fuel costs which are not offset by corresponding rises in electricity tariff rates charged by KEPCO to end-users, on a non-consolidated basis, the profitability of KEPCO will decline compared to that of the Generation Subsidiaries since the Generation Subsidiaries are entitled to sell electricity to KEPCO at cost plus a guaranteed margin). In comparison, the adjusted coefficient applicable to the coal-fired generation units operated by IPPs is determined to enable such IPPs to recover the total costs of building and operating such units.

The adjusted coefficient applicable to the Generation Subsidiaries is currently set at the highest level for the marginal price of electricity generated using nuclear fuel, followed by coal and (depending on the prevailing relative market prices) oil and/or LNG. The differentiated adjusted coefficients reflect the Government's prevailing energy policy objectives and have the effect of setting priorities in the fuel types to be used in electricity generation.

The adjusted coefficient is determined by the Cost Evaluation Committee in principle on an annual basis, although in exceptional cases driven by external or structural factors such as rapid and substantial changes in fuel costs, adjustments to electricity tariff rates or changes in the electricity pricing structure, the adjusted coefficient may be adjusted on a quarterly basis.

Previously, it was contemplated that the vesting contract system would gradually replace the application of the adjusted coefficient. However, since the implementation of the vesting contract system has been suspended indefinitely, it is unlikely to impact the application of the adjusted coefficient in the foreseeable future.

Capacity Price

In addition to payment in respect of the variable cost of generating electricity, the Generation Subsidiaries receive payment in the form of capacity price, the purpose of which is to compensate them for the costs of constructing generation facilities and to provide incentives for new construction. The capacity price is determined annually by the Cost Evaluation Committee based on the construction costs and maintenance costs of a standard generation unit and is paid to each generation company for the amount of available capacity indicated in the bids submitted the day before trading. From time to time, the capacity price is adjusted in ways to soften the impact of changes in the marginal price over time based on the expected rate of return for the Generation Subsidiaries. The reference capacity price and the time-of-the-day capacity coefficient are determined annually before the end of December for the subsequent 12-month period. The reserve capacity factor and the fuel switching factor are determined annually before the end of June for the subsequent 12-month period. Currently, the capacity price is determined using the following formula:

$$\text{Capacity Price} = \text{Reference Capacity Price} * \text{Reserve Capacity Factor} * \text{Time of the Day} \\ \text{Capacity Factor} * \text{Fuel Switching Factor}$$

In the three months ended March 31, 2018, the average capacity price of our generation units was 11.01/kWh.

The reference capacity price refers to the Korean Won amount per kilowatt-hour payable annually for annualized available capacity indicated in the bids submitted the day before trading (provided that such capacity is actually available on the relevant day of trading), and is determined based on the construction costs and maintenance costs of a standard generation unit and related transmission access facilities, and a base rate for loading electricity. Prior to October 2016, the same reference capacity price applied uniformly to all generation units. Since October 2016, the reference capacity price applies differentially to each generation unit depending on the start year of its commercial operation.

The reserve capacity factor relates to the requirement to maintain a standard capacity reserve margin in the range of 15% in order to prevent excessive capacity build-up as well as induce optimal capacity investment at the regional level. The capacity reserve margin is the ratio of peak demand to the total available capacity. Under this system, generation units in a region where available capacity is insufficient to meet demand for electricity, as evidenced by a failure to meet the standard capacity reserve margin, receive an increased capacity price. Conversely, generation units in a region where available capacity exceeds demand for electricity, as evidenced by exceeding the standard capacity reserve margin, receive a reduced capacity price. Since October 2016, the reserve capacity factor also factors in the transmission loss per generation unit in order to favor transmission of electricity from a nearby generation unit.

The time-of-the-day capacity coefficient allows hourly and seasonal adjustments in order to incentivize the Generation Subsidiaries to operate their generation facilities at full capacity during periods of highest demand. For example, the capacity price paid differs depending on whether the relevant hour is an “on-peak” hour, a “mid-peak” hour or an “off-peak” hour (the capacity price being highest for the on-peak hours and lowest for the off-peak hours) and the capacity price paid is highest during the months of January, July and August when electricity usage is highest due to weather conditions.

The fuel switching factor, which was introduced in October 2016 to promote environmental sensitivities to climate change, seeks to encourage reduced carbon emission by penalizing generation units (mostly coal-fired units) for excessive carbon emission.

Other than subject to the aforementioned variations, the same capacity pricing mechanism applies to all generation units regardless of fuel types used.

Vesting Contract System

On May 20, 2014, the Electricity Business Act was amended, with effect from November 21, 2014, to introduce a vesting contract system to determine the price and quantity of electricity to be sold and purchased through the KPX between the purchaser of electricity (currently, KEPCO) and the sellers of electricity (namely, the Generation Subsidiaries (including us) and IPPs). The application of the adjusted coefficient under the cost-based pool system is planned to be gradually replaced by the vesting contract system.

Under the vesting contract system, electricity generators using base load fuels (such as nuclear, coal, hydro and by-product gas) at a particular generation unit were to be required to enter into a contract with the purchaser of electricity (currently, KEPCO), which would specify, among other things, the quantity of electricity to be generated and sold from such generation unit and the price at which such electricity would be sold, subject to certain adjustments.

The introduction of the vesting contract system was intended principally to prevent excessive profit-taking by low-cost producers of electricity using base load fuels (such as nuclear, coal, hydro and by-product gas) by replacing the adjusted coefficient as the basis for determining the guaranteed return to generation companies, as well as to enhance the stability of electricity supply by requiring long-term contractual arrangements for the purchase and sale of electricity and promote cost savings, productivity enhancements and operational efficiency by providing incentives and penalties depending on the degree to which the generation companies could supply electricity at costs below the contracted electricity prices.

In order to minimize undue shock to the electricity trading market in Korea, the vesting contract system was to be implemented in phases starting with by-product gas-based electricity in 2015. The rollout of the vesting contract system was further studied by a task force consisting of representatives from the Government, the KPX and generation companies. Following such study, the Government announced in June 2016 that, due to changes in the electricity business environment (including an increase in generation capacity relative to peak usage, reduced fuel costs following a decline in oil prices and greater environmental concerns related to coal-fired electricity generation), it will indefinitely suspend any further rollout of the vesting contract system beyond by-product gas-based electricity, and retain the adjusted coefficient-based electricity pricing adjustment mechanism.

Renewable Portfolio Standard

In order to expand the utilization of renewable energy resources for generating electrical energy, to reduce greenhouse gas emission and to protect the environment, the Government adopted the RPS in December 2010, under which 10% of all electricity generated by the power generation companies in Korea will be required to be sourced from renewable energy by 2023. Generation companies receive Renewable Energy Certificates (“RECs”), based on a weighted scheme, for energy generated from an eligible renewable energy source, which can be used to satisfy their own RPS requirements or traded on the KPX to other generation companies to satisfy their RPS requirements. Fines are levied on any generation company with generation capacities of 500 MW or more that fails to do so in the prescribed timeline.

Second Basic National Energy Plan

On January 13, 2014, the MOTIE adopted the Second Basic National Energy Plan following consultations with representatives from civic groups, the power industry and academia. The Second Basic National Energy Plan, which is a comprehensive plan that covers the entire spectrum of energy industries in Korea, covers the period from 2013 to 2035 (compared to 2008 to 2030 under the First Basic National Energy Plan) and focuses on the following six key tasks: (i) shifting the focus of energy policy to demand management with a goal of reducing electricity demand by 15% by 2035, (ii) establishing a geographically decentralized electricity generation system so as to reduce transmission losses with a goal of supplying at least 15% of total electricity through such system by 2035, (iii) applying latest greenhouse gas emission reduction technologies to newly constructed generation units in order to further promote safety and environmental sensitivities, (iv) strengthening exploration and procurement capabilities to enhance Korea’s energy security and to ensure stable supply of energy and increasing the portion of electricity supplied from renewable sources to 11% by 2035, (v) reinforcing the system for stable supply of conventional energy, such as oil and gas, and (vi) introducing in 2015 an energy voucher system in lieu of a tariff discount system for the benefit of consumers in the low income

group. In addition, the Second Basic National Energy Plan has revised the target level of nuclear generation capacity in Korea's electricity supply mix to 29%, compared to 41% under the First Basic National Energy Plan announced in 2008. In March 2018, the Government announced its plan to establish the Third Basic National Energy Plan by the end of 2018.

Eighth Basic Plan Relating to the Long-Term Supply and Demand of Electricity

In December 2017, the Government released the Eighth Basic Plan which serves as the guideline for stable medium- and long-term supply of electric power. The Eighth Basic Plan as announced replaces and supersedes the Seventh Basic Plan for the period from 2015 to 2029, which focused on, among other things, (i) ensuring a stable supply of electricity, (ii) increasing the portion of low carbon electricity supply sources, (iii) active consumer demand management, (iv) permanent closing of operations of the Kori #1 nuclear power unit, and (v) diversifying electricity supply sources by utilizing renewable energy sources. Pursuant to the Seventh Basic Plan, our Pyeongtaek combined cycle CC1 was decommissioned in December 2017.

The objectives of the Eighth Basic Plan include, among other things, (i) increasing efforts to address environmental and safety concerns, including reducing greenhouse gas emission and yellow dust, (ii) decreasing the portion of electricity supplied using nuclear and coal energy sources, (iii) increasing the portion of electricity supplied from renewable energy, in particular solar and wind power, and (iv) promoting the replacement of coal with LNG as an energy source by reducing the gap in expenses incurred in using the respective fuel types, for example, by adjusting the consumption tax rates applicable to the respective fuel types. Furthermore, the Eighth Basic Plan includes the following implementing measures: (i) six new nuclear generation units in planning stages will not be constructed, (ii) the extension of life of 10 decrepit nuclear generation units will not be granted, (iii) Wolsong #1 unit will not count as part of domestic energy generation capacity, (iv) seven decrepit coal-fired generation plants will be retired by 2022, (v) six other coal-fired generation plants shall be converted to LNG fuel use and (vi) domestic renewable energy generation capacity shall be expanded to 58.5 gigawatts by 2030. Pursuant to the Eighth Basic Plan, our Seoincheon combined cycle CC1 through CC8 (with aggregate installed capacity of 1,800 megawatts) and Pyeongtaek thermal #1 through #4 (with aggregate installed capacity of 1,400 megawatts) are subject to decommissioning in 2023 and 2024, respectively. In addition, we are planning to convert our Taean #1 and #2 from coal-fired to LNG-fired in 2025.

Plan to Reform State-owned Enterprises in the Energy and Resources Development Sector

On June 14, 2016, the Government announced broad plans to overhaul state-owned enterprises in the energy and resources development sector, including KEPCO, in response to reported losses and inefficiencies among state-owned enterprises. The Government aimed to streamline overlapping energy and resources development roles and functions among the state-owned enterprises by divesting from businesses not essential to the core purpose for which a state-owned enterprise was established, while also encouraging competition by gradually opening up the energy and resources development industry to the private sector. With respect to the electric power industry, the plans call for, among other things, (i) KEPCO's divestiture of its overseas businesses to the Generation Subsidiaries, (ii) the designation and specialization among the Generation Subsidiaries on the areas of business to pursue overseas, (iii) the gradual liberalization of the electricity distribution market and (iv) the initial public offering of the Generation Subsidiaries, including us, in conjunction with the sale of minority interests (20% to 30%) in such subsidiaries, by 2020. Pursuant to such plans, KEPCO considered a sale in the public market of a minority stake of its shares in the Generation Subsidiaries. However, to our knowledge, the planned sales have been put on hold. In any event, KEPCO plans to maintain a controlling interest in each of the Generation Subsidiaries.

BUSINESS

Overview

We were established on April 2, 2001 as one of six Generation Subsidiaries of KEPCO. The Generation Subsidiaries generate over 80% of the electricity in Korea. As of March 31, 2018, we had a domestic generation capacity of 11,311 megawatts, or approximately 9.7% of the total electricity generation capacity in Korea (excluding plants generating electricity primarily for private or emergency use). In 2015, 2016, 2017 and the three months ended March 31, 2017 and 2018, we sold 46,132, 47,451, 44,099, 11,312 and 13,025 GWh, respectively, to KEPCO through the KPX. KEPCO is currently the sole electricity transmission and distribution company in Korea.

Total demand for electricity in Korea increased by 1.3% in 2015, 2.8% in 2016 and 2.2% in 2017, in each case, year on year, according to KEPCO, and the consumption of electric power is expected to continue to increase by 2.1% per annum from 2017 to 2031, according to the Government's Eighth Basic Plan. We plan to continue to make substantial capital expenditures to expand our generation capacity and enhance our generating systems in the future, including with respect to the generation of renewable energy.

Based on our "Create the best energy in harmony with human, technology and environment" vision, we strive to establish our position as a leader in the electricity generation industry both domestically and internationally by enhancing our operational efficiency, selectively pursuing new business opportunities abroad and effectively responding to increasingly stringent regulations governing the power generation industry. In particular, given a shift in the energy paradigm that focuses on the environment, we are fully committed to increasing the portion of electricity we generate using renewable and alternative energy sources, for example, by continuing to invest in promising IPP and CES projects that focus on renewable energy sources. We aim to increase the generation capacity of renewable energy in our product mix to 20% by 2030.

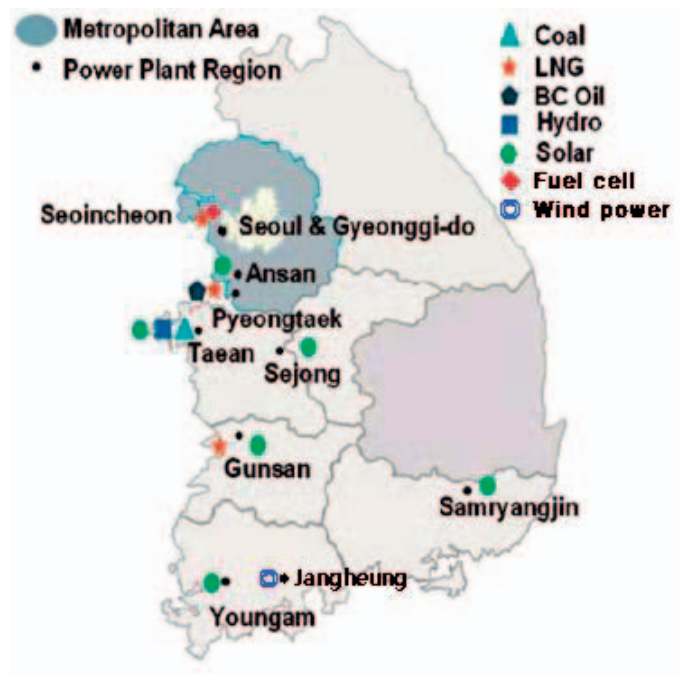
As of March 31, 2018, we had total installed generation capacity of 11,311 megawatts, of which 6,100 megawatts, 1,400 megawatts, 3,387 megawatts, 78 megawatts and 346 megawatts were attributable to our coal-fired units, oil-fired units, LNG-combined cycle units, renewable energy units and integrated gasification combined cycle units ("IGCC"), respectively. We generated sales of Won 4,225 billion, Won 4,180 billion, Won 4,222 billion, Won 1,240 billion and Won 1,395 billion in 2015, 2016, 2017 and the three months ended March 31, 2017 and 2018, respectively, and our profit for the period was Won 300 billion, Won 393 billion, Won 103 billion, Won 180 billion and Won 93 billion in 2015, 2016, 2017 and the three months ended March 31, 2017 and 2018, respectively.

We are a corporation incorporated with limited liability under the laws of Korea. Our registered office is located at 285, Jungang-ro, Taean-eup, Taean-gun, Chungcheongnam-do 32140, Korea. Our website address is <http://www.iwest.co.kr>.

Power Generation

As of March 31, 2018, we owned and operated 14 thermal generation units at two power plant complexes in Korea, located in Taean and Pyeongtaek (not including generation units under construction) and 22 LNG-fired combined cycle units at our power plant complexes located in Pyeongtaek, Seoincheon and Gunsan. Our thermal units produce electricity using steam turbine generators and include units fired by coal or oil. Our combined cycle units produce electricity using gas turbine generators and steam turbine generators fired by LNG.

We have also invested in the generation of renewable energy. We own and operate 30 solar power units at our power plant complexes in Taejeon, Pyeongtaek, Seoincheon, Gunsan, Samryangjin, Sejong, Youngam and Gyeonggi, one small hydropower unit at our power plant complex in Taejeon, one fuel cell unit at our power plant complex in Seoincheon and one wind power unit at our power plant complex in Hwasun. Our solar power units utilize solar cells to directly convert sunlight into electricity. Our small hydropower units utilize the coolant water discharged from our thermal generation units to spin water turbines to produce electricity. Our fuel cell unit generates electricity through a chemical reaction of LNG. Our wind power unit converts wind energy into electricity using wind turbines that generate electricity by the rotation of its blades that are connected to a power generator. The following map shows the geographic locations of our power plant complexes as of March 31, 2018 in Korea.



The table below sets forth for each domestic plant type and location, the weighted average age of units, installed capacity, the average capacity factor and the average fuel cost based upon the net amount of electricity generated as of March 31, 2018:

	Weighted Average Age of Units (years)	Installed Capacity ⁽¹⁾ (megawatts)	Average Capacity Factor ⁽²⁾ (%)	Average Fuel Cost (Won/KWh)
Thermal:				
Bituminous ⁽³⁾ :				
Taeon #1, 2, 3, 4, 5, 6, 7, 8, 9, 10	11.9	6,100	79.0	57.53
Oil:				
Pyeongtaek #1, 2, 3, 4	36.4	1,400	20.5	114.43
Total thermal	16.5	7,500	68.1	60.76
Combined cycle ⁽⁴⁾				
Pyeongtaek CC2	3.5	869	54.0	104.59
Seoincheon CC1, 2, 3, 4, 5, 6, 7, 8	25.4	1,800	40.0	120.09
Gunsan CC1	7.9	718	13.0	113.94
Total combined cycle	16.1	3,387	38.0	110.96
Renewable:				
Solar:				
Taeon (7 units)	0.9	17	11.5	—
Pyeongtaek (3 units)	1.3	3	11.5	—
Samryangjin (3 units)	10.3	3	15.4	—
Seoincheon (2 units)	0.8	1	13.2	—
Gunsan (2 unit)	2.4	1	11.7	—
Sejong (5 units)	5.8	5	13.0	—
Youngam (1 unit)	5.0	13	13.0	—
Gyeonggi (7 units)	5.8	3	13.8	—
Total solar	3.7	46	14.0	—
Small Hydropower	10.6	2	18.5	—
Fuel cell	3.0	16	58.2	153.27
Wind power	2.0	16	21.6	—
Other (Taeon IGCC)	1.6	346	72.6	73.37
Total renewable	1.9	424	63.7	73.72
Total	15.8	11,311	56.3	69.27

Notes:

- (1) Installed capacity represents the level of output that may be sustained continuously without significant risk of damage to plant and equipment.
- (2) Average capacity factor represents the total number of kilowatt hours of electricity generated in the period divided by the total number of kilowatt hours that would have been generated assuming continuous operation of generation units at installed capacity expressed as a percentage.
- (3) Bituminous units are fueled by bituminous coal supplemented by wood pellets.
- (4) Combined cycle units are fueled by LNG.

As of March 31, 2018, we had an aggregate domestic installed capacity of 11,311 megawatts. In 2015, 2016, 2017 and the three months ended March 31, 2018, the average capacity factor of our generation units was 59.0%, 59.2%, 48.6% and 56.3%, respectively. In 2015, 2016, 2017 and the three months ended March 31, 2018, our power generation amounted to 48,092 GWh, 50,565 GWh, 47,936 GWh and 13,744 GWh, respectively.

The useful life of each type of units without substantial refurbishment is approximately 30 years for thermal and combined cycle units. Substantial refurbishment can extend the useful lives of thermal units by an additional ten years or more. See “—Capital Investment Program.”

The maintenance cycle for our power generation units is approximately 24 months depending on the type and installed capacity of units. The duration of maintenance, which is conducted in accordance with our internal guidelines that specify four different levels of maintenance types depending on the nature and degree of maintenance involved, may last from 14 to 55 days. In 2015, 2016, 2017 and the three months ended March 31, 2017 and 2018, our repair and maintenance expenses were Won 196 billion, Won 176 billion, Won 280 billion, Won 27 billion and Won 33 billion, respectively. Our forced (unplanned) outage factor, which is a percentage of total forced (unplanned) outage time over total available operating time, was 0.12%, 0.06%, 0.07%, 0.03% and 0.01% in 2015, 2016, 2017 and the three months ended March 31, 2017 and 2018, respectively. We have received ISO 22301 and 9001 certifications for our business continuity and quality management systems.

Efficient operation of generation units requires that such units be run continuously at relatively constant energy output levels. As electricity output cannot be stored in significant amounts, generation must be continuously managed to match demand. Within each day there is a certain level below which demand does not fall. This minimum level of demand throughout the day is known as “base load” while “peak load” refers to the maximum level of demand during the course of a day and “intermediate load” refers to the level of demand between base load and peak load. Base load generation units are those that can generate power in dependable amounts to consistently meet demand. Electricity demand, however, constantly fluctuates by time and region. Accordingly, non-base load power plants, which include peak load power plants and intermediate load power plants, are also coordinated into our system in order to meet such changing demand for power.

Base load power plants, which are typically fueled by coal, produce continuous, reliable and efficient power at low cost. They often take a relatively long time to start up and are relatively inefficient in terms of cost-to-output ratio when operated at less than full output. Base load plants run at all times throughout the year except in the case of repairs or scheduled maintenance. Their reliability to provide the base demand helps keep their operation costs low and offers stable, attractive pricing through long-term agreements. Peak load power plants provide power during times of peak demand. These plants can speedily respond to changes in electricity demand as they can be started up relatively quickly and vary the quantity of electrical output by the minute and therefore, are principally used to meet short-term surges in demand. Peak load power plants, which are typically fueled by LNG, are expensive to operate relative to the amount of power they produce and the cost of fuel to power them. Intermediate load plants, which are typically fueled by oil, fill the gap between base load and peak load plants. Our coal-fired units in Taean operate at base load, while our oil-fired thermal units in Pyeongtaek operate at intermediate load. Our LNG fueled combined cycle units in Pyeongtaek, Seoincheon and Gunsan generally operate at peak load using LNG. As of March 31, 2018, base load and non-base load accounted for 53.9% and 46.1%, respectively, in terms of our installed capacity.

The table below sets forth our installed capacity at the end of each period and peak and average load in the periods indicated below.

	As of and for the year ended December 31,			As of and for the three months ended March 31,	
	2015	2016	2017	2017	2018
	(megawatts)				
Installed capacity.....	9,322	10,725	11,791	10,725	11,311
Peak-load ⁽¹⁾	8,532	8,437	9,337	9,112	7,721
Average load ⁽²⁾	5,490	5,757	5,472	5,553	6,362

Notes:

- (1) Peak load represents the highest load in the relevant period.
(2) Average load represents the total number of megawatts of electricity generated in the period divided by the total number of hours in that period.

Fuel

Fuel costs constituted 68.4%, 62.5%, 64.9%, 56.9% and 64.9% of our sales, and 79.1%, 74.9%, 73.1%, 74.9% and 76.6% of our cost of sales, in 2015, 2016, 2017 and the three months ended March 31, 2017 and 2018, respectively. The table below sets forth the total fuel costs for the periods indicated on a separate basis.

	For the year ended December 31,				For the three months ended March 31,					
	2015		2016		2017		2017		2018	
	(billions of Won)	(%)	(billions of Won)	(%)	(billions of Won)	(%)	(billions of Won)	(%)	(billions of Won)	(%)
Bituminous coal ⁽¹⁾ ...	1,187	41.1	1,178	45.1	1,866	68.3	458	63.4	574	63.6
Oil ⁽²⁾	339	11.7	362	13.9	99	3.6	50	6.9	60	6.7
LNG ⁽³⁾	1,251	43.3	955	36.6	640	23.4	183	25.3	235	26.1
Others ⁽⁴⁾	114	3.9	117	4.4	126	4.7	31	4.3	33	3.6
Total fuel cost ⁽⁵⁾	<u>2,891</u>	<u>100.0</u>	<u>2,612</u>	<u>100.0</u>	<u>2,731</u>	<u>100.0</u>	<u>722</u>	<u>100.0</u>	<u>902</u>	<u>100.0</u>

Notes:

- (1) Includes bituminous coal used for our Taean IGCC.
(2) Represents bunker-C oil used for our oil-fired thermal units and oil-combined cycle units. Excludes kerosene and diesel oil to initially start up our thermal, combined cycle and wind power generation units.
(3) LNG is used as fuel for our LNG-combined cycle units and fuel cell units.
(4) Represents (i) cost of storing and managing fuel stocks at our units and (ii) fuel to initially start up our units (primarily kerosene and diesel oil) and other miscellaneous fuel related costs. Fuel storage and management costs amounted to Won 71 billion, Won 81 billion, Won 101 billion, Won 25 billion and Won 27 billion in 2015, 2016, 2017 and the three months ended March 31, 2017 and 2018. The cost of wood pellets amounted to Won 33 billion, Won 28 billion, Won 16 billion, Won 4 billion and Won 3 billion in 2015, 2016, 2017 and the three months ended March 31, 2017 and 2018, respectively. The cost of miscellaneous fuel amounted to Won 10 billion, Won 8 billion, Won 9 billion, Won 2 billion and Won 3 billion in 2015, 2016, 2017 and the three months ended March 31, 2017 and 2018, respectively.
(5) On a consolidated basis, our total fuel costs were Won 2,891 billion, Won 2,612 billion, Won 2,741 billion, Won 706 billion and Won 905 billion in 2015, 2016, 2017 and the three months ended March 31, 2017 and 2018, respectively.

In order to ensure stable supplies of fuel, we enter into long-term contracts with various suppliers, and supplement such supplies with purchases of fuel on the spot market. Substantially all of the fuel we use comes from sources outside Korea, and the fuel cost is impacted by the exchange rates between the Won and the relevant foreign currency in which prices are set. See “Risk Factors — Risks Relating to Our Business — We are dependent on fuel imported from overseas suppliers in currencies other than Won under contracts with varying quantity and duration, and rising fuel costs, if not fully passed through to KEPCO, could adversely affect our results of operations.”

Cost increases resulting from the depreciation of the Won against the U.S. dollar or other currencies, or supply disruptions have adversely affected our results of operations in the past and may do so in the future. In recent years, we have reduced the cost of fuel procurement while maintaining a stable fuel supply through a centralized inventory management control tower system that utilizes big data to forecast our supply needs. Generally, we pay for fuel on a cash-on-delivery basis and finance such payments in part with bank usance or on a letter of credit basis.

Bituminous Coal

Our coal-fired generation units represent over half of our installed generation capacity, with 53.9% of our total installed generation capacity represented by such units as of March 31, 2018. In 2015, 2016, 2017 and the three months ended March 31, 2017 and 2018, we purchased 12.7 million tons, 12.9 million tons, 15.5 million tons, 3.8 million tons and 4.1 million tons of bituminous coal, the main type of coal we use as the raw material for our coal-fired generation of power, amounting to Won 1,196 billion, Won 1,194 billion, Won 1,992 billion, Won 507 billion and Won 545 billion, respectively. Substantially all of our bituminous coal requirements are imported from approximately 20 suppliers located in Australia, Indonesia, Russia, South Africa and the United States under long-term or spot contracts. Approximately 81.6%, 71.1%, 89.0%, 66.7% and 96.6% of our bituminous coal requirements were purchased under long-term contracts in 2015, 2016, 2017 and the three months ended March 31, 2017 and 2018, respectively, with the remaining requirements being purchased on the spot market. See “Risk Factors — Risks Relating to Our Business — We are dependent on fuel imported from overseas suppliers in currencies other than Won under contracts with varying quantity and duration, and rising fuel costs, if not fully passed through to KEPCO, could adversely affect our results of operations.”

Pursuant to the terms of our long-term supply contracts, prices may be adjusted monthly, quarterly or annually depending on market conditions. In the case of term contracts, the obligation to purchase contracted annual amounts of fuel automatically terminates at the end of the year if the parties cannot reach an agreement in respect of price. Depending on the type of contract, we are able to increase the quantity of bituminous coal under the relevant supply contract by up to 30%. The average cost of bituminous coal per ton purchased by us was approximately Won 94,681, Won 92,860, Won 125,561, Won 129,932 and Won 129,877 in 2015, 2016, 2017 and the three months ended March 31, 2017 and 2018, respectively. We may, if necessary, augment our supplies by entering into new short-term import contracts or by making spot purchases. We estimate that the delivery time for bituminous coal imported from Australia, Indonesia, Russia, South Africa and the United States is approximately 15 days, 8 days, 4 days, 25 days and 18 days, respectively. Currently, we maintain a reserve of bituminous coal of approximately 15 days.

Oil

We purchased approximately 741 thousand kiloliters, 1,107 thousand kiloliters, 231 thousand kiloliters, 138 thousand kiloliters and 145 thousand kiloliters of bunker-C fuel oil in 2015, 2016, 2017 and the three months ended March 31, 2017 and 2018, amounting to Won 286 billion, Won 346 billion, Won 99 billion, Won 62 billion and Won 68 billion, respectively.

We purchase oil through a competitive open bidding process with other bidders, including Korean refiners, on the spot market. Purchase prices, including taxes and other expenses, of oil are based on the spot market in Singapore. The average cost of bunker-C oil per liter was approximately Won 385, Won 313, Won 430, Won 455 and Won 467 in 2015, 2016, 2017 and the three months ended March 31, 2017 and 2018, respectively. We estimate that oil purchased from oil refineries in Korea and Singapore takes approximately three to six days and ten days, respectively, to be delivered to our power plant complexes. Currently, we maintain a reserve of approximately 15 days for bunker-C fuel oil.

LNG

In 2015, 2016, 2017 and the three months ended March 31, 2017 and 2018, we purchased approximately 1,614 billion tons, 1,626 billion tons, 962 billion tons, 258 billion tons and 306 billion tons of LNG, amounting to Won 1,254 billion, Won 957 billion, Won 640 billion, Won 183 billion and Won 235 billion, respectively.

We purchase all of our domestic LNG requirements from KOGAS, a Korean corporation of which KEPCO owns 20.47%, under a 20-year LNG supply contract (the “LNG Contract”) with KOGAS, which is scheduled to expire in 2026. Under the terms of the LNG Contract, our purchase quantity is determined through negotiations with KOGAS, subject to the Government’s approval. We are under an obligation to purchase LNG quantities within a 10% plus or minus range from our previously agreed purchase quantity. If we purchase LNG outside this range, we are required to pay a penalty to KOGAS. All our purchases have been within such range in the past five years. The purchase price for LNG is determined monthly, subject to approval by the MOTIE. KOGAS imports LNG primarily from Indonesia and Malaysia and supplies LNG to us, other Generation Subsidiaries and other Korean gas companies. However, we are reviewing the direct import of LNG for our Taean #1 and #2 upon the conversion of these units from coal-fired to LNG-fired pursuant to the Eighth Basic Plan in 2025.

The average cost of LNG per ton purchased by us was approximately Won 777,225, Won 588,280, Won 664,688, Won 711,209 and Won 766,687 in 2015, 2016, 2017 and the three months ended March 31, 2017 and 2018, respectively.

Sales and Purchase of Power

Generation Companies' Combined Sales of Electricity

Pursuant to Article 31 of the Electricity Business Act of Korea, we sell all of the electricity we generate to KEPCO through the KPX. KEPCO is currently the only company engaged in the transmission and distribution of electricity in Korea. The results of power trading, as effected through the KPX, for the generation subsidiaries, including us, and independent power producers for the years ended December 31, 2015, 2016 and 2017 are as follows:

For the year ended December 31, 2015					
	Volume ⁽¹⁾⁽²⁾	Percentage of Total Volume	Sales ⁽¹⁾	Percentage of Total Sales	Unit Price
	(Gigawatt hours)	(%)	(in billions of Won)	(%)	(Won/kWh)
Generation Companies:					
KHNP	161,402	32.6	10,394	25.4	64.39
KOSEP	67,079	13.5	4,742	11.6	70.69
KOMIPO.....	43,850	8.9	3,826	9.3	87.25
KOWEPO	46,112	9.3	4,115	10.0	89.24
KOSPO.....	46,791	9.5	4,254	10.4	90.91
EWP	46,935	9.5	3,978	9.7	84.75
Others ⁽³⁾	82,945	16.8	9,644	23.6	116.27
Total	<u>495,114</u>	<u>100.0</u>	<u>40,951</u>	<u>100.0</u>	82.71
Energy Sources:					
Nuclear	157,106	31.7	9,836	24.0	62.61
Bituminous coal.....	194,176	39.2	13,270	32.4	68.34
Anthracite coal	6,778	1.4	731	1.8	107.78
Oil	9,391	1.9	1,408	3.4	149.91
LNG	5,881	1.2	789	1.9	134.18
Combined-cycle	100,565	20.3	12,656	30.9	125.85
Hydro	1,510	0.3	179	0.4	118.39
Pumped storage	3,639	0.7	483	1.2	132.82
Renewables ⁽¹⁾	15,803	3.2	1,573	3.8	99.51
Others.....	264	0.1	27	0.1	103.79
Total	<u>495,114</u>	<u>100.0</u>	<u>40,951</u>	<u>100.0</u>	82.71

Source: KEPCO.

Note:

- (1) Excludes sale of RPSs by generation companies.
- (2) Includes volume from CES projects.
- (3) Includes, among others, POSCO, OCI Company Ltd., LG Petrochemical Co., Ltd. and Korea Petrochemical IND. Co., Ltd.

For the year ended December 31, 2016

	Volume⁽¹⁾⁽²⁾	Percentage of Total Volume	Sales⁽¹⁾	Percentage of Total Sales	Unit Price
	(Gigawatt hours)	(%)	(in billions of Won)	(%)	(Won/kWh)
Generation Companies:					
KHNP	158,668	31.2	10,949	27.0	69.00
KOSEP	67,721	13.3	4,847	12.0	71.57
KOMIPO.....	42,896	8.4	3,621	8.9	84.42
KOWEPO	48,380	9.5	4,141	10.2	85.60
KOSPO.....	47,969	9.4	4,155	10.3	86.63
EWP	49,260	9.7	4,169	10.3	84.62
Others ⁽³⁾	93,986	18.5	8,632	21.3	91.84
Total	<u>508,879</u>	<u>100.0</u>	<u>40,514</u>	<u>100.0</u>	79.61
Energy Sources:					
Nuclear	154,175	30.3	10,489	25.9	68.03
Bituminous coal.....	199,505	39.2	14,732	36.4	73.84
Anthracite coal	7,071	1.4	626	1.5	88.57
Oil	13,262	2.6	1,462	3.6	110.27
LNG	1,148	0.2	144	0.3	125.01
Combined-cycle	110,562	21.7	10,959	27.0	99.12
Hydro	2,140	0.4	186	0.5	87.01
Pumped storage.....	3,617	0.7	385	1.0	106.35
Renewables ⁽¹⁾	17,031	3.3	1,502	3.7	88.22
Others.....	368	0.1	29	0.1	78.25
Total	<u>508,879</u>	<u>100.0</u>	<u>40,514</u>	<u>100.0</u>	79.61

Source: KEPCO.

Note:

- (1) Excludes sale of RPSs by generation companies.
- (2) Includes volume from CES projects.
- (3) Includes, among others, POSCO, OCI Company Ltd., LG Petrochemical Co., Ltd. and Korea Petrochemical IND. Co., Ltd.

For the year ended December 31, 2017

	Volume⁽¹⁾⁽²⁾	Percentage of Total Volume	Sales⁽¹⁾	Percentage of Total Sales	Unit Price
	(Gigawatt hours)	(%)	(in billions of Won)	(%)	(Won/kWh)
Generation Companies:					
KHNP	146,221	28.1	9,113	21.0	62.33
KOSEP	66,640	12.8	5,183	12.0	77.77
KOMIPO.....	50,254	9.7	4,410	10.2	87.75
KOWEPO	45,464	8.7	4,176	9.6	91.85
KOSPO.....	47,659	9.2	4,347	10.0	91.22
EWP	48,307	9.3	4,452	10.3	92.15
Others ⁽³⁾	115,684	22.2	11,662	26.9	100.81
Total	<u>520,230</u>	<u>100.0</u>	<u>43,343</u>	<u>100.0</u>	83.31
Energy Sources:					
Nuclear	141,098	27.1	8,573	19.8	60.76
Bituminous coal.....	224,834	43.2	17,755	41.0	78.97
Anthracite coal	4,014	0.8	385	0.9	95.89
Oil	5,735	1.1	949	2.2	165.40
LNG	1,595	0.3	165	0.4	103.67
Combined-cycle	115,945	22.3	12,998	30.0	112.10
Hydro	2,255	0.4	219	0.5	96.95
Pumped storage	4,171	0.8	450	1.0	107.96
Renewables ⁽¹⁾	20,028	3.8	1,803	4.2	90.03
Others.....	555	0.1	46	0.1	82.00
Total	<u>520,230</u>	<u>100.0</u>	<u>43,343</u>	<u>100.0</u>	83.31

Source: KEPCO.

Note:

- (1) Excludes sale of RPSs by generation companies.
- (2) Includes volume from CES projects.
- (3) Includes, among others, POSCO, OCI Company Ltd., LG Petrochemical Co., Ltd. and Korea Petrochemical IND. Co., Ltd.

Our Sales of Electricity

The tables below set forth our electricity sales, depending on the energy sources and a breakdown of base load and non-base load electricity sales in 2015, 2016, 2017 and the three months ended March 31, 2017 and 2018 based on our internal data.

For the year ended December 31, 2015					
	Volume	Percentage of Total Volume	Sales to KEPCO ⁽¹⁾	Percentage of Total Sales	Unit Price
	(Gigawatt hours)	(%)	(in billions of Won)	(%)	(Won/kwh)
Energy Sources:					
Bituminous coal.....	30,919	67.0	2,096	50.9	67.79
Oil.....	3,450	7.5	474	11.5	137.39
LNG.....	11,645	25.2	1,531	37.2	131.47
Renewable.....	118	0.3	14	0.4	118.64
Total	<u>46,132</u>	<u>100.0</u>	<u>4,115</u>	<u>100.0</u>	<u>89.22</u>
Load:					
Base load.....	30,919	67.0	2,096	50.9	67.79
Non-base load.....	<u>15,213</u>	<u>33.0</u>	<u>2,019</u>	<u>49.1</u>	<u>133.51</u>
Total	<u>46,132</u>	<u>100.0</u>	<u>4,115</u>	<u>100.0</u>	<u>89.22</u>

Note:

- (1) The information regarding sales in the table above differs from the amount of our electricity sales recorded by KPX due to the exclusion of our sale of RPSs, which is recognized and recorded at various points in time in the previous year that are not always aligned with the KPX system.

For the year ended December 31, 2016					
	Volume	Percentage of Total Volume	Sales to KEPCO ⁽¹⁾	Percentage of Total Sales	Unit Price
	(Gigawatt hours)	(%)	(in billions of Won)	(%)	(Won/kwh)
Energy Sources:					
Bituminous coal.....	30,602	64.5	2,341	57.3	76.50
Oil.....	4,986	10.5	508	12.4	101.89
LNG.....	11,516	24.3	1,208	29.6	104.90
Renewable.....	<u>347</u>	<u>0.7</u>	<u>29</u>	<u>0.7</u>	<u>83.57</u>
Total	<u>47,451</u>	<u>100.0</u>	<u>4,086</u>	<u>100.0</u>	<u>86.11</u>
Load:					
Base load.....	30,602	64.5	2,341	57.3	76.50
Non-base load.....	<u>16,849</u>	<u>35.5</u>	<u>1,745</u>	<u>42.7</u>	<u>103.57</u>
Total	<u>47,451</u>	<u>100.0</u>	<u>4,086</u>	<u>100.0</u>	<u>86.11</u>

Note:

- (1) The information regarding sales in the table above differs from the amount of our electricity sales recorded by KPX due to the exclusion of our sale of RPSs, which is recognized and recorded at various points in time in the previous year that are not always aligned with the KPX system.

For the year ended December 31, 2017

	Volume	Percentage of	Sales to	Percentage of	
	(Gigawatt	Total Volume	KEPCO⁽¹⁾	Total Sales	Unit Price
	hours)	(%)	(in billions of	(%)	(Won/kwh)
			Won)		
Energy Sources:					
Bituminous coal.....	35,442	80.4	2,861	70.3	80.72
Oil.....	1,036	2.3	199	4.9	192.08
LNG.....	6,483	14.7	917	22.5	141.45
Renewable	1,137	2.6	94	2.3	82.67
Total	<u>44,099</u>	<u>100.0</u>	<u>4,071</u>	<u>100.0</u>	<u>92.32</u>
Load:					
Base load.....	35,442	80.4	2,861	70.3	80.72
Non-base load.....	8,657	19.6	1,210	29.7	139.77
Total	<u>44,099</u>	<u>100.0</u>	<u>4,071</u>	<u>100.0</u>	<u>92.32</u>

Note:

- (1) The information regarding sales in the table above differs from the amount of our electricity sales recorded by KPX due to the exclusion of our sale of RPSs, which is recognized and recorded at various points in time in the previous year that are not always aligned with the KPX system.

For the three months ended March 31, 2017

	Volume	Percentage of	Sales to	Percentage of	
	(Gigawatt	Total Volume	KEPCO⁽¹⁾	Total Sales	Unit Price
	hours)	(%)	(in billions of	(%)	(Won/kwh)
			Won)		
Energy Sources:					
Bituminous coal.....	8,820	78.0	828	68.3	93.88
Oil.....	528	4.6	84	7.0	159.09
LNG.....	1,750	15.5	280	23.1	160.00
Renewable	214	1.9	20	1.6	93.46
Total	<u>11,312</u>	<u>100.0</u>	<u>1,212</u>	<u>100.0</u>	<u>107.14</u>
Load:					
Base load.....	8,820	78.0	828	68.3	93.88
Non-base load.....	2,492	22.0	384	31.7	154.09
Total	<u>11,312</u>	<u>100.0</u>	<u>1,212</u>	<u>100.0</u>	<u>107.14</u>

Note:

- (1) The information regarding sales in the table above differs from the amount of our electricity sales recorded by KPX due to the exclusion of our sale of RPSs, which is recognized and recorded at various points in time in the previous year that are not always aligned with the KPX system.

For the three months ended March 31, 2018					
	Volume	Percentage of Total Volume	Sales to KEPCO ⁽¹⁾	Percentage of Total Sales	Unit Price
	(Gigawatt hours)	(%)	(in billions of Won)	(%)	(Won/kwh)
Energy Sources:					
Bituminous coal.....	9,888	75.9	926	67.6	93.65
Oil.....	595	4.6	89	6.6	149.58
LNG.....	2,092	16.1	311	22.7	148.66
Renewable	450	3.4	43	3.1	95.56
Total	13,025	100.0	1,369	100.0	105.11
Load:					
Base load.....	9,888	75.9	926	67.6	93.65
Non-base load.....	3,317	24.1	443	32.4	133.55
Total	13,025	100.0	1,369	100.0	105.11

Note:

- (1) The information regarding sales in the table above differs from the amount of our electricity sales recorded by KPX due to the exclusion of our sale of RPSSs, which is recognized and recorded at various points in time in the previous year that are not always aligned with the KPX system.

Cost-based Pool System

Currently, other than in limited circumstances under the CES and certain exceptional transactions stipulated under the Enforcement Decree of the Electricity Business Act, the purchase and sale of electricity in Korea is required to be made through the KPX. The pricing of electricity in the Korean electricity market is based on the “cost-based pool” system and is determined principally based on the variable cost of generating electricity, adjusted by an adjustment factor that varies depending on fuel sources. See “The Korean Electricity Industry — Power Purchase — Cost-based Pool System.”

Demand Trends in Korea

The rapid growth in Korea’s economy since the early 1960s has resulted in substantial growth in the demand for electricity. Consumption levels, particularly during periods of peak demand, continue to press the limits of available supply.

According to KEPCO, demand for electricity in Korea grew at a compounded average rate of 1.7% per annum for the five years ended December 31, 2017, and total demand for electricity in Korea increased by 1.3% in 2015, 2.8% in 2016 and 2.2% in 2017, in each case, year on year. The GDP growth rate at chained 2010 year prices was 2.8% in 2015, 2.9% in 2016 and 3.1% in 2017, in each case, year on year based on preliminary data from the Bank of Korea.

The table below sets forth, for the periods indicated, the annual rate of growth in Korea’s GDP as published by the Bank of Korea and the annual rate of growth in electricity demand (measured in total annual electricity consumption) as published by KEPCO.

	For the year ended December 31.				
	2013	2014	2015	2016	2017
Growth in GDP (at chained 2010 year prices)	2.9%	3.3%	2.6%	2.9%	3.1%
Growth in electricity consumption.....	1.8%	0.6%	1.3%	2.8%	2.2%

Source: KEPCO; Bank of Korea

The demand for electricity varies depending on the season and the time of day. Demand is generally higher during the summer and winter seasons due to the use of air conditioners and heaters, respectively, and during daylight hours due to commercial and industrial activity. Variations in weather conditions may also cause significant variations in demand for electricity.

Demand by Class of Customer

The table below sets forth the consumption of electric power by class of customer for the periods indicated.

	For the year ended December 31,					% of Total
	2013	2014	2015	2016	2017	2016
	(gigawatt hours)					(%)
Industrial	265,373	272,552	273,548	278,828	285,969	56.3
Public & Service	102,196	100,761	103,679	108,617	111,298	21.9
Residential	65,815	64,457	65,619	68,057	68,544	13.5
Agricultural	13,866	14,505	15,702	16,580	17,251	3.4
Others ⁽¹⁾	27,599	25,317	25,107	24,957	24,684	4.9
Total	474,849	477,592	483,655	497,039	507,746	100.0

Source: KEPCO

Note:

(1) Consists of consumption for education, street lighting and overnight power

The industrial sector represents the largest segment of electricity consumption in Korea. Demand from the industrial sector has steadily increased as a result of a general increase in industrial production. Demand from the industrial sector increased by 2.6% to 285,969 gigawatt hours in 2017 compared to 2016.

Demand from the commercial sector has also generally increased in recent years. The continued expansion of the service sector of the Korean economy has resulted in increased office building construction, office automation and use of air conditioners. Growth in the commercial sector is also attributable to the construction industry and the expansion of the leisure and distribution industries. Demand from the commercial sector increased by 2.5% to 111,298 gigawatt hours in 2017 compared to 2016.

Continuing increase in demand from the residential sector is due primarily to increased use of air conditioners and other electrical appliances. Demand from the residential sector increased by 0.7% to 68,544 gigawatt hours in 2017 compared to 2016.

Power Development

In January 2014, the Government announced the Second Basic National Energy Plan, which is a comprehensive plan that covers the entire spectrum of energy industries in Korea, for the period from 2013 to 2035. The Second Basic National Energy Plan focuses on the following six key tasks: (i) shifting the focus of energy policy to demand management with a goal of reducing electricity demand by 15% by 2035, (ii) establishing a geographically decentralized electricity generation system so as to reduce transmission losses with a goal of supplying at least 15% of total electricity through such system by 2035, (iii) applying latest greenhouse gas emission reduction technologies to newly constructed generation units in order to further promote safety and environmental friendliness, (iv) strengthening exploration and procurement capabilities to enhance Korea's energy security and to ensure stable supply of energy and increasing the portion of electricity supplied from renewable sources to 11% by 2035, (v) reinforcing the system for stable supply of conventional energy, such as oil and gas and (vi) introducing in 2015 an energy voucher system in lieu of a tariff discount system for the benefit of consumers in the low income group. In addition, the Second Basic National Energy Plan revised the target level of nuclear generation capacity in Korea's electricity supply mix to 29%, compared to 41% under the First Basic National Energy Plan announced in 2008. In March 2018, the Government announced its plan to establish the Third Basic National Energy Plan by the end of 2018.

In December 2017, the Government released the Eighth Basic Plan which serves as the guideline for stable medium- and long-term supply of electric power. The objectives of the Eighth Basic Plan include, among other things, (i) increasing efforts to address environmental and safety concerns, including reducing greenhouse gas emission and yellow dust, (ii) decreasing the portion of electricity supplied using nuclear and coal energy sources, (iii) increasing the portion of electricity supplied from renewable energy, in particular solar and wind power, and (iv) promoting the replacement of coal with LNG as an energy source by reducing the gap in expenses incurred in using the respective fuel types, for example, by adjusting the consumption tax rates applicable to the respective fuel types. Furthermore, the Eighth Basic Plan includes the following implementing measures: (i) six new nuclear generation units in planning stages will not be constructed, (ii) the extension of life of 10 decrepit nuclear generation units will not be granted, (iii) Wolsong #1 unit will not count as part of domestic energy generation capacity, (iv) seven decrepit coal-fired generation plants will be retired by 2022, (v) six other coal-fired generation plants shall be converted to LNG fuel use and (vi) domestic renewable energy generation capacity shall be expanded to 58.5 gigawatts by 2030.

Capital Investment Program

According to the Eighth Basic Plan, the ratio of reserve power required to peak power demand at any future point in time is set at 19% from 2018 to 2025, and 22% from 2026 to 2031, and the total nominal capacity of all generating facilities in Korea in 2031 is expected to be 174.5 gigawatts, of which nuclear power plants are expected to contribute 11.7%, coal-fired plants 22.9%, LNG plants 27.2%, renewable energy plants 33.6% and other plants 4.6%. In accordance with the objectives of the Eighth Basic Plan, we intend to add new installed capacity, primarily in renewable energy.

Our capital expenditures, which represent the sum of acquisitions of property, plant and equipment and intangible assets in our statements of cash flows, were Won 1,582 billion in 2015, Won 657 billion in 2016, Won 645 billion in 2017, Won 171 billion for the three months ended March 31, 2017 and Won 91 billion for the three months ended March 31, 2018. In December 2016 and June 2017, we commenced commercial operations of our Taean #9 and #10, respectively,

which are coal-fired steam electric power units with a nominal electric power output of 1,050 megawatts each. In August 2016, we commenced commercial operations of our Taean IGCC power plant with an installed capacity of 346 megawatts. In addition, we are constructing a LNG fueled combined cycle unit in Shin Pyeongtaek with an installed capacity of 943 megawatts, which construction is expected to be completed in the second half of 2019.

We are also planning to increase our investments in renewable energy generation in order to meet our annual RPS obligations. For example, we are currently in the process of constructing an 18-megawatt fuel cell unit in Seoincheon to be completed by 2019, and a 16-megawatt wind power plant in Jangheung and a 5-megawatt small hydro power unit in Taean to be completed by 2020.

The actual number and capacity of generation units we construct and the timing of such construction will depend upon a variety of factors, including demand growth projections, availability and cost of financing, changes in fuel prices and availability of fuel, ability to acquire necessary plant sites, environmental considerations, community opposition and other factors.

The table below sets forth for 2018, 2019, 2020 and 2021 the budgeted amounts of our capital expenditures and investment in associates and joint ventures pursuant to our capital investment program. The budgeted amounts may vary from the actual amounts of our capital expenditures for a variety of reasons, including changes in the number of units to be constructed and the timing of such construction, changes in rates of exchange between the Won and foreign currencies, changes in interest rates and other factors.

	For the year ended December 31,			
	2018 ⁽¹⁾	2019	2020	2021
	(in billions of Won)			
Maintenance of existing generation facilities	458	453	652	757
Construction of new generation facilities	466	631	990	1,008
Investments in domestic IPP and CES activities	73	72	42	11
Investments in overseas IPP and resources development projects.....	39	107	126	82
Others ⁽²⁾	65	65	51	46
Total	<u>1,101</u>	<u>1,328</u>	<u>1,861</u>	<u>1,904</u>

Notes:

(1) Includes amounts expended through March 31, 2018.

(2) Miscellaneous expenditures for investments and maintenance of non-generation and ancillary facilities.

Power Plant Refurbishment and Recommissioning

We supplement power generation capacity through refurbishing or recommissioning our power plant units, which includes installation of anti-pollution devices, modification of control systems and overall rehabilitation of existing equipment. Ensuring the reliability of our equipment is critical to our operations.

The useful life of each type of units without substantial refurbishment is approximately 30 years for thermal and combined cycle units. For units that have been in service for more than 20 years, substantial refurbishment can extend the useful lives of thermal units by an additional ten years or more. For example, we are currently in the process of rationalizing the capacity of, and refurbishing existing equipment in, some of the older units of our Taean power plant complex, which we anticipate will be completed by 2026.

Independent Power Producer and Community Energy System Projects

Based on our more than 30 years of experience in operating and maintaining power plants, we have become involved in a number of domestic and overseas IPP projects in recent years, both as an investor and plant operator.

We collaborate with a number of IPPs that specialize in the construction and operation of power plants fueled by renewable energy. For example, we, GS Energy Corp. and KB Asset Management Co., Ltd., as a consortium, are constructing an LNG fueled combined cycle unit in Shin Pyeongtaek with an installed capacity of 1,000 megawatts, which construction is expected to be completed in the second half of 2019. As of March 31, 2018, we held a 40% equity interest in the consortium.

We expect to leverage our expertise in other IPP projects in the future. We believe that such activities will help us to diversify our revenue streams and leverage our operational experience gathered from overseeing our power plants. Please see “—Overseas Activities” for a description of our overseas IPP projects.

We also participate in CES projects in Seoincheon through IPPs located in such area. For example, we have a 43.9% equity interest in Cheongna Energy Co., Ltd., which generates and distributes vapor and hot/cold water in the Seoincheon area. For the three months ended March 31, 2018, Cheongna Energy Co., Ltd. supplied 367,650 gigacalories of heat and generated sales of Won 28 billion.

Overseas Activities

We are actively engaged in a number of overseas IPP and resource development projects. Our overseas IPP projects help us apply our operational experience and add new revenue streams, while our overseas resource development activities help us establish strategic relationships with companies that are supplying or may supply fuel to us. The table and descriptions set forth below summarize the material overseas projects that we were pursuing as of March 31, 2018.

Country	Project Period	Project Description	Invested Capital to March 31, 2018	Equity Interest as of
				March 31, 2018
Saudi Arabia.....	2009~2033	Operation and maintenance of power plants	SAR 200,000	40.0%
India.....	2012~2041	Build, own and operate	U.S.\$44.5 million	38.5%
Laos	2012~2046	Build, own and transfer and operation and maintenance of power plants	U.S.\$62.3 million	25.0%
Indonesia.....	2016~	Resource operation in Bayan	Won 80.5 billion	4.0%
Australia.....	2008~2032	Resource operation in Moolarben	AUD 24.0 million	1.25%
Australia.....	2016~2061	Resource development in Bylong	AUD 7.0 million	2.0%

IPP Projects

- We, ACWA Power and Saudi Electricity Company, as a consortium, completed the construction of a thermal power plant with an installed capacity of 1,204 megawatts in Rabigh, Saudi Arabia, in April 2013. We currently provide operation and maintenance services through Rabigh O&M Co., Ltd., a joint venture in which we hold a 40% interest as of March 31, 2018.
- In March 2012, we acquired a 40% equity interest in Pioneer Gas Power for a purchase price of approximately U.S.\$45 million, which constructed a 388 megawatt combined cycle power plant in Maharashtra, India. The construction was completed in July 2016 and the power facility commenced commercial operation in July 2016.
- We and SK E&C Co., Ltd., Ratchaburi Electricity Generating Holding Plc and Lao Holding State Enterprise, as a consortium, are constructing a hydro generation plant with an installed capacity of 410 megawatts in Xe-Namnoy, Laos. The construction is expected to be completed in February 2019. Upon completion of construction, we will provide operations and maintenance services. The consortium operates through Xe-Pian Xe-Namnoy Power Co., Ltd., a joint venture in which we hold a 25% interest as of March 31, 2018.

Resource Development Projects

- In December 2016, pursuant to the June 2016 Government Plan, KEPCO divested its 20% equity interest in PT Bayan Resources TBK (“Bayan”) and sold a 4% equity interest for Won 80.5 billion to each of the five non-nuclear Generation Subsidiaries, including us. Bayan is a leading coal producer in Indonesia.
- In January 2008, we and three other non-nuclear Generation Subsidiaries and KEPCO were part of a Korean consortium that acquired a 10% interest in a coal mine project located in Moolarben, New South Wales, Australia. The Moolarben project began production of bituminous coal in May 2010. In December 2016, pursuant to the June 2016 Government Plan, KEPCO divested its 1% interest in the Moolarben project and sold 0.25% to each of the four Generation Subsidiaries, including us, raising each of our interests to 1.25%. The four Generation Subsidiaries have a coal off-take agreement for 2.5 million tons of bituminous coal per annum.
- In December 2016, pursuant to the June 2016 Government Plan, KEPCO sold a 2% equity interest in KEPCO Bylong Australia Pt., Ltd., a KEPCO subsidiary developing the Bylong coal mines located in New South Wales, Australia, to each of the five non-nuclear Generation Subsidiaries, including us, for AUD 70.3 million each. The Bylong project is still in the developmental stage.

Environment

The Environment Policy Basic Act of 1990 and other related legislation and regulations (the “Environment Acts”), which are principally administered by the Ministry of Environment, regulate atmospheric emissions, waste water and other emissions from our generation units. See “Risk Factors—Environmental regulations may adversely affect our operations.” We believe that our generation units are currently in substantial compliance with the requirements of the Environment Acts.

Atmospheric emissions from generation plants burning fossil fuels include, among other things, sulfur dioxides, nitrogen oxides and dust. The Environment Acts establish emissions standards relating to, among other things, sulfur oxides, nitrogen oxides (“NOx”) and dust. Such standards have become more stringent in recent years to reduce the amount of permitted emissions. Currently, Flue Gas Desulfurization (“FGD”) systems are installed in 14 units at our Taean and Pyeongtaek power plant complexes to reduce sulfur oxide emissions. We have installed Electrostatic Precipitation systems in 14 units at our Taean and Pyeongtaek power plant complexes to reduce dust emissions and minimize the unintended dispersion of powdered coal. We have also installed Selective Catalytic Reduction systems, which reduce NOx emissions, in 15 units at our Taean and Pyeongtaek power plant complexes. In addition, we have installed DeNOx systems, such as the Low NOx Burner and Over Fired Air systems, in 26 units at our Taean, Pyeongtaek, Seoincheon and Gunsan power plant complexes. The installation of such emissions control equipment may also result in increased operating costs. The actual costs of installation and operation of such equipment will depend upon a variety of factors, including, among other things, modifications to emissions limits and the amount of power such equipment will consume. In order to comply with current and expected environmental standards and address related legal and social concerns, we intend to continue to install additional equipment and make related capital expenditures. Our currently budgeted amounts for facilities related to compliance with environmental regulation are Won 72 billion, Won 97 billion and Won 110 billion for 2018, 2019 and 2020, respectively.

The Environment Acts also prescribe maximum permissible levels of pollutants that can be contained in waste water. We operate waste water purification facilities so that the level of waste water discharged from our power plant complexes fall within permissible levels. All waste materials discharged from our power plant complexes are collected, separated and temporarily stored until they are safely transported to appropriate waste sites. In addition, all of our coal-fired units are equipped with ash-ponds to store coal ashes.

In order to minimize the level of noise and vibration pollution, we have erected sound barrier walls at strategic locations and installed silencers and vibration mufflers on certain equipment.

To ensure compliance with the requirements of the Environment Acts, we have installed automatic computerized monitoring systems at strategic locations at our power plant complexes. These monitoring systems constantly measure the level of pollutants being discharged from our power plant complexes and transmit such information via modem to a main server, which then further transmits such information to our headquarters and the relevant governmental agencies through the Internet.

Prior to the construction of a power generation unit, we must perform an environmental impact assessment which is designed to evaluate public hazards, damage to the environment and concerns of local residents. A report reflecting this evaluation and proposed measures to address the problems identified must be submitted to and approved by the Ministry of Environment prior to the construction of the unit. We are then required to implement the measures reflected in the approved report.

We have received ISO 14001 certification for our environmental management system. We are also taking steps to ensure compliance with the Kyoto Protocol and the Paris Agreement, including planned constructions of biomass power, wind power, solar power, fuel cell, bio-dual fuel and carbon capture and electricity storage system units.

Competition

The electricity industry is in the process of liberalization and deregulation, beginning with the establishment of the Generation Subsidiaries, including us, in April 2001, in accordance with the Restructuring Plan. In 2017, over 80% of electricity demand in Korea was supplied by us and the other Generation Subsidiaries. We compete principally with the four other non-nuclear Generation Subsidiaries and, to a lesser extent, as described below, KHNP. In addition, we compete with IPPs on a limited basis. As of December 31, 2017, there were 18 IPPs in Korea based on data from the KPX.

High initial investment costs are an effective barrier to entry for newcomers in the industry. Cost and service quality are the most important determining factors in respect of competition in the Korean electricity generation industry. For the respective market shares of the Generation Subsidiaries, including us, in terms of sales to KEPCO based on trading results on the KPX in 2015, 2016, 2017 and the three months ended March 31, 2018, see “— Sales and Purchase of Power — Sales to KEPCO.” Historically, demand for electricity has grown at a rate exceeding the growth of Korea’s GDP. However, the rate of growth in demand for electricity has slowed in recent years as Korean economy has matured, and we expect that competition for the sale of electricity generated will become more intense as the other Generation Subsidiaries and the IPPs ramp up their installed capacity of LNG and renewable energy generation in their product mix in accordance with the Eighth Basic Plan.

We believe that we and the other non-nuclear Generation Subsidiaries do not compete directly with KHNP due to the inherent difference in cost structures between non-nuclear Generation Subsidiaries and the nuclear Generation Subsidiary. In general, the cost of generating power is lower for the nuclear Generation Subsidiary than for non-nuclear Generation Subsidiaries.

Deregulation

The Korean electricity industry has been undergoing deregulation since 1999. For a description of the deregulation process, see “The Korean Electricity Industry — Restructuring of the Electricity Industry in Korea.”

Pursuant to the Electricity Business Act, the Government established the KOREC in April 2001 to regulate the Korean electricity industry and to ensure fair competition. All of the Generation Subsidiaries, including us, are under the general supervision of the KOREC.

The Electricity Business Act administered by the MOTIE requires that licenses be obtained in relation to the generation of electricity for sale to others, with limited exceptions. Each of the Generation Subsidiaries, including us, is deemed to possess an electricity generation license and other governmental approvals (which KEPCO possessed prior to April 2, 2001, pursuant to the Law on Promotion of Restructuring of Electricity Power Industry).

Our operations are subject to a number of laws and regulations relating to environmental protection and safety. See “— Environment” above.

Research and Development

We maintain a research and development (“R&D”) program concentrated on developing self-reliant core technology and, in cooperation with KEPCO, leading national technology advancement in the electric power generation business.

Our R&D activities and those of the other Generation Subsidiaries are principally carried out by the Korea Electric Power Research Institute (“KEPRI”), KEPCO’s research center in Daejeon, Korea. Similar to the other Generation Subsidiaries, we supervise and finance R&D activities being performed by KEPRI, including joint studies co-sponsored by the other Generation Subsidiaries.

In 2015, 2016, 2017 and the three months ended March 31, 2018, we were involved in 61, 82, 109 and 120 R&D projects, respectively. In 2018, we plan to undertake 138 R&D projects, which will involve improving technologies relating to power generation, among others.

We invested in R&D approximately Won 27 billion, Won 14 billion, Won 15 billion and Won 5 billion, constituting approximately 0.6%, 0.3%, 0.4% and 0.4% of our sales in 2015, 2016, 2017, and the three months ended March 31, 2018, respectively. In 2018, we plan to invest approximately Won 15 billion in R&D.

Patents, Utility and Trademark

As of March 31, 2018, we owned 283 patents and 18 utility model rights, including co-owned patents and utility model rights, and had 388 patent applications and 123 utility model rights applications pending in Korea. Most of the patents and utility model rights relate to generation processes and generator maintenance tools. We believe that our patents and utility model rights are vital to our power generation and R&D activities. As of March 31, 2018, we also owned 10 trademarks and 15 intellectual property rights on design.

The period of protection offered under current Korean legislation (i) with respect to a patent commences upon registration thereof and ends 20 years from the filing date, (ii) with respect to a utility model right commences upon registration thereof and ends ten years from the filing date, (iii) with respect to a trademark is ten years from registration with the option to renew for an additional ten years indefinitely and (iv) with respect to an intellectual property right on design commences upon registration thereof and ends 20 years from the filing date; provided that intellectual property rights on designs related to registered intellectual property rights on designs of the owner thereof (the “intellectual property right on principal design”) expires at the end of the duration of the intellectual property right on principal design.

Insurance

We have obtained a general commercial insurance policy to insure against fire and natural disasters up to Won 14,298 billion and mechanical accidents up to Won 3,280 billion. We also have marine cargo insurance in respect of imported fuel and procurement with insurance coverage of U.S.\$20 million per shipment, as well as general vehicle insurance. We also maintain directors’ and officers’ liability insurance.

Our insurance and indemnity policies do not cover all of the assets that we own and operate and do not cover all types or amounts of loss which could arise in connection with the ownership and operation of our power plants, and material financial consequences could result from a significant accident. We also do not carry insurance for business interruptions. In addition, we do not carry insurance against terrorist attacks. As a result, significant accidents with damages over our “per occurrence” limit, or the occurrence of events for which we are not insured, may have a material adverse impact on our financial condition and results of operations.

Property, Plant and Equipment

Our property consists mainly of power generation equipment and facilities in Korea. See “— Power Generation” and “— Capital Investment Program.” As of March 31, 2018, the net book value of our property, plant and equipment was Won 8,042 billion and we had financial leases for assets amounting to Won 240 billion. No significant portion of our properties is leased.

In June 2005, the Korean government announced its policy to relocate the headquarters of select government-invested enterprises, including KEPCO and the Generation Subsidiaries, from their current locations in the Seoul metropolitan area to other provinces in Korea. Pursuant to this policy, we relocated our headquarters to Chungcheongnam-do in 2015.

Legal and Regulatory Proceedings

We are subject to the risk of legal claims and regulatory actions in the ordinary course of our business, which may expose us to substantial monetary damages and legal costs, injunctive relief, criminal and civil penalties, sanctions against our management and employees and regulatory restrictions on our operations, as well as reputational harm. As of March 31, 2018, we have been named as a defendant in 16 lawsuits for claimed damages of approximately Won 38 billion in the aggregate.

As of March 31, 2018, we paid Won 8 billion in relation to a number of class action and individual lawsuits involving hundreds of our current and former employees for unpaid ordinary wages. See “Risk Factors — We may be exposed to potential claims made by current or previous employees for unpaid wages and may also incur increased labor costs as a result of the expansion of the scope of ordinary wages.”

In May 2018, the Daegu District Court sentenced Dong Sop Kim, one of our standing directors, to 3 years in prison and imposed a Won 95 million fine for accepting bribes totaling Won 45 million in return for manipulating terms relating to renewable energy certificates. The case was appealed to the Daegu High Court in May 2018, where it is currently pending. We expect to appoint a successor director to replace Mr. Kim, whose term has expired, at the general meeting of shareholders to be held in June 2018. See “Risk Factors — Our business may be materially and adversely affected by legal claims and regulatory actions against us.”

The outcome of these proceedings cannot presently be determined. We cannot presently assure you that there will not be further lawsuits in relation to aforementioned matters or that the reserve amount that we have set aside will be sufficient to cover any compensation or damages arising from the present or future litigation. However, our management believes that the ultimate disposition of these cases will not have a materially adverse impact on our operations or financial position.

Employees

As of March 31, 2018, we had 2,351 regular employees, consisting of 2,333 full-time and 15 part-time employees, as well as 3 temporary employees. The following table sets forth the number of our employees at our various work locations as of March 31, 2018.

Location	Number of Employees
Head office in Chungcheongnam-do.....	367
Taeon Thermal Power Complex Division.....	1,201
Pyeongtaek Thermal Power Complex Division	400
Seoincheon Combined Cycle Power Complex Division	240
Gunsan Combined Cycle Division.....	131
Others	12
Total.....	<u>2,351</u>

We grant our employees annual increases in basic wages and quarterly bonuses in accordance with the wage guidelines set by the Government. Under the guidelines applicable to Public Enterprises pursuant to the Act on the Management of Public Institutions, we may increase average wages up to 2.6% on a year-on-year basis for 2018. Although we are not obligated to follow these Government-issued guidelines, it is our policy to increase our budget for labor cost within these guidelines. Wages increased by an average of 3.8% in 2015, 2.0% in 2016 and 2.5% in 2017 in accordance with the Government guidelines then in effect.

We provide our employees with the national pension plan and medical insurance. With respect to the national pension plan, we generally match our employees' contributions in the amount of 4.5% of each employee's salary, and with respect to medical insurance, we match our employees' contributions in the amount of 3.1% of each employee's salary.

As of March 31, 2018, approximately 59.2% of our employees were members of the Korea Western Power Labor Union, which membership comprises entirely of our employees, and approximately 7.5% of our employees were members of the Korean Power Plant Industry Union, of which employees of other non-nuclear Generation Subsidiaries are also members. We negotiate a collective bargaining agreement every two years, except for wages, which are negotiated every year, with the Korea Western Power Labor Union. The current collective bargaining agreement with the Korea Western Power Labor Union was entered into in December 2016. Pursuant to applicable Korean law, an Employee-Employer Cooperation Committee, which is composed of up to ten representatives of management and up to ten union employee representatives, is required to be, and has been, established. The Committee meets periodically to discuss various labor issues.

The Restructuring Plan and the privatization plan for the Generation Subsidiaries have generated labor unrest. Labor unions to which our employees belong have voiced their opposition to the Restructuring Plan from its inception, in particular with respect to the prospect of our privatization and the privatization of the other Generation Subsidiaries. On February 25, 2002, employees belonging to labor unions of the non-nuclear Generation Subsidiaries, including us, commenced a strike, which lasted six weeks, to protest the Government's plans to privatize us and the other Generation Subsidiaries. The Korean Confederation of Trade Unions ("KCTU"), the largest governing body of labor unions in Korea with over 800,000 members, negotiated with the Government on behalf of the labor unions. After prolonged negotiations with the Government,

KCTU directed the labor unions of the non-nuclear Generation Subsidiaries to end their strike on April 2, 2002. We cannot assure you that a large-scale strike or any other work stoppages will not occur again in the future or that any such labor unrest will be satisfactorily resolved. Labor unrest may adversely affect our results of operations by severely disrupting the power supply as well as substantially hinder the implementation of the Government's plans.

Related Party Transactions

For our sale of electricity to KEPCO through KPX, see “— Sales and Purchase of Power” above.

As of March 31, 2018, we had a 7.1% ownership of KPX, which represents the carrying amount of our investment of Won 16 billion.

We employ KEPCO KPS Co., Ltd., KEPCO E&C Inc. and KEPCO KDN Co., Ltd., affiliates of KEPCO, for maintenance services for all our power generation facilities, design for power plant construction and data processing services.

For transactions and related account balances with related parties, including KEPCO and its subsidiaries, see Note 36 of our audited annual financial statements as of and for the years ended December 31, 2016 and 2015, Note 36 of our audited annual financial statements as of and for the years ended December 31, 2017 and 2016 and Note 36 of our unaudited condensed consolidated interim financial statements as of March 31, 2018 and for the three months ended March 31, 2017 and 2018 included elsewhere in this Offering Circular.

We have an LNG purchase contract with KOGAS, a related party, with the quantity to be determined by mutual agreement. In addition, we have several contracts with Korea Coal Corporation and others with the quantity to be set by the Korean government.

Share Ownership

The following table sets forth certain information relating to our shareholder as of March 31, 2018 and as of the date hereof:

Title of Class	Identity of Person or Group	Shares Owned	Percentage
Common stock	Korea Electric Power Corporation	33,329,119	100.0%

None of our directors and members of the administrative, supervisory or management bodies owns any share of our common stock.

MANAGEMENT

Directors and Senior Management

Under our articles of incorporation, our board of directors, consisting of not less than three and not more than fifteen directors, including the president, is vested with the power of management. The directors are classified into two categories: standing directors and non-standing directors. The number of standing directors must be less than one half the number of directors, which includes the president. The standing directors also presently constitute our executive officers.

The representative director, who acts as our president and a standing director, is appointed by the President of Korea through the following nomination process: the recommendation of two or more candidates by the officer recommendation committee, followed by the resolution of the Committee for Management of Public Institutions established under the Act on the Management of Public Institutions, followed by the resolution of our shareholders at the general meeting, followed by the nomination by the Minister of MOTIE. The standing directors are appointed by the president following the resolution of shareholders at a general meeting, except that any standing director who is to become a member of the audit committee must be appointed by the President of Korea following the nomination of two or more candidates by the officer recommendation committee, the resolution by the Committee for Management of Public Institutions, the resolution by our shareholders and the nomination by the Minister of MOSF. The non-standing directors are appointed by the Minister of MOSF following the nomination of two or more candidates by the officer recommendation committee, the resolution by the Committee for Management of Public Institutions and the resolution by our shareholders. The president serves as our chief executive officer, represents us and administers our day-to-day business in all matters not specifically designated as responsibilities of the board of directors.

The term of office of the president is three years and the term of office of a director is two years. Officers may be reappointed each year to one-year terms in accordance with the Act on the Management of Public Institutions. If an officer is reappointed, the recommendation of the officer recommendation committee is not required. If the president is reelected, the management contract set forth in our articles of incorporation must be re-executed, but the discussion of the officer recommendation committee under our articles of incorporation is not required.

The presence at board meetings of a majority of the board of directors constitutes a voting quorum and resolutions can be passed by a majority of the board of directors. The names, titles, and outside occupations, if any, of our current board of directors and the respective dates on which they took office are set forth below.

Name	Age	Title	Outside Occupation	Position Held Since
Kim, Byung Sook	60	President & CEO	—	March 2018
Park, Dae Seong ⁽¹⁾	58	Statutory Auditor	—	March 2016
Jeong, Yung Chul ⁽¹⁾	60	Standing Director	—	March 2014
Kim, Dong Sop ⁽¹⁾	61	Standing Director	—	March 2014
			Chairman, Cheongyang Community Social Security Council	
Kim, Jeong Suk	56	Non-Standing Director	—	July 2016
Ahn, Byung Chul	53	Non-Standing Director	—	July 2016
Joo, Yong Sik	65	Non-Standing Director	—	January 2017
			Vice President, KPO Lecture Organization	
Park, Young Jong	61	Non-Standing Director	—	May 2018
			Head of Technology, Korea Electric Association	
Yoon, Sang-young	60	Non-Standing Director	—	May 2018

Notes:

- (1) The term of this director has expired, but pursuant to the Act on the Management of Public Institutions, the director is continuing his duties until his term is officially extended or a successor is appointed.

Byung Sook Kim has served as our president and CEO since March 2018. Mr. Kim received a bachelor's degree in electrical engineering from Chonbuk National University, a master's degree in electrical engineering from Chonbuk National University and a doctorate in electrical engineering from Chonbuk National University. Prior to joining us, he was the executive vice president of the new growth engine division at KEPCO.

Dae Seong Park has served as our statutory auditor since March 2016. Mr. Park received a bachelor's degree in political science and public administration from Korea National Open University, a master's degree in public policy from Yonsei University and a doctorate in public administration from Kookmin University. Prior to joining us, he was the chief of policy support division at Korea Labor Force Development Institute for the Aged and the senior expert of the Committee of Agriculture and Fisheries for the Saenuri party.

Yung Chul Jeong has served as a standing director since March 2014. Mr. Jeong received a bachelor's degree in trade and commerce from Dong-A University and a master's degree in business administration from the University of Washington. He is currently the executive vice president of the administration division. Previously, he was the managing director of our procurement department and group management support department.

Dong Sop Kim has served as a standing director since March 2014. Mr. Kim received a bachelor's degree in mechanical engineering from Seoul National University of Science and Technology and a master's degree in mechanical engineering from Yonsei University. He is currently the executive vice president of our engineering division. Previously, he was the managing director of our power generation department and Taean thermal power complex division.

Jeong Suk Kim has been a non-standing director since July 2016. Ms. Kim received a bachelor's degree in local government studies from Chungnam State University and a master's degree in public administration from Kongju National University. She is currently also the chairman of Cheongyang Community Social Security Council. Previously, she was a member of the Chungcheongnam-do Council.

Byung Chul Ahn has been our non-standing director since July 2016. Mr. Ahn received a bachelor's degree in physics from Hannam University and a master's degree in satellite information sciences from Pukyong National University. Previously, he was the adviser to the chairman of the Health and Welfare Committee of the National Assembly of Korea and the director of information strategy at Hyundai Information Technology Co., Ltd.

Yong Sik Joo has been our non-standing director since January 2017. Mr. Joo received a bachelor's degree in history from Korea Military Academy. Previously, he was the chief executive officer of Credit Information Companies Association and Korea Federation of Saving Banks.

Young Jong Park has been our non-standing director since May 2018. Mr. Park received a bachelor's degree in law from Korea National Open University, a master's degree in administration from Chonbuk National University and a doctorate in electric engineering from Korea Polytechnic University. He is currently the vice president of KPO Lecture Organization.

Sang-young Yoon has been our non-standing director since May 2018. Mr. Yoon received a bachelor's degree in electric engineering from Seoul National University of Science & Technology and a master's degree in electric engineering from Hanyang University. He is currently the head of technology at Korea Electric Association.

Board Committees and Practices

Our articles of incorporation provide for the establishment of the audit committee, the officer recommendation committee and other committees as deemed necessary by our board of directors. The audit committee consists of three directors, at least two of whom must be non-standing directors. At least one of the audit committee members must be an accounting or financial expert under article 37(2) of the Enforcement Decree of the Korean Commercial Code. In addition to the audit committee, we maintain committees related to managing ethics and safety, reviewing business investments and budgets and strategic management.

Compensation of Directors and Executive Officers

The president's management contract provides for benefits upon termination of his employment. The president is only eligible for retirement and severance pay after more than one year of continuous service. For each year's employment, the payment amount for retirement and severance pay is equal to the average income for one month.

The terms for retirement and severance pay for standing directors (including the president) are determined in accordance with the internal regulations for executive benefits. Standing directors are only eligible for retirement and severance pay after retirement or upon death following one year of continuous service. Retiring standing directors receive an average month's worth of salary for every year served as a standing director.

For the three months ended March 31, 2018, the aggregate amount of remuneration paid and accrued to the directors and executive officers, including the statutory auditor, as a group, was Won 67 million. The aggregate amount we set aside or accrued during the three months ended March 31, 2018 to provide retirement and severance benefits for directors and executive officers, including the statutory auditor, was Won 6 million.

TAXATION

The following summary contains a description of certain Korean and U.S. federal income tax consequences of the ownership and disposition of Notes, but it does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a decision to purchase or dispose of Notes. This summary is based on the Korean and U.S. federal income tax laws in force on the date of this Offering Circular (which are subject to change and which changes may have retroactive effect), and does not describe any tax consequences arising under the laws of any state, locality or taxing jurisdiction other than the laws of Korea and the federal income tax laws of the United States.

Prospective purchasers of Notes should consult their own tax advisors as to the Korean, U.S. or other tax consequences of the ownership and disposition of Notes, including the effect of any foreign, state or local tax laws.

Korean Taxation

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

Income Tax and Corporation Tax on Interest

Interest on the Notes paid to Non-Residents is exempt from income tax and corporation tax (whether payable by withholding or otherwise) pursuant to the Special Tax Treatment Control Law (the **“STTCL”**), subject to the tax consequences with respect to Index Linked Notes set out in the applicable Pricing Supplement, **provided that** the Notes are “foreign currency denominated bonds issued outside of Korea” under the STTCL. The term “foreign currency denominated bonds issued outside of Korea” in this context is not defined under the STTCL. In this regard, the Korean tax authority issued a ruling on September 1, 1990 to the effect that “Notes Issuance Facility, USCP, Euro CP and Banker’s Acceptance, etc.” are not treated as “foreign currency denominated bonds.”

If not exempt under the STTCL, the rate of income tax or corporation tax applicable to interest or any premium on the Notes, for a Non-Resident, is currently 14%. In addition, a tax surcharge, called a local income tax, is imposed at the rate of 10% of the income or corporation tax (raising the total tax rate to 15.4%).

The tax rates may be reduced or exempted by applicable tax treaty between Korea and the residence country of the recipient of the interest. The relevant tax treaties are discussed below.

In order to obtain the benefit of a tax exemption available under applicable tax treaties, a beneficial owner of the interest should submit to the party liable for withholding an application for exemption, together with a certificate of the tax residence issued by a competent authority of the beneficial owner’s residence country. Subject to certain exceptions, the Korean tax laws also require an overseas investment vehicle (which is defined as an organization established in a foreign jurisdiction that manages funds collected through investment solicitation by way of acquiring, disposing or otherwise investing in proprietary targets and then distributes the outcome of such management to investors) to obtain the application for exemption from the beneficial owners together with a certificate of tax residence of the beneficial owner and submit a report of

overseas investment vehicle to the party liable for the withholding, together with a detailed statement on the beneficial owner of the income and the obtained application for exemption from the beneficial owner. The party liable for the withholding of the interest is required to submit the application for exemption together with the certificate of tax residence to its district tax office no later than the ninth day of the month following the month in which the interest is paid. However, this requirement does not apply to exemptions under Korean tax law.

Further, in order to obtain the benefit of a reduced rate available under applicable tax treaties, a beneficial owner should submit an application for entitlement to reduced tax rate to the party liable for the withholding before the receipt of relevant payment (if there is no change in the contents of such application, it is not required to submit again within three years thereafter), together with a certificate of the non-resident holder's tax residence issued by a competent authority of the non-resident holder's residence country. Subject to certain exceptions, the Korean tax law also requires an overseas investment vehicle to receive the application for entitlement to a reduced tax rate from the beneficial owners and forward a report of overseas investment vehicle to the party liable for the withholding, together with a detailed statement on the beneficial owner of the income. However, this requirement does not apply to exemptions under Korean tax law.

If the Non-Resident holder could not obtain the benefit of an exempted or reduced rate due to the failure of the timely submission of the above-mentioned application, the Non-Resident holder can get the tax refunded if the application of the claim for reassessment is submitted within five years from the last day of the month in which the withholding occurs.

Index Linked Notes

A detailed description of the tax considerations relevant to Index Linked Notes will be provided in the applicable Pricing Supplement.

Capital Gains Tax

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

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

The purchaser or any other designated withholding agent of the Notes is obliged under Korean law to withhold the applicable amount of Korean tax and make payment thereof to the relevant Korean tax authority. Unless the seller can claim the benefit of an exemption from the tax under an applicable tax treaty, in the absence of the seller producing satisfactory evidence of his

or her acquisition cost and certain direct transfer cost in relation to the Notes being sold, the purchaser or such withholding agent must withhold an amount equal to 11% of the Gross Realization Proceeds. Any amounts withheld by the purchaser or such withholding agent must be paid to the relevant Korean tax authority no later than the tenth day of the month following the month in which the sale of the relevant Notes occurred. Failure to transmit the withheld tax to the Korean tax authorities in time technically subjects the purchaser or the withholding agent to penalties under Korean tax laws and a Non-Resident who is liable for payment of any Korean tax on gains, either as a seller of Notes or as a purchaser or the withholding agent who is obliged to withhold such tax, is subject to the Korean tax authorities seeking enforcement through attachment of, or other legal proceedings against, payments due to it from its Korean investments and to enforcement against the assets or revenues of any of the Non-Resident's branch or representative offices in Korea.

In addition, in order to obtain the benefit of a tax exemption available under applicable tax treaties, a beneficial owner should submit to the purchaser or the withholding agent an application for exemption, together with a certificate of the beneficial owner's tax residence issued by a competent authority of the beneficial owner's residence country. Subject to certain exceptions, the Korean tax law also requires an overseas investment vehicle to receive the application for tax exemption from the beneficial owners together with a certificate of tax residence of the beneficial owner and forward a report of overseas investment vehicle to the withholding obligor, together with a detailed statement on the beneficial owner of the income and the obtained application for an exemption from the beneficial owner. The purchaser or the withholding agent is required to submit the application for exemption together with the certificate of the beneficial owner's tax residence to its district tax office no later than the ninth day of the month following the month in which sale proceeds are paid. However, this requirement does not apply to exemptions under Korean tax law.

If the Non-Resident holder could not obtain the benefit of a tax exemption due to the failure of the timely submission of the above-mentioned application, the Non-Resident holder can get the tax refunded if the application of the claim for reassessment is submitted within five years from the last day of the month in which the withholding occurs.

Inheritance Tax and Gift Tax

Korean inheritance tax is imposed upon (a) all assets (wherever located) of the deceased if at the time of his or her death he or she was domiciled in Korea or resided in Korea for at least 183 days immediately prior to his death and (b) all property located in Korea which passes on death (irrespective of the domicile of the deceased). Gift tax is imposed upon (a) all gift assets granted to a donee if at the time of the making of the gift the donee was domiciled in Korea or resided in Korea for at least 183 days immediately prior to the donation and (b) all gift assets located in Korea (irrespective of the domicile of the donee). The taxes are imposed if the value of the relevant property is above a certain limit and the rate varies from 10% to 50% according to the value of the relevant property and the identity of the parties involved. At present, Korea has not entered into any tax treaties regarding its inheritance or gift taxes.

Under the Korean inheritance and gift tax laws, notes issued by Korean corporations are deemed located in Korea irrespective of where they are physically located or by whom they are owned, and consequently, the Korean inheritance and gift taxes will be imposed on transfers of the Notes by inheritance or gift. Prospective purchasers should consult their personal tax advisors regarding the consequences of the imposition of the Korean inheritance or gift tax.

Stamp Duty and Securities Transaction Tax

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

Tax Treaties

At the date of this Offering Circular, Korea has tax treaties with *inter alia* Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Italy, Japan, Luxembourg, the Netherlands, New Zealand, Norway, Singapore, Sweden, Switzerland, the United Kingdom and the United States of America under which the rate of withholding tax on interest is reduced, generally to between 5% and 16.5% (13.2% under the treaty with the United States) (including local income tax), and the tax on capital gains is often eliminated (as it is generally under the treaty with the United States).

Each Non-Resident holder should enquire for himself whether he is entitled to the benefit of a tax treaty. It is the responsibility of the party claiming the benefits of a tax treaty in respect of interest payments to file with the Issuer a certificate as to his or her residence. In the absence of sufficient proof, the Issuer must withhold taxes in accordance with the above discussion.

Withholding and Gross-up

As mentioned above, interest on the Notes is exempt from any withholding or deduction on account of income tax or corporation tax pursuant to the STTCL. However, in the event that the Issuer is required by law to make any withholding or deduction for or on account of any Korean taxes, the Issuer has agreed, subject to certain customary exceptions, to pay such additional amounts as may be necessary in order that the net amounts received by the Non-Resident holder after such withholding or deduction shall equal the respective amounts received by the Non-Resident holder in the absence of such withholding or deduction.

United States Federal Income Taxation

The following is a summary of certain U.S. federal income tax considerations that may be relevant to a holder of a Note. This summary is based on laws, regulations, rulings and decisions now in effect, all of which are subject to change. This summary deals only with beneficial owners of Notes that will hold Notes as capital assets, and does not address particular tax considerations that may be applicable to investors that are subject to special tax rules, such as banks, tax-exempt entities, insurance companies, regulated investment companies, dealers in securities or currencies, traders in securities electing to mark to market, persons that will hold Notes as a position in a “straddle” or conversion transaction, or as part of a “synthetic security” or other integrated financial transaction, entities taxed as partnerships or the partners therein, persons subject to the alternative minimum tax, U.S. expatriates, nonresident alien individuals present in the United States for more than 182 days in a taxable year, or persons that have a “functional currency” other than the U.S. dollar. Any special U.S. federal income tax considerations relevant to a particular issue of Notes, including any Index Linked Notes, will be provided in the applicable Pricing Supplement.

This summary addresses only U.S. federal income tax consequences, and does not address consequences arising under state, local, foreign tax laws or the Medicare tax on net investment income. Investors should consult their own tax advisors in determining the tax consequences to them of holding Notes under such tax laws, as well as the application to their particular situation of the U.S. federal income tax considerations discussed below.

Because Bearer Notes cannot be offered or sold in connection with their initial distribution to U.S. citizens or residents (or to other persons located in the United States), this summary does not discuss special tax considerations relevant to the ownership and disposal of Bearer Notes by U.S. holders. This summary addresses only Notes that are properly characterized as indebtedness for U.S. federal income tax purposes. Particular tax consequences relating to Notes having a term to maturity of more than 30 years or Dual Currency Notes will be discussed in the applicable Pricing Supplement.

As used herein, a “U.S. holder” is a beneficial owner of a Note that is, for U.S. federal income tax purposes, a citizen or resident of the United States or a domestic corporation or that otherwise is subject to U.S. federal income taxation on a net income basis in respect of the Note. A “non-U.S. holder” is a beneficial owner of a Note that is an individual, corporation, foreign estate, or foreign trust, that is not a U.S. holder.

U.S. holders that use an accrual method of accounting for tax purposes (“accrual method holders”) generally are required to include certain amounts in income no later than the time such amounts are reflected on certain financial statements (the “book/tax conformity rule”). The application of the book/tax conformity rule thus may require the accrual of income earlier than would be the case under the general tax rules described below, although it is not clear to what types of income the book/tax conformity rule applies. This rule generally is effective for tax years beginning after December 31, 2017 or, for debt securities issued with original issue discount, for tax years beginning after December 31, 2018. Accrual method holders should consult with their tax advisors regarding the potential applicability of the book/tax conformity rule to their particular situation.

U.S. Holders

Payments of Interest and Additional Amounts. The gross amount of payments of “qualified stated interest” (as defined below under “—Original Issue Discount”) and additional amounts, if any (*i.e.*, without reduction for Korean withholding taxes, determined utilizing the appropriate Korean withholding tax rate applicable to the U.S. holder), but excluding any pre-issuance accrued interest, will be taxable to a U.S. holder as ordinary interest income at the time that such payments are accrued or are received (in accordance with the U.S. holder’s method of tax accounting). If payments of this kind are made with respect to a Note denominated in a single currency other than the U.S. dollar (a “Foreign Currency Note”), the amount of interest income realized by a U.S. holder that uses the cash method of tax accounting will be the U.S. dollar value of the Specified Currency payment based on the exchange rate in effect on the date of receipt regardless of whether the payment in fact is converted into U.S. dollars. A U.S. holder that uses the accrual method of accounting for tax purposes will accrue interest income on the Note in the relevant foreign currency and translate the amount accrued into U.S. dollars based on the average exchange rate in effect during the interest accrual period (or portion thereof within the U.S. holder’s taxable year), or, at the accrual basis U.S. holder’s election, at the spot rate of exchange on the last day of the accrual period (or the last day of the taxable year within such accrual period if the accrual period spans more than one taxable year), or at the spot rate of exchange on the date of receipt, if this date is within five business days of the last day of the accrual period. A

U.S. holder that makes this election must apply it consistently to all debt instruments from year to year and cannot change the election without the consent of the Internal Revenue Service (the “IRS”). A U.S. holder that uses the accrual method of accounting for tax purposes will recognize foreign currency gain or loss, as the case may be, on the receipt of an interest payment made with respect to a Foreign Currency Note if the exchange rate in effect on the date the payment is received differs from the rate applicable to a previous accrual of that interest income. Amounts attributable to pre-issuance accrued interest will generally not be includable in income, except to the extent of foreign currency gain or loss attributable to any changes in exchange rates during the period between the date the U.S. Holder acquired the Note and the first Interest Payment Date. This foreign currency gain or loss will be treated as ordinary income or loss but generally will not be treated as an adjustment to interest income received on the Note.

Korean withholding taxes paid at the appropriate rate applicable to the U.S. holder will be treated as foreign income taxes eligible for credit against such U.S. holder’s U.S. federal income tax liability, subject to generally applicable limitations and conditions, or, at the election of such U.S. holder, for deduction in computing such U.S. holder’s taxable income (provided that the U.S. holder elects to deduct, rather than credit, all foreign income taxes paid or accrued for the relevant taxable year). Interest and additional amounts will constitute income from sources without the United States for U.S. foreign tax credit purposes. The calculation of foreign tax credits and, in the case of a U.S. holder that elects to deduct foreign taxes, the availability of deductions, involves the application of rules that depend on a U.S. holder’s particular circumstances. U.S. holders should consult their own tax advisors regarding the availability of foreign tax credits and the treatment of additional amounts.

Original Issue Discount. If the Issuer issues Notes at a discount from their stated redemption price at maturity (as defined below), and the discount is equal to or more than the product of one-fourth of one percent (0.25%) of the stated redemption price at maturity of such Notes multiplied by the number of full years to their maturity (the “*de minimis* threshold”), such Notes will be “original issue discount Notes.” The difference between the issue price and the stated redemption price at maturity of such Notes will be the “original issue discount” (“OID”). The “issue price” of a Note will be the first price at which a substantial amount of the Notes is sold to the public (*i.e.*, excluding sales of the Notes to underwriters, placement agents, wholesalers, or similar persons). The “stated redemption price at maturity” will include all payments under a Note other than payments of qualified stated interest. The term “qualified stated interest” generally means stated interest that is unconditionally payable in cash or property (other than debt instruments issued by the Issuer) at least annually during the entire term of the Note at a single fixed interest rate or, subject to certain conditions, based on one or more interest indices. Zero Coupon Notes will be treated as issued with OID.

U.S. holders of original issue discount Notes generally will be subject to special tax accounting rules for obligations issued with OID. U.S. holders of such Notes should be aware that, as described in greater detail below, they generally must include OID in ordinary gross income for U.S. federal income tax purposes as it accrues, in advance of the receipt of cash attributable to that income.

In general, each U.S. holder of an original issue discount Note, regardless of whether the holder uses the cash or the accrual method of tax accounting, will be required to include in ordinary gross income the sum of the “daily portions” of OID on the Note for all days during the taxable year that the U.S. holder owns the Note. The daily portions of OID on an original issue discount Note are determined by allocating to each day in any accrual period a ratable portion of the OID allocable to that accrual period. Accrual periods may be any length and may vary in

length over the term of an original issue discount Note, provided that no accrual period is longer than one year and each scheduled payment of principal or interest occurs on either the final day or the first day of an accrual period. In the case of an initial holder, the amount of OID on an original issue discount Note allocable to each accrual period is determined by (a) multiplying the “adjusted issue price” (as defined below) of the original issue discount Note at the beginning of the accrual period by its yield to maturity (appropriately adjusted to reflect the length of the accrual period) and (b) subtracting from that product the amount (if any) of qualified stated interest allocable to that accrual period. The “yield to maturity” of a Note is the discount rate that causes the present value of all payments on the Note as of its original issue date to equal the issue price of the Note. The “adjusted issue price” of an original issue discount Note at the beginning of any accrual period will generally be the sum of its issue price (generally including accrued interest, if any) and the amount of OID allocable to all prior accrual periods, reduced by the amount of all payments other than payments of qualified stated interest (if any) made with respect to the Note in all prior accrual periods. As a result of this “constant yield” method of including OID in income, the amounts includible in income by a U.S. holder in respect of an original issue discount Note denominated in U.S. dollars generally are lesser in the early years and greater in the later years than the amounts that would be includible on a straight-line basis.

The application of the book/tax conformity rule to OID and de minimis OID is uncertain in some respects. The book/tax conformity rule applies to OID in some cases, and therefore may require accrual method holders to include OID on original issue discount debt securities in a more accelerated manner than described above if they do so for financial accounting purposes. It is uncertain what adjustments, if any, should be made in later accrual periods when taxable income exceeds income reflected on the U.S. holder’s financial statements to reflect the accelerated accrual of income in earlier periods. In addition, it is possible, although less likely, that accrual method holders may be required to include de minimis OID in gross income as the de minimis OID accrues for financial statement purposes.

A U.S. holder generally may make an irrevocable election to include in its income its entire return on a Note (*i.e.*, the excess of all remaining payments to be received on the Note, including payments of qualified stated interest, over the amount paid by the U.S. holder for the Note) under the constant-yield method described above. For Notes purchased at a premium or bearing market discount in the hands of the U.S. holder, the U.S. holder making such election will also be deemed to have made the election (discussed below in “—Premium and Market Discount”) to amortize premium or to accrue market discount in income currently on a constant-yield basis.

In the case of an original issue discount Note that is also a Foreign Currency Note, a U.S. holder should determine the U.S. dollar amount includible in income as OID for each accrual period by (a) calculating the amount of OID allocable to each accrual period in the Specified Currency using the constant-yield method described above, and (b) translating the amount of the Specified Currency so derived at the average exchange rate in effect during that accrual period (or portion thereof within a U.S. holder’s taxable year) or, at the U.S. holder’s election (as described above under “—Payments of Interest and Additional Amounts”), at the spot rate of exchange on the last day of the accrual period (or the last day of the taxable year within such accrual period if the accrual period spans more than one taxable year), or at the spot rate of exchange on the date of receipt, if that date is within five business days of the last day of the accrual period. Because exchange rates may fluctuate, a U.S. holder of an original issue discount Note that is also a Foreign Currency Note may recognize a different amount of OID income in each accrual period than would the holder of an otherwise similar original issue discount Note denominated in U.S. dollars. All payments on an original issue discount Note, other than payments of qualified stated interest, will generally be viewed first as payments of previously accrued OID to the extent

thereof, with payments attributed first to the earliest-accrued OID, and then as payments of principal. Upon the receipt of an amount attributable to OID (whether in connection with a payment of an amount that is not qualified stated interest or the sale or retirement of the original issue discount Note), a U.S. holder will recognize ordinary income or loss measured by the difference between the amount received (translated into U.S. dollars at the exchange rate in effect on the date of receipt or on the date of disposition of the original issue discount Note, as the case may be) and the amount accrued (using the exchange rate applicable to such previous accrual).

A subsequent U.S. holder of an original issue discount Note that purchases the Note at a cost less than its remaining redemption amount (as defined below), or an initial U.S. holder that purchases an original issue discount Note at a price other than the Note's issue price, also generally will be required to include in gross income the daily portions of OID, calculated as described above. However, if the U.S. holder acquires the original issue discount Note at a price greater than its adjusted issue price, the holder is required to reduce its periodic inclusions of OID income to reflect the premium paid over the adjusted issue price. The "remaining redemption amount" for a Note is the total of all future payments to be made on the Note other than payments of qualified stated interest.

Floating Rate Notes generally will be treated as "variable rate debt instruments" under applicable Treasury Regulations. Accordingly, the stated interest on a Floating Rate Note generally will be treated as "qualified stated interest" and such a Note will not have OID solely as a result of the fact that it provides for interest at a variable rate. If a Floating Rate Note qualifying as a "variable rate debt instrument" is an original issue discount Note, for purposes of determining the amount of OID allocable to each accrual period under the rules above, the Note's "yield to maturity" and "qualified stated interest" will generally be determined as though the Note bore interest in all periods at a fixed rate equal determined at the time of issuance of the Note. Additional rules may apply if interest on a Floating Rate Note is based on more than one interest index. If a Floating Rate Note does not qualify as a "variable rate debt instrument," the Note will be subject to special rules (the "Contingent Payment Regulations") that govern the tax treatment of debt obligations that provide for contingent payments ("Contingent Debt Obligations"). A detailed description of the tax considerations relevant to U.S. holders of any such Notes will be provided in the applicable Pricing Supplement.

Certain of the Notes may be subject to special redemption, repayment or interest rate reset features, as indicated in the applicable Pricing Supplement. Notes containing such features, in particular original issue discount Notes, may be subject to special rules that differ from the general rules discussed above. Purchasers of Notes with such features should carefully examine the applicable Pricing Supplement and should consult their own tax advisors with respect to the Notes since the tax consequences with respect to such features, and especially with respect to OID, will depend, in part, on the particular terms of the Notes.

If a Note provides for a scheduled Accrual Period that is longer than one year (for example, as a result of a long initial period on a Note with interest that is generally paid on an annual basis), then stated interest on the Note will not qualify as "qualified stated interest" under the applicable Treasury Regulations. As a result, the Note would be an original issue discount Note. In that event, among other things, cash-method U.S. holders will be required to accrue stated interest on the Note under the rules for OID described above, and all U.S. holders will be required to accrue OID that would otherwise fall under the *de minimis* threshold.

Purchase, Sale and Retirement of Notes. A U.S. holder's tax basis in a Note generally will equal the cost of such Note to such holder, increased by any amounts includible in income by the

holder as original issue discount and market discount and reduced by any amortized premium (each as described below) and any payments other than payments of qualified stated interest made on such Note. In the case of a Foreign Currency Note, the cost of such Note to a U.S. holder will be the U.S. dollar value of the foreign currency purchase price on the date of purchase. In the case of a Foreign Currency Note that is traded on an established securities market, a cash basis U.S. holder (and, if it so elects, an accrual basis U.S. holder) will determine the U.S. dollar value of the cost of such Note by translating the amount paid at the spot rate of exchange on the settlement date of the purchase. The amount of any subsequent adjustments to a U.S. holder's tax basis in a Note in respect of original issue discount, market discount and premium denominated in a Specified Currency will be determined in the manner described under "Original Issue Discount" above and "Premium and Market Discount" below. The conversion of U.S. dollars to a Specified Currency and the immediate use of the Specified Currency to purchase a Foreign Currency Note generally will not result in taxable gain or loss for a U.S. holder.

Upon the sale, exchange or retirement of a Note, a U.S. holder generally will recognize gain or loss equal to the difference between the amount realized on the sale, exchange or retirement (less any accrued qualified stated interest, which will be taxable as such) and the U.S. holder's tax basis in such Note. If a U.S. holder receives a currency other than the U.S. dollar in respect of the sale, exchange or retirement of a Note, the amount realized will be the U.S. dollar value of the Specified Currency received calculated at the exchange rate in effect on the date the instrument is disposed of or retired. In the case of a Foreign Currency Note that is traded on an established securities market, a cash basis U.S. holder, and if it so elects, an accrual basis U.S. holder will determine the U.S. dollar value of the amount realized by translating such amount at the spot rate on the settlement date of the sale. The election available to accrual basis U.S. holders in respect of the purchase and sale of Foreign Currency Notes traded on an established securities market, discussed above, must be applied consistently to all debt instruments from year to year and cannot be changed without the consent of the IRS.

Except as discussed below with respect to market discount, Short-Term Notes (as defined below) and foreign currency gain or loss, gain or loss recognized by a U.S. holder generally will be long-term capital gain or loss if the U.S. holder has held the Note for more than one year at the time of disposition. Long-term capital gains recognized by an individual holder generally are subject to tax at a lower rate than short-term capital gains or ordinary income. The deduction of capital losses is subject to limitations.

Gain or loss recognized by a U.S. holder on the sale, exchange or retirement of Foreign Currency Note generally will be treated as ordinary income or loss to the extent that the gain or loss is attributable to changes in exchange rates during the period in which the holder held such Note. This foreign currency gain or loss will not be treated as an adjustment to interest income received on the Notes.

Capital gain or loss recognized by a U.S. holder generally will be U.S.-source gain or loss. Consequently, if any such gain is subject to foreign withholding tax, a U.S. holder may not be able to credit the tax against its U.S. federal income tax liability unless the credit can be applied (subject to the applicable limitations) against tax due on other income treated as derived from foreign sources. U.S. holders should consult their own tax advisors as to the foreign tax credit implications of a disposition of the Notes.

Premium and Market Discount. A U.S. holder of a Note that purchases the Note at a cost greater than its remaining redemption amount will be considered to have purchased the Note at a premium, and may elect to amortize the premium (as an offset to interest income), using a

constant-yield method, over the remaining term of the Note. Such election, once made, generally applies to all bonds held or subsequently acquired by the U.S. holder on or after the first taxable year to which the election applies and may not be revoked without the consent of the IRS. A U.S. holder that elects to amortize the premium must reduce its tax basis in a Note by the amount of the premium amortized during its holding period. Original issue discount Notes purchased at a premium will not be subject to the OID rules described above. In the case of premium in respect of a Foreign Currency Note, a U.S. holder should calculate the amortization of the premium in the Specified Currency. Amortization deductions attributable to a period reduce interest payments in respect of that period. Exchange gain or loss will be realized with respect to amortized bond premium on such a Note based on the difference between the exchange rate on the date or dates the premium is recovered through interest payments on the Note and the exchange rate on the date on which the U.S. holder acquired the Note. With respect to a U.S. holder that does not elect to amortize bond premium, the amount of bond premium will be included in the U.S. holder's tax basis when the Note matures or is disposed of by the U.S. holder. Therefore, a U.S. holder that does not elect to amortize such premium and that holds the Note to maturity generally will be required to treat the premium as capital loss when the Note matures.

If a U.S. holder of a Note purchases the Note at a price that is lower than its remaining redemption amount, or in the case of an original issue discount Note, a price that is lower than its adjusted issue price, by at least 0.25% of its remaining redemption amount multiplied by the number of remaining whole years to maturity, the Note will be considered to have "market discount" in the hands of such U.S. holder. In such case, gain realized by the U.S. holder on the disposition of the Note generally will be treated as ordinary income to the extent of the market discount that accrued on the Note while held by the U.S. holder. In addition, the U.S. holder could be required to defer the deduction of a portion of the interest paid on any indebtedness incurred or maintained to purchase or carry the Note. In general terms, market discount on a Note will be treated as accruing ratably over the term of the Note, or, at the election of the holder, under a constant-yield method. Market discount on a Foreign Currency Note will be accrued by a U.S. holder in the Specified Currency. The amount includible in income by a U.S. holder in respect of such accrued market discount will be the U.S. dollar value of the amount accrued, generally calculated at the exchange rate in effect on the date that the Note is disposed of by the U.S. holder.

A U.S. holder may elect to include market discount in income on a current basis as it accrues (on either a ratable or constant-yield basis), in lieu of treating a portion of any gain realized on a sale of a Note as ordinary income. If a U.S. holder elects to include market discount on a current basis, the interest deduction deferral rule described above will not apply. Any accrued market discount on a Foreign Currency Note that is currently includible in income will be translated into U.S. dollars at the average exchange rate for the accrual period (or portion thereof within the U.S. holder's taxable year). Any such election, if made, applies to all market discount bonds acquired by the taxpayer on or after the first day of the first taxable year to which such election applies and is revocable only with the consent of the IRS.

The application of the book/tax conformity rule to debt securities with market discount is uncertain. Under the book/tax conformity rule, an accrual method holder that has made the election described in the prior paragraph to accrue market discount may be required to accrue market discount in a more accelerated manner than described above if the holder does so for financial accounting purposes. It is also possible, although less likely, that accrual method holders that have not made the election described above and that accrue market discount on a current basis on their financial statements may be required to accrue market discount—including de minimis market discount—currently for U.S. federal income tax purposes.

Short-Term Notes. The rules set forth above will also generally apply to Notes having maturities of not more than one year (“Short-Term Notes”), but with certain modifications.

First, applicable Treasury Regulations treat *none* of the interest on a Short-Term Note as qualified stated interest. Thus, all Short-Term Notes will be original issue discount Notes. OID will be treated as accruing on a Short-Term Note ratably, or at the election of a U.S. holder, under a constant yield method.

Second, a U.S. holder of a Short-Term Note that uses the cash method of tax accounting and is not a bank, securities dealer, regulated investment company or common trust fund, and does not identify the Short-Term Note as part of a hedging transaction, will generally not be required to include OID in income on a current basis. Such a U.S. holder may not be allowed to deduct all of the interest paid or accrued on any indebtedness incurred or maintained to purchase or carry such Note until the Maturity of the Note or its earlier disposition in a taxable transaction. In addition, the U.S. holder will be required to treat any gain realized on a sale, exchange or retirement of the Note as ordinary income to the extent such gain does not exceed the OID accrued with respect to the Note during the period the U.S. holder held the Note. Notwithstanding the foregoing, a cash-basis U.S. holder of a Short-Term Note may elect to accrue OID into income on a current basis or to accrue the “acquisition discount” on the Note under the rules described below. If the U.S. holder elects to accrue OID or acquisition discount, the limitation on the deductibility of interest described above will not apply.

A U.S. holder using the accrual method of tax accounting and certain cash-basis U.S. holders (including banks, securities dealers, regulated investment companies and common trust funds) generally will be required to include original issue discount on a Short-Term Note in income on a current basis. Alternatively, a U.S. holder of a Short-Term Note can elect to accrue the “acquisition discount,” if any, with respect to the Note on a current basis. If such an election is made, the OID rules will not apply to the Note. Acquisition discount is the excess of the Short-Term Note’s stated redemption price at maturity (*i.e.*, all amounts payable on the Short-Term Note) over the purchase price. Acquisition discount will be treated as accruing ratably or, at the election of the U.S. holder, under a constant-yield method based on daily compounding.

Finally, the market discount rules will not apply to a Short-Term Note.

Index Linked Notes and Other Notes Providing for Contingent Payments. The Contingent Payment Regulations, which govern the tax treatment of Contingent Debt Obligations, generally require accrual of interest income on a constant-yield basis in respect of such obligations at a yield determined at the time of their issuance, and may require adjustments to such accruals when any contingent payments are made. A detailed description of the tax considerations relevant to U.S. holders of any Contingent Debt Obligations will be provided in the applicable Pricing Supplement.

Foreign Currency Notes and Reportable Transactions. A U.S. holder that participates in a “reportable transaction” will be required to disclose its participation to the IRS. The scope and application of these rules is not entirely clear. A U.S. holder may be required to treat a foreign currency exchange loss relating to a Foreign Currency Note as a reportable transaction if the loss exceeds \$50,000 in a single taxable year if the U.S. holder is an individual or trust, or higher amounts for other U.S. holders. In the event the acquisition, ownership or disposition of a Foreign

Currency Note constitutes participation in a “reportable transaction” for purposes of these rules, a U.S. holder will be required to disclose its investment to the IRS, currently on Form 8886. Prospective purchasers should consult their tax advisors regarding the application of these rules to the acquisition, ownership or disposition of Foreign Currency Notes.

Specified Foreign Financial Assets. Individual U.S. holders that own “specified foreign financial assets” with an aggregate value in excess of \$50,000 are generally required to file an information statement along with their tax returns, currently on Form 8938, with respect to such assets. “Specified foreign financial assets” include any financial accounts held at a non-U.S. financial institution, as well as securities issued by a non-U.S. issuer (which may include Notes issued in certificated form) that are not held in accounts maintained by financial institutions. Higher reporting thresholds apply to certain individuals living abroad and to certain married individuals. Regulations extend this reporting requirement to certain entities that are treated as formed or availed of to hold direct or indirect interests in specified foreign financial assets based on certain objective criteria. U.S. holders that fail to report the required information could be subject to substantial penalties. In addition, the statute of limitations for assessment of tax would be suspended, in whole or part. Prospective investors should consult their own tax advisors concerning the application of these rules to their investment in the Notes, including the application of the rules to their particular circumstances.

Non-U.S. Holders

Subject to the discussion below under “—Information Reporting and Backup Withholding,” payments of interest on the Notes to a non-U.S. holder, and any gain realized on a disposition of the Notes by a non-U.S. holder, generally will be exempt from U.S. federal income taxes, including withholding tax. However, to receive this exemption a non-U.S. holder may be required to satisfy certification requirements, described below under “—Information Reporting and Backup Withholding,” to establish that it is not a U.S. holder.

Information Reporting and Backup Withholding

Information returns will be filed with the IRS in connection with payments on the Notes made to, and the proceeds of dispositions of Notes effected by, certain U.S. taxpayers. In addition, certain U.S. taxpayers may be subject to backup withholding in respect of such amounts if they do not provide their taxpayer identification numbers to the person from whom they receive payments. Non-U.S. taxpayers may be required to comply with applicable certification procedures to establish that they are not U.S. taxpayers in order to avoid the application of such information reporting requirements and backup withholding. The amount of any backup withholding from a payment to a U.S. or non-U.S. taxpayer will be allowed as a credit against the holder’s U.S. federal income tax liability and may entitle the holder to a refund, provided that the required information is timely furnished to the IRS.

Proposed Financial Transactions Tax (“FTT”)

On February 14, 2013, the European Commission published a proposal (the “Commission’s Proposal”) for a directive for a common financial transaction tax (“FTT”) in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the “participating Member States”). However, Estonia has since stated that it will not participate.

The Commission’s Proposal has a very broad scope and could, if introduced in its current form, apply to certain dealings in the Notes (including secondary market transactions) in certain circumstances.

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

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

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

BOOK-ENTRY CLEARANCE SYSTEMS

The information set out below is subject to any change in or reinterpretation of the rules, regulations and procedures of DTC, Euroclear or Clearstream (together, the “Clearing Systems”) currently in effect. Investors wishing to use the facilities of any of the Clearing Systems are advised to confirm the continued applicability of the rules, regulations and procedures of the relevant Clearing System. None of the Issuer, the Arranger, any Dealer nor any party to the Agency Agreement will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Notes held through the facilities of any Clearing System or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests. The relevant Pricing Supplement will specify the Clearing System(s) applicable for each Series.

Book-entry Systems

DTC

DTC has advised the Issuer that it is a limited purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a “clearing corporation” within the meaning of the New York Uniform Commercial Code and a “clearing agency” registered pursuant to Section 17A of the Exchange Act. DTC holds securities that its participants (“Participants”) deposit with DTC. DTC also facilitates the settlement among Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Participants’ accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc. and the National Association of Securities Dealers, Inc. Access to the DTC System is also available to others such as securities brokers and dealers, banks and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”).

Under the rules, regulations and procedures creating and affecting DTC and its operations (the “Rules”), DTC makes book-entry transfers of Registered Notes among Direct Participants on whose behalf it acts with respect to Notes accepted into DTC’s book-entry settlement system (“DTC Notes”) as described below and receives and transmits distributions of principal and interest on DTC Notes. The Rules are on file with the U.S. Securities and Exchange Commission. Direct Participants and Indirect Participants with which beneficial owners of DTC Notes (“Owners”) have accounts with respect to the DTC Notes similarly are required to make book-entry transfers and receive and transmit such payments on behalf of their respective Owners. Accordingly, although Owners who hold DTC Notes through Direct Participants or Indirect Participants will not possess Registered Notes, the Rules, by virtue of the requirements described above, provide a mechanism by which Direct Participants will receive payments and will be able to transfer their interest in respect of the DTC Notes.

Purchases of DTC Notes under the DTC system must be made by or through Direct Participants, which will receive a credit for the DTC Notes on DTC’s records. The ownership interest of each actual purchaser of each DTC Note (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participant’s records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings,

from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the DTC Notes are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in DTC Notes, except in the event that use of the book-entry system for the DTC Notes is discontinued.

To facilitate subsequent transfers, all DTC Notes deposited by Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of DTC Notes with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the DTC Notes; DTC's records reflect only the identity of the Direct Participants to whose accounts such DTC Notes are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to Cede & Co. If less than all of the DTC Notes within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. will consent or vote with respect to DTC Notes. Under its usual procedures, DTC mails an Omnibus Proxy to the Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the DTC Notes are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the DTC Notes will be made to DTC. DTC's practice is to credit Direct Participants' accounts on the due date for payment in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on the due date. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such Participant and not of DTC or the Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the Issuer, disbursement of such payments to Direct Participants is the responsibility of DTC, and disbursement of such payments to the Beneficial Owners is the responsibility of Direct and Indirect Participants.

Under certain circumstances, including if there is an Event of Default under the Notes, DTC will exchange the DTC Notes for definitive Registered Notes, which it will distribute to its Participants in accordance with their proportionate entitlements and which, if representing interests in a Rule 144A Global Note, will be legended as set forth under "*Subscription and Sale and Transfer and Selling Restrictions.*"

Since DTC may only act on behalf of Direct Participants, who in turn act on behalf of Indirect Participants, any Owner desiring to pledge DTC Notes to persons or entities that do not participate in DTC, or otherwise take actions with respect to such DTC Notes, will be required to withdraw its Registered Notes from DTC as described below.

Euroclear and Clearstream

Euroclear and Clearstream each holds securities for its customers and facilitates the clearance and settlement of securities transactions by electronic book-entry transfer between their respective account holders. Euroclear and Clearstream provide various services including safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream also deal with domestic securities markets in several countries through established depository and custodial relationships. Euroclear and Clearstream have established an electronic bridge between their two systems across which their respective participants may settle trades with each other.

Euroclear and Clearstream customers are world-wide financial institutions, including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Indirect access to Euroclear and Clearstream is available to other institutions that clear through or maintain a custodial relationship with an account holder of either system.

Book-entry Ownership of and Payments in Respect of DTC Notes

The Issuer may apply to DTC in order to have any Tranche of Notes represented by a Registered Global Note accepted in its book-entry settlement system. Upon the issue of any such Registered Global Note, DTC or its custodian will credit, on its internal book-entry system, the respective nominal amounts of the individual beneficial interests represented by such Registered Global Note to the accounts of persons who have accounts with DTC. Such accounts initially will be designated by or on behalf of the relevant Dealer. Ownership of beneficial interests in such a Registered Global Note will be limited to Direct Participants or Indirect Participants, including, in the case of any Regulation S Global Note, the respective depositories of Euroclear and Clearstream. Ownership of beneficial interests in a Registered Global Note accepted by DTC will be shown on, and the transfer of such ownership will be effected only through, records maintained by DTC or its nominee (with respect to the interests of Direct Participants) and the records of Direct Participants (with respect to interests of Indirect Participants).

Payments in U.S. dollars of principal and interest in respect of a Registered Global Note accepted by DTC will be made to the order of DTC or its nominee as the registered holder of such Note. In the case of any payment in a currency other than U.S. dollars, payment will be made to the Exchange Agent on behalf of DTC or its nominee and the Exchange Agent will (in accordance with instructions received by it) remit all or a portion of such payment for credit directly to the beneficial holders of interests in the Registered Global Note in the currency in which such payment was made and/or cause all or a portion of such payment to be converted into U.S. dollars and credited to the applicable Participants' account.

The Issuer expects DTC to credit accounts of Direct Participants on the applicable payment date in accordance with their respective holdings as shown in the records of DTC unless DTC has reason to believe that it will not receive payment on such payment date. The Issuer also expects that payments by Participants to beneficial owners of Notes will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers, and will be the responsibility of such Participant and not the responsibility of DTC, the Principal Paying Agent, the Registrar or the Issuer. Payment of principal, premium, if any, and interest, if any, on Notes to DTC is the responsibility of the Issuer.

Transfers of Notes Represented by Registered Global Notes

Transfers of any interests in Notes represented by a Registered Global Note within DTC, Euroclear and Clearstream will be effected in accordance with the customary rules and operating procedures of the relevant clearing system. The laws in some States within the United States require that certain persons take physical delivery of securities in definitive form. Consequently, the ability to transfer Notes represented by a Registered Global Note to such persons may depend upon the ability to exchange such Notes for Notes in definitive form. Similarly, because DTC can only act on behalf of Direct Participants in the DTC system, who in turn act on behalf of Indirect Participants, the ability of a person having an interest in Notes represented by a Registered Global Note accepted by DTC to pledge such Notes to persons or entities that do not participate in the DTC system or otherwise to take action in respect of such Notes may depend upon the ability to exchange such Notes for Notes in definitive form. The ability of any holder of Notes represented by a Registered Global Note accepted by DTC to resell, pledge or otherwise transfer such Notes may be impaired if the proposed transferee of such Notes is not eligible to hold such Notes through a direct or indirect participant in the DTC system.

Subject to compliance with the transfer restrictions applicable to the Registered Notes described under “*Subscription and Sale and Transfer and Selling Restrictions*”, cross-market transfers between DTC, on the one hand, and directly or indirectly through Clearstream or Euroclear accountholders, on the other, will be effected by the relevant clearing system in accordance with its rules and through action taken by the Registrar, the Fiscal Agent and any custodian (“Custodian”) with whom the relevant Registered Global Notes have been deposited.

On or after the Issue Date for any Series, transfers of Notes of such Series between accountholders in Clearstream and Euroclear and transfers of Notes of such Series between participants in DTC will generally have a settlement date three business days after the trade date (T+3). The customary arrangements for delivery versus payment will apply to such transfers.

Cross-market transfers between accountholders in Clearstream or Euroclear and DTC participants will need to have an agreed settlement date between the parties to such transfer. Because there is no direct link between DTC, on the one hand, and Clearstream and Euroclear, on the other, transfers of interests in the relevant Registered Global Notes will be effected through the Registrar, the Fiscal Agent and the Custodian receiving instructions (and, where appropriate, certification) from the transferor and arranging for delivery of the interests being transferred to the credit of the designated account for the transferee. In the case of cross-market transfers, settlement between Euroclear or Clearstream accountholders and DTC participants cannot be made on a delivery versus payment basis. The securities will be delivered on a free delivery basis and arrangements for payment must be made separately.

DTC, Clearstream and Euroclear have each published rules and operating procedures designed to facilitate transfers of beneficial interests in Registered Global Notes among participants and accountholders of DTC, Clearstream and Euroclear. However, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued or changed at any time. None of the Issuer, the Agents or any Dealer will be responsible for any performance by DTC, Clearstream or Euroclear or their respective direct or indirect participants or accountholders of their respective obligations under the rules and procedures governing their operations and none of them will have any liability for any aspect of the records relating to or payments made on account of beneficial interests in the Notes represented by Registered Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial interests.

SUBSCRIPTION AND SALE AND TRANSFER AND SELLING RESTRICTIONS

The Dealers have, in a program agreement (the “Program Agreement”) dated April 27, 2012, as amended from time to time, agreed with the Issuer a basis upon which they or any of them may from time to time agree to purchase or procure purchasers for Notes. Any such agreement will extend to those matters stated under “*Form of the Notes*” and “*Terms and Conditions of the Notes*.” In the Program Agreement, the Issuer has agreed to reimburse the Dealers for certain of their expenses in connection with the establishment of the Program and the issue of Notes under the Program and to indemnify the Dealers against certain liabilities incurred by them in connection therewith.

In order to facilitate the offering of any Tranche of the Notes, certain persons participating in the offering of the Tranche may, to the extent permitted by applicable laws and regulations engage in transactions that stabilize, maintain or otherwise affect the market price of the relevant Notes during and after the offering of the Tranche. Specifically, such persons may over-allot or create a short position in the Notes for their own account by selling more Notes than have been sold to them by the Issuer. Such persons may also elect to cover any such short position by purchasing Notes in the open market. In addition, such persons may stabilize or maintain the price of the Notes by bidding for or purchasing Notes in the open market and may impose penalty bids, under which selling concessions allowed to syndicate members or other broker-dealers participating in the offering of the Notes are reclaimed if Notes previously distributed in the offering are repurchased in connection with stabilization transactions or otherwise. The effect of these transactions may be to stabilize or maintain the market price of the Notes at a level above that which might otherwise prevail in the open market. The imposition of a penalty bid may also affect the price of the Notes to the extent that it discourages resales thereof. No representation is made as to the magnitude or effect of any such stabilizing or other transactions. Such transactions, if commenced, may be discontinued at any time. Stabilization activities are subject to certain prescribed time limits in certain jurisdictions.

Certain Relationships

The Dealers and certain affiliates of the Dealers may have performed banking and advisory services (which may include securities trading, commercial and investment banking, financial advice, investment management, principal investment, hedging, financing and brokerage activities) for the Issuer and its affiliates from time to time for which they have received customary fees and expenses. The Dealers and certain of their affiliates may, from time to time, engage in transactions with and perform services for the Issuer in the ordinary course of their business. In the ordinary course of their various business activities, the Dealers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investments and securities activities may involve securities and instruments of the Issuer.

The Dealers or certain of their respective affiliates may purchase the Notes and be allocated the Notes for asset management and/or proprietary purposes but not with a view to distribution. The Dealers or their respective affiliates may purchase the Notes for their own account and enter into transactions, including credit derivatives, such as asset swaps, repackaging and credit default swaps relating to the Notes and/or other securities of the Issuer or its subsidiaries or associates, at

the same time as the offer and sale of the Notes or in secondary market transactions. Such transactions would be carried out as bilateral trades with selected counterparties and separately from any existing sale or resale of the Notes to which this Offering Circular relates (notwithstanding that such selected counterparties may also be purchasers of the Notes).

Transfer Restrictions under U.S. Securities Laws

As a result of the following restrictions, purchasers of Notes in the United States are advised to consult legal counsel prior to making any purchase, offer, sale, resale or other transfer of such Notes.

Each purchaser of Registered Notes (other than a person purchasing an interest in a Registered Global Note with a view to holding it in the form of an interest in the same Global Note) or person wishing to transfer an interest from one Registered Global Note to another or from global to definitive form or vice versa, will be required to acknowledge, represent and agree as follows (terms used in this paragraph that are defined in Rule 144A or in Regulation S are used herein as defined therein):

- (i) that either: (a) it is a QIB, purchasing (or holding) the Notes for its own account or for the account of one or more QIBs and it is aware that any sale to it is being made in reliance on Rule 144A or (b) it is an Institutional Accredited Investor, that, prior to its purchase of the Notes has delivered to the Registrar an IAI Investment Letter in the form as set forth below or (c) it is outside the United States and is not a U.S. person;
- (ii) that the Notes have not been and will not be registered under the Securities Act or any other applicable U.S. state securities laws and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except as set forth below;
- (iii) that, unless it holds an interest in a Regulation S Global Note and either is a person located outside the United States or is not a U.S. person, if in the future it decides to resell, pledge or otherwise transfer the Notes or any beneficial interests in the Notes, it will do so, prior to the date which is one year after the later of the last Issue Date for the Series and the last date on which the Issuer or an affiliate of the Issuer was the owner of such Notes, only (a) to the Issuer or any affiliate thereof, (b) inside the United States to a person whom the seller reasonably believes is a QIB purchasing for its own account or for the account of a QIB in a transaction meeting the requirements of Rule 144A, (c) outside the United States in compliance with Rule 903 or Rule 904 under the Securities Act, (d) pursuant to the exemption from registration provided by Rule 144 under the Securities Act (if available) or (e) pursuant to an effective registration statement under the Securities Act, in each case in accordance with all applicable U.S. state securities laws;
- (iv) it will, and will require each subsequent holder to, notify any purchaser of the Notes from it of the resale restrictions referred to in paragraph (iii) above, if then applicable;
- (v) that Notes initially offered in the United States to QIBs will be represented by one or more Rule 144A Global Notes, that Notes offered to Institutional Accredited Investors will be in the form of Definitive IAI Registered Notes and that Notes offered outside the United States in reliance on Regulation S will be represented by one or more Regulation S Global Notes;

- (vi) that the Notes, other than the Regulation S Global Notes, will bear a legend to the following effect unless otherwise agreed to by the Issuer:

“THIS SECURITY HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), OR ANY OTHER APPLICABLE U.S. STATE SECURITIES LAWS AND, ACCORDINGLY, MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS EXCEPT AS SET FORTH IN THE FOLLOWING SENTENCE. BY ITS ACQUISITION HEREOF, THE HOLDER (A) REPRESENTS THAT (1) IT IS A “QUALIFIED INSTITUTIONAL BUYER” (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) PURCHASING THE SECURITIES FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ONE OR MORE QUALIFIED INSTITUTIONAL BUYERS OR (2) IT IS AN INSTITUTIONAL “ACCREDITED INVESTOR” (AS DEFINED IN RULE 501(A)(1), (2), (3) OR (7) UNDER THE SECURITIES ACT) (AN “INSTITUTIONAL ACCREDITED INVESTOR”); (B) AGREES THAT IT WILL NOT RESELL OR OTHERWISE TRANSFER THE SECURITIES EXCEPT IN ACCORDANCE WITH THE AGENCY AGREEMENT AND, PRIOR TO THE DATE WHICH IS ONE YEAR AFTER THE LATER OF THE LAST ISSUE DATE FOR THE SERIES AND THE LAST DATE ON WHICH THE ISSUER OR AN AFFILIATE OF THE ISSUER WAS THE OWNER OF SUCH SECURITIES OTHER THAN (1) TO THE ISSUER OR ANY AFFILIATE THEREOF, (2) INSIDE THE UNITED STATES TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (3) OUTSIDE THE UNITED STATES IN COMPLIANCE WITH RULE 903 OR RULE 904 UNDER THE SECURITIES ACT, (4) PURSUANT TO THE EXEMPTION FROM REGISTRATION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE) OR (5) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, IN EACH CASE IN ACCORDANCE WITH ALL APPLICABLE SECURITIES LAWS OF THE STATES OF THE UNITED STATES AND ANY OTHER JURISDICTION; AND (C) IT AGREES THAT IT WILL DELIVER TO EACH PERSON TO WHOM THIS SECURITY IS TRANSFERRED A NOTICE SUBSTANTIALLY TO THE EFFECT OF THIS LEGEND.

THIS SECURITY AND RELATED DOCUMENTATION (INCLUDING, WITHOUT LIMITATION, THE AGENCY AGREEMENT REFERRED TO HEREIN) MAY BE AMENDED OR SUPPLEMENTED FROM TIME TO TIME, WITHOUT THE CONSENT OF, BUT UPON NOTICE TO, THE HOLDERS OF SUCH SECURITIES SENT TO THEIR REGISTERED ADDRESSES, TO MODIFY THE RESTRICTIONS ON AND PROCEDURES FOR REALES AND OTHER TRANSFERS OF THIS SECURITY TO REFLECT ANY CHANGE IN APPLICABLE LAW OR REGULATION (OR THE INTERPRETATION THEREOF) OR IN PRACTICES RELATING TO REALES OR OTHER TRANSFERS OF RESTRICTED SECURITIES GENERALLY. THE HOLDER OF THIS SECURITY SHALL BE DEEMED, BY ITS ACCEPTANCE OR PURCHASE HEREOF, TO HAVE AGREED TO ANY SUCH AMENDMENT OR SUPPLEMENT (EACH OF WHICH SHALL BE CONCLUSIVE AND BINDING ON THE HOLDER HEREOF AND ALL FUTURE HOLDERS OF THIS SECURITY AND ANY SECURITIES ISSUED IN EXCHANGE OR SUBSTITUTION THEREFOR, WHETHER OR NOT ANY NOTATION THEREOF IS MADE HEREON).”;

- (vii) if it is outside the United States and is not a U.S. person, that if it should resell or otherwise transfer the Notes prior to the expiration of the distribution compliance period (defined as 40 days after the later of the commencement of the offering and the closing date with respect to the original issuance of the Notes), it will do so only (a)(i) outside the United States in compliance with Rule 903 or Rule 904 under the Securities Act or (ii) to a QIB in compliance with Rule 144A and (b) in accordance with all applicable U.S. state securities laws; and it acknowledges that the Regulation S Global Notes will bear a legend to the following effect unless otherwise agreed to by the Issuer:

“THIS SECURITY HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), OR ANY OTHER APPLICABLE U.S. STATE SECURITIES LAWS AND, ACCORDINGLY, MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS EXCEPT IN ACCORDANCE WITH THE AGENCY AGREEMENT AND PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT OR PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT. THIS LEGEND SHALL CEASE TO APPLY UPON THE EXPIRY OF THE PERIOD OF 40 DAYS AFTER THE COMPLETION OF THE DISTRIBUTION OF ALL THE NOTES OF THE TRANCHE OF WHICH THIS NOTE FORMS A PART.”; and

- (viii) that the Issuer and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements and agrees that if any of such acknowledgements, representations or agreements made by it are no longer accurate, it shall promptly notify the Issuer; and if it is acquiring any Notes as a fiduciary or agent for one or more accounts it represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each such account.

Institutional Accredited Investors who purchase Registered Notes in definitive form offered and sold in the United States in reliance upon the exemption from registration provided by Regulation D of the Securities Act are required to execute and deliver to the Registrar an IAI Investment Letter. Upon execution and delivery of an IAI Investment Letter by an Institutional Accredited Investor, Notes will be issued in definitive registered form, see “*Form of the Note.*”

The IAI Investment Letter will state, among other things, the following:

- (i) that the Institutional Accredited Investor has received a copy of this Offering Circular and such other information as it deems necessary in order to make its investment decision;
- (ii) that the Institutional Accredited Investor understands that any subsequent transfer of the Notes is subject to certain restrictions and conditions set forth in this Offering Circular and the Notes (including those set out above) and that it agrees to be bound by, and not to resell, pledge or otherwise transfer the Notes except in compliance with, such restrictions and conditions and the Securities Act;
- (iii) that, in the normal course of its business, the Institutional Accredited Investor invests in or purchases securities similar to the Notes;
- (iv) that the Institutional Accredited Investor is an Institutional Accredited Investor within the meaning of Rules 501(a)(1), (2), (3) or (7) of Regulation D under the Securities Act

and has such knowledge and experience in financial and business matters as to be capable of evaluating the merits and risks of its investment in the Notes, and it and any accounts for which it is acting are each able to bear the economic risk of its or any such accounts' investment for an indefinite period of time;

- (v) that the Institutional Accredited Investor is acquiring the Notes purchased by it for its own account or for one or more accounts (each of which is an Institutional Accredited Investor) as to each of which it exercises sole investment discretion and not with a view to any distribution of the Notes, subject, nevertheless, to the understanding that the disposition of its property shall at all times be and remain within its control; and
- (vi) that, in the event that the Institutional Accredited Investor purchases Notes, it will acquire Notes having a minimum purchase price of at least U.S.\$500,000 (or the approximate equivalent in another Specified Currency).

No sale of Legended Notes in the United States to any one purchaser will be for less than U.S.\$200,000 (or its foreign currency equivalent) principal amount or, in the case of sales to Institutional Accredited Investors, U.S.\$500,000 (or its foreign currency equivalent) principal amount and no Legended Note will be issued in connection with such a sale in a smaller principal amount. If the purchaser is a non-bank fiduciary acting on behalf of others, each person for whom it is acting must purchase at least U.S.\$200,000 (or its foreign currency equivalent) or, in the case of sales to Institutional Accredited Investors, U.S.\$500,000 (or its foreign currency equivalent) principal amount of Registered Notes.

Transfer Restrictions under Korean Laws and Regulations

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

THE NOTES HAVE NOT BEEN REGISTERED UNDER THE FSCMA. ACCORDINGLY, THE NOTES MAY NOT BE OFFERED, SOLD OR DELIVERED, DIRECTLY OR INDIRECTLY, IN KOREA OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, ANY RESIDENT OF KOREA (AS SUCH TERM IS DEFINED UNDER THE FOREIGN EXCHANGE TRANSACTIONS ACT OF KOREA AND ITS ENFORCEMENT DECREE) OR TO OTHERS FOR RE-OFFERING OR RESALE, EXCEPT (I) THE OFFERING OF THE NOTES TO "QUALIFIED INSTITUTIONAL BUYERS" (THE "KOREAN QIBS," AS DEFINED IN THE REGULATION ON ISSUANCE, PUBLIC DISCLOSURES, ETC. OF SECURITIES OF KOREA) UPON SATISFACTION OF CERTAIN REQUIREMENTS, INCLUDING THAT (A) THE NOTES ARE DENOMINATED, AND THE PRINCIPAL AND INTEREST PAYMENTS THEREUNDER ARE MADE, IN A CURRENCY OTHER THAN KOREAN WON, (B) THE AMOUNT OF THE NOTES ACQUIRED BY SUCH KOREAN QIBS IN THE PRIMARY MARKET IS LIMITED TO LESS THAN 20% OF THE AGGREGATE ISSUE AMOUNT OF THE NOTES, (C) THE NOTES ARE LISTED ON ONE OF THE MAJOR OVERSEAS SECURITIES MARKETS DESIGNATED BY THE FINANCIAL SUPERVISORY SERVICE OF KOREA, OR CERTAIN PROCEDURES, SUCH AS REGISTRATION OR REPORT WITH A FOREIGN FINANCIAL INVESTMENT REGULATOR, HAVE BEEN COMPLETED FOR OFFERING OF THE NOTES IN A MAJOR OVERSEAS SECURITIES MARKET, (D) THE ONE-YEAR RESTRICTION ON OFFERING, DELIVERING OR SELLING OF NOTES TO A KOREAN RESIDENT OTHER THAN A KOREAN QIB IS EXPRESSLY STATED IN THE NOTES, THE RELEVANT PURCHASE AGREEMENT AND

OFFERING CIRCULAR AND (E) THE ISSUER AND THE DEALERS SHALL INDIVIDUALLY OR COLLECTIVELY KEEP THE EVIDENCE OF FULFILLMENT OF CONDITIONS (A) THROUGH (D) ABOVE AFTER HAVING TAKEN NECESSARY ACTIONS THEREFOR, OR (II) AS OTHERWISE PERMITTED BY APPLICABLE KOREAN LAWS AND REGULATIONS.

Selling Restrictions

United States of America

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except (i) to QIBs in reliance on Rule 144A, (ii) to Institutional Accredited Investors, that, prior to their purchase of the Notes have furnished an IAI Investment Letter and (iii) in accordance with Regulation S under the Securities Act.

The Notes in bearer form are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986 and regulations thereunder.

In connection with any Notes which are offered or sold outside the United States in reliance on an exemption from the registration requirements of the Securities Act provided under Regulation S ("Regulation S Notes"), each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Program will be required to represent, warrant and agree, that it will not offer, sell or deliver such Regulation S Notes (i) as part of their distribution at any time or (ii) otherwise until 40 days after the completion of the distribution, as determined and certified by the relevant Dealer or, in the case of an issue of Notes on a syndicated basis, the relevant lead manager, of all Notes of the Tranche of which such Regulation S Notes are a part, within the United States or to, or for the account or benefit of, U.S. persons. Each Dealer has further agreed, and each further Dealer appointed under the Program will be required to agree, that it will send to each dealer to which it sells any Regulation S Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Regulation S Notes within the United States or to, or for the account or benefit of, U.S. persons.

Until 40 days after the commencement of the offering of any Series of Notes, an offer or sale of such Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with an applicable exemption from registration under the Securities Act.

Dealers may arrange for the resale of Notes to QIBs pursuant to Rule 144A and each such purchaser of Notes is hereby notified that the Dealers may be relying on the exemption from the registration requirements of the Securities Act provided by Rule 144A. The minimum aggregate principal amount of Notes which may be purchased by a QIB pursuant to Rule 144A is U.S.\$200,000 (or the approximate equivalent thereof in any other currency). To the extent that the Issuer is not subject to or does not comply with the reporting requirements of Section 13 or 15(d) of the Exchange Act or the information furnishing requirements of Rule 12g3-2(b) thereunder, the Issuer has agreed to furnish to holders of Notes and to prospectus purchasers designated by such holders, upon request, such information as may be required by Rule 144A(d)(4).

Each issuance of Index Linked Notes or Dual Currency Notes shall be subject to such additional U.S. selling restrictions as the Issuer and the relevant Dealer may agree as a term of the issuance and purchase of such Notes, which additional selling restrictions shall be set out in the applicable Pricing Supplement.

European Economic Area

The final terms (or Pricing Supplement, as the case may be) in respect of any Series of Notes may include information entitled “MiFID II Product Governance,” which will outline the target market assessment in respect of the Notes of any such Series and which channels for distribution of the Notes are appropriate, and if such information is included, any person subsequently offering, selling or recommending the Notes (a “distributor”) should take into consideration the target market assessment; however, a distributor subject to MiFID II will be responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the target market assessment) and determining the appropriate distribution channels.

For the purpose of the MiFID Product Governance Rules, each of the Arranger and Dealers will be deemed not to be a manufacturer unless determined otherwise, the determination of which will be made in relation to each issue of Notes with respect to the Arranger and each Dealer.

Unless the final terms (or Pricing Supplement, as the case may be) in respect of any Series of Notes specifies “Prohibition of sales to EEA retail investors” as “Not Applicable,” each Dealer has represented and agreed, and each further Dealer appointed under the Program will be required to represent and agree, that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes which are the subject of the offering contemplated by this Offering Circular as completed by the final terms (or Pricing Supplement, as the case may be) in relation thereto to any retail investor in the EEA. For the purposes of this provision: (a) the expression “retail investor” means a person who is one (or more) of the following: (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; (ii) a customer within the meaning of Directive 2002/92/EC, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in the Prospectus Directive (as defined below); and (b) the expression “offer” includes the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe for the Notes.

In relation to each Member State, each Dealer has represented and agreed, and each further Dealer appointed under the Program will be required to represent and agree, that it has not made and will not make an offer of Notes which are the subject of the offering contemplated by this Offering Circular, as completed by the final terms in relation thereto, to the public in that Member State except that it may make an offer of Notes to the public in that Member State:

- (a) if the final terms in relation to the Notes specify that an offer of those Notes may be made other than pursuant to Article 3(2) of the Prospectus Directive in that Member State (a “Non-exempt Offer”), following the date of publication of a prospectus in relation to such Notes which has been approved by the competent authority in that Member State or, where appropriate, approved in another Member State and notified to the competent authority in that Member State, provided that any such prospectus has

subsequently been completed by the final terms contemplating such Non-exempt Offer, in accordance with the Prospectus Directive in the period beginning and ending on the dates specified in such prospectus or final terms, as applicable, and the Issuer has consented in writing to its use for the purpose of that Non-exempt Offer;

- (b) at any time to any legal entity which is a qualified investor as defined in the Prospectus Directive;
- (c) subject to any other restriction and obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer, at any time to fewer than 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive); or
- (d) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive;

provided that no such offer of Notes referred to in (b) to (d) above shall require the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an “offer of Notes to the public” in relation to any Notes in any Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression “Prospectus Directive” means Directive 2003/71/EC (as amended, including by Directive 2010/73/EU) and includes any relevant implementing measure in the Member State.

The European Economic Area selling restriction described above is in addition to any other applicable selling restriction set out below.

United Kingdom

Each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Program will be required to represent, warrant and agree that:

- (a) in relation to any Notes having a maturity of less than one year, (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (ii) it has not offered or sold and will not offer or sell any Notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Notes would otherwise constitute a contravention of Section 19 of the UK Financial Services and Markets Act 2000 (the “FSMA”) by the Issuer;
- (b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and

- (c) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

Japan

The Notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Law. No. 25 of 1948, as amended) (the “FIEA”). Each Dealer has represented, warranted and agreed and each further Dealer appointed under the Program will be required to represent, warrant and agree that it has not offered or sold and will not offer or sell any Notes, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (as defined under Item 5, Paragraph 1, Article 6 of the Foreign Exchange and Foreign Trade Control Law (Law No. 228 of 1949, as amended)), or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEA and other applicable laws, regulations and ministerial guidelines of Japan.

Switzerland

Each Dealer has represented and agreed that it (a) it has not offered and sold and will not publicly offer or sell the Notes in Switzerland, as such term is defined or interpreted under the Swiss Code of Obligations (“CO”) and the Swiss Collective Investment Schemes Act (the “CISA”) and (b) neither this Offering Circular nor any other documents related to the Securities constitute a prospectus within the meaning of art.652a or art.1156 CO.

We have not applied for a listing of the Securities on the SIX Swiss Stock Exchange or any other regulated securities market in Switzerland, and consequently the information presented in this Offering Circular does not necessarily comply with the information standards set out in the listing of the SIX Swiss Stock Exchange. In addition, the Securities do not constitute a participation in a collective investment scheme in the meaning of the CISA, and they are neither subject to approval nor supervision by the Swiss Federal Banking Commission, the Swiss Financial Market Supervision Authority or any other regulatory authority in Switzerland.

Singapore

Each Dealer has acknowledged that this Offering Circular has not been and will not be registered as a prospectus with the Monetary Authority of Singapore under the Securities and Futures Act, Chapter 289 of Singapore (the “SFA”). Each Dealer represents, warrants and agrees, and each further Dealer appointed under the Program will be required to represent, warrant and agree that it has not offered or sold any Notes or caused the Notes to be made the subject of an invitation for subscription or purchase, and will not offer or sell any Notes or cause the Notes to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Offering Circular and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor under Section 274 of the SFA, (ii) to a relevant person pursuant to Section 275(1), or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275, of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

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

- (a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

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

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

Hong Kong

Each Dealer has represented, warranted and agreed and each further Dealer appointed under the Program will be required to represent, warrant and agree that:

- (a) it has not offered or sold and will not offer or sell in Hong Kong Special Administrative Region of the People's Republic of China ("Hong Kong"), by means of any document, any Notes (except for Notes which are a "structured product" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong) other than (i) to "professional investors" as defined in the Securities and Futures Ordinance 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 or which do not constitute an offer to the public within the meaning of that Ordinance; and
- (b) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Notes, which is directed at, or the contents of which are likely to be accessed or read by, the public in 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" within the meaning of the Securities and Futures Ordinance and any rules made under that Ordinance.

The Dealers may offer and sell Notes through certain of their affiliates. One or more of the Dealers may use affiliates or other appropriately licensed entities for sales of the Notes in jurisdictions in which such Dealers are not otherwise permitted

Korea

Each Dealer has represented and agreed that the Notes have not been and will not be offered, delivered or sold directly or indirectly in Korea or to any resident of Korea or to others for re-offering or resale directly or indirectly in Korea or to any resident of Korea (as defined in the Foreign Exchange Transactions Act of Korea and the regulations thereunder) except (i) the offering of the Notes to “qualified institutional buyers” (the “Korean QIBs,” as defined in the Regulation on Issuance, Public Disclosures, Etc. of Securities of Korea) upon satisfaction of certain requirements, including that (a) the Notes are denominated, and the principal and interest payments thereunder are made, in a currency other than Korean Won, (b) the amount of the Notes acquired by such Korean QIBs in the primary market is limited to less than 20% of the aggregate issue amount of the Notes, (c) the Notes are listed on one of the major overseas securities markets designated by the Financial Supervisory Service of Korea, or certain procedures, such as registration or report with a foreign financial investment regulator, have been completed for offering of the Notes in a major overseas securities market, (d) the one-year restriction on offering, delivering or selling of Notes to a Korean resident other than a Korean QIB is expressly stated in the Notes, the relevant purchase agreement and offering circular and (e) the Issuer and the Dealers shall individually or collectively keep the evidence of fulfillment of conditions (a) through (d) above after having taken necessary actions therefor, or (ii) as otherwise permitted by applicable Korean laws and regulations.

Each Dealer has undertaken to use commercially reasonable best measures as a Dealer in the ordinary course of its business so that any securities Dealer to which it sells the Notes confirms that it is purchasing such Notes as principal and agrees with such Dealer that it will comply with the restrictions described above.

General

Each Dealer has agreed and each further Dealer appointed under the Program will be required to agree that it will (to the best of its knowledge and belief) comply with all applicable securities laws and regulations in force in any jurisdiction in which it purchases, offers, sells or delivers Notes or possesses or distributes the Offering Circular and will obtain any consent, approval or permission required by it for the purchase, offer, sale or delivery by it of Notes under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers, sales or deliveries and neither the Issuer nor any other Dealer shall have any responsibility therefor.

If a jurisdiction requires that any offering of Notes under the Program be made by a licensed broker or dealer and the Dealers or any affiliate of the Dealers is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by that Dealer or its affiliate on behalf of the Issuer in such jurisdiction.

Neither the Issuer nor any of the Dealers represents that Notes may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating such sale.

With regard to each Tranche, the relevant Dealer will be required to comply with such other additional restrictions as the Issuer and the relevant Dealer shall agree and as shall be set out in the applicable Pricing Supplement.

GENERAL INFORMATION

Authorization

The establishment of the Program has been duly authorized by a resolution of the Board of Directors of the Issuer dated March 30, 2012. Each issue of Notes under the Program is to be authorized by the Board of Directors of the Issuer at the time of issue.

Listing of Notes on the SGX-ST

Approval in-principle has been received from the SGX-ST in connection with the Program and application will be made for the listing and quotation of Notes that may be issued pursuant to the Program, which Notes are agreed, at or prior to the time of issue thereof, to be so listed on the SGX-ST. Such permission will be granted when such Notes have been admitted for listing and quotation on the SGX-ST. For so long as any Notes are listed on the SGX-ST and the rules of the SGX-ST so require, such Notes, if traded on the SGX-ST, will be traded in a minimum board lot size of S\$200,000 (or its equivalent in foreign currencies).

Documents Available

From the date hereof and so long as Notes are capable of being issued under the Program, copies of the following documents will, when published, be available from the registered office of the Issuer and from the specified office of the Paying Agent for the time being in London:

- (i) the articles of incorporation (together with English translations) of the Issuer;
- (ii) the audited consolidated financial statements of the Issuer in respect of the financial years ended December 31, 2015, 2016 and 2017 (in English);
- (iii) the unaudited condensed consolidated interim financial statements of the Issuer in respect of the three months ended March 31, 2017 and 2018 (in English);
- (iv) the most recently published audited consolidated annual financial statements of the Issuer and the most recently published consolidated interim financial statements of the Issuer;
- (v) the Program Agreement, the Agency Agreement, the forms of the Global Notes, the Notes in definitive form, the Receipts, the Coupons and the Talons;
- (vi) a copy of this Offering Circular;
- (vii) any future offering circulars, prospectuses, information memoranda and supplements including Pricing Supplements (except that a Pricing Supplement relating to an unlisted Note will only be available for inspection by a holder of such Note and such holder must produce evidence satisfactory to the Issuer and the Paying Agent as to its holding of Notes and identity) to this Offering Circular and any other documents incorporated herein or therein by reference; and
- (viii) in the case of each issue of listed Notes subscribed pursuant to a subscription agreement, the subscription agreement (or equivalent document).

Clearing Systems

The Notes in bearer form have been accepted for clearance through Euroclear and Clearstream. The appropriate Common Code and ISIN for each Tranche of Bearer Notes allocated by Euroclear and Clearstream will be specified in the applicable Pricing Supplement. In addition, the Issuer may make an application for any Notes in registered form to be accepted for trading in book-entry form by DTC. The CUSIP and/or CINS numbers (if any) for each Tranche of Registered Notes, together with the relevant ISIN and Common Code, will be specified in the applicable Pricing Supplement. If the Notes are to clear through an additional or alternative clearing system the appropriate information will be specified in the applicable Pricing Supplement.

Independent Auditors

Our audited consolidated financial statements as of and for the years ended December 31, 2015, 2016 and 2017 included herein, have been audited by KPMG Samjong Accounting Corp. (“KPMG”), independent auditors, as stated in their reports appearing herein.

With respect to the unaudited condensed consolidated interim financial statements as of March 31, 2018 and for the three months ended March 31, 2017 and 2018, included herein, KPMG has reported that it applied limited procedures in accordance with professional standards for a review of such information. However, its separate report included herein states that it did not audit and it does not express an opinion on such interim financial information. Accordingly, the degree of reliance on its report on such information should be restricted in light of the limited nature of the review procedures applied.

Information relating to the Fiscal Agent

The Fiscal Agent is Citicorp International Limited (“CIL”). CIL was incorporated as a company with limited liability in Hong Kong under the Companies Ordinance on October 23, 1970 with company number 21829. It is a wholly-owned subsidiary of Citigroup Inc., a U.S. registered bank holding company.

CIL is a restricted license bank and registered institution subject to regulation and supervision by the Hong Kong Monetary Authority and Securities and Futures Commission. The registered office of CIL is located at 39/F Champion Tower, Citibank Plaza, 3 Garden Road, Central, Hong Kong.

A copy of CIL’s Memorandum and Articles of Association, as amended from time to time, together with copies of the most recent financial statements and annual report of CIL will be available for inspection at its principal place of business located at 39/F Champion Tower, 3 Garden Road, Central, Hong Kong (Attention: Agency & Trust).

INDEX TO FINANCIAL STATEMENTS

	<i>Page</i>
Independent Auditors' Review Report	F-2
Condensed Consolidated Interim Statements of Financial Position as of March 31, 2018 and March 31, 2017	F-4
Condensed Consolidated Interim Statements of Comprehensive Income for the three months ended March 31, 2018 and 2017	F-6
Condensed Consolidated Interim Statements of Changes in Equity for the three months ended March 31, 2018 and 2017	F-7
Condensed Consolidated Interim Statements of Cash Flows for the three months ended March 31, 2018 and 2017	F-9
Notes to the Condensed Consolidated Interim Financial Statements	F-11
Independent Auditors' Report	F-76
Consolidated Statements of Financial Position as of December 31, 2017 and 2016	F-78
Consolidated Statements of Comprehensive Income for the years ended December 31, 2017 and 2016	F-80
Consolidated Statements of Changes in Equity for the years ended December 31, 2017 and 2016	F-81
Consolidated Statements of Cash Flows for the years ended December 31, 2017 and 2016 ..	F-83
Notes to the Consolidated Financial Statements	F-85
Independent Auditors' Report	F-168
Consolidated Statements of Financial Position as of December 31, 2016 and 2015	F-170
Consolidated Statements of Comprehensive Income for the years ended December 31, 2016 and 2015	F-172
Consolidated Statements of Changes in Equity for the years ended December 31, 2016 and 2015	F-174
Consolidated Statements of Cash Flows for the years ended December 31, 2016 and 2015 ..	F-176
Notes to the Consolidated Financial Statements	F-178

Independent Auditors' Review Report

The Board of Directors and Shareholder
Korea Western Power Co., Ltd.:

Reviewed Financial Statements

We have reviewed the accompanying condensed consolidated interim financial statements of Korea Western Power Co., Ltd. and its subsidiaries (the "Group"), which comprise the condensed consolidated statement of financial position as of March 31, 2018, the condensed consolidated statements of comprehensive income, changes in equity and cash flows for the three-month periods ended March 31, 2018 and 2017 and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Condensed Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these condensed consolidated interim financial statements in accordance with Korean International Financial Reporting Standards ("K-IFRS") No.1034 *Interim Financial Reporting*, and for such internal control as management determines is necessary to enable the preparation of condensed consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Review Responsibility

Our responsibility is to issue a report on these condensed consolidated interim financial statements based on our reviews.

We conducted our reviews in accordance with the Review Standards for Quarterly and Semiannual Financial Statements established by the Securities and Futures Commission of the Republic of Korea. A review of interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Korean Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our reviews, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial statements referred to above are not prepared, in all material respects, in accordance with K-IFRS No.1034, 'Interim Financial Reporting'.

Other matters

The procedures and practices utilized in the Republic of Korea to review such condensed consolidated interim financial statements may differ from those generally accepted and applied in other countries.

The consolidated statement of financial position of the Group as of December 31, 2017, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, which are not accompanying this report, were audited by us in accordance with Korean Standards on Auditing and our report thereon, dated March 8, 2018, expressed an unqualified opinion. The accompanying condensed consolidated statement of financial position of the Group as of December 31, 2017, presented for comparative purposes, is not different from that audited by us in all material respects.

KPMG Samjong Accountij Corp.

Seoul, Korea
May 14, 2018

<p>This report is effective as of May 14, 2018, the review report date. Certain subsequent events or circumstances, which may occur between the review report date and the time of reading this report, could have a material impact on the accompanying condensed consolidated interim financial statements and notes thereto. Accordingly, the readers of the review report should understand that the above review report has not been updated to reflect the impact of such subsequent events or circumstances, if any.</p>

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Condensed Consolidated Interim Statements of Financial Position

As of March 31, 2018 and December 31, 2017

(Unaudited)

<i>In millions of won</i>	Note	2018	2017
Assets			
Cash and cash equivalents	5,6,35	₩ 33,231	35,416
Current financial assets	5,9,10,35	368,754	53,007
Current tax assets	32	806	606
Trade and other receivables, net	5,7,35,36	702,974	653,556
Inventories	11	274,270	270,054
Current non-financial assets	12	49,974	53,460
Total current assets		1,430,009	1,066,099
Non-current financial assets	5,8,9,10,35,36	148,135	152,760
Non-current trade and other receivables, net	5,7,35	204	63
Property, plant and equipment, net	15,38	8,042,074	8,115,149
Intangible assets, net	16	18,274	18,357
Investments in associates and joint ventures	14,36,37	286,706	268,148
Non-current non-financial assets	12	9,688	7,861
Deferred tax assets	32	402	234
Total non-current assets		8,505,483	8,562,572
Total assets		₩ 9,935,492	9,628,671

See accompanying notes to the condensed consolidated interim financial statements.

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Condensed Consolidated Interim Statements of Financial Position, Continued

As of March 31, 2018 and December 31, 2017

(Unaudited)

<i>In millions of won</i>	Note	2018	2017
Liabilities			
Trade and other payables	5,17,35,36	₩ 419,957	278,370
Current financial liabilities	5,9,18,19,35	1,138,343	902,030
Current tax liabilities	32	58,323	13,356
Current non-financial liabilities	22	157,592	103,565
Current provisions	21	19	40
Total current liabilities		1,774,234	1,297,361
Non-current trade and other payables	5,17,35	-	2,189
Non-current financial liabilities	5,9,18,19,35	3,883,710	4,119,559
Non-current non-financial liabilities	22	323	244
Employee benefits obligations, net	20,24,35	70,065	68,656
Deferred tax liabilities	32	264,919	258,154
Non-current provisions	21,39	115	115
Total non-current liabilities		4,219,132	4,448,917
Total liabilities		5,993,366	5,746,278
Equity			
Share capital	23	1,272,898	1,272,898
Retained earnings	24	2,705,328	2,639,262
Other components of equity	8,9,25	(42,409)	(36,028)
Equity attributable to owners of KOWEPO		3,935,817	3,876,132
Non-controlling interests		6,309	6,261
Total equity		3,942,126	3,882,393
Total liabilities and equity		₩ 9,935,492	9,628,671

See accompanying notes to the condensed consolidated interim financial statements.

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Condensed Consolidated Interim Statements of Comprehensive Income

For the three-month periods ended March 31, 2018 and 2017

(Unaudited)

<i>In millions of won, except earnings per share information</i>	Note	2018	2017
Sales	4,26,36	₩ 1,395,149	1,239,953
Cost of sales	33,36	(1,181,536)	(942,633)
Gross profit		213,613	297,320
Selling and administrative expenses	27,33	(23,311)	(24,802)
Operating income		190,302	272,518
Other non-operating income	28	1,126	1,046
Other non-operating expenses	28	(211)	(150)
Other income, net	29	3,545	5,026
Finance income	5,9,30	11,758	136,473
Finance expenses	5,8,9,31	(43,721)	(175,486)
Loss from associates and joint ventures	14	(11,845)	(4,032)
Profit before income tax		150,954	235,395
Income tax expense	32	(57,617)	(55,169)
Profit for the period		93,337	180,226
Other comprehensive income (loss), net of tax:			
Items that will never be reclassified to profit or loss			
Remeasurements of benefit liability, net of tax	20,24	1,397	134
Net change in the unrealized fair value of available-for-sale financial assets, net of tax		(1,537)	-
Items that are or may be reclassified to profit or loss			
Net change in the unrealized fair value of available-for-sale financial assets, net of tax	8,25	-	4,831
Net change in the unrealized fair value of derivatives using cash flow hedge accounting, net of tax	9,25	(2,910)	(8,847)
Foreign currency translation of foreign operations, net of tax		(856)	(790)
Share in other comprehensive loss of associates and joint ventures, net of tax		(702)	(6,037)
Total other comprehensive loss, net of tax		(4,608)	(10,709)
Total comprehensive income for the period		₩ 88,729	169,517
Profit attributable to:			
Owners of KOWEPO		₩ 93,286	180,225
Non-controlling interests		51	1
		93,337	180,226
Total comprehensive income (loss) attributable to:			
Owners of KOWEPO		88,682	169,518
Non-controlling interests		47	(1)
		88,729	169,517
Earnings per share			
Basic and diluted earnings per share (in won)	34	₩ 2,799	5,407

See accompanying notes to the condensed consolidated interim financial statements.

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Condensed Consolidated Interim Statements of Changes in Equity
For the three-month period ended March 31, 2017
(Unaudited)

In millions of won

	Equity attributable to owners of KOWEPO					Non-controlling interests	Total equity
	Share capital	Retained earnings	Other components of equity	Hybrid securities	Subtotal		
Balance at January 1, 2017	₩ 1,272,898	2,593,422	(49,043)	99,750	3,917,027	6,250	3,923,277
Total comprehensive income (loss) for the period:							
Profit (loss) for the period	-	180,225	-	-	180,225	1	180,226
Remeasurements of benefit liability, net of tax	-	134	-	-	134	-	134
Net change in the unrealized fair value of available-for-sale financial assets, net of tax	-	-	4,831	-	4,831	-	4,831
Net change in the unrealized fair value of derivatives using cash flow hedge accounting, net of tax	-	-	(8,847)	-	(8,847)	-	(8,847)
Share in other comprehensive income (loss) of associates and joint ventures, net of tax	-	-	(6,037)	-	(6,037)	-	(6,037)
Foreign currency translation of foreign operations, net of tax	-	-	(788)	-	(788)	(2)	(790)
Transactions with owners recognized directly in equity:							
Dividends paid	-	(66,992)	-	-	(66,992)	-	(66,992)
Others	-	(714)	-	-	(714)	-	(714)
Balance at March 31, 2017	₩ 1,272,898	2,706,075	(59,884)	99,750	4,018,839	6,249	4,025,088

See accompanying notes to the condensed consolidated interim financial statements.

F-8

Balance at January 1, 2018

Profit for the period

Remeasurements of benefit liability, net of tax

Net change in the unrealized fair value of available-for-sale financial assets, net of tax

Net change in the unrealized fair value of derivatives using cash flow hedge accounting, net of tax

Share in other comprehensive loss of associates and joint ventures, net of tax

Foreign currency translation of foreign operations, net of tax

Dividends paid
Others

See accompanying notes to the condensed consolidated interim financial statements.

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Condensed Consolidated Interim Statements of Cash Flows

For the three-month periods ended March 31, 2018 and 2017
(Unaudited)

In millions of won

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities		
Profit for the period	₩ 93,337	180,226
Adjustments for:		
Income tax expense	57,617	55,169
Depreciation	155,701	138,217
Amortization of intangible assets	1,580	753
Retirement benefit expenses	4,958	2,934
Interest expense	33,766	30,904
Interest income	(1,192)	(478)
Loss on disposals of property, plant and equipment, net	640	3,160
Loss on disposals of intangible assets, net	3	-
Loss on valuation of financial assets at fair value through	281	-
Loss (Gain) on derivative instruments, net	(1,179)	142,193
Loss (Gain) on foreign currency translations, net	124	(133,177)
Gain on foreign currency transactions, net	-	(1,537)
Loss from associates and joint ventures	11,845	4,032
Provisions for employee benefits	8,273	6,964
Provisions for renewable portfolio standard	21,293	3,510
Provisions for greenhouse gas emission	-	3,396
Others	(122)	851
	<u>293,588</u>	<u>256,891</u>
Changes in:		
Trade receivables	(46,534)	128,516
Other current receivables	(3,900)	(38,966)
Inventories	(4,373)	(22,360)
Current non-financial assets	3,816	(344)
Non-current non-financial assets	1,890	2,423
Trade payables	72,558	(118,926)
Other current payables	37,166	(21,183)
Current non-financial liabilities	33,893	41,209
Non-current non-financial liabilities	(2,123)	-
Payments of retirement benefit obligations	(1,806)	(647)
Non-current other liabilities	-	2,347
Non-current provisions	(65)	(65)
	<u>90,522</u>	<u>(27,996)</u>
Cash generated from operating activities:		
Dividends received	-	1,290
Interest received	836	324
Interest paid	(35,081)	(28,908)
Income tax paid	(5,953)	(22,566)
	<u> </u>	<u> </u>
Net cash provided by operating activities	₩ <u>437,249</u>	<u>359,261</u>

See accompanying notes to the condensed consolidated interim financial statements.

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Condensed Consolidated Interim Statements of Cash Flows, Continued

For the three-month periods ended March 31, 2018 and 2017
(Unaudited)

In millions of won

	2018	2017
Cash flows from investing activities		
Increase in financial assets at fair value through profit and loss	₩ (295,000)	-
Collection of loans	58	533
Increase in loans	(1,236)	(2,572)
Increase in guarantee deposits	(106)	(2,229)
Decrease in guarantee deposits	103	200
Acquisition of investments in associates and joint ventures	(31,104)	(8,364)
Proceeds from disposals of property, plant and equipment	3,638	27,481
Acquisition of property, plant and equipment	(91,162)	(168,982)
Acquisition of intangible assets	(139)	(1,702)
Government grants received	-	886
Decrease in other investments	(3,943)	-
Net cash used in investing activities	(418,891)	(154,749)
Cash flows from financing activities		
Proceeds from borrowings	-	397,454
Repayment of borrowings	(87)	(786,536)
Proceeds from debentures	-	299,066
Interest payments on hybrid securities	-	(979)
Settlement of derivative contracts	(6)	(6,738)
Net cash used in financing activities	(93)	(97,733)
Net increase in cash and cash equivalents before effect of exchange rate fluctuations	18,265	106,779
Effect of exchange rate on foreign operations' financial statements translation	(323)	(239)
Effects of exchange rate fluctuations on cash held	(127)	(1,209)
Net increase in cash and cash equivalents	17,815	105,331
Cash and cash equivalents at beginning of the period	35,416	246,692
Effect of changes in K-IFRS	(20,000)	-
Cash and cash equivalents at end of the period	₩ 33,231	352,023

See accompanying notes to the condensed consolidated interim financial statements.

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Condensed Consolidated Interim Financial Statements
For the three-month periods ended March 31, 2018 and 2017
(Unaudited)

1. Reporting Entity

In accordance with a restructuring plan dated January 21, 1999 for the electricity industry in the Republic of Korea, announced by the Ministry of Commerce, Industry and Energy and the Act on Promotion of Restructuring the Electric Power Industry published on December 23, 2000, Korea Western Power Co., Ltd. (the "KOWEPO") was incorporated on April 2, 2001 through the spin-off of the power generation division of Korea Electric Power Corporation (the "KEPCO"). KOWEPO and its subsidiaries (the "Group") engage in the generation of electricity and development of electric power resources.

As of March 31, 2018, the KOWEPO owns and operates three power plants with a total capacity of 11,311MW.

The KOWEPO's head office is located in Taean-gun, Chungcheongnam-do, Korea. The share capital of the KOWEPO as of March 31, 2018 amounts to ₩166,646 million and the KOWEPO's sole shareholder is KEPCO (100%).

In accordance with Korea International Financial Reporting Standards ("K-IFRS") No.1110 'Consolidated Financial Statements', the Group's consolidated financial statements include the financial results of KOWEPO, the parent company and 7 other subsidiaries ("consolidated entity") and 13 other investments which are accounted for as equity method investments.

2. Basis of Accounting

The condensed consolidated interim financial statements have been prepared in accordance with Korean International Financial Reporting Standards ("K-IFRS"), as prescribed in the *Act on External Audit of Corporations* in the Republic of Korea.

These condensed consolidated interim financial statements were prepared in accordance with K-IFRS No.1034, 'Interim Financial Reporting' as part of the period covered by the Group's K-IFRS annual financial statements. These condensed consolidated interim financial statements do not include all of the disclosures required for full annual financial statements.

This is the first set of the Group's financial statements where K-IFRS No.1109 'Financial Instruments' and K-IFRS No.1115 'Revenue from Contracts with Customers' have been applied. Changes to significant accounting policies are described in Note 3.

(1) Basis of measurement

The condensed consolidated interim 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
- ✓ FVOCI - equity investments are measured at fair value
- ✓ Financial instruments at fair value through profit or loss
- ✓ 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

(2) Functional and presentation currency

These condensed consolidated interim financial statements are presented in Korean won, which is the KOWEPO's functional currency and the currency of the primary economic environment in which the Group operates.

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Condensed Consolidated Interim Financial Statements
For the three-month periods ended March 31, 2018 and 2017
(Unaudited)

2. Basis of Accounting, Continued

(3) Use of estimates and judgments

The preparation of the condensed consolidated interim 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.

In preparing these condensed consolidated interim financial statements, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those applied to the consolidated financial statements as of and for the year ended December 31, 2017, except for major new judgments and major sources of estimation uncertainty related to the adoption of K-IFRS No.1109 and K-IFRS No.1115 described in Note 3.

3. Significant Accounting Policies

The accounting policies applied by the Group in these condensed consolidated interim financial statements are the same as those applied by the Group in its consolidated financial statements as of and for the year ended December 31, 2017 except as explained below. Changes in accounting policies described below are also expected to be applied in the consolidated financial statements for the year ending December 31, 2018.

(1) Changes in accounting policies

From January 1, 2018, the Group has initially applied K-IFRS No.1109 'Financial Instruments' and K-IFRS No.1115 'Revenues from contracts with customer'. A number of other new standards are effective from January 1, 2018 but they do not have a material effect on the financial statements of the Group.

(i) K-IFRS No.1109 'Financial Instruments'

K-IFRS No.1109 'Financial Instruments' specifies requirements for the recognition and measurement of financial assets, financial liabilities and contracts for the sale of non-financial instruments. It replaced existing K-IFRS No.1039 'Financial Instruments: Recognition and Measurement'.

The Group applied exceptions that do not require restatement of comparative information related to changes in accounting policies due to the adoption of K-IFRS No.1109, 'Financial Instruments'. The Group applied the cumulative effect method, with the effect of initially applying K-IFRS No.1109, recognized in retained earnings as of the date of initial application (January 1, 2018).

The following table summarizes the after-tax effect of the application of K-IFRS No.1109 to the carrying amount of reserves, retained earnings and other components of equity.

<i>In millions of won</i>		January 1, 2018
Retained earnings	₩	380
Other components of equity		(380)

The nature and effect of major changes in accounting policies in accordance with K-IFRS No.1109 are as follows.

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Condensed Consolidated Interim Financial Statements
For the three-month periods ended March 31, 2018 and 2017
(Unaudited)

3. Significant Accounting Policies, Continued

(1) Changes in accounting policies, Continued

(i) K-IFRS No.1109 'Financial Instruments', Continued

① Classification of financial assets and financial liabilities

K-IFRS No.1109 retained most of the existing requirements of K-IFRS No.1039 for the classification and measurement of financial liabilities. However, it has eliminated the existing classification of held-to-maturity investments, loans and receivables and available-for-sale financial assets.

The adoption of K-IFRS No.1109 does not have a significant impact on the Group's accounting policies related to financial liabilities and derivatives (including derivatives used as hedging instruments). The effect of adoption of K-IFRS No.1109 on classification and measurement of financial assets is as follows:

In accordance with K-IFRS No.1109, financial assets are measured at amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL) when initially applied. Classification of financial assets in accordance with K-IFRS No.1109 is generally based on the business model in which assets are managed and their contractual cash flow characteristics. Derivatives embedded in which the host contract is a financial asset covered by the scope of this standard are not separated but classified the hybrid financial instrument as a whole.

Financial assets are measured at amortized cost when they aren't measured at fair value through profit or loss (FVTPL) and they meet both of the following conditions:

- It holds financial assets under a business model that is intended to receive contractual cash flows.
- Under the terms of the contract, there is a cash flow consisting solely of interest payments on interest and principal balance on a particular day.

Financial liabilities are measured at fair value through other comprehensive income (FVOCI) when they aren't measured at fair value through profit or loss (FVTPL) and they meet both of the following conditions:

- It holds financial assets under a business model that is achieved through both receipt of contractual cash flows and sale of financial assets.
- Under the terms of the contract, there is a cash flow consisting solely of interest payments on interest and principal balance on a particular day.

At the date of initial recognition of an equity instrument that is not a trading instrument, the Group may make an irrevocable choice to subsequent changes in the fair value of that investment in other comprehensive income. This choice is made by each financial instruments.

As described above, amortized cost and all of the financial instruments not measured at fair value through other comprehensive income (FVOCI) including all derivatives, are measured at fair value through profit or loss (FVTPL). The Group measure a financial asset meet the measurement requirements at amortized cost or fair value through other comprehensive income (FVOCI) initially at fair value through profit or loss (FVTPL), if the accounting mismatch is eliminated or significantly reduced. However, such choice could be irrevocable.

Financial assets other than trade receivables that have no significant financial component measured at the initial transaction price are measured initially by adding transaction costs directly attributable to the acquisition to fair value, unless measured at fair value through profit or loss (FVTPL).

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Condensed Consolidated Interim Financial Statements
For the three-month periods ended March 31, 2018 and 2017
(Unaudited)

3. Significant Accounting Policies, Continued

(1) Changes in accounting policies, Continued

(i) K-IFRS No.1109 'Financial Instruments', Continued

① Classification of financial assets and financial liabilities, Continued

The following accounting policies apply to subsequent measurement of financial assets.

Financial assets at fair value through profit or loss (FVTPL)	These assets are subsequently measured at fair value. Net gain or loss, including interest and dividend income, is recognized in profit or loss. Please refer to ③ for derivatives designated as hedging instruments.
Financial assets at amortized cost	These assets are subsequently measured at amortized cost using the effective interest method. Amortization is reduced by Impairment loss (see ②). Interest income, foreign currency translation gains and losses and Impairment are recognized in profit or loss. The gain or loss on disposal is also recognized in profit or loss.
Financial liabilities at fair value through other comprehensive income (FVOCI)	These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign currency translation gains and losses are recognized in profit or loss. Other profit or loss is recognized in other comprehensive income. The gain or loss accumulated in other comprehensive income is reclassified to profit or loss as disposal.
Equity instruments at fair value through other comprehensive income (FVOCI)	These assets are subsequently measured at fair value. Dividends are recognized in profit or loss if the dividends do not clearly represent collection of investment costs. Other profit or loss is recognized in other comprehensive income and is never reclassified to profit or loss.

The effect on the carrying amount of a financial asset under the application of K-IFRS No.1109 on January 1, 2018 relates only to the new impairment requirement as described below:

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Condensed Consolidated Interim Financial Statements
For the three-month periods ended March 31, 2018 and 2017
(Unaudited)

3. Significant Accounting Policies, Continued

(1) Changes in accounting policies, Continued

(i) K-IFRS No.1109 'Financial Instruments', Continued

① Classification of financial assets and financial liabilities, Continued

The following table and accompanying notes describe each category of initial measurement categories in accordance with K-IFRS No.1039 and new measurement categories of K-IFRS No.1109 on January 1, 2018.

In millions of won

	Classification based on K-IFRS No.1039	Classification based on K-IFRS No.1109	Amount based on K- IFRS No.1039	Amount based on K-IFRS No.1109
Current financial assets:				
Cash and cash equivalents	Loans and receivables	Amortized cost	₩ 35,416	15,416
Cash and cash equivalents	Loans and receivables	FVTPL	-	20,000
Loans and receivables	Loans and receivables	Amortized cost	3,007	3,007
Short-term financial instruments	Loans and receivables	Amortized cost	50,000	50,000
Trade and other receivables	Loans and receivables	Amortized cost	653,556	653,556
			<u>741,979</u>	<u>741,979</u>
Non-current financial assets:				
Available-for-sale financial assets	Available-for-sale financial assets	FVOCI	133,788	133,788
Loans and receivables	Loans and receivables	Amortized cost	14,984	14,984
Currency swap as a hedging instrument	Fair value—means of hedging derivatives	Fair value—hedging instrument	3,988	3,988
Trade and other receivables	Loans and receivables	Amortized cost	63	63
			<u>152,823</u>	<u>152,823</u>
			<u>₩ 894,802</u>	<u>894,802</u>

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Condensed Consolidated Interim Financial Statements
For the three-month periods ended March 31, 2018 and 2017
(Unaudited)

3. Significant Accounting Policies, Continued

(1) Changes in accounting policies, Continued

(i) K-IFRS No.1109 'Financial Instruments', Continued

② Impairment of financial assets

K-IFRS No.1109 replaces the "incurred loss" model of K-IFRS No.1039 with the "expected credit loss" (ECL) model. The new impairment model is applied to financial assets measured at amortized cost, contract assets and financial liabilities at fair value through other comprehensive income (FVOCI), but not equity instrument investments. In accordance with K-IFRS No.1109, credit losses will be recognized earlier than K-IFRS No.1039.

Financial assets measured at amortized cost include trade receivables, cash and cash equivalents, and loans.

In accordance with K-IFRS No.1109, loss allowances is measured using two criteria:

-12 months ECL: Expected credit loss that resulted from possible default events within the 12 months after the reporting date

-Lifetime ECL: Expected credit loss that resulted from all possible default events over the expected life of a financial instrument

The Group measures the loss allowance by the amount corresponding to the expected credit loss of the lifetime, except for the following financial assets measured at the expected credit loss of 12 months.

-Debt securities determined to have low credit risk at the end of the reporting period

-Other debt securities and bank deposits that credit risk has not increased significantly since the initial recognition (i.e. default risk do not arise over the expected lifetime of the financial asset)

Loss allowance on trade receivables and contractual assets is always measured at the amount corresponding to the expected credit loss of the lifetime.

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

The longest period of measuring expected credit loss is the longest contractual period for which the Group is exposed to credit risk.

Measuring expected credit loss

Expected credit loss is a probability weighted estimate of credit loss. Credit loss is measured as the present value of all cash deficits (i.e. the difference between all contractual cash flows that are expected to be paid under the contract and all contractual cash flows that are expected to be received). Expected credit loss are also discounted at the effective interest rate of the financial asset.

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Condensed Consolidated Interim Financial Statements
For the three-month periods ended March 31, 2018 and 2017
(Unaudited)

3. Significant Accounting Policies, Continued

(1) Changes in accounting policies, Continued

(i) K-IFRS No.1109 'Financial Instruments', Continued

② Impairment of financial assets, Continued

Credit-impaired financial assets

At the end of each reporting period, the Group assesses the carrying amount of financial assets measured at amortized cost and debt securities measured at fair value through other comprehensive income (FVOCI) - whether the credit is impaired. If there is more than one event that adversely affects the estimated future cash flows of the financial asset, the financial asset is impaired.

Presentation of credit loss allowance of financial statement

The loss allowance on financial assets measured at amortized cost is deducted from the carrying amount of the asset. The loss allowance on financial liabilities measured at fair value through other comprehensive income (FVOCI) is recognized in other comprehensive income, instead of reducing the carrying amount of the asset.

Effect of new impairment model

The impairment loss on financial assets subject to the impairment model of K-IFRS No.1109 is generally expected to increase and the volatility to increase. On January 1, 2018, the Group determined that there is no additional impairment loss required when K-IFRS No.1109 is applied.

③ Hedge accounting

When initially applying K-IFRS No.1109, the Group may elect as its accounting policy to continue to apply the hedge accounting requirements of K-IFRS No.1039. The Company plans to elect to continue apply the hedge accounting requirements of K-IFRS No.1039.

(ii) K-IFRS No.1115 'Revenues from contracts with customer'

K-IFRS No.1115 is a comprehensive framework for determining when and how much revenue is recognized. It replaced existing revenue recognition guidance, including K-IFRS No.1018 'Revenue', K-IFRS No.1011 'Construction Contracts', K-IFRS No.2031 'Revenue-Barter transactions involving advertising services', K-IFRS No.2113 'Customer Loyalty Programs', K-IFRS No.2115 'Agreements for the construction of real estate', K-IFRS No.2118 'Transfers of assets from customers'.

The Group recognized the cumulative effect of the initial application of K-IFRS No.1115 for contracts that were not completed on the initial date of adoption (January 1, 2018) by adjusting the beginning balance of retained earnings for the fiscal year that includes the date of initial application, in accordance with transitional provision. The adoption of this standard did not have any impact on the financial statements (including retained earnings) on January 1, 2018.

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Condensed Consolidated Interim Financial Statements
For the three-month periods ended March 31, 2018 and 2017
(Unaudited)

3. Significant Accounting Policies, Continued

(2) New standards and amendments not yet adopted

The following new standards and amendments are effective for fiscal years beginning after January 1, 2018, with earlier application permitted. The Group did not early apply the following standards and amendments.

The Group additionally provides the following with respect to the standard which have been promulgated but have not yet come into effect, which may have a material impact on the consolidated financial statements.

(i) K-IFRS No.1116 'Lease'

K-IFRS No.1116 replaces K-IFRS No.1017 'Lease', and K-IFRS No.2104 'Determining whether an Arrangement contains a Lease'. This standard is effective for annual reporting periods beginning on or after January 1, 2019, with early adoption permitted if K-IFRS No.1115 'Revenue from Contracts with Customers' has also been applied.

Under K-IFRS No.1116, a lessee shall apply this standard to its leases either:

- (a) Retrospectively to each prior reporting period presented applying K-IFRS No.1008 'Accounting Policies, Changes in Accounting Estimates and Errors'; or
- (b) Retrospectively with the cumulative effect of initially applying the standard recognized at the date of initial application.

The Group has not yet determined the transition approach for K-IFRS No.1116.

K-IFRS No.1116 provides a single lessee accounting model in which the lessee recognizes lease related assets and liabilities in the statement of financial position. A lessee is required to recognize a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Lease recognition may be exempted for short-term leases and leases for which the underlying asset is of low value. Accounting for a lessor is similar to the existing standard that classifies each of its leases as either an operating lease or a finance lease.

Upon adoption of K-IFRS No.1116, the nature of the costs associated with the lease will change as the operating lease payments recognized based on a straight-line basis will change to depreciation expense of a right-of-use asset and interest expense of the lease liability and no significant impact is expected on the Group's finance lease.

The Group plans to conduct a detailed assessment of the potential impact from the application of K-IFRS No.1116 for the year ending December 31, 2018.

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Condensed Consolidated Interim Financial Statements
For the three-month periods ended March 31, 2018 and 2017
(Unaudited)

4. Operating segment

(1) Substantially all of the Group's revenue are derived in and non-current assets are located in Korea, therefore it does not disclose entity-wide geographic information. The Group's chief operating decision maker ("CODM") does not receive and therefore does not review discrete financial information for any component of the Group.

(2) Information about major customer

Sales attributable to KEPCO, the major customer, are ₩1,373,792 million and ₩1,237,826 million for the periods ended March 31, 2018 and 2017, respectively.

5. Categories of Financial Instruments

(1) Financial assets

Categories of financial assets as of March 31, 2018 and December 31, 2017 are as follows:

(i) As of March 31, 2018

In millions of won

	FVTPL	Amortization cost	FVOCI - equity investment	Fair value – hedging instrument	Total
Current financial assets:					
Cash and cash equivalents ₩	-	33,231	-	-	33,231
Current financial assets					
Financial assets at fair value through profit and loss	314,719	-	-	-	314,719
Loans and receivables	-	3,790	-	-	3,790
Short-term financial instruments	-	50,000	-	-	50,000
Derivative assets	245	-	-	-	245
Trade and other receivables, net	-	702,974	-	-	702,974
	<u>314,964</u>	<u>789,995</u>	<u>-</u>	<u>-</u>	<u>1,104,959</u>
Non-current financial assets:					
Non-current financial assets					
Available-for-sale financial assets	-	-	132,589	-	132,589
Loans and receivables	-	15,142	-	-	15,142
Non-current derivative assets	-	-	-	404	404
Non-current trade and other receivables, net	-	204	-	-	204
	<u>-</u>	<u>15,346</u>	<u>132,589</u>	<u>404</u>	<u>148,339</u>
₩	<u>314,964</u>	<u>805,341</u>	<u>132,589</u>	<u>404</u>	<u>1,253,298</u>

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Condensed Consolidated Interim Financial Statements
For the three-month periods ended March 31, 2018 and 2017
(Unaudited)

5. Categories of Financial Instruments, Continued

(1) Financial assets, continued

(ii) As of December 31, 2017

In millions of won

	Loans and receivables	Available-for- sale financial assets	Derivatives using hedge accounting	Total
Current financial assets:				
Cash and cash equivalents ₩	35,416	-	-	35,416
Current financial assets				
Loans and receivables	3,007	-	-	3,007
Short-term financial instruments	50,000	-	-	50,000
Trade and other receivables, net	653,556	-	-	653,556
	<u>741,979</u>	<u>-</u>	<u>-</u>	<u>741,979</u>
Non-current financial assets:				
Non-current financial assets				
Available-for-sale financial	-	133,788	-	133,788
Loans and receivables	14,984	-	-	14,984
Derivative assets	-	-	3,988	3,988
Non-current trade and other receivables, net	63	-	-	63
	<u>15,047</u>	<u>133,788</u>	<u>3,988</u>	<u>152,823</u>
₩	<u>757,026</u>	<u>133,788</u>	<u>3,988</u>	<u>894,802</u>

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Condensed Consolidated Interim Financial Statements
For the three-month periods ended March 31, 2018 and 2017
(Unaudited)

5. Categories of Financial Instruments, Continued

(2) Financial liabilities

Categories of financial liabilities as of March 31, 2018 and December 31, 2017 are as follows:

(i) As of March 31, 2018

In millions of won

		FVTPL	Amortized cost	Fair value – hedging instrument	Total
Current financial liabilities:					
Trade and other payables	₩	-	419,957	-	419,957
Current financial liabilities					
Borrowings		-	348	-	348
Debentures		-	1,115,545	-	1,115,545
Derivative liabilities		87	-	22,363	22,450
		<u>87</u>	<u>1,535,850</u>	<u>22,363</u>	<u>1,558,300</u>
Non-current financial liabilities:					
Non-current financial liabilities					
Borrowings		-	1,461	-	1,461
Debentures		-	3,882,249	-	3,882,249
		<u>-</u>	<u>3,883,710</u>	<u>-</u>	<u>3,883,710</u>
₩		<u>87</u>	<u>5,419,560</u>	<u>22,363</u>	<u>5,442,010</u>

(ii) As of December 31, 2017

In millions of won

		Financial liabilities at fair value through profit or loss	Financial liabilities measured at amortized cost	Derivatives using hedge accounting	Total
Current financial liabilities:					
Trade and other payables	₩	-	278,370	-	278,370
Current financial liabilities					
Borrowings		-	348	-	348
Debentures		-	894,951	-	894,951
Derivative liabilities		866	-	5,865	6,731
		<u>866</u>	<u>1,173,669</u>	<u>5,865</u>	<u>1,180,400</u>
Non-current financial liabilities:					
Non-current trade and other payables		-	2,189	-	2,189
Non-current financial liabilities					
Borrowings		-	1,548	-	1,548
Debentures		-	4,101,895	-	4,101,895
Derivative liabilities		-	-	16,116	16,116
		<u>-</u>	<u>4,105,632</u>	<u>16,116</u>	<u>4,121,748</u>
₩		<u>866</u>	<u>5,279,301</u>	<u>21,981</u>	<u>5,302,148</u>

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Condensed Consolidated Interim Financial Statements
For the three-month periods ended March 31, 2018 and 2017
(Unaudited)

5. Categories of Financial Instruments, Continued

(3) Finance income and expenses

Finance income and expenses on each category of financial instruments for the three-month periods ended March 31, 2018 and 2017 are as follows:

In millions of won

Type	Description	2018	2017
Cash and cash equivalents	Interest income	₩ 1,169	350
	Loss on foreign currency transactions and translations, net	(127)	(1,209)
Available-for-sale financial assets	Gain (loss) on valuation of available-for-sale financial assets, net (equity, before tax)	(1,086)	6,373
Loans and receivables	Interest income	8	-
	Amortization of present value discount	15	127
Financial assets at fair value through profit and loss	Loss on valuation of financial assets at fair value through profit and loss	(281)	-
Financial liabilities recorded at amortized cost	Gain (loss) on foreign currency transactions and translations, net	(160)	134,815
	Interest expense of borrowings and debentures	(33,437)	(30,904)
	Other interest expense	(329)	-
Derivatives (trading)	Gain (loss) on valuation of derivative instruments, net	158	(1,065)
	Gain(loss) on transactions of derivative instruments, net	1,291	(7,850)
Derivatives (hedge accounting)	Gain (loss) on valuation of derivative instruments, net (profit or loss)	160	(133,278)
	Loss on valuation of derivative instruments, net (equity, before tax)	(4,126)	(11,671)
	Loss on transaction of derivatives	(430)	-

6. Cash and Cash Equivalents

Cash and cash equivalents as of March 31, 2018 and December 31, 2017 are as follows:

In millions of won

	2018	2017
Cash	₩ 1	1
Other demand deposits	14,374	9,855
Short-term investments classified as cash equivalents	18,856	25,560
	₩ 33,231	35,416

(*) There are no financial instruments restricted in use as of March 31, 2018 and December 31, 2017.

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Condensed Consolidated Interim Financial Statements
For the three-month periods ended March 31, 2018 and 2017
(Unaudited)

7. Trade and Other Receivables

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

(i) As of March 31, 2018

In millions of won

	Gross receivables	Present value discount	Book value
Current assets:			
Trade receivables	₩ 434,925	-	434,925
Other receivables	268,186	(137)	268,049
	<u>703,111</u>	<u>(137)</u>	<u>702,974</u>
Non-current assets:			
Other receivables	359	(155)	204
	<u>₩ 703,470</u>	<u>(292)</u>	<u>703,178</u>

(*) There are no trade and other receivables which are overdue or impaired as of March 31, 2018.

(ii) As of December 31, 2017

In millions of won

	Gross receivables	Present value discount	Book value
Current assets:			
Trade receivables	₩ 388,464	-	388,464
Other receivables	265,234	(142)	265,092
	<u>653,698</u>	<u>(142)</u>	<u>653,556</u>
Non-current assets:			
Other receivables	219	(156)	63
	<u>₩ 653,917</u>	<u>(298)</u>	<u>653,619</u>

(2) Details of other receivables as of March 31, 2018 and December 31, 2017 are as follows:

(i) As of March 31, 2018

In millions of won

	Gross receivables	Present value discount	Book value
Current assets:			
Non-trade receivables	₩ 15,692	-	15,692
Accrued income	246,390	-	246,390
Guarantee	6,104	(137)	5,967
	<u>268,186</u>	<u>(137)</u>	<u>268,049</u>
Non-current assets:			
Guarantee	359	(155)	204
	<u>₩ 268,545</u>	<u>(292)</u>	<u>268,253</u>

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Condensed Consolidated Interim Financial Statements
For the three-month periods ended March 31, 2018 and 2017
(Unaudited)

7. Trade and Other Receivables, Continued

(2) Details of other receivables as of March 31, 2018 and December 31, 2017 are as follows, continued:

(ii) As of December 31, 2017

<i>In millions of won</i>		Gross receivables	Present value discount	Book value
Current assets:				
Non-trade receivables	₩	16,863	-	16,863
Accrued income		242,150	-	242,150
Guarantee		6,221	(142)	6,079
		<u>265,234</u>	<u>(142)</u>	<u>265,092</u>
Non-current assets:				
Guarantee		219	(156)	63
	₩	<u>265,453</u>	<u>(298)</u>	<u>265,155</u>

8. Available-for-sale Financial Assets

(1) Available-for-sale financial assets as of March 31, 2018 and December 31, 2017 are as follows:

<i>In millions of won</i>		Ownership	2018	2017
Equity securities listed :				
PT Bayan Resources TBK	4.00%	₩	110,567	111,653
Equity securities unlisted :				
Korea Power Exchange	7.14%		15,853	15,853
KEPCO UHDE	2.40%		14	14
HeeMang Sunlight Power Co., Ltd	8.33%		393	393
3i Powergen Inc.	15.00%		-	-
KEPCO Bylong Australia Pty., Ltd	2.00%		5,762	5,875
		₩	<u>132,589</u>	<u>133,788</u>

(2) Changes in available-for-sale financial assets for the three-month period ended March 31, 2018 and for the year ended December 31, 2017 are as follows:

(i) For the three-month period ended March 31, 2018

<i>In millions of won</i>		Beginning balance	Valuation	Others	Ending balance
Equity securities listed	₩	111,653	(1,086)	-	110,567
Equity securities unlisted		22,135	-	(113)	22,022
	₩	<u>133,788</u>	<u>(1,086)</u>	<u>(113)</u>	<u>132,589</u>

(ii) For the year ended December 31, 2017

<i>In millions of won</i>		Beginning balance	Valuation	Others	Ending balance
Equity securities listed	₩	71,840	39,813	-	111,653
Equity securities unlisted		22,997	(603)	(259)	22,135
	₩	<u>94,837</u>	<u>39,210</u>	<u>(259)</u>	<u>133,788</u>

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Condensed Consolidated Interim Financial Statements
For the three-month periods ended March 31, 2018 and 2017
(Unaudited)

9. Derivatives

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

<i>In millions of won</i>		2018		2017	
		Current	Non-current	Current	Non-current
Derivative assets:					
Currency forward	₩	245	-	-	-
Currency swap		-	404	-	3,988
	₩	<u>245</u>	<u>404</u>	<u>-</u>	<u>3,988</u>
Derivative liabilities:					
Currency forward	₩	87	-	866	-
Currency swap		22,363	-	5,865	16,116
	₩	<u>22,450</u>	<u>-</u>	<u>6,731</u>	<u>16,116</u>

(2) Currency swap contracts as of March 31, 2018 are as follows:

<i>In millions of won and thousands of USD and CHF</i>			Contract amounts		Contract interest rate		Contract exchange rate
			Pay (KRW)	Receive	Pay (%)	Receive (%)	
Type	Counterparty	Period					
Cash flow hedge	Credit Agricole						
	Corporate & Investment Bank	2013~2019	118,343	CHF 100,000	3.470	1.625	1,183.43
	Morgan Stanley	2013~2019	59,172	CHF 50,000	3.403	1.625	1,183.43
	Nomura Securities Co., Ltd.	2013~2019	59,172	CHF 50,000	3.470	1.625	1,183.43
	Morgan Stanley	2013~2018	107,360	USD 100,000	3.273	2.875	1,073.60
	Credit Agricole						
	Corporate & Investment Bank	2013~2018	107,360	USD 100,000	3.340	2.875	1,073.60
	JP Morgan	2013~2018	161,040	USD 150,000	3.340	2.875	1,073.60
	Standard Chartered Bank						
	Korea	2013~2018	161,040	USD 150,000	3.340	2.875	1,073.60
	Standard Chartered Bank						
	Korea	2014~2019	104,490	USD 100,000	2.770	2.625	1,044.90
	Credit Agricole						
	Corporate & Investment Bank	2014~2019	104,490	USD 100,000	2.770	2.625	1,044.90
	Morgan Stanley	2014~2019	104,490	USD 100,000	2.703	2.625	1,044.90

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Condensed Consolidated Interim Financial Statements
For the three-month periods ended March 31, 2018 and 2017
(Unaudited)

9. Derivatives, Continued

(3) Currency forward contracts as of March 31, 2018 are as follows:

In millions of won and thousands of USD

Type	Counterparty	Contract Date	Maturity Date	Contract amounts		Contract exchange rate
				Receive (KRW)	Purchase (USD)	
Trading purpose	Mizuho Bank, Ltd.	2018.03.12	2018.04.16	5,315	5,000	1,062.90
	Mizuho Bank, Ltd.	2018.03.14	2018.04.16	5,321	5,000	1,064.15
	Mizuho Bank, Ltd.	2018.03.29	2018.05.02	10,646	10,000	1,064.60
	Mizuho Bank, Ltd.	2018.03.30	2018.05.03	10,628	10,000	1,062.80
	Bank of Nova Scotia	2018.03.14	2018.04.16	5,316	5,000	1,063.25
	Bank of Nova Scotia	2018.03.29	2018.05.02	5,306	5,000	1,061.10
	Bank of Nova Scotia	2018.03.30	2018.04.02	2,042	1,920	1,063.80
	Bank of Nova Scotia	2018.03.30	2018.06.04	10,613	10,000	1,061.30
	Bank of Tokyo-Mitsubishi UFJ	2018.03.29	2018.05.02	10,646	10,000	1,064.60
	Bank of Tokyo-Mitsubishi UFJ	2018.03.30	2018.05.03	10,632	10,000	1,063.20
	BNP Paribas	2018.03.29	2018.05.02	10,653	10,000	1,065.30
	BNP Paribas	2018.03.30	2018.05.03	10,639	10,000	1,063.90
	China Construction Bank	2018.03.29	2018.06.04	10,637	10,000	1,063.70
	China Construction Bank	2018.03.30	2018.05.03	10,627	10,000	1,062.65
	Societe Generale	2018.03.29	2018.06.04	10,639	10,000	1,063.90
	Credit Agricole Corporate & Investment Bank	2018.03.29	2018.06.04	10,639	10,000	1,063.90
	Credit Agricole Corporate & Investment Bank	2018.03.30	2018.06.04	10,617	10,000	1,061.70
	NH Bank	2018.03.29	2018.06.04	10,645	10,000	1,064.45
	NH Bank	2018.03.30	2018.05.03	10,628	10,000	1,062.75
	KEB Hana Bank	2018.03.30	2018.06.04	10,612	10,000	1,061.20

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Condensed Consolidated Interim Financial Statements
For the three-month periods ended March 31, 2018 and 2017
(Unaudited)

9. Derivatives, Continued

(4) The gain (loss) on valuation and transaction of derivatives for the three-month periods ended March 31, 2018 and 2017 are as follows:

(i) For the three-month period ended March 31, 2018

In millions of won

<u>Type</u>		<u>Net income effect of valuation gain</u>	<u>Net income effect of transaction gain (loss)</u>	<u>Other comprehensive income (loss)</u>
Currency forward	₩	158	1,291	-
Currency swap		160	(430)	(4,126)
	₩	<u>318</u>	<u>861</u>	<u>(4,126)</u>

(*) The loss on valuation of derivative instruments using cash flow hedge accounting is recognized as accumulated other comprehensive loss amounting to ₩8,293 million, net of tax as of March 31, 2018.

(ii) For the three-month period ended March 31, 2017

In millions of won

<u>Type</u>		<u>Net income effect of valuation loss</u>	<u>Net income effect of transaction loss</u>	<u>Other comprehensive income (loss)</u>
Currency forward	₩	(1,065)	(7,850)	-
Currency swap		(133,278)	-	(11,671)
	₩	<u>(134,343)</u>	<u>(7,850)</u>	<u>(11,671)</u>

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Condensed Consolidated Interim Financial Statements
For the three-month periods ended March 31, 2018 and 2017
(Unaudited)

10. Other Financial Assets

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

<i>In millions of won</i>	2018		2017	
	Current	Non-current	Current	Non-current
Loans and receivables	₩ 3,790	15,142	3,007	14,984
Short-term financial instruments	50,000	-	50,000	-
Derivative assets	245	404	-	3,988
Available-for-sale financial assets	-	132,589	-	133,788
Financial assets at fair value through profit and loss	314,719	-	-	-
	₩ 368,754	148,135	53,007	152,760

(2) Loans and receivables as of March 31, 2018 and 2017 are as follows:

(i) As of March 31, 2018

<i>In millions of won</i>	Face value	Present value discount	Book value
Short-term loans			
Loans for tuition	₩ 3,891	(135)	3,756
Others	34	-	34
	3,925	(135)	3,790
Long-term loans			
Loans for tuition	14,871	(1,523)	13,348
Others	1,794	-	1,794
	16,665	(1,523)	15,142
	₩ 20,590	(1,658)	18,932

(ii) As of December 31, 2017

<i>In millions of won</i>	Face value	Present value discount	Book value
Short-term loans			
Loans for tuition	₩ 3,047	(76)	2,971
Others	36	-	36
	3,083	(76)	3,007
Long-term loans			
Loans for tuition	14,523	(1,347)	13,176
Others	1,808	-	1,808
	16,331	(1,347)	14,984
	₩ 19,414	(1,423)	17,991

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Condensed Consolidated Interim Financial Statements
For the three-month periods ended March 31, 2018 and 2017
(Unaudited)

11. Inventories

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

<i>In millions of won</i>		2018	2017
Raw Materials	₩	113,084	135,488
Supplies		75,215	73,619
Inventory-in-transit		85,634	60,618
Others		337	329
	₩	<u>274,270</u>	<u>270,054</u>

(*) There is no valuation allowance for inventories as of March 31, 2018 and December 31, 2017.

12. Non-financial Assets

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

<i>In millions of won</i>		2018		2017	
		Current	Non-current	Current	Non-current
Advanced payments	₩	27,000	20	6,237	44
Prepaid expenses		9,111	1,690	10,734	1,794
Others		13,863	7,978	36,489	6,023
	₩	<u>49,974</u>	<u>9,688</u>	<u>53,460</u>	<u>7,861</u>

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Condensed Consolidated Interim Financial Statements
For the three-month periods ended March 31, 2018 and 2017
(Unaudited)

13. Information related to the consolidated entities

(1) Information related to the consolidated entities as of March 31, 2018 and December 31, 2017 are as follows:

Company	Key operating activities	Location	Rate of ownership or voting right	
			2018	2017
Garolim Tidal power Co., Ltd. (*1)	Power generation	Republic of Korea	49.00%	49.00%
Kowepo Australia Pty., Ltd.	Overseas resources development	Australia	100.00%	100.00%
Kowepo International Corporation	Managing power plant	Philippines	99.99%	99.99%
Kowepo India Private Limited	Overseas resources development	India	100.00%	100.00%
PT Kowepo Sumsel Operation and Maintenance Services	Managing power plant	Indonesia	95.00%	95.00%
KOWEPO Bylong Pty., Ltd. (*2)	Overseas resources development	Australia	100.00%	100.00%
KOWEPO Lao International	Managing power plant	Laos	100.00%	100.00%

(*1) Despite holding less than a majority ownership, the Group has the ability to appoint or dismiss the majority of the Board of Directors pursuant to the shareholders' agreements and has the ability to control the entity's operating and financial policies.

(*2) The ownership interest in KOWEPO Bylong Pty., Ltd. is the percentage of common share capital excluding preferred share capital which has no voting rights.

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Condensed Consolidated Interim Financial Statements
For the three-month periods ended March 31, 2018 and 2017
(Unaudited)

13. Information related to the consolidated entities, Continued

(2) Summary financial information of the subsidiaries as of and for the three-month period ended March 31, 2018 and as of December 31, 2017 and for the three-month period ended March 31, 2017 are as follows:

(i) As of and for the three-month period ended March 31, 2018

In millions of won

Company	Assets	Liabilities	Sales	Net profit or loss
Garolim Tidal Power Co., Ltd. ₩	619	351	-	(6)
Kowepo Australia Pty., Ltd.	33,519	3,787	5,173	217
Kowepo International Corporation	-	7	-	-
Kowepo India Private Limited	765	-	-	-
PT Kowepo Sumsel Operation and Maintenance Services	2,382	298	1,790	597
KOWEPO Bylong Pty., Ltd.	5,765	17	-	-
KOWEPO Lao International	3,463	1,344	938	322

(ii) As of December 31, 2017 and for the three-month period ended March 31, 2017

In millions of won

Company	Assets	Liabilities	Sales	Net profit or loss
Garolim Tidal Power Co., Ltd. ₩	619	345	-	(6)
Kowepo Australia Pty., Ltd.	31,586	4,691	2,423	989
Kowepo International Corporation	-	8	-	-
Kowepo India Private Limited	781	-	-	(1)
PT Kowepo Sumsel Operation and Maintenance Services	1,350	279	1,949	296
KOWEPO Bylong Pty., Ltd.	5,875	-	-	-
KOWEPO Lao International	3,259	1,452	-	(364)

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Condensed Consolidated Interim Financial Statements
For the three-month periods ended March 31, 2018 and 2017
(Unaudited)

13. Information related to the consolidated entities, Continued

(3) Details of non-controlling interest as of and for the three-month period ended March 31, 2018 are as follows:

In millions of won

	Garolim Tidal Power Co., Ltd.	PT Kowepo Sumsel Operation and Maintenance Services	KOWEPO Bylong Pty., Ltd.
Current assets	₩ 618	2,223	2
Non-current assets	1	159	5,763
Current liabilities	351	298	17
Net assets	268	2,084	5,748
Percentage of non-controlling interest	51%	5%	0%
Book value of non-controlling interest	137	104	6,068
Sales	-	1,790	-
Gain (loss) for the period	(6)	1,085	-
Gain (loss) for the period attributable to non-controlling interest	(3)	54	-
Cash flows from operating activities	(1)	(6)	-
Cash flows from investing activities	-	1	-
Cash flows from financing activities	-	-	-
Net decrease of cash and cash equivalents	(1)	(5)	-

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Condensed Consolidated Interim Financial Statements
For the three-month periods ended March 31, 2018 and 2017
(Unaudited)

14. Investments in Associates and Joint Ventures

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

Company	Major operation	Location	Rate of ownership or voting right	
			2018	2017
Associates				
Cheongna Energy Co., Ltd.	Energy supply	Republic of Korea	43.90%	43.90%
Pioneer Gas Power., Ltd.	Energy supply	India	38.50%	38.50%
Eurasia Energy Holdings	Energy supply	Russia	40.00%	40.00%
Xe-Pian Xe-Namnoy Power Co., Ltd.	Energy supply	Laos	25.00%	25.00%
PT. Mutiara Jawa	Energy supply	Indonesia	29.00%	29.00%
Korea Offshore Wind Power Co., Ltd.(*1)	Energy supply	Republic of Korea	12.50%	12.50%
Daegu Solar Power Plant Co., Ltd.	Energy supply	Republic of Korea	29.00%	29.00%
Dongducheon Dream Power Co., Ltd.	Energy supply	Republic of Korea	33.61%	33.61%
Solar Power Plants Happy City Co., Ltd.	Energy supply	Republic of Korea	28.00%	28.00%
Shin Pyeongtaek Power Co., Ltd.	O&M	Republic of Korea	40.00%	40.00%
Solar School Plant Co., Ltd. (*1)	Energy supply	Republic of Korea	8.33%	8.33%
KEPCO Energy Solution Co., Ltd. (*1)	Energy supply	Republic of Korea	8.33%	8.33%
Joint ventures				
Rabigh O&M Co., Ltd. (*2)	O&M	Saudi Arabia	40.00%	40.00%

(*1) It is accounted for as an associate as the Group can exercise significant influence according to the shareholders agreement despite the Group's ownership interest is less than 20%.

(*2) The Group accounts for its investments of Rabigh O&M Co., Ltd. as investments in joint ventures since the strategic financial and operating policy decisions relating to the activities of the joint ventures require unanimous consent of the investors.

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Condensed Consolidated Interim Financial Statements
For the three-month periods ended March 31, 2018 and 2017
(Unaudited)

14. Investments in Associates and Joint Ventures, Continued

(2) Changes in investments in associates and joint ventures for the three-month period ended March 31, 2018 and for the year ended December 31, 2017 are as follows:

(i) For the three-month period ended March 31, 2018

In millions of won

Company	Beginning balance	Acquisitions	Share of income (loss)	Other comprehensive income (loss)	Ending balance
Associates					
Cheongna Energy Co., Ltd.	₩ 8,338	-	11	-	8,349
Pioneer Gas Power, Ltd.	38,658	-	(3,754)	(266)	34,638
Eurasia Energy Holdings(*1)	-	-	-	-	-
Xe-Pian Xe-Namnoy Power Co., Ltd. (*3)	61,780	3,024	(2,147)	(297)	62,360
PT. Mutiara Jawa(*2)	-	-	-	-	-
Korea Offshore Wind Power Co., Ltd.	23,535	-	(168)	-	23,367
Daegu Solar Power Plant Co., Ltd.	1,718	-	(56)	-	1,662
Dongducheon Dream Power Co., Ltd.	53,233	-	(4,326)	-	48,907
Solar Power Plants Happy City Co., Ltd.	187	-	(4)	-	183
Shin Pyeongtaek Power Co.,Ltd.(*3)	34,904	28,081	(1,518)	(136)	61,331
Solar School Plant Co., Ltd.	16,723	-	28	-	16,751
KEPCO Energy Solution Co., Ltd.	25,085	-	25	-	25,110
	<u>264,161</u>	<u>31,105</u>	<u>(11,909)</u>	<u>(699)</u>	<u>282,658</u>
Joint ventures					
Rabigh O&M Co., Ltd.	3,987	-	64	(3)	4,048
₩	<u>268,148</u>	<u>31,105</u>	<u>(11,845)</u>	<u>(702)</u>	<u>286,706</u>

(*1) The investment has been reduced to zero, which resulted in discontinuation of the equity method. The accumulated unrecognized loss is ₩171 million as of March 31, 2018.

(*2) The investment has been reduced to zero, which resulted in discontinuation of the equity method. The accumulated unrecognized loss is ₩746 million as of March 31, 2018.

(*3) The investee issued additional shares to increase capitals during the three-month period ended March 31, 2018.

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Condensed Consolidated Interim Financial Statements
For the three-month periods ended March 31, 2018 and 2017
(Unaudited)

14. Investments in Associates and Joint Ventures, Continued

(2) Changes in investments in associates and joint ventures for the three-month period ended March 31, 2018 and for the year ended December 31, 2017 are as follows, continued:

(ii) For the year ended December 31, 2017

In millions of won

Company	Beginning balance	Acquisi- tions	Dividends received	Share of income (loss)	Other comprehen- sive income (loss)	Retained earnings	Others	Ending balance
Associates								
Cheongna Energy Co., Ltd. ₩	12,373	-	-	(4,035)	-	-	-	8,338
Pioneer Gas Power., Ltd.	50,740	-	-	(11,119)	(1,239)	-	276	38,658
Eurasia Energy Holdings	-	-	-	-	-	-	-	-
Xe-Pian Xe-Namnoy Power Co., Ltd.	51,544	22,362	-	(4,264)	(7,862)	-	-	61,780
PT. Mutiara Jawa	-	-	-	-	-	-	-	-
Korea Offshore Wind Power Co., Ltd.	4,482	20,150	-	(875)	(222)	-	-	23,535
Daegu Solar Power Plant Co., Ltd.	1,700	-	(349)	367	-	-	-	1,718
Dongducheon Dream Power Co., Ltd.	46,876	-	-	(10,980)	-	(34)	17,371	53,233
Solar Power Plants Happy City Co., Ltd.	181	-	-	6	-	-	-	187
Shin Pyeong Taek Power Co., Ltd.	-	43,880	-	(10,998)	(3,616)	5,638	-	34,904
Solar School Plant Co., Ltd.	16,650	-	-	73	-	-	-	16,723
KEPCO Energy Solution Co., Ltd.	24,975	-	-	110	-	-	-	25,085
	<u>209,521</u>	<u>86,392</u>	<u>(349)</u>	<u>(41,715)</u>	<u>(12,939)</u>	<u>5,604</u>	<u>17,647</u>	<u>264,161</u>
Joint ventures								
Rabigh O&M Co., Ltd.	4,427	-	(2,130)	2,236	(546)	-	-	3,987
₩	<u>213,948</u>	<u>86,392</u>	<u>(2,479)</u>	<u>(39,479)</u>	<u>(13,485)</u>	<u>5,604</u>	<u>17,647</u>	<u>268,148</u>

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Condensed Consolidated Interim Financial Statements
For the three-month periods ended March 31, 2018 and 2017
(Unaudited)

14. Investments in Associates and Joint Ventures, Continued

(3) Summary financial information of investments in associates and joint venture as of and for the three-month period ended March 31, 2018 and as of December 31, 2017 and for the three-month period ended March 31, 2017 are as follows:

(i) As of and for the three-month period ended March 31, 2018

In millions of won

Company	Assets	Liabilities	Sales	Net profit or loss
Associates				
Cheongna Energy Co., Ltd.	₩ 444,976	431,531	27,965	21
Pioneer Gas Power, Ltd.	332,491	300,560	-	(9,750)
Eurasia Energy Holdings	545	973	-	-
Xe-Pian Xe-Namnoy Power Co., Ltd.	895,521	642,056	-	(8,395)
PT. Mutiara Jawa	26,085	27,422	4,571	1,339
Korea Offshore Wind Power Co., Ltd.	186,968	105	-	(1,346)
Daegu Solar Power Plant Co., Ltd.	17,166	11,437	955	469
Dongducheon Dream Power Co., Ltd.	1,525,919	1,329,729	254,301	5,702
Solar Power Plants Happy City Co., Ltd.	2,722	2,074	92	(13)
Shin Pyeongtaek Power Co., Ltd.	353,425	212,737	-	(1,901)
Solar School Plant Co., Ltd.	202,456	1,233	189	340
KEPCO Energy Solution Co., Ltd.	304,917	3,591	2,337	301
Joint ventures				
Rabigh O&M Co., Ltd.	21,640	11,519	7,840	922

(ii) As of December 31, 2017 and for the three-month period ended March 31, 2017

In millions of won

Company	Assets	Liabilities	Sales	Net profit or loss
Associates				
Cheongna Energy Co., Ltd.	₩ 461,958	448,535	22,226	1,156
Pioneer Gas Power, Ltd.	339,271	296,898	4,293	(937)
Eurasia Energy Holdings	548	978	-	-
Xe-Pian Xe-Namnoy Power Co., Ltd.	858,789	607,462	-	(5,820)
PT. Mutiara Jawa	27,098	29,670	2,638	163
Korea Offshore Wind Power Co., Ltd.	190,195	1,985	-	(915)
Daegu Solar Power Plant Co., Ltd.	17,262	11,339	1,001	425
Dongducheon Dream Power Co., Ltd.	1,575,175	1,365,845	269,561	7,781
Solar Power Plants Happy City Co., Ltd.	2,782	2,120	83	(7)
Shin Pyeongtaek Power Co., Ltd.	175,870	90,662	-	(884)
Solar School Plant Co., Ltd.	201,482	599	4	241
KEPCO Energy Solution Co., Ltd.	313,401	12,376	-	590
Joint ventures				
Rabigh O&M Co., Ltd.	19,992	10,025	6,298	1,485

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Condensed Consolidated Interim Financial Statements
For the three-month periods ended March 31, 2018 and 2017
(Unaudited)

15. Property, Plant and Equipment

(1) Property, plant and equipment as of March 31, 2018 and December 31, 2017 are as follows:

(i) As of March 31, 2018

In millions of won

	Acquisition cost	Government grants	Accumulated amortization	Accumulated impairment loss	Book value
Land	₩ 627,949	-	-	-	627,949
Buildings	1,488,361	(7,046)	(415,529)	(443)	1,065,343
Structures	1,300,275	(5,292)	(457,258)	(59)	837,666
Machinery	7,919,673	(66,937)	(2,755,267)	(39,148)	5,058,321
Vehicles	8,370	(11)	(7,038)	-	1,321
Equipment	99,571	(229)	(69,799)	(6)	29,537
Tools	30,686	(159)	(23,198)	-	7,329
Construction-in-progress	220,917	(11,015)	-	(35,094)	174,808
Finance lease assets	326,013	(26)	(86,187)	-	239,800
	<u>₩ 12,021,815</u>	<u>(90,715)</u>	<u>(3,814,276)</u>	<u>(74,750)</u>	<u>8,042,074</u>

(ii) As of December 31, 2017

In millions of won

	Acquisition cost	Government grants	Accumulated amortization	Accumulated impairment loss	Book value
Land	₩ 627,949	-	-	-	627,949
Buildings	1,488,451	(7,126)	(399,495)	(443)	1,081,387
Structures	1,300,266	(5,349)	(446,233)	(59)	848,625
Machinery	7,878,483	(67,979)	(2,633,925)	(39,148)	5,137,431
Vehicles	8,401	(13)	(6,969)	-	1,419
Equipment	98,377	(258)	(66,250)	(6)	31,863
Tools	28,543	(175)	(22,333)	-	6,035
Construction-in-progress	183,354	(11,015)	-	(35,094)	137,245
Finance lease assets	326,013	(26)	(82,792)	-	243,195
	<u>₩ 11,939,837</u>	<u>(91,941)</u>	<u>(3,657,997)</u>	<u>(74,750)</u>	<u>8,115,149</u>

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Condensed Consolidated Interim Financial Statements
For the three-month periods ended March 31, 2018 and 2017
(Unaudited)

15. Property, Plant and Equipment, Continued

(2) Changes in property, plant and equipment for the three-month period ended March 31, 2018 and for the year ended December 31, 2017 are as follows:

(i) For the three-month period ended March 31, 2018

<i>In millions of won</i>		Beginning balance	Acquisition/ Capital expenditure	Disposal	Depreciation (*1)	Others (*2)	Ending balance
Land	₩	627,949	-	-	-	-	627,949
Buildings		1,088,513	219	(60)	(16,277)	(6)	1,072,389
(Government grants)		(7,126)	-	-	80	-	(7,046)
Structures		853,974	-	-	(11,024)	8	842,958
(Government grants)		(5,349)	-	-	57	-	(5,292)
Machinery		5,205,409	11,793	(442)	(121,693)	30,191	5,125,258
(Government grants)		(67,978)	-	-	1,041	-	(66,937)
Vehicles		1,432	-	-	(172)	72	1,332
(Government grants)		(13)	-	-	2	-	(11)
Equipment		32,121	2	-	(3,572)	1,215	29,766
(Government grants)		(258)	-	-	29	-	(229)
Tools		6,210	-	-	(808)	2,086	7,488
(Government grants)		(175)	-	-	16	-	(159)
Construction-in-progress		148,260	76,076	(3,529)	-	(34,984)	185,823
(Government grants)		(11,015)	-	-	-	-	(11,015)
Finance lease assets		243,221	-	-	(3,395)	-	239,826
(Government grants)		(26)	-	-	-	-	(26)
	₩	<u>8,115,149</u>	<u>88,090</u>	<u>(4,031)</u>	<u>(155,716)</u>	<u>(1,418)</u>	<u>8,042,074</u>

(*1) ₩15 million of depreciation expenses are recognized as construction-in-progress.

(*2) Other additions in the amount of ₩1,418 million consist of ₩175 million transferred from retirement benefits expense and depreciation expense, ₩276 million of capitalized interest expense, ₩142 million of translation effect of overseas operation financial statements, ₩247 million of loss due to cancellation of investment in construction in progress, and ₩1,480 million transferred to intangible assets. The weighted average capitalization rates for the three-month ended period March 31, 2018 and for the year ended December 31, 2017 are 2.64% and 2.70%, respectively.

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Condensed Consolidated Interim Financial Statements
For the three-month periods ended March 31, 2018 and 2017
(Unaudited)

15. Property, Plant and Equipment, Continued

(2) Changes in property, plant and equipment for the three-month period ended March 31, 2018 and for the year ended December 31, 2017 are as follows, continued:

(ii) For the year ended December 31, 2017

In millions of won

	Beginning balance	Acquisition/ Capital expenditure	Disposal	Depreciation	Impairment loss	Others	Ending balance
Land	₩ 627,556	-	-	-	-	393	627,949
Buildings	1,048,279	161	(1,109)	(62,918)	(443)	104,543	1,088,513
(Government grants)	(764)	-	-	324	-	(6,686)	(7,126)
Structures	863,724	-	(352)	(43,487)	(59)	34,148	853,974
(Government grants)	-	-	-	225	-	(5,574)	(5,349)
Machinery	4,542,251	108,469	(8,766)	(458,105)	(39,148)	1,060,708	5,205,409
(Government grants)	(51)	-	-	4,164	-	(72,091)	(67,978)
Vehicles	2,071	-	(14)	(806)	-	181	1,432
(Government grants)	(14)	-	-	5	-	(4)	(13)
Equipment	34,093	101	(1)	(14,180)	(6)	12,114	32,121
(Government grants)	(73)	-	-	131	-	(316)	(258)
Tools	7,329	138	-	(2,814)	-	1,557	6,210
(Government grants)	-	-	-	58	-	(233)	(175)
Construction-in-progress	880,937	505,646	-	-	-	(1,238,323)	148,260
(Government grants)	(101,834)	-	-	-	-	90,819	(11,015)
Finance lease assets	250,863	-	(29,663)	(13,262)	-	35,283	243,221
(Government grants)	-	-	-	1	-	(27)	(26)
	<u>₩ 8,154,367</u>	<u>614,515</u>	<u>(39,905)</u>	<u>(590,664)</u>	<u>(39,656)</u>	<u>16,492</u>	<u>8,115,149</u>

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Condensed Consolidated Interim Financial Statements
For the three-month periods ended March 31, 2018 and 2017
(Unaudited)

16. Intangible Assets

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

(i) As of March 31, 2018

In millions of won

		Acquisition cost	Government grants	Accumulated amortization	Accumulated impairment loss	Book value
Computer software	₩	34,297	(75)	(28,947)	-	5,275
Mining rights		10,849	-	(3,863)	-	6,986
Development costs		3,210	-	(2,523)	-	687
Leasehold rights		3,857	-	(540)	-	3,317
Others		83,613	-	(81,373)	(231)	2,009
	₩	<u>135,826</u>	<u>(75)</u>	<u>(117,246)</u>	<u>(231)</u>	<u>18,274</u>

(ii) As of December 31, 2017

In millions of won

		Acquisition cost	Government grants	Accumulated amortization	Accumulated impairment loss	Book value
Computer software	₩	33,991	(81)	(28,471)	-	5,439
Mining rights		10,937	-	(3,092)	-	7,845
Development costs		3,210	-	(2,433)	-	777
Leasehold rights		2,681	-	(443)	-	2,238
Others		83,612	-	(81,323)	(231)	2,058
	₩	<u>134,431</u>	<u>(81)</u>	<u>(115,762)</u>	<u>(231)</u>	<u>18,357</u>

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Condensed Consolidated Interim Financial Statements
For the three-month periods ended March 31, 2018 and 2017
(Unaudited)

16. Intangible Assets, Continued

(2) Changes in intangible assets for the three-month period ended March 31, 2018 and for the year ended December 31, 2017 are as follows:

(i) For the three month period ended March 31, 2018

<i>In millions of won</i>		Beginning balance	Acquisition/ Capital expenditure	Disposals	Amortization	Others (*1)	Ending balance
Computer software	₩	5,520	4	-	(478)	304	5,350
(Government grants)		(81)	-	-	6	-	(75)
Mining rights		7,845	124	-	(871)	(112)	6,986
Development costs		777	-	-	(90)	-	687
Leasehold rights		2,238	-	-	(96)	1,175	3,317
Others		2,058	11	(3)	(51)	(6)	2,009
	₩	<u>18,357</u>	<u>139</u>	<u>(3)</u>	<u>(1,580)</u>	<u>1,361</u>	<u>18,274</u>

(*1) Other additions of ₩1,361 million consist of ₩1,480 million transferred from construction-in-progress, ₩119 million resulting from translation of overseas operations financial statements.

(ii) For the year ended December 31, 2017

<i>In millions of won</i>		Beginning balance	Acquisition/ Capital expenditure	Disposals	Amortization	Others	Ending balance
Computer software	₩	4,220	6	-	(1,538)	2,832	5,520
(Government grants)		-	-	-	26	(107)	(81)
Mining rights		7,018	2,077	-	(894)	(356)	7,845
Development costs		1,172	-	-	(501)	106	777
Leasehold rights		1,542	-	-	(260)	956	2,238
Others		1,792	225	(19)	(149)	209	2,058
	₩	<u>15,744</u>	<u>2,308</u>	<u>(19)</u>	<u>(3,316)</u>	<u>3,640</u>	<u>18,357</u>

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Condensed Consolidated Interim Financial Statements
For the three-month periods ended March 31, 2018 and 2017
(Unaudited)

17. Trade and Other Payables

Trade and other payables as of March 31, 2018 and December 31, 2017 are as follows:

<i>In millions of won</i>	2018		2017	
	Current	Non-current	Current	Non-current
Trade payables	₩ 245,351	-	165,340	-
Other payables	74,557	-	42,665	2,189
Accrued expenses	70,546	-	69,845	-
Other deposits	507	-	520	-
Dividends payable	28,996	-	-	-
	₩ 419,957	-	278,370	2,189

18. Borrowings and Debentures

(1) Details of borrowings and debentures as of March 31, 2018 and December 31, 2017 are as follows:

<i>In millions of won</i>	2018	2017
Current Liabilities:		
Current portion of long-term borrowings	₩ 348	348
Current portion of long-term debentures	1,116,274	895,700
Less: discount on debentures	(729)	(749)
	1,115,893	895,299
Non-current Liabilities:		
Long-term borrowings	1,461	1,548
Debentures	3,889,950	4,110,364
Less: discount on debentures	(7,701)	(8,469)
	3,883,710	4,103,443
	₩ 4,999,603	4,998,742

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

<i>In millions of won</i>		Annual interest rate	Maturity date	2018	2017
Lender	Description				
Korea Energy Agency	Long term borrowings	Floating rate	KTB (three years) - 2.25%	₩ 1,497	1,572
			2023.03.15	59	62
			2023.06.15	46	48
			2024.06.15	135	140
			2024.09.15	8	8
			2025.06.15	64	66
			2025.12.15	1,809	1,896
	Less: current portion			(348)	(348)
				₩ 1,461	1,548

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Condensed Consolidated Interim Financial Statements
For the three-month periods ended March 31, 2018 and 2017
(Unaudited)

18. Borrowings and Debentures, Continued

(3) Domestic debentures as of March 31, 2018 and December 31, 2017 are as follows:

<i>In millions of won</i>	Issue date	Maturity date	Annual interest rate		2018	2017
Corporate bond #15-2	2011.05.27	2018.05.27	Fixed rate	4.190%	₩ 100,000	100,000
Corporate bond #16-2	2011.11.18	2018.11.18	Fixed rate	4.040%	60,000	60,000
Corporate bond #16-3	2011.11.18	2021.11.18	Fixed rate	4.150%	80,000	80,000
Corporate bond #17-1	2012.10.22	2022.10.22	Fixed rate	3.220%	100,000	100,000
Corporate bond #17-2	2012.10.22	2027.10.22	Fixed rate	3.260%	100,000	100,000
Corporate bond #18-1	2013.05.07	2023.05.07	Fixed rate	2.930%	120,000	120,000
Corporate bond #18-2	2013.05.07	2028.05.07	Fixed rate	3.030%	80,000	80,000
Corporate bond #19-1	2013.06.14	2018.06.14	Fixed rate	3.160%	90,000	90,000
Corporate bond #19-2	2013.06.14	2023.06.14	Fixed rate	3.380%	100,000	100,000
Corporate bond #20-1	2013.09.12	2018.09.12	Fixed rate	3.460%	110,000	110,000
Corporate bond #20-2	2013.09.12	2020.09.12	Fixed rate	3.620%	100,000	100,000
Corporate bond #21	2013.10.22	2023.10.22	Fixed rate	3.670%	110,000	110,000
Corporate bond #22	2013.10.31	2023.10.31	Fixed rate	3.607%	90,000	90,000
Corporate bond #23-1	2014.10.23	2019.10.23	Fixed rate	2.467%	80,000	80,000
Corporate bond #23-2	2014.10.23	2024.10.23	Fixed rate	2.815%	120,000	120,000
Corporate bond #24-2	2014.11.20	2024.11.20	Fixed rate	2.812%	110,000	110,000
Corporate bond #25	2014.12.11	2019.12.11	Fixed rate	2.488%	80,000	80,000
Corporate bond #26-1	2015.03.05	2020.03.05	Fixed rate	2.139%	110,000	110,000
Corporate bond #26-2	2015.03.05	2025.03.05	Fixed rate	2.427%	90,000	90,000
Corporate bond #27-1	2015.05.08	2020.05.08	Fixed rate	2.334%	120,000	120,000
Corporate bond #27-2	2015.05.08	2025.05.08	Fixed rate	2.701%	80,000	80,000
Corporate bond #28	2015.07.17	2020.07.17	Fixed rate	2.268%	80,000	80,000
Corporate bond #29	2015.09.21	2020.09.21	Fixed rate	1.997%	120,000	120,000
Corporate bond #30-1	2016.01.28	2021.01.28	Fixed rate	1.884%	90,000	90,000
Corporate bond #30-2	2016.01.28	2026.01.28	Fixed rate	2.103%	110,000	110,000
Corporate bond #31	2016.07.05	2021.07.05	Fixed rate	1.356%	100,000	100,000
Corporate bond #32-1	2016.09.09	2021.09.09	Fixed rate	1.447%	90,000	90,000
Corporate bond #32-2	2016.09.09	2026.09.09	Fixed rate	1.609%	110,000	110,000
Corporate bond #33-1	2017.02.22	2022.02.22	Fixed rate	2.036%	70,000	70,000
Corporate bond #33-2	2017.02.22	2027.02.22	Fixed rate	2.342%	130,000	130,000
Corporate bond #34	2017.03.27	2020.03.27	Fixed rate	1.848%	100,000	100,000
Corporate bond #35-1	2017.05.22	2022.05.22	Fixed rate	2.065%	50,000	50,000
Corporate bond #35-2	2017.05.22	2027.05.22	Fixed rate	2.458%	40,000	40,000
Corporate bond #35-3	2017.05.22	2032.05.22	Fixed rate	2.588%	110,000	110,000
Corporate bond #36-1	2017.06.23	2022.06.23	Fixed rate	2.080%	40,000	40,000
Corporate bond #36-2	2017.06.23	2027.06.23	Fixed rate	2.345%	70,000	70,000
Corporate bond #36-3	2017.06.23	2037.06.23	Fixed rate	2.466%	90,000	90,000
Corporate bond #37-1	2017.07.21	2022.07.21	Fixed rate	2.085%	40,000	40,000
Corporate bond #37-2	2017.07.21	2027.07.21	Fixed rate	2.357%	50,000	50,000
Corporate bond #37-3	2017.07.21	2037.07.21	Fixed rate	2.467%	110,000	110,000
Corporate bond #38-1	2017.09.05	2027.09.05	Fixed rate	2.435%	50,000	50,000
Corporate bond #38-2	2017.09.05	2037.09.05	Fixed rate	2.508%	100,000	100,000
Corporate bond #39-1	2017.09.28	2022.09.28	Fixed rate	2.197%	30,000	30,000
Corporate bond #39-2	2017.09.28	2047.09.28	Fixed rate	2.463%	120,000	120,000
					3,930,000	3,930,000
Less: discount on debentures					(6,901)	(7,279)
Less: current portion					(359,941)	(359,895)
				₩	<u>3,563,158</u>	<u>3,562,826</u>

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Condensed Consolidated Interim Financial Statements
For the three-month periods ended March 31, 2018 and 2017
(Unaudited)

18. Borrowings and Debentures, Continued

(4) Foreign debentures as of March 31, 2018 and December 31, 2017 are as follows:

<i>In millions of won</i>							
	Issue date	Maturity date	Annual interest rate			2018	2017
Swiss franc bond #1	2013.09.26	2019.03.26	Fixed rate	1.625%	₩	223,024	218,944
Global bond #2	2013.10.10	2018.10.10	Fixed rate	2.875%		533,250	535,700
Euro bond #3	2014.09.22	2019.09.22	Fixed rate	2.625%		319,950	321,420
						1,076,224	1,076,064
Less: discount on debentures						(1,529)	(1,939)
Less: current portion						(755,604)	(535,056)
					₩	<u>319,091</u>	<u>539,069</u>

(5) Repayment plans of debentures and borrowings as of March 31, 2018 are as follows:

<i>In millions of won</i>		Less than 1 year	1 - 2 years	2 - 5 years	More than 5 years	Total
Long-term borrowings	₩	348	348	1,045	68	1,809
Debentures		1,116,274	689,950	1,110,000	2,090,000	5,006,224
	₩	<u>1,116,622</u>	<u>690,298</u>	<u>1,111,045</u>	<u>2,090,068</u>	<u>5,008,033</u>

(6) Changes in debentures and borrowings for the three-month period ended March 31, 2018 are as follows:

<i>In millions of won</i>		Beginning balance	Cash flows	Changes in foreign exchange rates	Others	Ending balance
Borrowings	₩	1,896	(87)	-	-	1,809
Debentures		4,996,846	-	160	788	4,997,794
	₩	<u>4,998,742</u>	<u>(87)</u>	<u>160</u>	<u>788</u>	<u>4,999,603</u>

19. Other Financial Liabilities

Other financial liabilities as of March 31, 2018 and December 31, 2017 are as follows:

<i>In millions of won</i>		2018		2017	
		Current	Non-current	Current	Non-current
Derivative liabilities	₩	22,450	-	6,731	16,116

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Condensed Consolidated Interim Financial Statements
For the three-month periods ended March 31, 2018 and 2017
(Unaudited)

20. Employee Benefit Obligations

(1) The principal assumptions used on actuarial valuation as of March 31, 2018 and December 31, 2017 are as follows:

	<u>2018</u>	<u>2017</u>
Discount rate	2.87~2.97%	2.87%
Future salary increase rate	3.47~7.33%	3.47~7.33%

(2) Details of the Group's expense relating to its defined benefit plans for the three-month periods ended March 31, 2018 and 2017 are as follows:

In millions of won

	<u>2018</u>	<u>2017</u>
Current service cost	₩ 3,113	3,153
Interest cost	699	593
Expected return on plan assets	(223)	(153)
	<u>₩ 3,589</u>	<u>3,593</u>

(3) Employee benefit obligation as of March 31, 2018 and December 31, 2017 are as follows:

In millions of won

	<u>2018</u>	<u>2017</u>
Present value of defined benefit obligation from funded plans	₩ 100,939	99,375
Fair value of plan assets	(31,415)	(31,270)
Net employee benefits obligations from defined benefit plans	<u>₩ 69,524</u>	<u>68,105</u>

(4) Changes in employee benefit obligation for the three-month period ended March 31, 2018 and for the year ended December 31, 2017 are as follows:

In millions of won

	<u>2018</u>	<u>2017</u>
Beginning balance	₩ 99,375	94,896
Current service cost	3,113	13,967
Loss (gain) on settlement	-	(70)
Interest cost	699	2,553
Remeasurements loss	(1,970)	(9,679)
Actual payments	(278)	(2,292)
Ending balance	<u>₩ 100,939</u>	<u>99,375</u>

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Condensed Consolidated Interim Financial Statements
For the three-month periods ended March 31, 2018 and 2017
(Unaudited)

20. Employee Benefit Obligations, Continued

(5) Changes in the fair value of the plan assets for the three-month period ended March 31, 2018 and for the year ended December 31, 2017 are as follows:

<i>In millions of won</i>		2018	2017
Beginning balance	₩	31,270	23,917
Expected return on plan assets		223	637
Remeasurements loss		(78)	(236)
Contributions by the employers		-	7,011
Actual payments		-	(59)
Ending balance	₩	<u>31,415</u>	<u>31,270</u>

Accumulated remeasurements loss on employee benefit obligations recorded as other comprehensive loss amounts to ₩23,968 million and ₩25,365 million, respectively, for the three-month period ended March 31, 2018 and for the year ended December 31, 2017.

(6) Fair value of major categories of plan assets as of March 31, 2018 and December 31, 2017 are as follows:

<i>In millions of won</i>		2018	2017
Equity instrument	₩	911	670
Debt instrument		2,809	3,949
Deposits		3,573	2,618
Others		24,122	24,033
	₩	<u>31,415</u>	<u>31,270</u>

Actual returns for the three-month period ended March 31, 2018 and for the year ended December 31, 2017 are ₩145 million and ₩401 million, respectively.

(7) Other long-term employee benefit liabilities as of March 31, 2018 and December 31, 2017 are as follows:

<i>In millions of won</i>		2018	2017
Long-service leave	₩	541	551

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Condensed Consolidated Interim Financial Statements
For the three-month periods ended March 31, 2018 and 2017
(Unaudited)

21. Provisions

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

<i>In millions of won</i>	2018		2017	
	Current	Non-current	Current	Non-current
Litigation provisions (*1)	₩ -	115	-	115
Financial guarantee provisions (*2)	19	-	40	-
	₩ 19	115	40	115

(*1) The Group recognizes a provision when it is probable that an outflow of resources embodying economic benefits required to settle the pending litigation and the amount of the obligation can be reliably estimated. As of March 31, 2018 and December 31, 2017, the Group recognized the litigation provisions for such amount expected to be paid to employees in relation to the on-going litigation over the Ordinary Wage.

(*2) The Group guarantees the borrowing of KEPCO Bylong Australia Pty., Ltd. to the Export-Import Bank of Korea, which result from step-by-step acquisition of KEPCO equity by government's plan of the public functions and strengthening the stability of electric power generation fuel by securing long-term stable sources.

(2) Changes in provisions for the three-month period ended March 31, 2018 and for the year ended December 31, 2017 are as follows:

(i) For the three-month period ended March 31, 2018

<i>In millions of won</i>	Beginning balance	Increase	Utilization	Others	Ending balance
Litigation provisions	₩ 115	-	-	-	115
Financial guarantee provisions	40	-	(6)	(15)	19
	₩ 155	-	(6)	(15)	134

(ii) For the year ended December 31, 2017

<i>In millions of won</i>	Beginning balance	Increase	Utilization	Reversal	Ending balance
Litigation provisions	₩ 5,123	1,802	(5,792)	(1,018)	115
Financial guarantee provisions	-	42	(2)	-	40
	₩ 5,123	1,844	(5,794)	(1,018)	155

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Condensed Consolidated Interim Financial Statements
For the three-month periods ended March 31, 2018 and 2017
(Unaudited)

22. Non-financial Liabilities

Other non-financial liabilities as of March 31, 2018 and December 31, 2017 are as follows:

<i>In millions of won</i>	2018		2017	
	Current	Non-current	Current	Non-current
Unearned revenue	₩ 3,240	-	654	-
Withholdings	5,111	-	5,570	-
Others(*)	149,241	323	97,341	244
	₩ 157,592	323	103,565	244

(*) Others are primarily comprised of renewable portfolio standard (RPS) provisions for the governmental regulations requiring the production of energies from renewable energy sources, and provisions for the greenhouse gas emission rights.

23. Share Capital

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

<i>In millions of won , except par value and number of shares</i>					
Type	Number of shares authorized	Number of shares issued	Par value	2018	2017
Common Stock	100,000,000	33,329,119	₩ 5,000	166,646	166,646

(2) Changes in number of outstanding capital stock for the three-month period ended March 31, 2018 and for the year ended December 31, 2017 are as follows:

<i>Number of shares</i>	2018	2017
Beginning number of shares	33,329,119	33,329,119
Changes for the period	-	-
Ending number of shares	33,329,119	33,329,119

(3) Share premium as of March 31, 2018 and December 31, 2017 are as follows:

<i>In millions of won</i>	2018	2017
Paid-in capital in excess of par value	₩ 1,106,252	1,106,252

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Condensed Consolidated Interim Financial Statements
For the three-month periods ended March 31, 2018 and 2017
(Unaudited)

24. Retained Earnings and Dividends

(1) Retained earnings as of March 31, 2018 and December 31, 2017 are as follows:

<i>In millions of won</i>	2018	2017
Legal reserves (*1)	₩ 75,614	72,714
Voluntary reserves	1,849,533	1,765,803
Retained earnings before appropriations	780,181	800,745
	₩ <u>2,705,328</u>	<u>2,639,262</u>

(*1) The Commercial Code of the Republic of Korea requires KOWEPO to appropriate as a legal reserve, an amount equal to a minimum of 10% of annual cash dividends paid, until the reserve equals 50% of its issued capital stock. The reserve is not available for the payment of cash dividends, but may be transferred to capital stock through a resolution of the Board of Directors or used to reduce accumulated deficit, if any, with the ratification of the shareholders.

(2) Composition of voluntary reserves as of March 31, 2018 and December 31, 2017 are as follows:

<i>In millions of won</i>	2018	2017
Reserve for business stabilization (*1)	₩ 181	181
Reserve for investment on social overhead capital	13,000	13,000
Reserve for business expansion	1,836,352	1,752,622
	₩ <u>1,849,533</u>	<u>1,765,803</u>

(*1) Prior to 2002, KOWEPO appropriated certain tax-deductible benefits as reserve for business stabilization, for offsetting future deficit in accordance with the relevant tax laws. Due to the amendment of such tax laws on December 11, 2002, the reserve is no longer required. However, KOWEPO continues to maintain such reserve on a voluntary basis.

(3) Changes in retained earnings before appropriations for the three-month period ended March 31, 2018 and for the year ended December 31, 2017 are as follows:

<i>In millions of won</i>	2018	2017
Beginning balance	₩ 800,745	1,081,241
Profit for the period - Controlling company	93,286	102,813
Dividends paid	(28,996)	(66,992)
Remeasurements gain	1,397	7,158
Transfers to reserves	(86,630)	(326,336)
Hybrid securities interest	-	(2,471)
Adjustment of retained earnings of equity method	-	5,604
Others	379	(272)
Ending balance	₩ <u>780,181</u>	<u>800,745</u>

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Condensed Consolidated Interim Financial Statements
For the three-month periods ended March 31, 2018 and 2017
(Unaudited)

24. Retained Earnings and Dividends, Continued

(4) Dividends paid for the three-month period ended March 31, 2018 and for the year ended December 31, 2017 are as follows:

(i) For the three-month period ended March 31, 2018

Type	Number of shares issued	Number of treasury shares	Number of share eligible for dividends	Dividends per share (in won)	Total dividends (in millions of won)
Common Stock	33,329,119	-	33,329,119	870	28,996

(ii) For the year ended December 31, 2017

Type	Number of shares issued	Number of treasury shares	Number of share eligible for dividends	Dividends per share (in won)	Total dividends (in millions of won)
Common Stock	33,329,119	-	33,329,119	2,010	66,992

(5) Changes in retained earnings of equity method for the three-month period ended March 31, 2018 and for the year ended December 31, 2017 are as follows:

<i>In millions of won</i>	2018	2017
Beginning balance	₩ 5,569	(35)
Changes during the period	-	5,604
Ending balance	₩ 5,569	5,569

(6) Changes in accumulated remeasurements losses on employee benefit obligations for the three-month period ended March 31, 2018 and for the year ended December 31, 2017 are as follows:

<i>In millions of won</i>	2018	2017
Beginning balance	₩ (25,365)	(32,523)
Changes during the period	1,891	9,443
Income tax effect	(494)	(2,285)
Ending balance	₩ (23,968)	(25,365)

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Condensed Consolidated Interim Financial Statements
For the three-month periods ended March 31, 2018 and 2017
(Unaudited)

25. Other Components of Equity

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

<i>In millions of won</i>		2018	2017
Accumulated other comprehensive income (loss)	₩	(626)	5,755
Other equity		(41,783)	(41,783)
	₩	<u>(42,409)</u>	<u>(36,028)</u>

(2) Changes in accumulated other comprehensive income (loss) for the three-month period ended March 31, 2018 and for the year ended December 31, 2017 are as follows:

(i) For the three-month period ended March 31, 2018

<i>In millions of won</i>		Available- for-sale financial assets valuation reserve	Reserve for income (loss) on valuation of derivatives	Reserve for income (loss) on overseas operations translation credit	Share in other comprehensive income (loss) of associates	Total
Beginning balance	₩	28,683	(5,383)	(7,012)	(10,533)	5,755
Valuation of available- for-sale financial assets		(1,087)	-	-	-	(1,087)
Valuation of derivatives		-	(4,126)	-	-	(4,126)
Overseas operations translation		-	-	(852)	-	(852)
Valuation of investments in associates		-	-	-	(702)	(702)
Tax effect		(450)	1,216	-	-	766
Effect of adoption of new K-IFRS		(380)	-	-	-	(380)
Ending balance	₩	<u>26,766</u>	<u>(8,293)</u>	<u>(7,864)</u>	<u>(11,235)</u>	<u>(626)</u>

(ii) For the year ended December 31, 2017

<i>In millions of won</i>		Available-for- sale financial assets valuation reserve	Reserve for income (loss) on valuation of derivatives	Reserve for income (loss) on overseas operations translation credit	Share in other comprehensive income (loss) of associates	Total
Beginning balance	₩	(1,038)	(3,871)	(5,304)	2,953	(7,260)
Valuation of available- for-sale financial assets		39,210	-	-	-	39,210
Valuation of derivatives		-	(1,995)	-	-	(1,995)
Overseas operations translation		-	-	(1,708)	-	(1,708)
Valuation of investments in associates		-	-	-	(17,791)	(17,791)
Tax effect		(9,489)	483	-	4,305	(4,701)
Ending balance	₩	<u>28,683</u>	<u>(5,383)</u>	<u>(7,012)</u>	<u>(10,533)</u>	<u>5,755</u>

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Condensed Consolidated Interim Financial Statements
For the three-month periods ended March 31, 2018 and 2017
(Unaudited)

25. Other Components of Equity, Continued

(3) No changes occurred in other equity for the three-month period ended March 31, 2018 and for the year ended December 31, 2017.

26. Sales

Details of sales for the three-month periods ended March 31, 2018 and 2017 are as follows:

(i) For the three-month period ended March 31, 2018

<i>In millions of won</i>		Domestic	Overseas
Sales of electricity	₩	1,384,599	-
Services		2,007	8,543
	₩	<u>1,386,606</u>	<u>8,543</u>

(ii) For the three-month period ended March 31, 2017

<i>In millions of won</i>		Domestic	Overseas
Sales of electricity	₩	1,235,186	-
Services		199	4,568
	₩	<u>1,235,385</u>	<u>4,568</u>

27. Selling and Administrative Expenses

Composition of selling and administrative expenses for the three-month periods ended March 31, 2018 and 2017 are as follows:

<i>In millions of won</i>		2018	2017
Salaries	₩	7,278	9,074
Retirement benefit expense		212	398
Welfare and benefit expense		552	643
Insurance expense		22	18
Depreciation		3,683	3,608
Amortization		565	565
Commission		5,076	4,381
Advertising expense		375	393
Training expense		14	10
Vehicle maintenance expense		29	14
Publishing expense		30	48
Business promotion expense		24	29
Rent expense		364	340
Telecommunication expense		238	239
Taxes and dues		75	130
Expendable supplies expense		139	317
Water, light and heating expense		200	2
Repairs and maintenance expense		38	700
Ordinary development expense		3,639	3,027
Travel expense		111	284
Others		647	582
	₩	<u>23,311</u>	<u>24,802</u>

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Condensed Consolidated Interim Financial Statements
For the three-month periods ended March 31, 2018 and 2017
(Unaudited)

28. Other Non-operating Income and Expense

(1) Other non-operating income for the three-month periods ended March 31, 2018 and 2017 are as follows:

<i>In millions of won</i>		2018	2017
Rental income	₩	1,125	1,046
Gains from assets contributed		1	-
	₩	<u>1,126</u>	<u>1,046</u>

(2) Other non-operating expenses for the three-month periods ended March 31, 2018 and 2017 are as follows:

<i>In millions of won</i>		2018	2017
Donations	₩	211	150

29. Other Income and Loss

Composition of other income and loss for the three-month periods ended March 31, 2018 and 2017 are as follows:

<i>In millions of won</i>		2018	2017
Gain on disposal of property, plant, and equipment	₩	16	700
Gain on foreign currency translation		264	2,385
Gain on foreign currency transaction		2,846	10,671
Other gains		6,667	1,901
Loss on disposal of property, plant, and equipment		(656)	(3,860)
Loss on disposal of intangible assets		(3)	-
Loss on foreign currency translation		(101)	(1,277)
Loss on foreign currency transaction		(2,717)	(2,281)
Other losses		(2,771)	(3,213)
	₩	<u>3,545</u>	<u>5,026</u>

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Condensed Consolidated Interim Financial Statements
For the three-month periods ended March 31, 2018 and 2017
(Unaudited)

30. Finance Income

(1) Finance income for the three-month periods ended March 31, 2018 and 2017 are as follows:

<i>In millions of won</i>		2018	2017
Interest income	₩	1,192	478
Gain on valuation of derivatives		4,325	301
Gain on transaction of derivatives		2,321	879
Gain on foreign currency translation		3,920	133,278
Gain on foreign currency transaction		-	1,537
	₩	<u>11,758</u>	<u>136,473</u>

(2) Interest income included in finance income for the three-month periods ended March 31, 2018 and 2017 are as follows:

<i>In millions of won</i>		2018	2017
Cash and cash equivalents	₩	1,169	351
Loans and receivables		23	127
	₩	<u>1,192</u>	<u>478</u>

31. Finance Expenses

(1) Finance expenses for the three-month periods ended March 31, 2018 and 2017 are as follows:

<i>In millions of won</i>		2018	2017
Interest expense	₩	33,766	30,904
Loss on valuation of financial assets at fair value through profit and loss		281	-
Loss on valuation of derivatives		4,007	134,644
Loss on transaction of derivatives		1,460	8,729
Loss on foreign currency translation		4,207	1,209
	₩	<u>43,721</u>	<u>175,486</u>

(2) Interest expenses included in finance expenses for the three-month periods ended March 31, 2018 and 2017 are as follows:

<i>In millions of won</i>		2018	2017
Short term borrowings	₩	-	1,014
Long term borrowings		3	4
Debentures		33,710	34,895
Trade and other payables		329	-
		<u>34,042</u>	<u>35,913</u>
Less: capitalized borrowing costs		(276)	(5,009)
	₩	<u>33,766</u>	<u>30,904</u>

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Condensed Consolidated Interim Financial Statements
For the three-month periods ended March 31, 2018 and 2017
(Unaudited)

32. Income Tax Expense

(1) Components of incomes tax expense for the three-month periods ended March 31, 2018 and 2017 are as follows:

<i>In millions of won</i>	2018	2017
Current income tax expense		
Current income tax	₩ 50,756	22,873
Adjustment for prior period	2	(32,866)
Income tax charged directly to equity	272	1,503
	<u>51,030</u>	<u>(8,490)</u>
Deferred income tax expense		
Generation and realization of temporary differences	(9,763)	30,327
Amount due to tax deficits, tax credits and temporary differences that were not recognized in the past	16,350	33,333
	<u>6,587</u>	<u>63,660</u>
Income tax expense	<u>₩ 57,617</u>	<u>55,170</u>

(2) Reconciliation between the actual income tax expense (benefit) and that amount computed by applying 24.2% to profit before income tax expense for the three-month periods ended March 31, 2018 and 2017 are as follows:

<i>In millions of won</i>	2018	2017
Profit before income tax expense	₩ 150,954	235,395
Income tax expense in accordance with statutory tax rate	<u>42,299</u>	<u>58,456</u>
Adjustments		
Effects of the application of accumulative tax rate	(463)	(463)
Effects of non-deductible expenses	114	8
Effects of tax credits or exemptions	(685)	(3,298)
Amount due to tax deficits, tax credits and temporary differences that were not recognized in the past	16,350	33,333
	<u>15,316</u>	<u>29,580</u>
Adjustment for prior period	2	(32,866)
Income tax expense	<u>₩ 57,617</u>	<u>55,170</u>

The average effective tax rates for the three-month periods ended March 31, 2018 and 2017 are 38.17% and 23.44%, respectively.

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Condensed Consolidated Interim Financial Statements
For the three-month periods ended March 31, 2018 and 2017
(Unaudited)

33. Expenses Classified by Nature

Expenses classified by nature for the three-month periods ended March 31, 2018 and 2017 are as follows:

(i) For the three-month period ended March 31, 2018

In millions of won

	Selling and administrative expenses	Cost of sales	Total
Raw materials used	₩ -	904,882	904,882
Salaries	7,278	43,141	50,419
Retirement benefit expense	212	4,746	4,958
Welfare an	552	3,697	4,249
Insurance expense	22	2,279	2,301
Depreciation	3,683	152,018	155,701
Amortization	565	1,015	1,580
Commission	5,076	5,251	10,327
Advertising expense	375	97	472
Training expense	14	32	46
Vehicle maintenance expense	29	20	49
Publishing expense	30	48	78
Business promotion expense	24	69	93
Rent expense	364	3,778	4,142
Telecommunication expense	238	31	269
Transportation expense	-	11	11
Taxes and dues	75	4,904	4,979
Expendable supplies expense	139	164	303
Water, light and heating expense	200	119	319
Repairs and maintenance expense	38	27,763	27,801
Ordinary development expense	3,639	5,566	9,205
Travel expense	111	206	317
Clothing expense	-	1	1
Survey and analysis expense	-	15	15
Others	647	21,683	22,330
₩	<u>23,311</u>	<u>1,181,536</u>	<u>1,204,847</u>

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Condensed Consolidated Interim Financial Statements
For the three-month periods ended March 31, 2018 and 2017
(Unaudited)

33. Expenses Classified by Nature, Continued

Expenses classified by nature for the three-month periods ended March 31, 2018 and 2017 are as follows, continued:

(ii) For the three-month period ended March 31, 2017

In millions of won

	Selling and administrative expenses	Cost of sales	Total
Raw materials used	₩ -	706,254	706,254
Salaries	9,074	32,762	41,836
Retirement benefit expense	398	4,044	4,442
Welfare and benefit expense	643	3,080	3,723
Insurance expense	18	-	18
Depreciation	3,608	134,609	138,217
Amortization	565	188	753
Commission	4,381	4,184	8,565
Advertising expense	393	86	479
Training expense	10	70	80
Vehicle maintenance expense	14	14	28
Publishing expense	48	29	77
Business promotion expense	29	61	90
Rent expense	340	3,264	3,604
Telecommunication expense	239	33	272
Transportation expense	-	15	15
Taxes and dues	130	4,924	5,054
Expendable supplies expense	317	99	416
Water, light and heating expense	2	265	267
Repairs and maintenance expense	700	22,401	23,101
Ordinary development expense	3,027	2,361	5,388
Travel expense	284	188	472
Clothing expense	-	10	10
Survey and analysis expense	-	10	10
Others	582	23,682	24,264
	₩ <u>24,802</u>	<u>942,633</u>	<u>967,435</u>

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Condensed Consolidated Interim Financial Statements
For the three-month periods ended March 31, 2018 and 2017
(Unaudited)

34. Earnings per Share

(1) Basic earnings per share for the three-month periods ended March 31, 2018 and 2017 are as follows:

<i>In won</i>		<u>2018</u>	<u>2017</u>
Basic earnings per share	₩	2,799	5,407

(*) Since the Group does not own dilutive securities, basic earnings per share are identical to dilutive earnings per share.

(2) Profit attributable to controlling interest and weighted average number of common shares outstanding for the three-month periods ended March 31, 2018 and 2017 are as follows:

<i>In millions of won, except for number of share</i>		<u>2018</u>	<u>2017</u>
Profit attributable to controlling interest	₩	93,286	180,225
Weighted average number of common share		33,329,119	33,329,119

35. Risk Management

(1) Capital risk management

The Group manages its capital to ensure that it will be able to continue as a going concern while maximizing the return to shareholder through the optimization of the debt and equity balance. The capital structure of the Group consists of net debt (offset by cash and bank balances) and equity. The Group's overall capital risk management strategy remains unchanged from that of the prior year.

Details of the Group's capital management accounts as of March 31, 2018 and December 31, 2017 are as follows:

<i>In millions of won</i>		<u>2018</u>	<u>2017</u>
Total borrowings and debentures	₩	4,999,603	4,998,742
Cash and cash equivalents		(33,231)	(35,416)
Net borrowings and debentures		<u>4,966,372</u>	<u>4,963,326</u>
Total shareholder's equity	₩	<u>3,942,126</u>	<u>3,882,393</u>
Debt to equity percentage		<u>125.98%</u>	<u>127.84%</u>

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Condensed Consolidated Interim Financial Statements
For the three-month periods ended March 31, 2018 and 2017
(Unaudited)

35. Risk Management, Continued

(2) Financial risk management

The Group is exposed to various risks related to its financial instruments, such as, market risk (currency risk, interest rate risk, price risk), credit risk. The Group monitors and manages the financial risks relating to the operations of the Group through internal risk reports which analyze exposures by degree and magnitude of risks.

The Group uses derivative financial instruments to certain hedge risk exposures. The Group's overall financial risk management strategy remains unchanged from the prior year.

1) Credit risk

Book values of the financial assets represent the maximum exposure of the credit risk. Details of the Group's level of maximum exposure of the credit risk as of March 31, 2018 and December 31, 2017 are as follows:

<i>In millions of won</i>		2018	2017
Cash and cash equivalents	₩	33,231	35,416
Loans and receivables		18,932	17,991
Short-term financial instruments		50,000	50,000
Financial assets at fair value through profit and loss		314,719	-
Derivative assets (trading)		245	-
Derivative assets (hedge accounting)		404	3,988
Trade and other receivables		703,178	653,619
Available-for-sale financial assets		132,589	133,788
Financial guarantee contract (*1)		6,186	6,214
	₩	<u>1,259,484</u>	<u>901,016</u>

(*1) This amount is the maximum amount the Group will pay if requested by the warantee. Details of financial guarantee contracts as of March 31, 2018 are as follows:

<i>In thousands of USD</i>	Company	Amount of Guarantee
Other related company	KEPCO Bylong Australia Pty., Ltd.	5,800

2) Market risk

Market risk is the risk that the Group's fair values of the financial instruments or future cash flows are affected by the changes in the market. Market risk consists of interest rate risk, currency risk and other price risk.

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Condensed Consolidated Interim Financial Statements
For the three-month periods ended March 31, 2018 and 2017
(Unaudited)

35. Risk Management, Continued

(2) Financial risk management, continued

3) Sensitivity analysis

a) Major assets and liabilities with uncertainties in underlying assumptions

① Defined benefit obligation

A sensitivity analysis on the Group's defined benefit obligation assuming a 1% increase or decrease in various assumptions as of March 31, 2018 and 2017 are as follows:

<i>In millions of won</i>		2018		2017	
Type	Accounts	1% Increase	1% Decrease	1% Increase	1% Decrease
Future salary increases	Defined benefit obligation	₩ 12,207	(10,605)	12,331	(10,631)
Discount rate	Defined benefit obligation	(10,806)	12,733	(10,905)	12,985

b) Management judgment affected by uncertainties in underlying assumptions

① Foreign currency risk

The Group undertakes transactions denominated in foreign currencies; consequently, exposures to currency exchange rate fluctuations arise. The carrying amount of the Group's, except for the Group's foreign subsidiary, foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows:

(i) As of March 31, 2018

<i>In thousands of foreign currencies</i>	USD	AUD	EUR	CHF
Assets				
Cash and cash equivalents	3,349	-	-	-
Liabilities				
Trade and Other Payables	(77,334)	-	(89)	-
Debentures	(800,000)	-	-	(200,000)
	<u>(877,334)</u>	<u>-</u>	<u>(89)</u>	<u>(200,000)</u>
	<u>(873,985)</u>	<u>-</u>	<u>(89)</u>	<u>(200,000)</u>

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Condensed Consolidated Interim Financial Statements
For the three-month periods ended March 31, 2018 and 2017
(Unaudited)

35. Risk Management, Continued

(2) Financial risk management, continued

3) Sensitivity analysis, continued

b) Management judgment affected by uncertainties in underlying assumptions, continued

① Foreign currency risk, continued

(ii) As of December 31, 2017

In thousands of foreign currencies

	USD	JPY	AUD	EUR	CHF
Assets					
Cash and cash equivalents	38	-	-	-	-
Liabilities					
Trade and other payables	(35,414)	(27,950)	-	(165)	-
Debentures	(800,000)	-	-	-	(200,000)
	<u>(835,414)</u>	<u>(27,950)</u>	<u>-</u>	<u>(165)</u>	<u>(200,000)</u>
	<u>(835,376)</u>	<u>(27,950)</u>	<u>-</u>	<u>(165)</u>	<u>(200,000)</u>

A sensitivity analysis on the Group's profit with a 10% increase or decrease in currency exchange rates for the three-month period ended March 31, 2018 and 2017 are as follows:

In millions of won

	2018		2017	
	10% Increase	10% Decrease	10% Increase	10% Decrease
Increase (decrease) of income before income tax expense	₩ (115,525)	115,525	(111,444)	111,444
Increase (decrease) of shareholder's equity (*)	(115,525)	115,525	(111,444)	111,444

(*) Tax effect is not considered.

Sensitivity analysis above is conducted for monetary assets and liabilities denominated in foreign currencies other than functional currency, without consideration of hedge effect of related derivatives, as of March 31, 2018 and December 31, 2017.

To manage its foreign currency risk related to foreign currency denominated receivables and payables, the Group has a policy to enter into currency swap agreements. In addition, to manage its foreign currency risk related to foreign currency denominated expected sales transactions and purchase transactions, the Group enters into cross-currency forward agreements.

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Condensed Consolidated Interim Financial Statements
For the three-month periods ended March 31, 2018 and 2017
(Unaudited)

35. Risk Management, Continued

(2) Financial risk management, continued

3) Sensitivity analysis, continued

b) Management judgment affected by uncertainties in underlying assumptions, continued

② Interest rate risk

The Group is exposed to interest rate risk due to its borrowing with floating interest rates. A 1% increase or decrease is used when reporting interest rate risk internally to key management personnel which represents management's assessment of the reasonably possible change in interest rates.

The Group's borrowings and debentures with floating interest rates as of March 31, 2018 and December 31, 2017 are as follows:

<i>In millions of won</i>		2018	2017
Long-term borrowings	₩	1,809	1,896

A Sensitivity analysis on the Group's borrowings and debentures assuming a 1% increase or decrease in interest rates for the three-month period ended March 31, 2018 and for the year ended December 31, 2017 are as follows:

<i>In millions of won</i>		2018		2017	
		1% Increase	1% Decrease	1% Increase	1% Decrease
Increase(decrease) of income before income tax expense	₩	(5)	5	(19)	19
Increase(decrease) of shareholders' equity(*)		(5)	5	(19)	19

(*) Tax effect is not considered.

To manage its interest rate risks, in addition to maintaining an appropriate mix of fixed and floating rate loans, the Group enters into certain interest rate swap agreements. This analysis measures interest rate risk before reflecting hedging effect of derivatives.

4) Liquidity risk

The Group has established an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities.

In addition, the Group has established credit lines on its trade financing and bank overdrafts, and through payment guarantees it has received, it maintains an adequate credit (borrowing) line. In addition, in case of major construction investment, the Group has the ability to use reserve cash or utilize long-term borrowings.

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Condensed Consolidated Interim Financial Statements
For the three-month periods ended March 31, 2018 and 2017
(Unaudited)

35. Risk Management, Continued

(2) Financial risk management, continued

4) Liquidity risk, continued

Details of contractual maturities of the Group's non-derivative financial liabilities based on agreement terms are as follows. The amount disclosed below represents the undiscounted cash flows of the principal and estimated interest amounts that the Group is obligated to pay in the future based on the earliest repayment date:

(i) As of March 31, 2018

<i>In millions of won</i>		Less than 1 year	1-2 years	2-5 years	More than 5 years	Total
Borrowings and debentures	₩	1,240,013	784,061	1,315,015	2,399,358	5,738,447
Trade and other payables		419,957	-	-	-	419,957
	₩	<u>1,659,970</u>	<u>784,061</u>	<u>1,315,015</u>	<u>2,399,358</u>	<u>6,158,404</u>

(ii) As of December 31, 2017

<i>In millions of won</i>		Less than 1 year	1-2 years	2-5 years	More than 5 years	Total
Borrowings and debentures	₩	1,022,798	803,263	1,532,645	2,413,463	5,772,169
Trade and other payables		278,370	2,189	-	-	280,559
	₩	<u>1,301,168</u>	<u>805,452</u>	<u>1,532,645</u>	<u>2,413,463</u>	<u>6,052,728</u>

The expected maturities for non-derivative financial assets as of March 31, 2018 and December 31, 2017 in detail are as follows:

(i) As of March 31, 2018

<i>In millions of won</i>		Less than 1 year	1-5 years	Over 5 years	Uncertain	Total
Cash and cash equivalents	₩	33,231	-	-	-	33,231
Available-for-sale financial assets		-	-	-	132,589	132,589
Financial assets at fair value through profit and loss		314,719	-	-	-	314,719
Loans and receivables		3,925	16,665	-	-	20,590
Short-term financial instruments		50,000	-	-	-	50,000
Trade and other receivables		703,111	359	-	-	703,470
	₩	<u>1,104,986</u>	<u>17,024</u>	<u>-</u>	<u>132,589</u>	<u>1,254,599</u>

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Condensed Consolidated Interim Financial Statements
For the three-month periods ended March 31, 2018 and 2017
(Unaudited)

35. Risk Management, Continued

(2) Financial risk management, continued

4) Liquidity risk, continued

(ii) As of December 31, 2017

<i>In millions of won</i>		Less than 1 year	1-5 years	Over 5 years	Uncertain	Total
Cash and cash equivalents	₩	35,416	-	-	-	35,416
Available-for-sale financial assets		-	-	-	133,788	133,788
Loans and receivables		3,083	16,331	-	-	19,414
Short-term financial instruments		50,000	-	-	-	50,000
Trade and other receivables		653,698	219	-	-	653,917
	₩	<u>742,197</u>	<u>16,550</u>	<u>-</u>	<u>133,788</u>	<u>892,535</u>

Derivative financial liabilities classified by maturity periods which from reporting date to maturity date of contract as of March 31, 2018 and December 31, 2017 as follows:

(i) As of March 31, 2018

<i>In millions of won</i>		Less than 1 year	1-2 years	2-5 years	More than 5 years	Total
Net settlement						
-Trading purpose	₩	-	-	-	-	-
Gross settlement						
-Trading purpose		87	-	-	-	87
-Hedge accounting purpose		22,363	-	-	-	22,363
	₩	<u>22,450</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>22,450</u>

(ii) As of December 31, 2017

<i>In millions of won</i>		Less than 1 year	1-2 years	2-5 years	More than 5 years	Total
Net settlement						
-Trading purpose	₩	-	-	-	-	-
Gross settlement						
-Trading purpose		866	-	-	-	866
-Hedge accounting purpose		5,865	16,116	-	-	21,981
	₩	<u>6,731</u>	<u>16,116</u>	<u>-</u>	<u>-</u>	<u>22,847</u>

(3) Fair value risk

The fair value of the Group's actively-traded financial instruments (i.e. available-for-sale financial assets, etc.) is based on the traded market-price as of the reporting period end. The fair value of the Group's financial assets is the amount which the asset could be exchanged for or the amount a liability could be settled for.

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Condensed Consolidated Interim Financial Statements
For the three-month periods ended March 31, 2018 and 2017
(Unaudited)

35. Risk Management, Continued

(3) Fair value risk, continued

The fair values of financial instruments where no active market exists or where quoted prices are not otherwise available are determined by using valuation techniques. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the Group uses that technique.

For trade receivables and payables, the Group considers the carrying value, net of impairment, as fair value. While for disclosure purposes, the fair value of financial liabilities is estimated by discounting a financial instrument with similar contractual cash flows using the effective interest method.

1) Fair value and book value of financial assets and liabilities as of March 31, 2018 and December 31, 2017 are as follows:

In millions of won

	2018		2017	
	Book value	Fair value	Book value	Fair value
Assets recognized at fair value				
Available-for-sale financial assets	₩ 132,589	132,589	133,788	133,788
Financial assets at fair value through profit and loss	314,719	314,719	-	-
Derivatives assets (trading)	245	245	-	-
Derivatives assets (hedge accounting)	404	404	3,988	3,988
	<u>₩ 447,957</u>	<u>447,957</u>	<u>137,776</u>	<u>137,776</u>
Assets carried at amortized cost				
Trade and other receivables	₩ 703,178	703,178	653,619	653,619
Loans and receivables	18,932	18,932	17,991	17,991
Short-term financial instruments	50,000	50,000	50,000	50,000
	<u>₩ 772,110</u>	<u>772,110</u>	<u>721,610</u>	<u>721,610</u>
Liabilities carried at fair value				
Derivatives liabilities (trading)	₩ 87	87	866	866
Derivatives liabilities (hedge accounting)	22,363	22,363	21,981	21,981
	<u>₩ 22,450</u>	<u>22,450</u>	<u>22,847</u>	<u>22,847</u>
Liabilities carried at amortized cost				
Borrowings	₩ 1,809	1,809	1,896	1,896
Debentures	4,997,794	4,939,199	4,996,846	4,964,773
Trade and other payables	419,957	419,957	280,559	280,559
	<u>₩ 5,419,560</u>	<u>5,360,965</u>	<u>5,279,301</u>	<u>5,247,228</u>

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Condensed Consolidated Interim Financial Statements
For the three-month periods ended March 31, 2018 and 2017
(Unaudited)

35. Risk Management, Continued

(3) Fair value risk, continued

2) The discount rate used for calculating fair value is derived from interest rates which are observable from the market, such as government bond interest rate, after considering credit spread.

The discount rates used for calculating fair value as of March 31, 2018 and December 31, 2017 are as follows:

Type	2018 (%)	2017 (%)
Derivatives	1.26~1.38	1.34~1.48
Debentures	0.31~3.14	0.08~2.97

3) Fair value hierarchy

Fair values of financial instruments by hierarchy level as of March 31, 2018 and December 31, 2017, respectively, are as follows:

(i) As of March 31, 2018

<i>In millions of won</i>	Level 1	Level 2	Level 3	Total
Financial assets at fair value:				
Available-for-sale financial assets	₩ 110,567	-	22,022	132,589
Financial assets at fair value through profit and loss	-	314,719	-	314,719
Derivative assets (trading)	-	245	-	245
Derivative assets (hedge accounting)	-	404	-	404
	₩ 110,567	315,368	22,022	447,957
Financial liabilities at fair value:				
Derivative liabilities (trading)	₩ -	87	-	87
Derivative liabilities (hedge accounting)	-	22,363	-	22,363
	₩ -	22,450	-	22,450

(ii) As of December 31, 2017

<i>In millions of won</i>	Level 1	Level 2	Level 3	Total
Financial assets at fair value:				
Available-for-sale financial assets	₩ 111,653	-	22,135	133,788
Derivative assets (trading)	-	-	-	-
Derivative assets (hedge accounting)	-	3,988	-	3,988
	₩ 111,653	3,988	22,135	137,776
Financial liabilities at fair value:				
Derivative liabilities (trading)	₩ -	866	-	866
Derivative liabilities (hedge accounting)	-	21,981	-	21,981
	₩ -	22,847	-	22,847

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Condensed Consolidated Interim Financial Statements
For the three-month periods ended March 31, 2018 and 2017
(Unaudited)

36. Related Party Transactions

(1) The nature of the Group's relationship with related parties as of March 31, 2018 is as follows:

Control relationship	Related party
Parent company	Korea Electric Power Corporation
Associate	Cheongna Energy Co., Ltd. Pioneer Gas Power, Ltd. Eurasia Energy Holdings Xe-Pian Xe-Namnoy Power Co., Ltd. PT. Mutiara Jawa Korea Offshore Wind Power Co., Ltd. Daegu Solar Power Plant Co., Ltd. Dongducheon Dream Power Co., Ltd. Solar Power Plants Happy City Co., Ltd. Shin Pyeongtaek Power Co., Ltd. KEPCO Energy Solution Co., Ltd. Solar School Plant Co., Ltd.
Joint venture	Rabigh O&M Co., Ltd.
Other related party	Korea Hydro & Nuclear Power Co., Ltd. Korea South-East Power Co., Ltd. Korea Southern Power Co., Ltd. Korea East-West Power Co., Ltd. Korea Midland Power Co., Ltd. KEPCO Engineering & Construction Company Inc. KEPCO KDN Co., Ltd. KEPCO KPS Co., Ltd. KEPCO Nuclear Fuel Co., Ltd. Korea Gas Corporation Korea Electronic Power Industrial Development Co., Ltd. Korea Power Exchange Korea Development Bank KEPCO Bylong Australia Pty Ltd.

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Condensed Consolidated Interim Financial Statements
For the three-month periods ended March 31, 2018 and 2017
(Unaudited)

36. Related Party Transactions, Continued

(2) All transactions between KOWEPO and its consolidated subsidiaries are eliminated upon consolidation, and transactions with related parties other than subsidiaries for the three-month periods ended March 31, 2018 and 2017 are as follows:

<i>In millions of won</i>	Related parties	Sales and others		Purchase and others	
		2018	2017	2018	2017
	Korea Electric Power Corporation ₩	1,373,792	1,237,826	16,573	87,246
	Korea Hydro & Nuclear Power Co., Ltd.	-	-	22	21
	Korea Southern Power Co., Ltd.	525	41	32	25
	Korea East-West Power Co., Ltd.	1	1	182	20
	Korea Midland Power Co., Ltd.	1	1	161	-
	Korea South-East Power Co., Ltd.	-	1	-	-
	KEPCO Engineering & Construction Company Inc.	-	-	380	3,396
	KEPCO KPS Co., Ltd.	456	468	11,471	8,009
	KEPCO KDN Co., Ltd.	-	-	2,583	1,803
	Cheongna Energy Co., Ltd.	5,617	2,963	58	58
	Daegu Solar Power Plant Co., Ltd.	-	-	636	565
	Solar Power Plants Happy City Co., Ltd.	-	-	58	51
	Korea Gas Corporation	802	701	234,629	183,254
	Korea Electronic Power Industrial Development Co., Ltd.	1,210	1,133	9,678	5,324
	Korea Power Exchange	-	-	1,396	1,249
	Shin Pyeongtaek Power Co., Ltd.	1,893	73	-	-
	Xe-Pian Xe-Namnoy Power Co., Ltd.	161	167	-	-
	KEPCO Energy Solution Co., Ltd.	23	-	-	-
	Solar School Plant Co., Ltd.	30	28	-	-
	PT. Mutiara Jawa	10	-	-	-
	Pioneer Gas Power, Ltd.	-	-	-	-
	Rabigh Operation & Maintenance Company Limited	90	12	-	-
	Korea Development Bank.	-	-	-	86
	₩	<u>1,384,611</u>	<u>1,243,415</u>	<u>277,859</u>	<u>291,107</u>

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Condensed Consolidated Interim Financial Statements
For the three-month periods ended March 31, 2018 and 2017
(Unaudited)

36. Related Party Transactions, Continued

(3) Receivables and payables arising from related party transactions as of March 31, 2018 and December 31, 2017 are as follows:

In millions of won

Company name	Type	Receivables		Payables	
		2018	2017	2018	2017
Korea Electric Power Corporation	Trade receivables	₩ 424,204	383,071	-	-
	Non-trade receivables and others	257,055	252,540	-	-
	Trade payables	-	-	4,097	4,892
	Non-trade payables and others	-	-	29,973	1,302
Korea Hydro & Nuclear Power Co., Ltd.	Non-trade receivables and others	7	-	-	-
	Non-trade payables and others	-	-	22	22
Korea Southern Power Co., Ltd.	Non-trade receivables and others	499	-	-	-
	Non-trade payables and others	-	-	-	92
Korea East-West Power Co., Ltd.	Non-trade receivables and others	-	47	-	-
	Non-trade payables and others	-	-	-	1,122
Korea Midland Power Co., Ltd.	Non-trade payables and others	-	-	28	120
KEPCO Engineering & Construction Company Inc.	Non-trade payables and others	-	-	-	418
KEPCO KPS Co., Ltd.	Non-trade receivables and others	16	17	-	-
	Non-trade payables and others	-	-	2,656	119
KEPCO KDN Co., Ltd.	Non-trade payables and others	-	-	-	142
Cheongna Energy Co., Ltd.	Non-trade payables and others	-	-	672	1
Korea Offshore Wind Power Co., Ltd.	Non-trade receivables and others	-	260	-	-
Dongducheon Dream Power Co., Ltd.	Non-trade receivables and others	526	526	-	-
Rabigh Operation & Maintenance Company Limited	Non-trade receivables and others	-	869	-	-
	Non-trade payables and others	-	210	-	-
Shin Pyeongtaek Power Co., Ltd.	Non-trade payables and others	-	-	183	52
Korea Gas Corporation	Non-trade receivables and others	300	294	-	-
	Trade payables	-	-	94,597	41,084
	Non-trade payables and others	-	-	689	569
Korea Electronic Power Industrial Development Co., Ltd.	Trade receivables	799	295	-	-
	Non-trade receivables and others	26	30	-	-
	Non-trade payables and others	-	-	390	1,937
Korea Power Exchange	Non-trade payables and others	-	-	1	1
Xe-Pian Xe-Namnoy Power Co., Ltd.	Non-trade receivables and others	54	53	-	-
	Loans	1,413	1,413	-	-
KEPCO Energy Solution Co., Ltd	Non-trade receivables and others	26	38	-	-
Solar School Plant Co., Ltd	Non-trade receivables and others	33	-	-	-
PT. Mutiara Jawa	Non-trade receivables and others	10	-	-	-
		₩ 684,968	639,663	133,308	51,873

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Condensed Consolidated Interim Financial Statements
For the three-month periods ended March 31, 2018 and 2017
(Unaudited)

36. Related Party Transactions, Continued

(4) The salaries and other compensations to the key members of management for the three-month periods ended March 31, 2018 and 2017 are as follows:

In millions of won

Type	2018	2017
Short-term employee benefits	₩ 67	113
Retirement and severance benefits	6	9

(5) There are no borrowings from related parties as of March 31, 2018 and December 31, 2017.

(6) Guarantees provided to related party as of March 31, 2018 are as follows:

In millions of won, In thousands of USD, SAR

Debt repayment guarantee provider	Related Parties	Type of guarantees	Credit limit	Guarantee
Korea Western Power Co., Ltd.	Cheongna Energy Co., Ltd.	Investments in associate pledged as collateral	KRW 27,211	KEB Hana Bank, etc.
Korea Western Power Co., Ltd.	Dongducheon Dream Power Co., Ltd.	Investments in associate pledged as collateral	KRW 53,233	Kookmin Bank, etc.
Korea Western Power Co., Ltd.	Daegu Solar Power Plant Co., Ltd.	Investments in associate pledged as collateral	KRW 1,230	Industrial Bank of Korea
Korea Western Power Co., Ltd.	PT Mutiara Jawa	Debt Payment Guarantee	USD 5,800	The Export-Import Bank of Korea
Korea Western Power Co., Ltd.	Rabigh Operation & Maintenance Company Limited	Investments in associate pledged as collateral	USD 2,610	Woori Bank
Korea Western Power Co., Ltd.	Rabigh Operation & Maintenance Company Limited	Contract performance guarantees, etc.	SAR 5,600	Saudi Arabia British Bank
Korea Western Power Co., Ltd.	Xe-Pian Xe-Namnoy Power Co., Ltd.	Investments in associate pledged as collateral	USD 64,988	Krung Thai Bank
Korea Western Power Co., Ltd.	Xe-Pian Xe-Namnoy Power Co., Ltd.	Business reserve payment guarantee	USD 2,500	Krung Thai Bank
Korea Western Power Co., Ltd.	Xe-Pian Xe-Namnoy Power Co., Ltd.	Guarantees of Impounding bonus (*1)	USD 5,000	SK E&C
Korea Western Power Co., Ltd.	Solar Power Plants Happy City Co., Ltd.	Investments in associate pledged as collateral	KRW 194	NH Bank
Korea Western Power Co., Ltd.	Shin Pyeongtaek Power Co., Ltd.	Investments in associate pledged as collateral	KRW 72,000	Kookmin Bank

(*1) Xe-Pian Xe-Namnoy Power Co., Ltd. entered into the agreement to pay incentives to SK E&C when the impoundment occurs upon the completion of the hydropower project. In case that Xe-Pian Xe-Namnoy Power Co., Ltd. becomes unable to pay the incentives to SK E&C, the Group provides guarantees for payment up to USD 5,000,000.

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Condensed Consolidated Interim Financial Statements
For the three-month periods ended March 31, 2018 and 2017
(Unaudited)

36. Related Party Transactions, Continued

(7) Cheongna Energy Co., Ltd., an associate, operates integrated energy transportation and distributions and has outstanding borrowings from the financial institutions. In relation to the borrowings, the Group entered into the supplemental funding agreement for Cheongna Energy Co., Ltd. According to the agreement, all shareholders of Cheongna Energy Co., Ltd are required to raise the additional funds based on the shareholders' equity ratios when Cheongna Energy Co., Ltd. is unable to repay the principal and interest amounts.

37. Non-cash Transactions

Significant non-cash transactions for the three-month periods ended March 31, 2018 and 2017 are as follows:

<i>In millions of won</i>		2018	2017
Reclassification of long-term borrowings and debentures to current portion	₩	220,661	94
Reclassification of construction-in-progress		35,211	38,195
Reclassification of non-cash purchases of property, plant and equipment's acquisition		(3,072)	(23,962)
Reclassification of long-term loans to current portion		786	554
Reclassification of long-term prepaid expenses to current portion		331	(47)
Reclassification of long-term deposit to current portion		(115)	(7)
Payable dividends		28,996	66,992

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Condensed Consolidated Interim Financial Statements
For the three-month periods ended March 31, 2018 and 2017
(Unaudited)

38. Commitments for Expenditure

Agreements for acquisition of property, plant and equipment as of March 31, 2018 and December 31, 2017 are as follows:

<i>In millions of won</i> Description	2018		2017	
	Contract	Residual	Contract	Residual
Payments	₩ 1,875,132	49,557	1,863,234	56,035

39. Commitments and Contingencies

(1) Ongoing litigation as of March 31, 2018 and December 31, 2017 are as follows:

<i>In millions of won</i>	2018		2017	
	Number of cases	Claim amount	Number of cases	Claim amount
As the defendant(*1)	16 ₩	37,485	17 ₩	41,551
As the plaintiff	5	108,583	6	108,633

(*1) The amount includes the total claim amount of ₩ 27,152 million as a co-defendant with Korea South-East Power Co., Ltd., Korea Midland Power Co., Ltd., Korea Southern Power Co., Ltd. and Korea East-West Power Co., Ltd. As of March 31, 2018, the Group has recorded a provision for litigation amounting to ₩ 115 million related to the above litigation. Except for the lawsuits that resulted in litigation provisions, the outcome of the other litigations cannot be determined. However, the Group management believes that the ultimate outcomes will not have a significant impact on the Group's operations and financial position.

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Condensed Consolidated Interim Financial Statements
For the three-month periods ended March 31, 2018 and 2017
(Unaudited)

39. Commitments and Contingencies, Continued

(2) Credit lines provided by financial institutions as of March 31, 2018 are as follows:

In millions of won, In thousands of USD

Description	Financial Institutions	Currency	Amount
Foreign currency payment guarantee	NH Bank	USD	4,680
Commitments on Bank-overdraft	NH Bank	KRW	200,000
Derivatives trading credit	NH Bank	USD	8,000
Loan limit	Bank of Communications	USD	30,000
	SC Bank	USD	50,000
	China Construction Bank	USD	20,000
	BNP PARIBAS	USD	40,000
	Credit Agricole Corporate & Investment Bank	USD	50,000
	DBS Bank	USD	100,000
	Deutsche Bank AG	USD	30,000
	Bank of Nova Scotia	USD	20,000
	Korea Development Bank	USD	80,000
	Mizuho Corporate Bank Ltd.	USD	188,000
	Societe Generale	USD	50,000
	Kookmin Bank	KRW	10,000
	NH Bank	KRW	5,000
	Shinhan Bank	KRW	10,000
	Woori Bank	KRW	10,000
	IBK Bank	KRW	5,000
	KEB Hana Bank	KRW	5,000
Certification of payment on L/C	KEB Hana Bank	USD	10,000
	NH Bank	USD	50,000
	Shinhan Bank	USD	50,000
	IBK Bank	USD	21,700
	Woori Bank	USD	30,000

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Condensed Consolidated Interim Financial Statements
For the three-month periods ended March 31, 2018 and 2017
(Unaudited)

39. Commitments and Contingencies, Continued

(3) Main raw material purchase agreements as of March 31, 2018 are as follows:

Raw materials	Supplier	Contract period	Annual contract amount (thousand tons)
Bituminous coal	Australia	2018.04~2022.04	1,057
	Indonesia	2018.04~2020.05	969
	Russia	2018.04~2022.03	771
	Republic of South Africa	2018.04~2022.03	425
	U.S.A	2018.04~2022.03	245
	Colombia	2018.04~2022.04	80
			3,547
Bunker-C Oil	MERCURIA	2018.02~2018.04	45
	SK Energy Co., Ltd.	2018.02~2018.04	7
	Hanwha Corporation	2018.03~2018.06	45
			97
LNG	Korea Gas Corporation	2007~2026	Determined annually
	Korea Gas Corporation	2015~2025	Determined annually

(4) Details of long-term marine transportation commitment for the safe transport of bituminous coal as of March 31, 2018 are as follows:

Shipping company	Ship name	Contract period
Daebo International Shipping Co., Ltd.	Glovis Daylight	2015.12~2030.11
Wooyang Shipping Co., Ltd.	Wooyang Queen	2016.07~2026.06
Hansung Line Co., Ltd.	Western Marine	2012.01~2026.12
Five Ocean Corporation	Nozomi	2016.12~2026.11
H-Line	HL Balikpapan	2011.07~2026.06
H-Line	Hyundai Leader	2016.04~2031.03
H-Line	HL Taeon	2018.05~2036.04
K-Line	Dolce	2007.08~2018.05
K-Line	Elettra	2009.02~2019.01
K-Line	Arpeggio	2009.02~2019.01
K-Line	CSK Brilliance	2011.11~2021.10
MOL	Gloriosa Lily	2008.10~2019.01
MOL	TTM HOPE	2008.10~2018.09
MOL	Pacific Power	2008.11~2019.04
NYK	Frontier Expedition	2013.02~2028.01
SK Shipping Co., Ltd.	K. Western Dream	2016.03~2028.02
SK Shipping Co., Ltd.	K. Taeon	2018 2 nd half ~2036 2 nd half

(5) As described in note 36, the Group provides financial supports including the debt repayment guarantees to related parties.

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Condensed Consolidated Interim Financial Statements
For the three-month periods ended March 31, 2018 and 2017
(Unaudited)

40. Subsequent Events

The Group has issued interest-bearer coupon debentures for facilities and operation funds as follows:

In millions of won

Type	Issue date	Maturity date	Interest rate		Amounts
Corporate Bond #40-1	2018.04.20	2021.04.21	2.335%	₩	70,000
Corporate Bond #40-2	2018.04.20	2038.04.20	2.811%		60,000
Corporate Bond #40-3	2018.04.20	2048.04.20	2.813%		70,000
				₩	<u>200,000</u>

Independent Auditors' Report

The Board of Directors and Shareholder
Korea Western Power Co., Ltd.:

We have audited the accompanying consolidated financial statements of Korea Western Power Co., Ltd. and its subsidiaries (the "Group"), which comprise the consolidated statements of financial position as of December 31, 2017 and 2016, the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2017 and 2016 and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with Korean International Financial Reporting Standards.

Other matter

The procedures and practices utilized in the Republic of Korea to audit such consolidated financial statements may differ from those generally accepted and applied in other countries.

KPMG Samjong Accountij Corp.

Seoul, Korea
March 8, 2018

This report is effective as of March 8, 2018, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying consolidated financial statements and notes thereto. Accordingly, the readers of the audit report should understand that the above audit report has not been updated to reflect the impact of such subsequent events or circumstances, if any.

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Consolidated Statements of Financial Position
As of December 31, 2017 and 2016

<i>In millions of won</i>	Note	2017	2016
Assets			
Cash and cash equivalents	6,7,38	₩ 35,416	246,692
Current financial assets	6,10,11,38	53,007	45,811
Current tax assets	35	606	-
Trade and other receivables, net	6,8,38,39	653,556	578,932
Inventories	12	270,054	227,388
Current non-financial assets	13	53,460	34,866
Assets held for sale	15,40	-	41,170
Total current assets		1,066,099	1,174,859
Non-current financial assets	6,9,10,11,27,38,39	152,760	222,566
Non-current trade and other receivables, net	6,8,38	63	662
Property, plant and equipment, net	16,42	8,115,149	8,154,367
Intangible assets, net	17	18,357	15,744
Investments in associates and joint ventures	15,39,40	268,148	213,948
Non-current non-financial assets	13	7,861	10,813
Deferred tax assets	35	234	144
Total non-current assets		8,562,572	8,618,244
Total assets		₩ 9,628,671	9,793,103

See accompanying notes to the consolidated financial statements.

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Consolidated Statements of Financial Position, Continued
As of December 31, 2017 and 2016

In millions of won

	Note	2017	2016
Liabilities			
Trade and other payables	6,18,38,39 ₩	278,370	379,866
Current financial liabilities	6,10,19,20,38	902,030	1,084,427
Current tax liabilities	35	13,356	85,880
Current non-financial liabilities	23	103,565	100,328
Current provisions	22	40	-
Total current liabilities		1,297,361	1,650,501
Non-current trade and other payables	6,18,38	2,189	78
Non-current financial liabilities	6,10,19,20,38	4,119,559	3,926,322
Non-current non-financial liabilities	23	244	199
Employee benefits obligations, net	21,25,38	68,656	71,604
Deferred tax liabilities	35	258,154	215,998
Non-current provisions	22,43	115	5,123
Total non-current liabilities		4,448,917	4,219,324
Total liabilities		5,746,278	5,869,825
Equity			
Share capital	24	1,272,898	1,272,898
Retained earnings	25,26	2,639,262	2,593,422
Other components of equity	9,10,27	(36,028)	(49,043)
Hybrid securities	28	-	99,750
Equity attributable to owners of KOWEPO		3,876,132	3,917,027
Non-controlling interests		6,261	6,251
Total equity		3,882,393	3,923,278
Total liabilities and equity	₩	9,628,671	9,793,103

See accompanying notes to the consolidated financial statements.

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Consolidated Statements of Comprehensive Income
For the years ended December 31, 2017 and 2016

In millions of won, except earnings per share information

	Note	2017	2016
Sales	5,29,39	₩ 4,222,449	4,179,782
Cost of sales	36,39	(3,748,802)	(3,487,049)
Gross profit		473,647	692,733
Selling and administrative expenses	30,36	(112,163)	(104,072)
Operating income		361,484	588,661
Other non-operating income	31	4,732	3,986
Other non-operating expenses	31	(6,123)	(642)
Other income (loss), net	32	(9,351)	4,815
Finance income	6,10,33	172,248	62,490
Finance expenses	6,9,10,34	(311,071)	(134,826)
Loss from associates and joint ventures	15	(63,001)	(13,170)
Profit before income tax		148,918	511,314
Income tax expense	35	(46,089)	(118,120)
Profit for the year		102,829	393,194
Other comprehensive income (loss), net of tax:			
Items that will never be reclassified to profit or loss			
Remeasurements of benefit liability, net of tax	21,25	7,158	(5,539)
Share in other comprehensive income of associates and joint ventures, net of tax		5,604	259
Items that are or may be reclassified to profit or loss			
Net change in the unrealized fair value of available-for-sale financial assets, net of tax	9,27	29,721	(3,827)
Net change in the unrealized fair value of derivatives using cash flow hedge accounting, net of tax	10,27	(1,512)	3,243
Foreign currency translation of foreign operations, net of tax		(1,714)	550
Share in other comprehensive income (loss) of associates and joint ventures, net of tax		(13,486)	2,118
Total other comprehensive income (loss), net of tax		25,771	(3,196)
Total comprehensive income for the year		₩ 128,600	389,998
Profit (loss) attributable to:			
Owners of KOWEPO		₩ 102,813	393,271
Non-controlling interests		16	(77)
		102,829	393,194
Total comprehensive income (loss) attributable to:			
Owners of KOWEPO		128,590	390,073
Non-controlling interests		10	(75)
		128,600	389,998
Earnings per share			
Basic and diluted earnings per share (in won)	37	₩ 3,085	12,345

See accompanying notes to the consolidated financial statements.

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Consolidated Statements of Changes in Equity
For the years ended December 31, 2017 and 2016

In millions of won

		Equity attributable to owners of KOWEPO					Non-controlling interests	Total equity
		Share Capital	Retained earnings	Hybrid securities	Other components of equity	Subtotal		
Balance at January 1, 2016	₩	1,192,365	2,244,738	99,750	(51,125)	3,485,728	258	3,485,986
Total comprehensive income (loss) for the year:								
Profit (loss) for the year		-	393,271	-	-	393,271	(77)	393,194
Net change in the unrealized fair value of available-for-sale financial assets, net of tax		-	-	-	(3,827)	(3,827)	-	(3,827)
Net change in the unrealized fair value of derivatives using cash flow hedge accounting, net of tax		-	-	-	3,243	3,243	-	3,243
Remeasurements of benefit liability, net of tax		-	(5,539)	-	-	(5,539)	-	(5,539)
Share in other comprehensive income of associates and joint ventures, net of tax		-	260	-	2,118	2,378	-	2,378
Foreign currency translation of foreign operations, net of tax		-	-	-	548	548	2	550
Transactions with owners recognized directly in equity:								
Dividends paid		-	(36,238)	-	-	(36,238)	-	(36,238)
Paid-in capital increase		80,533	-	-	-	80,533	-	80,533
Changes in consolidation scope		-	-	-	-	-	6,068	6,068
Interest payments on hybrid securities		-	(3,070)	-	-	(3,070)	-	(3,070)
Balance at December 31, 2016	₩	<u>1,272,898</u>	<u>2,593,422</u>	<u>99,750</u>	<u>(49,043)</u>	<u>3,917,027</u>	<u>6,251</u>	<u>3,923,278</u>

See accompanying notes to the consolidated financial statements.

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Consolidated Statements of Changes in Equity, Continued
For the years ended December 31, 2017 and 2016

In millions of won

		Equity attributable to owners of KOWEPO					Non-controlling interests	Total equity
		Share Capital	Retained earnings	Hybrid securities	Other components of equity	Subtotal		
Balance at January 1, 2017	₩	1,272,898	2,593,422	99,750	(49,043)	3,917,027	6,251	3,923,278
Total comprehensive income (loss) for the year:								
Profit (loss) for the year		-	102,813	-	-	102,813	16	102,829
Net change in the unrealized fair value of available-for-sale financial assets, net of tax		-	-	-	29,721	29,721	-	29,721
Net change in the unrealized fair value of derivatives using cash flow hedge accounting, net of tax		-	-	-	(1,512)	(1,512)	-	(1,512)
Remeasurements of benefit liability, net of tax		-	7,158	-		7,158	-	7,158
Share in other comprehensive income (loss) of associates and joint ventures, net of tax		-	5,604	-	(13,486)	(7,882)	-	(7,882)
Foreign currency translation of foreign operations, net of tax		-	-	-	(1,708)	(1,708)	(6)	(1,714)
Transactions with owners recognized directly in equity:								
Dividends paid		-	(66,992)	-	-	(66,992)	-	(66,992)
Repayment in principal and interest of hybrid securities		-	(2,471)	(99,750)	-	(102,221)		(102,221)
Others		-	(272)	-	-	(272)	-	(272)
Balance at December 31, 2017	₩	<u>1,272,898</u>	<u>2,639,262</u>	<u>-</u>	<u>(36,028)</u>	<u>3,876,132</u>	<u>6,261</u>	<u>3,882,393</u>

See accompanying notes to the consolidated financial statements.

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Consolidated Statements of Cash Flows
For the years ended December 31, 2017 and 2016

In millions of won

	2017	2016
Cash flows from operating activities		
Profit for the year	₩ 102,829	393,194
Adjustments for:		
Income tax expense	46,089	118,120
Depreciation	587,916	473,487
Amortization of intangible assets	3,316	2,959
Loss on disposals of property, plant and equipment, net	11,964	1,619
Impairment loss on disposals of property, plant and equipment	39,656	-
Retirement benefit expenses	20,930	16,942
Interest expense	122,359	70,890
Interest income	(2,086)	(1,845)
Impairment loss on available-for-sale financial assets	-	502
Loss from associates and joint ventures	63,001	13,170
Loss (Gain) on derivative instruments, net	185,146	(35,108)
Loss (Gain) on foreign currency translations, net	(127,867)	49,900
Gain on foreign currency transactions, net	(39,591)	(10,275)
Provisions for employee benefits	41,427	30,002
Provisions for renewable portfolio standard	12,409	40,418
Provisions for litigation	1,802	1,018
Provisions for greenhouse gas emission	10,046	-
Provisions for financial guarantee	42	-
Reversal of provisions for employee benefits	-	(1,288)
Reversal of provisions for renewable portfolio standard	(12,025)	(5,851)
Reversal of provisions for litigation	(1,018)	-
Reversal of provisions for greenhouse gas emission	-	(513)
Others	425	909
	<u>963,941</u>	<u>765,056</u>
Changes in:		
Trade receivables	65,117	(68,069)
Other current receivables	(141,900)	13,739
Other non-current receivables	78	941
Inventories	(42,339)	11,434
Current non-financial assets	(19,261)	(7,866)
Non-current non-financial assets	715	(5,076)
Trade payables	(107,482)	(19,981)
Other current payables	(12,892)	(42,685)
Other non-current payables	2,250	-
Current non-financial liabilities	2,905	6,995
Non-current non-financial liabilities	-	58
Non-current provisions	(65)	-
Payments of retirement benefit obligations	(8,704)	(9,702)
Increase in plan assets	(6,952)	(4,685)
	<u>(268,530)</u>	<u>(124,897)</u>
Cash generated from operating activities:		
Dividend received	6,248	2,344
Interest received	2,124	1,497
Interest paid	(136,377)	(79,338)
Income tax paid	(87,119)	(90,414)
Net cash provided by operating activities	₩ <u>583,116</u>	<u>867,442</u>

See accompanying notes to the consolidated financial statements.

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Consolidated Statements of Cash Flows, Continued
For the years ended December 31, 2017 and 2016

In millions of won

	2017	2016
Cash flows from investing activities		
Collection of loans	₩ 1,293	742
Increase in loans	(2,895)	(2,667)
Increase in guarantee deposits	634	2,127
Decrease in guarantee deposits	(2,382)	(995)
Increase in short-term financial instruments	(50,000)	(2,000)
Decrease in short-term financial instruments	10,000	-
Acquisition of investments in associates and joint ventures	(86,392)	(62,552)
Proceeds from disposals of property, plant and equipment	27,940	8,322
Acquisition of property, plant and equipment	(642,423)	(656,279)
Proceeds from disposals of intangible assets	19	-
Acquisition of intangible assets	(2,308)	(519)
Government grants received (repayment)	(5,755)	2,645
Decrease in other investments	2,350	472
Net cash used in investing activities	(749,919)	(710,704)
Cash flows from financing activities		
Proceeds from borrowings	1,697,063	1,385,194
Repayment of borrowings	(2,088,712)	(1,455,293)
Proceeds from debentures	1,196,761	498,649
Repayment of debentures	(656,200)	(425,525)
Dividends paid	(66,992)	(36,238)
Repayments on hybrid securities	(100,000)	-
Interest payments on hybrid securities	(4,050)	(4,050)
Settlement of derivative instruments	(21,579)	21,750
Net cash used in financing activities	(43,709)	(15,513)
Net increase (decrease) in cash and cash equivalents before effect of exchange rate fluctuations	(210,512)	141,225
Effect of exchange rate on foreign operations financial statements translation	(764)	(151)
Effect of exchange rate fluctuations on cash held	-	59
Net increase (decrease) in cash and cash equivalents	(211,276)	141,133
Cash and cash equivalents at beginning of the year	246,692	105,559
Cash and cash equivalents at end of the year	₩ 35,416	246,692

See accompanying notes to the consolidated financial statements.

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

1. Reporting Entity

In accordance with a restructuring plan dated January 21, 1999 for the electricity industry in the Republic of Korea, announced by the Ministry of Commerce, Industry and Energy and the Act on Promotion of Restructuring the Electric Power Industry published on December 23, 2000, Korea Western Power Co., Ltd. (the "KOWEPO") was incorporated on April 2, 2001 through the spin-off of the power generation division of Korea Electric Power Corporation (the "KEPCO"). KOWEPO and its subsidiaries (the "Group") engage in the generation of electricity and development of electric power resources. The Group sells all generated electricity to KEPCO through the Korea Power Exchange ("KPX") in accordance with Article 31 of the Electricity Business Law.

As of December 31, 2017, the KOWEPO owns and operates three power plants with a total annual capacity of 11,791MW.

The KOWEPO's head office is located in Taejeon-gun, Chungcheongnam-do, Korea. The share capital of the KOWEPO as of December 31, 2017 amounts to ₩166,646 million and the KOWEPO's sole shareholder is KEPCO (100%).

In accordance with Korea International Financial Reporting Standards ("K-IFRS") 1110 'Consolidated Financial Statements', the Group's consolidated financial statements include the financial results of KOWEPO, the parent company, Garolim Tidal power Co., Ltd. and 6 other subsidiaries ("consolidated entity"). Cheongna Energy Co., Ltd. and 12 other investments are accounted for as equity method investments.

2. Basis of Accounting

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*.

(1) 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

(2) Functional and presentation currency

These consolidated financial statements are presented in Korean won, which is KOWEPO's functional currency and the currency of the primary economic environment in which the Group operates.

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2017 and 2016

2. Basis of Accounting, Continued

(3) 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.

a. The judgment of management

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements is included in the following note.

- ✓ Note 14 : Scope of consolidation - whether the Group has de facto control over an investee

b. The uncertainty of assumptions and estimates

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

- ✓ Note 21: Measurement of defined benefit obligations - key actuarial assumptions; and
- ✓ Note 22 and 43: Recognition and measurement of provisions and contingencies – key assumptions about the likelihood and magnitude of an outflow of resources

c. Measurement of fair values

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

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

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

- ✓ Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- ✓ Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- ✓ Level3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2017 and 2016

2. Basis of Accounting, Continued

(3) Use of estimates and judgments, Continued

c. Measurement of fair values, Continued

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

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

- ✓ Note 38: Risk management

3. Changes in accounting policies

Except for the changes below, the Group has consistently applied the accounting policies to all periods presented in these financial statements. The Group has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of January 1, 2017.

(1) Amendments to K-IFRS 1007, "Statement of Cash Flows"

The standards call for the disclosure of fluctuations in liabilities created by financial activities. Information about changes in liabilities arising from financing activities is included in note 19.

(2) Amendments to K-IFRS 1012, 'Income Taxes'

The amendments clarify that unrealized losses on fixed-rate debt instruments measured at fair value and measured at cost for tax purposes give rise to a deductible temporary difference regardless of whether the holder expects to recover the carrying amount of the debt instrument by sale or by use and that the estimate of probable future taxable profit may include the recovery of some of assets for more than their carrying amount. When the Group assesses whether there will be sufficient taxable profit, the Group should compare the deductible temporary differences with future taxable profit that excludes tax deductions resulting from the reversal of those deductible temporary differences. The Group believes that there is no significant impact on the Group's consolidated financial statements.

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2017 and 2016

4. Significant Accounting Policies

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

(1) Consolidation

(i) Business combinations

Business combinations are accounted for by applying the acquisition method, except for combinations of business entities or businesses that are under the same control.

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

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

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

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

(ii) Non-controlling interests

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

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

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2017 and 2016

4. Significant Accounting Policies, Continued

(1) Consolidation, Continued

(iii) Subsidiaries

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

(iv) Loss of control

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

(v) Interests in equity-accounted investees

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

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

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

(vi) Transactions eliminated on consolidation

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

(vii) Business combination under common control

For business combinations arising from transfers of interests in the entities that are under common control, the assets and liabilities acquired are recognized at the carrying amounts recognized previously in the Group controlling shareholder's consolidated financial statements. The components of equity of the acquired entities are presented in the same components within the Group's equity except that any share capital of the acquired entities is recognized as part of share premium.

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2017 and 2016

4. Significant Accounting Policies, Continued

(2) Cash and cash equivalents

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

(3) Inventories

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

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

(4) Non-derivative financial assets

The Group recognizes and measures non-derivative financial assets by the following four categories: financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables and available-for-sale financial assets. The Group recognizes financial assets in the consolidated statement of financial position when the Group becomes a party to the contractual provisions of the instrument.

Upon initial recognition, non-derivative financial assets are measured at their fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the asset's acquisition or issuance.

(i) Financial assets at fair value through profit or loss

A financial asset is classified as financial assets at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Upon initial recognition, transaction costs are recognized in profit or loss when incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss.

(ii) Held-to-maturity investments

A non-derivative financial asset with a fixed or determinable payment and fixed maturity, for which the Group has the positive intention and ability to hold to maturity, are classified as held-to-maturity investments. Subsequent to initial recognition, held-to-maturity investments are measured at amortized cost using the effective interest method.

(iii) Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method except for loans and receivables of which the effect of discounting is immaterial.

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2017 and 2016

4. Significant Accounting Policies, Continued

(4) Non-derivative financial assets, Continued

(iv) Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified as financial assets at fair value through profit or loss, held-to-maturity investments or loans and receivables. Subsequent to initial recognition, they are measured at fair value, which changes in fair value, net of any tax effect, recorded in other comprehensive income in equity. Investments in equity instruments 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 instruments are measured at cost. When a financial asset is derecognized or impairment losses are recognized, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss. Dividends on an available-for-sale equity instrument are recognized in profit or loss when the Group's right to receive payment is established.

(v) De-recognition of financial assets

The Group derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognized as a separate asset or liability.

If the Group retains substantially all the risks and rewards of ownership of the transferred financial assets, the Group continues to recognize the transferred financial assets and recognizes financial liabilities for the consideration received.

(vi) Offsetting between financial assets and financial liabilities

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

(5) Derivative financial instruments, including hedge accounting

Derivatives are initially recognized at fair value. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are either recognized in profit or loss or, when the derivatives are designated in a hedging relationship and the hedge is determined to be an effective hedge, other comprehensive income.

(i) Hedge accounting

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

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

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2017 and 2016

4. Significant Accounting Policies, Continued

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

(i) Hedge accounting, Continued

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 forecasted 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.

① Fair value hedge

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

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

② Cash flow hedge

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

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

(ii) Other derivative financial instruments

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

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2017 and 2016

4. Significant Accounting Policies, Continued

(6) Impairment of financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably. However, losses expected as a result of future events, regardless of likelihood, are not recognized.

If financial assets have objective evidence that they are impaired, impairment losses are 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.

(ii) Financial assets carried at cost

If there is objective evidence that an impairment loss has occurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses shall not be reversed.

(iii) Available-for-sale financial assets

When a decline in the fair value of an available-for-sale financial asset has been recognized in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss that had been recognized in other comprehensive income shall be reclassified from equity to profit or loss as a reclassification adjustment even though the financial asset has not been derecognized. Impairment losses recognized in profit or loss for an investment in an equity instrument classified as available-for-sale shall not be reversed through profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss shall be reversed, with the amount of the reversal recognized in profit or loss.

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2017 and 2016

4. Significant Accounting Policies, Continued

(7) Property, plant and equipment

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

Subsequent to initial recognition, an item of property, plant and equipment shall be carried at its cost less any accumulated depreciation and any accumulated impairment losses.

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

Property, plant and equipment, except for land, are depreciated on a straight-line basis over estimated useful lives that appropriately reflect the pattern in which the asset's future economic benefits are expected to be consumed. A component that is significant compared to the total cost of property, plant and equipment is depreciated over its separate useful life.

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

The estimated useful lives of the Group's assets are as follows:

	Useful lives (years)
Buildings	8 ~ 30
Structures	8 ~ 30
Machinery	6 ~ 24
Vehicles	4
Finance lease	6~ 30
Other property, plant and equipment ("the other PP&E")	4

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

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2017 and 2016

4. Significant Accounting Policies, Continued

(8) Intangible assets

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

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

	Useful lives (years)
Computer software	5
Development costs	5
Leasehold rights	10~20
Others	5~10

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

(i) Research and development

Expenditures 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 expenditures are capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Group intends to and has sufficient resources to complete development and to use or sell the asset. Other development expenditures are recognized in profit or loss as incurred.

(ii) Subsequent expenditures

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

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2017 and 2016

4. Significant Accounting Policies, Continued

(9) Borrowing costs

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

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

(10) Government grants

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

Government grants whose primary condition is that the Group purchase, construct or otherwise acquire long-term assets are deducted in calculating the carrying amount of the asset. The grant is recognized in profit or loss over the life of a depreciable asset as a reduction to depreciation expense.

Government grants which are intended to compensate the Group for expenses incurred shall be recognized as other income in profit or loss over the periods in which the Group recognizes the related costs as expenses.

(11) Impairment of non-financial assets

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

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2017 and 2016

4. Significant Accounting Policies, Continued

(11) Impairment of non-financial assets, Continued

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

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

Goodwill acquired in a business combination is allocated to each CGU that is expected to benefit from the synergies arising from the goodwill acquired. Any impairment identified at the CGU level will first reduce the carrying value of goodwill and then be used to reduce the carrying amount of the other assets in the CGU on a pro rata basis. Except for impairment losses in respect of goodwill which are never reversed, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(12) Leases

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

(i) Finance leases

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

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

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

(ii) Operating leases

Leases where the lessor retains a significant portion of the risks and rewards of ownership are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are recognized in profit or loss on a straight-line basis over the period of the lease.

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2017 and 2016

4. Significant Accounting Policies, Continued

(12) Leases, Continued

(iii) Determining whether an arrangement contains a lease

Determining whether an arrangement is, or contains, a lease shall be based on the substance of the arrangement and requires an assessment of whether fulfillment of the arrangement is dependent on the use of a specific asset or assets (the asset) and the arrangement conveys a right to use the asset.

At inception or reassessment of the arrangement, the Group separates payments and other consideration required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Group concludes for a financial lease that it is impracticable to separate the payments reliably, the Group recognizes an asset and a liability at an amount equal to the fair value of the underlying asset that was identified as the subject of the lease. Subsequently, the liability shall be reduced as payments are made and an imputed finance charge on the liability recognized using the purchaser's incremental borrowing rate of interest.

(13) Non-current assets held for sale

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

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

(14) Non-derivative financial liabilities

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

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

Financial liabilities at fair value through profit or loss include financial liabilities held for trading or designated as such upon initial recognition. Subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss. Upon initial recognition, transaction costs that are directly attributable to the acquisition are recognized in profit or loss as incurred.

(ii) Other financial liabilities

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

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

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2017 and 2016

4. Significant Accounting Policies, Continued

(15) Employee benefits

(i) Short-term employee benefits

Short-term employee benefits are employee benefits that are due to be settled within 12 months after the end of the period in which the employees render the related service. When an employee has rendered service to the Group during an accounting period, the Group recognizes the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service.

(ii) Other long-term employee benefits

Other long-term employee benefits include employee benefits that are settled beyond 12 months after the end of the period in which the employees render the related service, and are calculated at the present value of the amount of future benefit that employees have earned in return for their service in the current and prior periods, less the fair value of any related assets. Remeasurements are recognized in profit or loss in the period in which they arise.

(iii) Retirement benefits: defined benefit plans

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 plans is calculated 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. The fair value of plan assets is deducted. The calculation is performed annually by an independent actuary using the projected unit credit method.

The discount rate is the yield at the reporting date on corporate 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 Group recognizes all actuarial gains and losses arising from actuarial assumption changes and experiential adjustments in other comprehensive income when incurred.

When the fair value of plan assets exceeds the present value of the defined benefit obligation, the Group recognizes an asset, to the extent of the total of cumulative unrecognized past service cost and the present value of any economic benefits available in the form of refunds from the plan or reduction in the future contributions to the plan.

Past service costs which are the change in the present value of the defined benefits obligation for employee service in prior periods, resulting in the current period from the introduction of, or change to post-employment benefits, is recognized as an expense on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits are already vested immediately following the introduction of, or changes to, a defined benefit plan, the Group recognizes the past service cost immediately.

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2017 and 2016

4. Significant Accounting Policies, Continued

(16) Provisions

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

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

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

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

(17) Foreign currencies

(i) 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 are retranslated to the functional currency using the reporting date's exchange rate. 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. 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.

(ii) Foreign operations

If the presentation currency of the Group is different from a foreign operation's functional currency, the financial statements of the foreign operation are translated into the presentation currency using the following methods:

The assets and liabilities of foreign operations, whose functional currency is not the currency of a hyperinflationary economy, are translated to presentation currency at exchange rates at the reporting date. The income and expenses of foreign operations are translated to functional currency at exchange rates at the dates of the transactions. Foreign currency differences are recognized in other comprehensive income.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of that foreign operation is treated as assets and liabilities of the foreign operation. Thus they are expressed in the functional currency of the foreign operation and translated at the closing rate.

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2017 and 2016

4. Significant Accounting Policies, Continued

(17) Foreign currencies, Continued

(ii) Foreign operations, Continued

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.

(iii) Translation of net investments on foreign operations

Foreign exchange gains or losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely to occur in the foreseeable future and which in substance is considered to form part of the net investment in the foreign operation, are recognized in other comprehensive income in the translation reserve.

(18) Equity capital

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

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement. In the case of hybrid securities that have an unconditional right for the Group to avoid the delivery of financial assets such as cash to settle a contractual obligation, it is classified as equity instruments, presented as part of the equity.

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

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2017 and 2016

4. Significant Accounting Policies, Continued

(19) Revenue

Revenue from the sale of goods, rendering of services or use of the Group assets is measured at the fair value of the consideration received or receivable which are recognized as a reduction of revenue.

(i) Sale of goods

The Group recognizes revenue from the sale of goods when the significant risks and rewards of ownership of the goods are transferred to the buyer. The Group is primarily an electric power generation company through operations of the thermal and combined-cycle plants. Electric energy revenue is recognized upon transmission to the customers.

(ii) Sale of service

Revenue from services rendered is recognized in profit or loss in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed by reference to surveys of work performed or 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 or other methods that reliably measures the services performed.

(20) Finance income and finance costs

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

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

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2017 and 2016

4. Significant Accounting Policies, Continued

(21) 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.

(i) Current tax

Current tax is the expected tax payable or receivable on the taxable profit or loss for the year, using tax rates enacted or substantively enacted at the end of the reporting period and any adjustment to tax payable 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.

(ii) 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 measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax assets or deferred tax liabilities on investment properties measured at fair value, unless any contrary evidence exists, are measured using the assumption that the carrying amount of the property will be recovered entirely through sale.

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.

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2017 and 2016

4. Significant Accounting Policies, Continued

(22) Earnings per share

KOWEPO presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of KOWEPO by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for own shares held, for the effects of all dilutive potential ordinary shares.

(23) Greenhouse gas emission rights and obligations

With Enforcement of Allocation and Trading of Greenhouse Gas Emissions Allowances, the Group applies the following accounting policies for emissions rights and obligations.

(i) Emissions rights

Greenhouse gas emissions rights consist of the allowances received free of charge from the government and the ones purchased. The cost of the emissions rights includes expenditures arising directly from the acquisition and any other costs incurred during normal course of the acquisition.

Emissions rights are held by the Group to fulfill the legal obligation and recorded as intangible assets. To the extent that the portion to be submitted to the government within one year from the end of reporting period, the emissions rights are classified as current assets. Emissions rights recorded as intangible assets are initially measured at cost and substantially remeasured at cost less accumulated impairment losses.

Greenhouse gas emission rights are derecognized on submission to the government or when no future economic benefits are expected from its use or disposal.

(ii) Emissions obligations

Emissions obligations are the Group's present legal obligation to submit the emissions allowances to the government and recognized when an outflow of resources is probable and a reliable estimate can be made of the amount of the obligation. Emissions obligations are measured as the sum of the carrying amount of the allocated rights that will be submitted to the government and the best estimate of expenditure required to settle the obligation at the end of the reporting period for any excess emission.

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2017 and 2016

4. Significant Accounting Policies, Continued

(24) New standards and interpretations not yet adopted

The Group will apply K-IFRS 1109 'Financial Instruments' and K-IFRS 1115 'Revenue from Contracts with Customers' for annual periods beginning on January 1, 2018. The Group has conducted a detailed assessment upon adoption of these standards and based on the circumstance and information available when these financial statements were authorized for issuance.

The following new standards, including K-IFRS 1109 'Financial Instruments' and K-IFRS 1115 'Revenue from Contracts with Customers', interpretations and amendments to existing standards have been published but are not mandatory for the Group for annual periods beginning on January 1, 2017, and the Group has not early adopted them.

(i) K-IFRS 1109 'Financial Instruments'

K-IFRS 1109 sets out the requirements for recognizing and measuring financial assets, financial liabilities and certain contracts to buy or sell non-financial items. It replaces existing guidance in K-IFRS 1039 'Financial Instruments: Recognition and Measurement'.

The Group will apply the exemption allowing it not to restate the comparative information for prior periods upon adoption of K-IFRS 1109. The Group will retrospectively apply the cumulative effect of the adoption of K-IFRS 1109 in retained earnings as of the date of initial application (January 1, 2018).

Expected impacts on the financial statements are categorized as follows:

① Classification and measurement of financial assets

K-IFRS 1109 includes a new classification and measurement of financial assets that reflects the business model in which assets are managed and their cash flow characteristics.

Under K-IFRS 1109, financial assets are classified into three principal categories; measured at amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL) based on the business model in which assets are managed and their cash flow characteristics. Under K-IFRS 1109, derivatives embedded in hybrid contracts where the host is a financial asset are not bifurcated. Instead, the hybrid financial instrument as a whole is assessed for classification.

The criteria for classification and measurement of financial assets under K-IFRS 1109 are as follows:

- A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL: 1) the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and 2) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

- A financial asset is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL: 1) the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and 2) the contractual terms of the financial asset give rise on specified dates to cash flow that are solely payments of principal and interest on the principal amount outstanding. On initial recognition of equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in fair value in OCI, and will not reclassify(recycle) the those items in OCI to profit or loss subsequently.

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2017 and 2016

4. Significant Accounting Policies, Continued

(24) New standards and interpretations not yet adopted, Continued

(i) K-IFRS 1109 'Financial Instruments', Continued

- A financial asset is measured at FVTPL if the contractual terms of the financial asset give rise to specified dates to cash flows that are not solely payments of principal and interest on the principal amount outstanding, the debt instrument is held within a business model whose objective is to sell the asset, or the equity instruments that are not elected to be designated as measured at FVOCI.

As of December 31, 2017, the Group has financial assets at available-for-sale financial assets amounting to ₩133,788 million, and loans and receivables amounting to ₩757,026 million.

① Classification and measurement of financial assets, Continued

Based on the result of the detailed assessment to date, the expected impacts on the Group's financial assets (excluding derivative instruments) on the date of initial application (January 1, 2018) are as follows:

<i>In millions of won</i>				
Classification based on K-IFRS 1039	Classification based on K-IFRS 1109		Amount based on K-IFRS 1039	Amount based on K-IFRS 1109
Loans and receivables	Amortized cost	₩	757,026	737,026
Loans and receivables	FVTPL		-	20,000
Available-for-sale financial assets	FVOCI		133,788	133,788
Total financial assets (excluding derivative instruments)		₩	890,814	890,814

Upon adoption of K-IFRS 1109, ₩20,000 million of loans and receivables will be measured at FVTPL. The Group plans to elect to measure ₩133,788 million of the equity securities classified as available-for-sale financial assets as FVOCI under K-IFRS 1109. Accordingly, from January 1, 2018, gains and losses from changes of fair value of the equity securities are recognized in other comprehensive income, impairment losses are not recognized in profit or loss, and gains and losses are not reclassified at disposal.

② Classification and measurement of financial liabilities

Under K-IFRS 1109, the amount of change in the fair value attributable to the changes in the credit risk of the financial liabilities is presented in OCI, not recognized in profit or loss, and the OCI amount will not be reclassified (recycled) to profit or loss. However, if doing so creates or increase an accounting mismatch, the amount of change in the fair value is recognized in profit or loss.

The Group did not elect financial liabilities to be designated as FVTPL and believes that there is no significant impact on the Group's financial statements upon adoption of K-IFRS 1109.

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2017 and 2016

4. Significant Accounting Policies, Continued

(24) New standards and interpretations not yet adopted, Continued

(i) K-IFRS 1109 'Financial Instruments', Continued

③ Impairment: Financial assets and contract assets

K-IFRS 1109 replaces the 'incurred loss' model in the existing standard with a forward-looking 'expected credit loss' (ECL) model for debt instruments, lease receivables, contractual assets, loan commitments, financial guarantee contracts.

Under K-IFRS 1109, impairment losses are likely to be recognized earlier than using the incurred loss model under the existing guidance in K-IFRS 1039 as loss allowances will be measured on either of the 12-month or lifetime ECL based on the extent of increase in credit risk since inception as shown in the below table.

	Classification	Loss allowances
Stage 1	Credit risk has not increased significantly since the initial recognition	12-month ECL: ECLs that resulted from possible default events within the 12 months after the reporting date
Stage 2	Credit risk has increased significantly since the initial recognition	Lifetime ECL: ECL that resulted from all possible default events over the expected life of a financial instrument
Stage 3	Credit-impaired	

Under K-IFRS 1109, an entity shall always measure the loss allowance at an amount equal to lifetime expected credit losses for trade receivables or contract assets that result from transactions that are within the scope of K-IFRS 1115 and that do not contain a significant financing component in accordance with K-IFRS 1115 and if the trade receivables or contract assets include a significant financing component, an entity may choose as its accounting policy to measure the loss allowance at an amount equal to lifetime expected credit losses.

As of December 31, 2017, the Group has debt instruments in financial assets measured at amortized cost (loans and receivables) amounting to ₩757,026 million.

④ Hedge accounting

When initially applying K-IFRS 1109, an entity may elect as its accounting policy to continue to apply the hedge accounting requirements of K-IFRS 1039. The Group plans to elect to continue apply the hedge accounting requirements of K-IFRS 1039.

As of December 31, 2017, the Group has asset and liabilities designated as hedged items amounting to ₩3,988 million and ₩21,981 million, respectively.

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2017 and 2016

4. Significant Accounting Policies, Continued

(24) New standards and interpretations not yet adopted, Continued

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

K-IFRS 1115 sets out a comprehensive framework for determining whether revenue is recognized, the extent of revenue recognized, and when revenue is recognized. It replaces existing revenue recognition guidance, including K-IFRS 1018 'Revenue', K-IFRS 1011 'Construction Contracts', K-IFRS 2031 'Revenue-Barter transactions involving advertising services', K-IFRS 2113 'Customer Loyalty Programs', K-IFRS 2115 'Agreements for the construction of real estate', K-IFRS 2118 'Transfers of assets from customers'.

The Group will retrospectively apply and recognize the cumulative effect of the adoption of K-IFRS 1115 at the date of initial application (January 1, 2018) and has determined to retroactively apply to only those contracts that were not completed as of the date of initial application (January 1, 2018). Accordingly, the Group will not restate the comparative periods.

Existing K-IFRS standards and interpretations including K-IFRS 1018 provide revenue recognition guidance by transaction types such as sales of goods, rendering of services, interest income, royalty income, dividend income and construction revenue; however, under the new standard, K-IFRS 1115, the five-step approach (Step 1: Identify the contract(s) with a customer, Step 2: Identify the performance obligations in the contract, Step 3: Determine the transaction price, Step 4: Allocate the transaction price to the performance obligations in the contract, Step 5: Recognize revenue when the entity satisfied a performance obligation) is applied for all types of contracts or agreements.

Expected impacts on the financial statements are categorized as follows:

① Identify the performance obligations in the contract

The Group is engaged in the generation, transmission and distribution of electricity and development of electric power resources, and electricity sales revenue accounts for 93.3% of revenue for the year ended December 31, 2017.

Under K-IFRS 1115, supplying electricity is a series of distinct goods or services identified as a single performance obligation. The Group is also engaged in contracts with customers for transmission and distribution, EPC business, etc. that are identified as different performance obligations for each contract.

Based on the result of the detailed assessment to date, the Group believes that the impact of identifying separately the performance obligations in the contract on the Group's revenue is not significant.

② Variable consideration

In applying K-IFRS 1115, the Group estimates an amount of variable consideration by using the expected value method that the Group expects to better predict the amount of consideration to which it will be entitled, and includes in the transaction price some or all of an amount of variable consideration only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

Based on the result of the detailed assessment to date, the Group believes that the impact of variable consideration on the Group's revenue is not significant.

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2017 and 2016

4. Significant Accounting Policies, Continued

(24) New standards and interpretations not yet adopted, Continued

(ii) K-IFRS 1115 'Revenue from Contracts with Customers', Continued

③ Performance obligations satisfied over time

The Group provides its customers with services such as EPC business, etc. over time. The Group recognizes revenues based on the percentage-of-completion on a reasonable basis.

Under K-IFRS 1115, an entity recognizes revenue over time if one of the following criteria is met:

- (a) The customer simultaneously receives and consumes the benefits provided by the entity's performance as the entity performs;
- (b) The entity's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or
- (c) The entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

Based on the result of the detailed assessment to date, the impact of the revenue recognition over time based on the percentage-of-completion on the Group's revenue is not significant.

(iii) K-IFRS 1116 'Lease'

K-IFRS 1116 replaces K-IFRS 1017 'Lease', and K-IFRS 2104 'Determining whether an Arrangement contains a Lease'. This standard is effective for annual reporting periods beginning on or after January 1, 2019, with early adoption permitted if K-IFRS 1115 'Revenue from Contracts with Customers' has also been applied.

Under K-IFRS 1116, a lessee shall apply this standard to its leases either:

- (a) Retrospectively to each prior reporting period presented applying K-IFRS 1008 'Accounting Policies, Changes in Accounting Estimates and Errors'; or
- (b) Retrospectively with the cumulative effect of initially applying the standard recognized at the date of initial application.

The Group has not yet determined the transition approach for K-IFRS 1116.

K-IFRS 1116 provides a single lessee accounting model in which the lessee recognizes lease related assets and liabilities in the statement of financial position. A lessee is required to recognize a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Lease recognition may be exempted for short-term leases and leases for which the underlying asset is of low value. Accounting for a lessor is similar to the existing standard that classifies each of its leases as either an operating lease or a finance lease.

Upon adoption of K-IFRS 1116, the nature of the costs associated with the lease will change as the operating lease payments recognized based on a straight-line basis will change to depreciation expense of a right-of-use asset and interest expense of the lease liability and no significant impact is expected on the Group's finance lease.

The Group plans to conduct a detailed assessment of the potential impact from the application of K-IFRS 1116 during the year ending December 31, 2018.

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2017 and 2016

5. Operating Segment

(1) Substantially all of the Group's revenue and non-current assets are generated and located in Korea. The Group's chief operating decision maker ("CODM") does not receive and therefore does not review discrete financial information for any component of the Group.

(2) Information about major customer

Sales attributable to KEPCO, the major customer, are ₩4,265,124 million and ₩4,185,565 million for the years ended December 31, 2017 and 2016, respectively.

6. Categories of Financial Instruments

(1) Financial assets

Categories of financial assets as of December 31, 2017 and 2016 are as follows:

(i) As of December 31, 2017

In millions of won

	Loans and receivables	Available-for- sale financial assets	Derivatives using hedge accounting	Total
Current financial assets:				
Cash and cash equivalents	₩ 35,416	-	-	35,416
Current financial assets				
Loans and receivables	3,007	-	-	3,007
Short-term financial instruments	50,000	-	-	50,000
Trade and other receivables, net	653,556	-	-	653,556
	<u>741,979</u>	<u>-</u>	<u>-</u>	<u>741,979</u>
Non-current financial assets:				
Non-current financial assets				
Available-for-sale financial assets	-	133,788	-	133,788
Loans and receivables	14,984	-	-	14,984
Derivative assets	-	-	3,988	3,988
Non-current trade and other receivables, net	63	-	-	63
	<u>15,047</u>	<u>133,788</u>	<u>3,988</u>	<u>152,823</u>
₩	<u>757,026</u>	<u>133,788</u>	<u>3,988</u>	<u>894,802</u>

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2017 and 2016

6. Categories of Financial Instruments, Continued

(1) Financial assets, Continued

Categories of financial assets as of December 31, 2017 and 2016 are as follows, Continued:

(ii) As of December 31, 2016

In millions of won

	Financial assets at fair value through profit or loss	Loans and receivables	Available- for-sale financial assets	Derivatives using hedge accounting	Total
Current financial assets:					
Cash and cash equivalents ₩	-	246,692	-	-	246,692
Current financial asset					
Loans and receivables	-	2,853	-	-	2,853
Short-term Financial instruments	-	10,000	-	-	10,000
Derivative assets	1,468	-	-	31,490	32,958
Trade and other receivables, net	-	578,932	-	-	578,932
	<u>1,468</u>	<u>838,477</u>	<u>-</u>	<u>31,490</u>	<u>871,435</u>
Non-current financial assets:					
Non-current financial assets					
Available-for-sale financial assets	-	-	94,837	-	94,837
Loans and receivables	-	13,629	-	-	13,629
Derivative assets	-	-	-	114,100	114,100
Non-current trade and other receivables, net	-	662	-	-	662
	<u>-</u>	<u>14,291</u>	<u>94,837</u>	<u>114,100</u>	<u>223,228</u>
₩	<u>1,468</u>	<u>852,768</u>	<u>94,837</u>	<u>145,590</u>	<u>1,094,663</u>

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2017 and 2016

6. Categories of Financial Instruments, Continued

(2) Financial liabilities

Categories of financial liabilities as of December 31, 2017 and 2016 are as follows:

(i) As of December 31, 2017

In millions of won

	Financial liabilities at fair value through profit or loss	Financial liabilities measured at amortized cost	Derivatives using hedge accounting	Total
Current financial liabilities:				
Trade and other payables	₩ -	278,370	-	278,370
Current financial liabilities				
Borrowings	-	348	-	348
Debentures	-	894,951	-	894,951
Derivative liabilities	866	-	5,865	6,731
	<u>866</u>	<u>1,173,669</u>	<u>5,865</u>	<u>1,180,400</u>
Non-current financial liabilities:				
Non-current trade and other payables	-	2,189	-	2,189
Non-current financial liabilities				
Borrowings	-	1,548	-	1,548
Debentures	-	4,101,895	-	4,101,895
Derivative liabilities	-	-	16,116	16,116
	<u>-</u>	<u>4,105,632</u>	<u>16,116</u>	<u>4,121,748</u>
₩	<u>866</u>	<u>5,279,301</u>	<u>21,981</u>	<u>5,302,148</u>

(ii) As of December 31, 2016

In millions of won

	Financial liabilities at fair value through profit or loss	Financial liabilities measured at amortized cost	Total
Current financial liabilities:			
Trade and other payables	₩ -	379,866	379,866
Current financial liabilities			
Borrowings	-	390,163	390,163
Debentures	-	693,908	693,908
Derivative liabilities	356	-	356
	<u>356</u>	<u>1,463,937</u>	<u>1,464,293</u>
Non-current financial liabilities:			
Non-current trade and other payables	-	78	78
Non-current financial liabilities			
Borrowings	-	2,059	2,059
Debentures	-	3,924,263	3,924,263
	<u>-</u>	<u>3,926,400</u>	<u>3,926,400</u>
₩	<u>356</u>	<u>5,390,337</u>	<u>5,390,693</u>

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2017 and 2016

6. Categories of Financial Instruments, Continued

(3) Finance income and expenses

Finance income and expenses on each category of financial instruments for the years ended December 31, 2017 and 2016 are as follows:

In millions of won

Type	Description	2017	2016
Cash and cash equivalents	Interest income	₩ 1,651	1,447
	Gain on foreign currency transactions and translations, net	7	59
Available-for-sale financial assets	Impairment loss on available-for-sale financial assets	-	(502)
	Gain (loss) on valuation of available-for-sale financial assets, net (equity, before tax)	39,210	(5,049)
Loans and receivables	Interest income	33	-
	Amortization of present value discount	402	398
Financial liabilities recorded at amortized cost	Gain (loss) on foreign currency transactions and translations, net	166,589	(37,956)
	Interest expense of borrowings and debentures	(122,207)	(70,804)
	Other interest expense	(152)	(87)
Derivatives (trading)	Gain (loss) on valuation of derivative instruments, net	(866)	1,112
	Loss on transactions of derivative instruments, net	(11,169)	(372)
Derivatives (hedge accounting)	Gain (loss) on valuation of derivative instruments, net (profit or loss)	(127,002)	47,218
	Gain (loss) on valuation of derivative instruments, net (equity, before tax)	(1,995)	4,278
	Loss on transaction of derivatives	(46,109)	(12,850)

7. Cash and Cash Equivalents

Cash and cash equivalents as of December 31, 2017 and 2016 are as follows:

In millions of won

	2017	2016
Cash	₩ 1	1
Other demand deposits	9,855	227,839
Short-term investments classified as cash equivalents	25,560	18,852
	₩ 35,416	246,692

(*) There are no financial instruments restricted in use as of December 31, 2017 and 2016.

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2017 and 2016

8. Trade and Other Receivables

(1) Trade and other receivables as of December 31, 2017 and 2016 are as follows:

(i) As of December 31, 2017

In millions of won

	Gross receivables	Present value discount	Book value
Current assets:			
Trade receivables	₩ 388,464	-	388,464
Other receivables	265,234	(142)	265,092
	<u>653,698</u>	<u>(142)</u>	<u>653,556</u>
Non-current assets:			
Other receivables	219	(156)	63
	<u>₩ 653,917</u>	<u>(298)</u>	<u>653,619</u>

(*) There are no trade and other receivables which are overdue or impaired as of December 31, 2017.

(ii) As of December 31, 2016

In millions of won

	Gross receivables	Present value discount	Book value
Current assets:			
Trade receivables	₩ 453,710	-	453,710
Other receivables	125,331	(109)	125,222
	<u>579,041</u>	<u>(109)</u>	<u>578,932</u>
Non-current assets:			
Other receivables	808	(146)	662
	<u>₩ 579,849</u>	<u>(255)</u>	<u>579,594</u>

(2) Details of other receivables as of December 31, 2017 and 2016 are as follows:

(i) As of December 31, 2017

In millions of won

	Gross receivables	Present value discount	Book value
Current assets:			
Non-trade receivables	₩ 16,863	-	16,863
Accrued income	242,150	-	242,150
Guarantee	6,221	(142)	6,079
	<u>265,234</u>	<u>(142)</u>	<u>265,092</u>
Non-current assets:			
Guarantee	219	(156)	63
	<u>₩ 265,453</u>	<u>(298)</u>	<u>265,155</u>

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2017 and 2016

8. Trade and Other Receivables, Continued

(2) Details of other receivables as of December 31, 2017 and 2016 are as follows, Continued:

(ii) As of December 31, 2016

In millions of won

		Gross receivables	Present value discount	Book value
Current assets:				
Non-trade receivables	₩	7,396	-	7,396
Accrued income		113,972	-	113,972
Guarantee		3,963	(109)	3,854
		<u>125,331</u>	<u>(109)</u>	<u>125,222</u>
Non-current assets:				
Guarantee		730	(146)	584
Others		78	-	78
		<u>808</u>	<u>(146)</u>	<u>662</u>
	₩	<u>126,139</u>	<u>(255)</u>	<u>125,884</u>

9. Available-for-sale Financial Assets

(1) Available-for-sale financial assets as of December 31, 2017 and 2016 are as follows:

In millions of won

		Ownership	2017 Non-current	2016 Non-current
Equity securities listed :				
PT Bayan Resources TBK	4.00%	₩	111,653	71,840
Equity securities unlisted :				
Korea Power Exchange	7.14%		15,853	16,455
Kepeco UHDE	2.40%		14	14
HeeMang Sunlight Power Co., Ltd	8.33%		393	393
3i Powergen Inc.	15.00%		-	-
KEPCO Bylong Australia Pty., Ltd	2.00%		5,875	6,135
		₩	<u>133,788</u>	<u>94,837</u>

(2) Changes in available-for-sale financial assets during the year ended December 31, 2017 are as follows:

(i) For the year ended December 31, 2017

In millions of won

		Beginning balance	Valuation	Others	Ending balance
Equity securities listed	₩	71,840	39,813	-	111,653
Equity securities unlisted		<u>22,997</u>	<u>(603)</u>	<u>(259)</u>	<u>22,135</u>
	₩	<u>94,837</u>	<u>39,210</u>	<u>(259)</u>	<u>133,788</u>

(ii) For the year ended December 31, 2016

In millions of won

		Beginning balance	Acquisition	Impairment	Valuation	Ending balance
Equity securities listed	₩	-	80,533	-	(8,693)	71,840
Equity securities unlisted		<u>13,720</u>	<u>6,135</u>	<u>(502)</u>	<u>3,644</u>	<u>22,997</u>
	₩	<u>13,720</u>	<u>86,668</u>	<u>(502)</u>	<u>(5,049)</u>	<u>94,837</u>

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2017 and 2016

10. Derivatives

(1) Derivatives as of December 31, 2017 and 2016 are as follows:

In millions of won

		2017		2016	
		Current	Non-current	Current	Non-current
Derivative assets:					
Currency forward	₩	-	-	1,468	-
Currency swap		-	3,988	31,490	114,100
	₩	-	3,988	32,958	114,100
Derivative liabilities:					
Currency forward	₩	866	-	356	-
Currency swap		5,865	16,116	-	-
	₩	6,731	16,116	356	-

(2) Currency swap contracts as of December 31, 2017 are as follows:

In millions of won, and thousands of USD and CHF

Type	Counterparty	Period	Contract amounts		Contract interest rate		Contract currency
			Pay (KRW)	Receive	Pay (%)	Receive (%)	
Cash flow hedge	Credit Agricole Corporate & Investment Bank	2013~2019	118,343	CHF 100,000	3.470	1.625	1,183.43
	Morgan Stanley	2013~2019	59,172	CHF 50,000	3.403	1.625	1,183.43
	Nomura Securities Co., Ltd.	2013~2019	59,172	CHF 50,000	3.470	1.625	1,183.43
	Morgan Stanley	2013~2018	107,360	USD 100,000	3.273	2.875	1,073.60
	Credit Agricole Corporate & Investment Bank	2013~2018	107,360	USD 100,000	3.340	2.875	1,073.60
	JP Morgan	2013~2018	161,040	USD 150,000	3.340	2.875	1,073.60
	SC Bank	2013~2018	161,040	USD 150,000	3.340	2.875	1,073.60
	SC Bank	2014~2019	104,490	USD 100,000	2.770	2.625	1,044.90
	Credit Agricole Corporate & Investment Bank	2014~2019	104,490	USD 100,000	2.770	2.625	1,044.90
	Morgan Stanley	2014~2019	104,490	USD 100,000	2.703	2.625	1,044.90

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2017 and 2016

10. Derivatives, Continued

(3) Currency forward contracts as of December 31, 2017 are as follows:

In millions of won and thousands of USD

Counterparty	Contract Date	Maturity Date	Contract amounts		Contract currency
			Receive	Purchase	
BNP Paribas	2017.11.15	2018.01.17	KRW 3,713	USD 3,349	1,108.60
Bank of Nova Scotia	2017.11.15	2018.01.22	KRW 8,837	USD 8,000	1,104.60
Bank of Tokyo-Mitsubishi UFJ	2017.11.29	2018.02.01	KRW 7,568	USD 7,000	1,081.20
BNP PARIBAS	2017.11.29	2018.02.01	KRW 7,557	USD 7,000	1,079.60
Credit Agricole	2017.12.19	2018.01.22			
Corporate & Investment Bank			KRW 5,429	USD 5,000	1,085.75
Bank of Tokyo-Mitsubishi UFJ	2017.12.20	2018.02.22	KRW 10,822	USD 10,000	1,082.18
KEB Hana Bank	2017.12.20	2018.01.22	KRW 2,879	USD 2,661	1,082.00
BNP Paribas	2017.12.20	2018.01.22	KRW 5,406	USD 5,000	1,081.10
NH Bank	2017.12.21	2018.01.23	KRW 6,467	USD 6,000	1,077.90
Bank of Nova Scotia	2017.12.27	2018.01.29	KRW 5,366	USD 5,000	1,073.15

(4) The gain (loss) on valuation of derivatives for the years ended December 31, 2017 and 2016 are as follows:

(i) For the year ended December 31, 2017

In millions of won

Type	Net income effect of valuation loss	Net income effect of transaction loss	Other comprehensive income (loss)
Currency forward ₩	(866)	(11,169)	-
Currency swap ₩	(127,002)	(46,109)	(1,995)
	<u>₩ (127,868)</u>	<u>(57,278)</u>	<u>(1,995)</u>

(*) The loss on valuation of derivative instruments using cash flow hedge accounting is recognized as accumulated other comprehensive loss amounting to ₩5,383 million, net of tax as of December 31, 2017.

(ii) For the year ended December 31, 2016

In millions of won

Type	Net income effect of valuation gain	Net income effect of transaction loss	Other comprehensive income
Currency forward ₩	1,112	(372)	-
Currency swap ₩	47,218	(12,850)	4,278
	<u>₩ 48,330</u>	<u>(13,222)</u>	<u>4,278</u>

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2017 and 2016

11. Other Financial Assets

(1) Other financial assets as of December 31, 2017 and 2016 are as follows:

In millions of won

	2017		2016	
	Current	Non-current	Current	Non-current
Loans and receivables	₩ 3,007	14,984	2,853	13,629
Short-term financial instruments	50,000	-	10,000	-
Derivative assets	-	3,988	32,958	114,100
Available-for-sale financial assets	-	133,788	-	94,837
	₩ 53,007	152,760	45,811	222,566

(2) Loans and receivables as of December 31, 2017 and 2016 are as follows:

(i) As of December 31, 2017

	Face value	Present value discount	Book value
Short-term loans			
Loans for tuition	₩ 3,047	(76)	2,971
Others	36	-	36
	3,083	(76)	3,007
Long-term loans			
Loans for tuition	14,523	(1,347)	13,176
Others	1,808	-	1,808
	16,331	(1,347)	14,984
	₩ 19,414	(1,423)	17,991

(ii) As of December 31, 2016

	Face value	Present value discount	Book value
Short-term loans			
Loans for tuition	₩ 2,831	(148)	2,683
Others	171	-	171
	3,002	(148)	2,854
Long-term loans			
Loans for tuition	13,330	(1,275)	12,055
Others	1,574	-	1,574
	14,904	(1,275)	13,629
	₩ 17,906	(1,423)	16,483

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2017 and 2016

12. Inventories

Inventories as of December 31, 2017 and 2016 are as follows:

<i>In millions of won</i>		2017	2016
Raw materials	₩	135,488	81,767
Supplies		73,619	61,455
Inventory-in-transit		60,618	84,021
Others		329	145
	₩	<u>270,054</u>	<u>227,388</u>

(*) There is no valuation allowance for inventories as of December 31, 2017 and 2016.

13. Non-financial Assets

Non-financial assets as of December 31, 2017 and 2016 are as follows:

<i>In millions of won</i>		2017		2016	
		Current	Non-current	Current	Non-current
Advanced payments	₩	6,237	44	8,065	53
Prepaid expenses		10,734	1,794	13,949	1,511
Others		36,489	6,023	12,852	9,249
	₩	<u>53,460</u>	<u>7,861</u>	<u>34,866</u>	<u>10,813</u>

14. Information related to the consolidated entities

(1) Information related to the consolidated entities as of December 31, 2017 and 2016 are as follows:

Company	Key operating activities	Location	Rate of ownership or voting right	
			2017	2016
Garolim Tidal power Co., Ltd. (*1)	Power generation	Republic of Korea	49.00%	49.00%
Kowepo Australia Pty., Ltd.	Overseas resources development	Australia	100.00%	100.00%
Kowepo International Corporation	Managing power plant	Philippines	99.99%	99.99%
Kowepo India Private Limited	Overseas resources development	India	100.00%	100.00%
PT Kowepo Sumsel Operation and Maintenance Services	Managing power plant	Indonesia	95.00%	95.00%
KOWEPO Bylong Pty., Ltd. (*2)	Overseas resources development	Australia	100.00%	100.00%
KOWEPO Lao International	Managing power plant	Laos	100.00%	100.00%

(*1) Despite holding less than a majority ownership, the Group has the ability to appoint or dismiss the majority of the Board of Directors by the shareholders' agreements and has the ability to control the entity's operating and financial policies.

(*2) The ownership interest in KOWEPO Bylong Pty., Ltd is the percentage of common share capital excluding preferred share capital which has no voting rights.

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2017 and 2016

14. Information related to the consolidated entities, Continued

(2) Summary financial information of the subsidiaries as of and for the years ended December 31, 2017 and 2016 are as follows:

(i) As of and for the year ended December 31, 2017

In millions of won

<u>Company</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Sales</u>	<u>Net profit or loss</u>
Garolim Tidal power Co., Ltd.	₩ 619	345	-	(12)
Kowepo Australia Pty., Ltd.	31,586	4,691	12,096	1,232
Kowepo International Corporation	-	8	-	(2)
Kowepo India Private Limited	781	-	-	(46)
PT Kowepo Sumsel Operation and Maintenance Services	1,350	279	7,651	444
KOWEPO Bylong Pty., Ltd.	5,875	-	-	-
KOWEPO Lao International	3,259	1,452	3,624	1,881

(ii) As of and for the year ended December 31, 2016

In millions of won

<u>Company</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Sales</u>	<u>Net profit or loss</u>
Garolim Tidal power Co., Ltd.	₩ 632	346	-	(24)
Kowepo Australia Pty., Ltd.	25,550	10	5,357	4,012
Kowepo International Corporation	-	-	-	-
Kowepo India Private Limited	879	-	-	1
PT Kowepo Sumsel Operation and Maintenance Services	1,439	700	6,165	(96)
KOWEPO Bylong Pty., Ltd.	6,135	-	-	-
KOWEPO Lao International	218	181	-	(108)

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2017 and 2016

14. Information related to the consolidated entities, Continued

(3) Details of non-controlling interest as of and for the year ended December 31, 2017 are as follows:

In millions of won

	Garolim Tidal power Co., Ltd	PT Kowepo Sumsel Operation and Maintenance Services
Current assets	₩ 619	1,173
Non-current assets	-	177
Current liabilities	345	279
Net assets	274	1,071
Percentage of non-controlling interest	51%	5%
Book value of non-controlling interest	139	54
Sales	-	7,651
Gain(Loss) for the year	(12)	444
Gain(Loss) for the year attributable to non-controlling interest	(6)	22
Cash flows from operating activities	(6)	41
Cash flows from investing activities	-	(2)
Cash flows from financing activities	-	-
Net increase (decrease) of cash and cash equivalents	(6)	39

(4) There is no disposal of subsidiary for the years ended December 31, 2017 and 2016.

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2017 and 2016

15. Investments in Associates and Joint Ventures

(1) Investments in associates and joint ventures as of December 31, 2017 and 2016 are as follows:

Company	Major operation	Location	Rate of ownership or voting right	
			2017	2016
Associates				
Cheongna Energy Co., Ltd.	Energy supply	Republic of Korea	43.90%	43.90%
Pioneer Gas Power., Ltd.	Energy supply	India	38.50%	40.00%
Eurasia Energy Holdings	Energy supply	Russia	40.00%	40.00%
Xe-Pian Xe-Namnoy Power Co., Ltd.	Energy supply	Laos	25.00%	25.00%
PT. Mutiara Jawa	Energy supply	Indonesia	29.00%	29.00%
Korea Offshore Wind Power Co., Ltd. (*1)	Energy supply	Republic of Korea	12.50%	12.50%
Daegu Solar Power Plant Co., Ltd.	Energy supply	Republic of Korea	29.00%	29.00%
Dongducheon Dream Power Co., Ltd.	Energy supply	Republic of Korea	33.61%	33.61%
Solar Power Plants Happy City Co., Ltd.	Energy supply	Republic of Korea	28.00%	28.00%
Shin Pyeongtaek Power Co., Ltd.	O&M	Republic of Korea	40.00%	40.00%
Solar School Plant Co., Ltd. (*1)	Energy supply	Republic of Korea	8.33%	8.33%
KEPCO Energy Solution Co., Ltd. (*1)	Energy supply	Republic of Korea	8.33%	8.33%
Joint ventures				
Rabigh O&M Co., Ltd. (*2)	O&M	Saudi Arabia	40.00%	40.00%

(*1) It is accounted for as an associate as the Group can exercise significant influence according to the shareholders agreement despite the Group's ownership interest is less than 20%.

(*2) The Group accounts for its investments of Rabigh O&M Co., Ltd. as investments in joint ventures since the strategic financial and operating policy decisions relating to the activities of the joint ventures require unanimous consent of the investors.

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2017 and 2016

15. Investments in Associates and Joint Ventures, Continued

(2) Changes in investments in associates and joint ventures during the years ended December 31, 2017 and 2016 are as follows:

(i) For the year ended December 31, 2017

In millions of won

Company	Beginning balance	Acquisitions	Dividends received	Share of income (loss)	Other comprehensive income (loss)	Retained earnings	Others	Ending balance
Associates								
Cheongna Energy Co., Ltd. ₩	12,373	-	-	(4,035)	-	-	-	8,338
Pioneer Gas Power., Ltd. (*1)	50,740	-	-	(11,119)	(1,239)	-	276	38,658
Eurasia Energy Holdings (*2)	-	-	-	-	-	-	-	-
Xe-Pian Xe-Namnoy Power Co., Ltd. (*3)	51,544	22,362	-	(4,264)	(7,862)	-	-	61,780
PT. Mutiara Jawa (*4)	-	-	-	-	-	-	-	-
Korea Offshore Wind Power Co., Ltd. (*3)	4,482	20,150	-	(875)	(222)	-	-	23,535
Daegu Solar Power Plant Co., Ltd.	1,700	-	(349)	367	-	-	-	1,718
Dongducheon Dream Power Co., Ltd. (*5)	46,876	-	-	(10,980)	-	(34)	17,371	53,233
Solar Power Plants Happy City Co., Ltd.	181	-	-	6	-	-	-	187
Shin Pyeong Taek Power Co., Ltd.	-	43,880	-	(10,998)	(3,616)	5,638	-	34,904
Solar School Plant Co., Ltd.	16,650	-	-	73	-	-	-	16,723
KEPCO Energy Solution Co., Ltd.	24,975	-	-	110	-	-	-	25,085
	<u>209,521</u>	<u>86,392</u>	<u>(349)</u>	<u>(41,715)</u>	<u>(12,939)</u>	<u>5,604</u>	<u>17,647</u>	<u>264,161</u>
Joint ventures								
Rabigh O&M Co., Ltd.	4,427	-	(2,130)	2,236	(546)	-	-	3,987
₩	<u>213,948</u>	<u>86,392</u>	<u>(2,479)</u>	<u>(39,479)</u>	<u>(13,485)</u>	<u>5,604</u>	<u>17,647</u>	<u>268,148</u>

(*1) The Group's ownership interest has decreased with the increase in the interest held by other shareholders. As a result, the book value has increased by ₩276 for the year ended December 31, 2017.

(*2) The investment has been reduced to zero, which resulted in discontinuation of the equity method. The accumulated unrecognized loss is ₩172 million as of December 31, 2017.

(*3) The investee issued additional shares to increase capitals for the year ended December 31, 2017.

(*4) The investment has been reduced to zero, which resulted in discontinuation of the equity method. The accumulated unrecognized loss is ₩746 million as of December 31, 2017.

(*5) The Group carried out impairment assessment on the Dongducheon Dream Power Co., Ltd., as there is objective impairment evidence such as sustained losses. As a result, the difference between the book value and recoverable amount, ₩23,798 million, was recognized as impairment loss and classified as impairment loss on investment in associates. In addition, ₩41,170 million in the current period has been replaced with investment in associates in non-current assets held for sale.

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2017 and 2016

15. Investments in Associates and Joint Ventures, Continued

(2) Changes in investments in associates and joint ventures during the years ended December 31, 2017 and 2016 are as follows, Continued:

(ii) For the year ended December 31, 2016

In millions of won

Company	Beginning balance	Acquisitions	Dividends received	Share of income (loss)	Other comprehensive income (loss)	Retained earnings	Ending balance
Associates							
Cheongna Energy Co., Ltd. ₩	19,490	-	-	(7,117)	-	-	12,373
Pioneer Gas Power., Ltd.	51,187	-	-	(698)	251	-	50,740
Eurasia Energy Holdings (*1)	-	-	-	-	-	-	-
Xe-Pian Xe-Namnoy Power Co., Ltd. (*2)	31,863	16,402	-	1,576	1,703	-	51,544
PT. Mutiara Jawa (*3)	-	-	-	-	-	-	-
Korea Offshore Wind Power Co., Ltd. (*2)	662	4,500	-	(615)	(65)	-	4,482
Daegu Solar Power Plant Co., Ltd.	1,886	-	(411)	225	-	-	1,700
Dongducheon Dream Power Co., Ltd.	55,669	-	-	(8,759)	-	(34)	46,876
Solar Power Plants Happy City Co., Ltd.	191	-	-	(10)	-	-	181
Shin Pyeong Taek Power Co., Ltd. (*4)	-	-	-	-	-	-	-
Solar School Plant Co., Ltd. (*5)	-	16,650	-	-	-	-	16,650
KEPCO Energy Solution Co., Ltd. (*5).	-	25,000	-	(25)	-	-	24,975
	160,948	62,552	(411)	(15,423)	1,889	(34)	209,521
Joint ventures							
Rabigh O&M Co., Ltd.	3,585	-	(1,933)	2,252	229	294	4,427
₩	164,533	62,552	(2,344)	(13,171)	2,118	260	213,948

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2017 and 2016

15. Investments in Associates and Joint Ventures, Continued

(3) Summary financial information of investments in associates and joint ventures as of and for the years ended December 31, 2017 and 2016 are as follows:

(i) As of and for the year ended December 31, 2017

In millions of won

Company	Assets	Liabilities	Sales	Net profit or loss
Associates				
Cheongna Energy Co., Ltd.	₩ 461,958	448,535	56,533	(9,203)
Pioneer Gas Power., Ltd.	339,271	296,898	8,215	(27,796)
Eurasia Energy Holdings	548	978	-	-
Xe-Pian Xe-Namnoy Power Co., Ltd.	858,789	607,462	-	(16,677)
PT. Mutiara Jawa	27,098	29,670	13,574	3,455
Korea Offshore Wind Power Co., Ltd.	190,195	1,985	-	(6,997)
Daegu Solar Power Plant Co., Ltd.	17,262	11,339	3,714	1,263
Dongducheon Dream Power Co., Ltd.	1,575,175	1,365,845	813,440	(33,740)
Solar Power Plants Happy City Co., Ltd.	2,782	2,120	451	22
Shin Pyeong Taek Power Co., Ltd.	175,870	90,662	-	(4,585)
Solar School Plant Co., Ltd.	201,482	599	67	874
KEPCO Energy Solution Co., Ltd.	313,401	12,376	5,544	1,325
Joint ventures				
Rabigh O&M Co., Ltd.	19,992	10,025	22,668	5,668

(ii) As of and for the year ended December 31, 2016

In millions of won

Company	Assets	Liabilities	Sales	Net profit or loss
Associates				
Cheongna Energy Co., Ltd.	₩ 469,843	447,216	46,484	(16,127)
Pioneer Gas Power., Ltd.	345,791	276,978	14,353	396
Eurasia Energy Holdings	618	1,103	-	-
Xe-Pian Xe-Namnoy Power Co., Ltd.	772,699	543,472	-	6,458
PT. Mutiara Jawa	28,104	34,671	7,175	(1,361)
Korea Offshore Wind Power Co., Ltd.	37,826	2,048	-	(4,960)
Daegu Solar Power Plant Co., Ltd.	18,909	13,047	3,317	739
Dongducheon Dream Power Co., Ltd.	1,670,945	1,427,773	946,379	(27,936)
Solar Power Plants Happy City Co., Ltd.	2,937	2,297	427	(47)
Shin Pyeong Taek Power Co., Ltd.	54,174	60,518	-	(3,291)
Solar School Plant Co., Ltd.	200,268	259	1	9
KEPCO Energy Solution Co., Ltd.	299,933	233	-	(300)
Joint ventures				
Rabigh O&M Co., Ltd.	25,032	13,965	25,607	4,870

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2017 and 2016

16. Property, Plant and Equipment

(1) Property, plant and equipment as of December 31, 2017 and 2016 are as follows:

(i) As of December 31, 2017

In millions of won

	Acquisition cost	Government grants	Accumulated depreciation	Accumulated impairment loss	Book value
Land	₩ 627,949	-	-	-	627,949
Buildings	1,488,451	(7,126)	(399,495)	(443)	1,081,387
Structures	1,300,266	(5,349)	(446,233)	(59)	848,625
Machinery	7,878,483	(67,979)	(2,633,925)	(39,148)	5,137,431
Vehicles	8,401	(13)	(6,969)	-	1,419
Equipment	98,377	(258)	(66,250)	(6)	31,863
Tools	28,543	(175)	(22,333)	-	6,035
Construction-in-progress	183,354	(11,015)	-	(35,094)	137,245
Finance lease assets	326,013	(26)	(82,792)	-	243,195
	<u>₩ 11,939,837</u>	<u>(91,941)</u>	<u>(3,657,997)</u>	<u>(74,750)</u>	<u>8,115,149</u>

(ii) As of December 31, 2016

In millions of won

	Acquisition cost	Government grants	Accumulated depreciation	Accumulated impairment loss	Book value
Land	₩ 627,556	-	-	-	627,556
Buildings	1,385,484	(764)	(337,205)	-	1,047,515
Structures	1,266,914	-	(403,190)	-	863,724
Machinery	6,722,334	(51)	(2,180,083)	-	4,542,200
Vehicles	8,275	(13)	(6,205)	-	2,057
Equipment	91,129	(73)	(57,036)	-	34,020
Tools	27,160	-	(19,831)	-	7,329
Construction-in-progress	916,031	(101,834)	-	(35,094)	779,103
Finance lease assets	320,937	-	(70,074)	-	250,863
	<u>₩ 11,365,820</u>	<u>(102,735)</u>	<u>(3,073,624)</u>	<u>(35,094)</u>	<u>8,154,367</u>

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2017 and 2016

16. Property, Plant and Equipment, Continued

(2) Changes in property, plant and equipment for the years ended December 31, 2017 and 2016 are as follows:

(i) For the year ended December 31, 2017

In millions of won

	Beginning balance	Acquisition/ Capital expenditure	Disposal	Depreciation (*1)	Impairment loss (*2)	Others (*3)	Ending balance
Land	₩ 627,556	-	-	-	-	393	627,949
Buildings	1,048,279	161	(1,109)	(62,918)	(443)	104,543	1,088,513
(Government grants)	(764)	-	-	324	-	(6,686)	(7,126)
Structures	863,724	-	(352)	(43,487)	(59)	34,148	853,974
(Government grants)	-	-	-	225	-	(5,574)	(5,349)
Machinery	4,542,251	108,469	(8,766)	(458,105)	(39,148)	1,060,708	5,205,409
(Government grants)	(51)	-	-	4,164	-	(72,091)	(67,978)
Vehicles	2,071	-	(14)	(806)	-	181	1,432
(Government grants)	(14)	-	-	5	-	(4)	(13)
Equipment	34,093	101	(1)	(14,180)	(6)	12,114	32,121
(Government grants)	(73)	-	-	131	-	(316)	(258)
Tools	7,329	138	-	(2,814)	-	1,557	6,210
(Government grants)	-	-	-	58	-	(233)	(175)
Construction-in-progress	880,937	505,646	-	-	-	(1,238,323)	148,260
(Government grants)	(101,834)	-	-	-	-	90,819	(11,015)
Finance lease assets	250,863	-	(29,663)	(13,262)	-	35,283	243,221
(Government grants)	-	-	-	1	-	(27)	(26)
	₩ 8,154,367	614,515	(39,905)	(590,664)	(39,656)	16,492	8,115,149

(*1) ₩2,748 million of depreciation expenses are recognized as construction-in-progress.

(*2) The Group recognized impairment loss ₩6,056 million in difference between the book value and recoverable amount due to abolishment of the Pyeongtaek 1 Complex Power Plant and ₩33,600 million from the fire caused by the Taean Thermal Power Station #10.

(*3) Other additions in the amount of ₩16,492 million consist of ₩4,069 million transferred from retirement benefits expense and depreciation expense, ₩11,067 million of capitalized interest expense, ₩188 million transferred from intangible assets, ₩390 million of translation effect of overseas operation financial statements, ₩5,755 million of receipt of government subsidy, and ₩4,197 million transferred to intangible assets. The weighted average capitalization rates for the years ended December 31, 2017 and 2016 are 2.70% and 2.90%, respectively.

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2017 and 2016

16. Property, Plant and Equipment, Continued

(2) Changes in property, plant and equipment for the years ended December 31, 2017 and 2016 are as follows, Continued:

(ii) For the year ended December 31, 2016

In millions of won

	Beginning balance	Acquisition / Capital expenditure	Disposal	Depreciation	Others	Ending balance
Land	₩ 630,245	-	(2,689)	-	-	627,556
Buildings	687,222	13	(3,769)	(48,733)	413,546	1,048,279
(Government grants)	(487)	-	-	23	(300)	(764)
Structures	580,623	-	-	(36,993)	320,094	863,724
Machinery	2,672,220	52,573	(6,308)	(369,933)	2,193,699	4,542,251
(Government grants)	(88)	-	-	41	(4)	(51)
Vehicles	1,165	-	-	(586)	1,492	2,071
(Government grants)	-	-	-	-	(14)	(14)
Equipment	24,709	71	(12)	(12,252)	21,577	34,093
(Government grants)	(49)	-	-	16	(40)	(73)
Tools	3,448	24	-	(2,087)	5,944	7,329
Construction-in-progress	3,275,354	605,574	-	-	(2,999,991)	880,937
(Government grants)	(99,546)	-	-	-	(2,288)	(101,834)
Finance lease assets	141,342	-	-	(9,713)	119,234	250,863
₩	<u>7,916,158</u>	<u>658,255</u>	<u>(12,778)</u>	<u>(480,217)</u>	<u>72,949</u>	<u>8,154,367</u>

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2017 and 2016

17. Intangible Assets

(1) Intangible assets as of December 31, 2017 and 2016 are as follows:

(i) As of December 31, 2017

In millions of won

	Acquisition cost	Government grants	Accumulated depreciation	Accumulated impairment loss	Book value
Computer software	₩ 33,991	(81)	(28,471)	-	5,439
Mining rights	10,937	-	(3,092)	-	7,845
Development costs	3,210	-	(2,433)	-	777
Leasehold rights	2,681	-	(443)	-	2,238
Others	83,612	-	(81,323)	(231)	2,058
	<u>₩ 134,431</u>	<u>(81)</u>	<u>(115,762)</u>	<u>(231)</u>	<u>18,357</u>

(ii) As of December 31, 2016

In millions of won

	Acquisition cost	Accumulated depreciation	Accumulated impairment loss	Book value
Computer software	₩ 30,965	(26,745)	-	4,220
Mining rights	9,330	(2,312)	-	7,018
Development costs	3,104	(1,932)	-	1,172
Leasehold rights	1,725	(183)	-	1,542
Others	83,198	(81,175)	(231)	1,792
	<u>₩ 128,322</u>	<u>(112,347)</u>	<u>(231)</u>	<u>15,744</u>

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2017 and 2016

17. Intangible Assets, Continued

(2) Changes in intangible assets for the years ended December 31, 2017 and 2016 are as follows:

(i) For the year ended December 31, 2017

<i>In millions of won</i>		Beginning balance	Acquisition/ Capital expenditure	Disposals	Amortization	Others (*1)	Ending balance
Computer software	₩	4,220	6	-	(1,538)	2,832	5,520
(Government grants)		-	-	-	26	(107)	(81)
Mining rights		7,018	2,077	-	(894)	(356)	7,845
Development costs		1,172	-	-	(501)	106	777
Leasehold rights		1,542	-	-	(260)	956	2,238
Others		1,792	225	(19)	(149)	209	2,058
	₩	<u>15,744</u>	<u>2,308</u>	<u>(19)</u>	<u>(3,316)</u>	<u>3,640</u>	<u>18,357</u>

(*1) Other additions of ₩3,640 million consist of ₩4,197 million replaced from construction-in-progress, ₩188 million replaced to construction-in-progress and offset by ₩369 million resulting from translation of overseas operation financial statements.

(i) For the year ended December 31, 2016

<i>In millions of won</i>		Beginning balance	Acquisition/ Capital expenditure	Disposals	Amortization	Others	Ending balance
Computer software	₩	3,787	1	-	(1,806)	2,238	4,220
Mining rights		6,999	518	-	(651)	152	7,018
Development costs		1,303	-	-	(545)	414	1,172
Leasehold rights		24	-	-	(131)	1,649	1,542
Others		1,926	-	-	(137)	3	1,792
	₩	<u>14,039</u>	<u>519</u>	<u>-</u>	<u>(3,270)</u>	<u>4,456</u>	<u>15,744</u>

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2017 and 2016

18. Trade and Other Payables

Trade and other payables as of December 31, 2017 and 2016 are as follows:

		2017		2016	
		Current	Non-current	Current	Non-current
<i>In millions of won</i>					
Trade payables	₩	165,340	-	224,508	-
Other payables		42,665	2,189	84,341	-
Accrued expenses		69,845	-	70,940	78
Other deposits		520	-	77	-
	₩	278,370	2,189	379,866	78

19. Borrowings and Debentures

(1) Details of borrowings and debentures as of December 31, 2017 and 2016 are as follows:

		2017	2016
<i>In millions of won</i>			
Current Liabilities:			
Short-term borrowings	₩	-	389,787
Current portion of long-term borrowings		348	376
Current portion of long-term debentures		895,700	694,250
Less: discount on debentures		(749)	(342)
		<u>895,299</u>	<u>1,084,071</u>
Non-current Liabilities:			
Long-term borrowings		1,548	2,059
Debentures		4,110,364	3,933,066
Less: discount on debentures		(8,469)	(8,803)
		<u>4,103,443</u>	<u>3,926,322</u>
	₩	<u>4,998,742</u>	<u>5,010,393</u>

(2) Long-term borrowings as of December 31, 2017 and 2016 are as follows:

In millions of won							
Lender	Description	Annual interest rate		Maturity date		2017	2016
Korea Energy Agency	Long term borrowings	Floating rate	KTB (three years) – 2.25%	2023.03.15	₩	1,572	1,871
				2023.06.15		62	73
				-		-	190
				2024.06.15		48	56
				2024.09.15		140	161
				2025.06.15		8	9
				2025.12.15		66	75
						1,896	2,435
	Less: current portion				(348)	(376)	
				₩	1,548	2,059	

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2017 and 2016

19. Borrowings and Debentures, Continued

(3) Domestic debentures as of December 31, 2017 and 2016 are as follows:

<i>In millions of won</i>	<u>Issue date</u>	<u>Maturity date</u>	<u>Annual interest rate</u>		<u>2017</u>	<u>2016</u>
Corporate bond #15-2	2011.05.27	2018.05.27	Fixed rate	4.190% ₩	100,000	100,000
Corporate bond #16-2	2011.11.18	2018.11.18	Fixed rate	4.040%	60,000	60,000
Corporate bond #16-3	2011.11.18	2021.11.18	Fixed rate	4.150%	80,000	80,000
Corporate bond #17-1	2012.10.22	2022.10.22	Fixed rate	3.220%	100,000	100,000
Corporate bond #17-2	2012.10.22	2027.10.22	Fixed rate	3.260%	100,000	100,000
Corporate bond #18-1	2013.05.07	2023.05.07	Fixed rate	2.930%	120,000	120,000
Corporate bond #18-2	2013.05.07	2028.05.07	Fixed rate	3.030%	80,000	80,000
Corporate bond #19-1	2013.06.14	2018.06.14	Fixed rate	3.160%	90,000	90,000
Corporate bond #19-2	2013.06.14	2023.06.14	Fixed rate	3.380%	100,000	100,000
Corporate bond #20-1	2013.09.12	2018.09.12	Fixed rate	3.460%	110,000	110,000
Corporate bond #20-2	2013.09.12	2020.09.12	Fixed rate	3.620%	100,000	100,000
Corporate bond #21	2013.10.22	2023.10.22	Fixed rate	3.670%	110,000	110,000
Corporate bond #22	2013.10.31	2023.10.31	Fixed rate	3.607%	90,000	90,000
Corporate bond #23-1	2014.10.23	2019.10.23	Fixed rate	2.467%	80,000	80,000
Corporate bond #23-2	2014.10.23	2024.10.23	Fixed rate	2.815%	120,000	120,000
Corporate bond #24-1	2014.11.20	2017.11.20	Fixed rate	2.210%	-	90,000
Corporate bond #24-2	2014.11.20	2024.11.20	Fixed rate	2.812%	110,000	110,000
Corporate bond #25	2014.12.11	2019.12.11	Fixed rate	2.488%	80,000	80,000
Corporate bond #26-1	2015.03.05	2020.03.05	Fixed rate	2.139%	110,000	110,000
Corporate bond #26-2	2015.03.05	2025.03.05	Fixed rate	2.427%	90,000	90,000
Corporate bond #27-1	2015.05.08	2020.05.08	Fixed rate	2.334%	120,000	120,000
Corporate bond #27-2	2015.05.08	2025.05.08	Fixed rate	2.701%	80,000	80,000
Corporate bond #28	2015.07.17	2020.07.17	Fixed rate	2.268%	80,000	80,000
Corporate bond #29	2015.09.21	2020.09.21	Fixed rate	1.997%	120,000	120,000
Corporate bond #30-1	2016.01.28	2021.01.28	Fixed rate	1.884%	90,000	90,000
Corporate bond #30-2	2016.01.28	2026.01.28	Fixed rate	2.103%	110,000	110,000
Corporate bond #31	2016.07.05	2021.07.05	Fixed rate	1.356%	100,000	100,000
Corporate bond #32-1	2016.09.09	2021.09.09	Fixed rate	1.447%	90,000	90,000
Corporate bond #32-2	2016.09.09	2026.09.09	Fixed rate	1.609%	110,000	110,000
Corporate bond #33-1	2017.02.22	2022.02.22	Fixed rate	2.036%	70,000	-
Corporate bond #33-2	2017.02.22	2027.02.22	Fixed rate	2.342%	130,000	-
Corporate bond #34	2017.03.27	2020.03.27	Fixed rate	1.848%	100,000	-
Corporate bond #35-1	2017.05.22	2022.05.22	Fixed rate	2.065%	50,000	-
Corporate bond #35-2	2017.05.22	2027.05.22	Fixed rate	2.458%	40,000	-
Corporate bond #35-3	2017.05.22	2032.05.22	Fixed rate	2.588%	110,000	-
Corporate bond #36-1	2017.06.23	2022.06.23	Fixed rate	2.080%	40,000	-
Corporate bond #36-2	2017.06.23	2027.06.23	Fixed rate	2.345%	70,000	-
Corporate bond #36-3	2017.06.23	2037.06.23	Fixed rate	2.466%	90,000	-
Corporate bond #37-1	2017.07.21	2022.07.21	Fixed rate	2.085%	40,000	-
Corporate bond #37-2	2017.07.21	2027.07.21	Fixed rate	2.357%	50,000	-
Corporate bond #37-3	2017.07.21	2037.07.21	Fixed rate	2.467%	110,000	-
Corporate bond #38-1	2017.09.05	2027.09.05	Fixed rate	2.435%	50,000	-
Corporate bond #38-2	2017.09.05	2037.09.05	Fixed rate	2.508%	100,000	-
Corporate bond #39-1	2017.09.28	2022.09.28	Fixed rate	2.197%	30,000	-
Corporate bond #39-2	2017.09.28	2047.09.28	Fixed rate	2.463%	120,000	-
					3,930,000	2,820,000
Less: discount on debentures					(7,279)	(5,289)
Less: current portion					(359,895)	(89,926)
				₩	3,562,826	2,724,785

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2017 and 2016

19. Borrowings and Debentures, Continued

(4) Foreign debentures as of December 31, 2017 and 2016 are as follows:

In millions of won

	<u>Issue date</u>	<u>Maturity date</u>	<u>Annual interest rate</u>	<u>2017</u>	<u>2016</u>
Global bond #1	2012.05.10	2017.05.10	Fixed rate 3.125% ₩	-	604,250
Swiss franc bond #1	2013.09.26	2019.03.26	Fixed rate 1.625%	218,944	236,266
Global bond #2	2013.10.10	2018.10.10	Fixed rate 2.875%	535,700	604,250
Euro bond #3	2014.09.22	2019.09.22	Fixed rate 2.625%	321,420	362,550
				<u>1,076,064</u>	<u>1,807,316</u>
Less: discount on debentures				(1,939)	(3,856)
Less: current portion				<u>(535,056)</u>	<u>(603,982)</u>
				<u>₩ 539,069</u>	<u>1,199,478</u>

(5) Repayment plans of debentures and borrowings as of December 31, 2017 are as follows:

In millions of won

	<u>Less than 1 year</u>	<u>1 - 2 years</u>	<u>2 - 5 years</u>	<u>More than 5 years</u>	<u>Total</u>
Long-term borrowings ₩	348	348	1,044	156	1,896
Debentures	<u>895,700</u>	<u>700,364</u>	<u>1,320,000</u>	<u>2,090,000</u>	<u>5,006,064</u>
	<u>₩ 896,048</u>	<u>700,712</u>	<u>1,321,044</u>	<u>2,090,156</u>	<u>5,007,960</u>

(6) Changes in debentures and borrowings during the year ended December 31, 2017 are as follows:

In millions of won

	<u>Beginning balance</u>	<u>Cash flows</u>	<u>Changes in foreign exchange rates</u>	<u>Others</u>	<u>Ending balance</u>
Borrowings ₩	392,222	(391,649)	1,537	(214)	1,896
Debentures	<u>4,618,171</u>	<u>540,561</u>	<u>165,052</u>	<u>(326,938)</u>	<u>4,996,846</u>
	<u>₩ 5,010,393</u>	<u>148,912</u>	<u>166,589</u>	<u>(327,152)</u>	<u>4,998,742</u>

20. Other Financial Liabilities

Other financial liabilities as of December 31, 2017 and 2016 are as follows:

In millions of won

		<u>2017</u>		<u>2016</u>	
		<u>Current</u>	<u>Non-current</u>	<u>Current</u>	<u>Non-current</u>
Derivative liabilities ₩		6,731	16,116	356	-

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2017 and 2016

21. Employee Benefit Obligations

(1) The principal assumptions used on actuarial valuation as of December 31, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Discount rate	2.87%	2.56%
Future salary increase rate	3.47 ~ 7.33%	4.08 ~ 7.97%

(2) Details of the Group's expense relating to its defined benefit plans for the years ended December 31, 2017 and 2016 are as follows:

In millions of won

	<u>2017</u>	<u>2016</u>
Current service cost	₩ 13,967	12,204
Interest cost	2,553	2,057
Gain on settlement	(70)	(86)
Expected return on plan assets	(637)	(493)
	<u>₩ 15,813</u>	<u>13,682</u>

The Group's expense relating to its defined benefit plans in the financial statements are as follows:

In millions of won

	<u>2017</u>	<u>2016</u>
Cost of sales	₩ 13,471	10,077
Selling and administrative expenses	1,421	1,278
Construction-in-progress	921	2,327
	<u>₩ 15,813</u>	<u>13,682</u>

Employee benefit obligations expenses of ₩5,463 million and ₩4,958 million, respectively, are recognized as cost of sales, and ₩576 million and ₩629 million, respectively, are recognized as selling and administrative expenses, and ₩374 million and ₩1,145 million, respectively, are recognized as construction-in-progress, relates to the Group's defined contribution plans for the years ended December 31, 2017 and 2016.

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2017 and 2016

21. Employee Benefit Obligations, Continued

(3) Employee benefit obligation as of December 31, 2017 and 2016 are as follows:

<i>In millions of won</i>		2017	2016
Present value of defined benefit obligation from funded plans	₩	99,375	94,896
Fair value of plan assets		(31,270)	(23,917)
Net employee benefits obligation from defined benefit plans	₩	<u>68,105</u>	<u>70,979</u>

(4) Changes in employee benefit obligation during the years ended December 31, 2017 and 2016 are as follows:

<i>In millions of won</i>		2017	2016
Beginning balance	₩	94,896	76,519
Current service cost		13,967	12,204
Gain on settlement		(70)	(86)
Interest cost		2,553	2,057
Remeasurements loss(gain)		(9,679)	7,172
Actual payments		(2,292)	(2,970)
Ending balance	₩	<u>99,375</u>	<u>94,896</u>

(5) Changes in the fair value of the plan assets during the years ended December 31, 2017 and 2016 are as follows:

<i>In millions of won</i>		2017	2016
Beginning balance	₩	23,917	18,873
Expected return on plan assets		637	493
Remeasurements gain(loss)		(236)	(135)
Contributions by the employers		7,011	4,686
Actual payments		(59)	-
Ending balance	₩	<u>31,270</u>	<u>23,917</u>

Accumulated remeasurements loss on employee benefit obligations recorded as other comprehensive loss amounts to ₩25,365 million and ₩32,523 million, respectively, for the years ended December 31, 2017 and 2016.

(6) Fair value of major categories of plan assets as of December 31, 2017 and 2016 are as follows:

<i>In millions of won</i>		2017	2016
Equity instrument	₩	670	1,076
Debt instrument		3,949	2,270
Deposits		2,618	2,947
Others		24,033	17,624
	₩	<u>31,270</u>	<u>23,917</u>

Actual returns for the years ended December 31, 2017 and 2016 are ₩401 million and ₩358 million, respectively.

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2017 and 2016

21. Employee Benefit Obligations, Continued

(7) Other long-term employee benefit liabilities as of December 31, 2017 and 2016 are as follows:

<i>In millions of won</i>		<u>2017</u>	<u>2016</u>
Long-service leave	₩	551	625

(8) Remeasurement component recognized in other comprehensive income (loss) for the years ended December 31, 2017 and 2016 are as follows:

<i>In millions of won</i>		<u>2017</u>	<u>2016</u>
Remesurements loss (gain) from changes in financial assumptions	₩	(10,975)	(502)
Experience adjustments		1,296	7,674
Expected return		236	135
	₩	<u>(9,443)</u>	<u>7,307</u>

22. Provisions

(1) Provisions as of December 31, 2017 and 2016 are as follows:

<i>In millions of won</i>	<u>2017</u>		<u>2016</u>	
	<u>Current</u>	<u>Non-current</u>	<u>Current</u>	<u>Non-current</u>
Litigation provisions (*1)	-	115	-	5,123
Financial guarantee provisions(*2)	40	-	-	-
	<u>40</u>	<u>115</u>	<u>-</u>	<u>5,123</u>

(*1) The Group recognizes a provision when it is probable that an outflow of resources embodying economic benefits required to settle the pending litigation and the amount of the obligation can be reliably estimated. As of December 31, 2017, the Group recognized the litigation provisions for such amount expected to be paid to employees in relation to the on-going litigation over the Ordinary Wage.

(*2) The Group guarantees the borrowing of KEPCO Bylong Australia Pty., Ltd. to the Export-Import Bank of Korea, which result from step-by-step acquisition of KEPCO equity by government's plan of the public functions and strengthening the stability of electric power generation fuel by securing long-term stable sources.

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2017 and 2016

22. Provisions, Continued

(2) Changes in provisions during the years ended December 31, 2017 and 2016 is as follows:

(i) For the year ended December 31, 2017

In millions of won

		Beginning balance	Increase	Utilization	Reversal	Ending balance
Litigation provisions	₩	5,123	1,802	(5,792)	(1,018)	115
Financial guarantee provisions		-	42	(2)	-	40
	₩	<u>5,123</u>	<u>1,844</u>	<u>(5,794)</u>	<u>(1,018)</u>	<u>155</u>

(ii) For the year ended December 31, 2016

In millions of won

		Beginning balance	Increase	Others	Ending balance
Litigation provisions	₩	4,096	1,017	10	5,123

23. Non-financial Liabilities

Other non-financial liabilities as of December 31, 2017 and 2016 are as follows:

In millions of won

		2017		2016	
		Current	Non-current	Current	Non-current
Unearned revenue	₩	654	-	278	-
Withholdings		5,570	-	6,004	-
Others (*1)		97,341	244	94,046	199
	₩	<u>103,565</u>	<u>244</u>	<u>100,328</u>	<u>199</u>

(*1) Others are primarily comprised of renewable portfolio standard (RPS) provisions for the governmental regulations requiring the production of energies from renewable energy sources, and provisions for the greenhouse gas emission rights.

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2017 and 2016

24. Share Capital

(1) Share capital as of December 31, 2017 and 2016 are as follows:

In millions of won, except par value and number of shares

Type	Number of shares authorized	Number of shares issued	Par value	2017	2016
Common Stock	100,000,000	33,329,119 ₩	5,000	166,646	166,646

(2) Changes in number of outstanding capital stock for the years ended December 31, 2017 and 2016 are as follows:

<i>Number of shares</i>	2017	2016
Beginning number of shares	33,329,119	31,789,285
Changes for the year	-	1,539,834
Ending number of shares	33,329,119	33,329,119

(3) Share premium as of December 31, 2017 and 2016 are as follows:

<i>In millions of won</i>	2017	2016
Paid-in capital in excess of par value	₩ 1,106,252	1,106,252

25. Retained Earnings and Dividends

(1) Retained earnings as of December 31, 2017 and 2016 are as follows:

<i>In millions of won</i>	2017	2016
Legal reserves (*1)	₩ 72,714	66,015
Voluntary reserves	1,765,803	1,446,166
Retained earnings before appropriations	800,745	1,081,241
	₩ 2,639,262	2,593,422

(*1) The Commercial Code of the Republic of Korea requires KOWEPO to appropriate as a legal reserve, an amount equal to a minimum of 10% of annual cash dividends paid, until the reserve equals 50% of its issued capital stock. The reserve is not available for the payment of cash dividends, but may be transferred to capital stock through a resolution of the Board of Directors or used to reduce accumulated deficit, if any, with the ratification of the shareholders.

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2017 and 2016

25. Retained Earnings and Dividends, Continued

(2) Composition of voluntary reserves as of December 31, 2017 and 2016 are as follows:

<i>In millions of won</i>		2017	2016
Reserve for business stabilization (*1)	₩	181	181
Reserve for investment on social overhead capital		13,000	13,000
Reserve for business expansion		1,752,622	1,432,985
	₩	<u>1,765,803</u>	<u>1,446,166</u>

(*1) Prior to 2002, KOWEPO appropriated certain tax-deductible benefits as reserve for business stabilization, for offsetting future deficit in accordance with the relevant tax laws. Due to the amendment of such tax laws on December 11, 2002, the reserve is no longer required. However, KOWEPO continues to maintain such reserve on a voluntary basis.

(3) Changes in retained earnings before appropriations during the years ended December 31, 2017 and 2016 are as follows:

<i>In millions of won</i>		2017	2016
Beginning balance	₩	1,081,241	984,399
Profit for the year - Controlling company		102,813	393,271
Dividends paid		(66,992)	(36,238)
Remeasurements loss		7,158	(5,539)
Transfers to reserves		(326,336)	(257,971)
Appropriation to reserves		-	6,129
Hybrid securities interest		(2,471)	(3,070)
Adjustment of retained earnings of equity method		5,604	260
Others		(272)	-
Ending balance	₩	<u>800,745</u>	<u>1,081,241</u>

(4) Dividends paid for the years ended December 31, 2017 and 2016 are as follows:

(i) For the year ended December 31, 2017

Type	Number of shares issued	Number of treasury shares	Number of share eligible for dividends	Dividends per share (in won)	Total dividends (in millions of won)
Common Stock	33,329,119	-	33,329,119	2,010	66,992

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2017 and 2016

25. Retained Earnings and Dividends, Continued

(ii) For the year ended December 31, 2016

Type	Number of shares issued	Number of treasury shares	Number of share eligible for dividends	Dividends per share (in won)	Total dividends (in millions of won)
Common Stock	33,329,119	-	33,329,119	1,087	36,238

(5) Changes in retained earnings of equity method during the years ended December 31, 2017 and 2016 are as follows:

<i>In millions of won</i>	2017	2016
Beginning balance	₩ (35)	(295)
Changes during the year	5,604	260
Ending balance	₩ 5,569	(35)

(6) Changes in accumulated remeasurements loss on employee benefit obligations during the years ended December 31, 2017 and 2016 are as follows:

<i>In millions of won</i>	2017	2016
Beginning balance	₩ (32,523)	(26,984)
Changes during the year	9,443	(7,307)
Income tax effect	(2,285)	1,768
Ending balance	₩ (25,365)	(32,523)

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2017 and 2016

26. Statement of appropriation of retained earnings

Statements of appropriation of retained earnings of KOWEPO based on its separate financial statements for the years ended December 31, 2017 and 2016 are as follows:

Date of appropriation for 2017: March 30, 2018

Date of appropriation for 2016: March 30, 2017

In millions of won

	<u>2017</u>	<u>2016</u>
Unappropriated retained earnings		
Balance at beginning of year	₩ 711,596	711,596
Hybrid securities interest	(2,471)	(3,070)
Net income	110,939	401,936
Remeasurements gain (loss)	7,158	(5,539)
Balance at end of year before appropriation	<u>827,222</u>	<u>1,104,923</u>
Appropriation of retained earnings		
Cash dividends	(28,996)	(66,992)
Legal reserve	(2,900)	(6,699)
Reserve for business expansion	(83,730)	(319,636)
Unappropriated retained earnings to be carried over	<u>₩ 711,596</u>	<u>711,596</u>

27. Other Components of Equity

(1) Other components of equity as of December 31, 2017 and 2016 are as follows:

In millions of won

	<u>2017</u>	<u>2016</u>
Accumulated other comprehensive income (loss)	₩ 5,755	(7,260)
Other equity	(41,783)	(41,783)
	<u>₩ (36,028)</u>	<u>(49,043)</u>

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2017 and 2016

27. Other Components of Equity, Continued

(2) Changes in accumulated other comprehensive income (loss) for the years ended December 31, 2017 and 2016 are as follows:

(i) For the year ended December 31, 2017

In millions of won

		Available- for-sale financial assets valuation reserve	Reserve for loss on valuation of derivatives	Reserve for loss on overseas operations translation credit	Share in other comprehensive income (loss) of associates	Total
Beginning balance	₩	(1,038)	(3,871)	(5,304)	2,953	(7,260)
Valuation of available-for-sale financial assets		39,210	-	-	-	39,210
Valuation of derivatives		-	(1,995)	-	-	(1,995)
Overseas operations translation		-	-	(1,708)	-	(1,708)
Valuation of investments in associates		-	-	-	(17,791)	(17,791)
Tax effect		(9,489)	483		4,305	(4,701)
Ending balance	₩	<u>28,683</u>	<u>(5,383)</u>	<u>(7,012)</u>	<u>(10,533)</u>	<u>5,755</u>

(ii) For the year ended December 31, 2016

In millions of won

		Available -for-sale financial assets valuation reserve	Reserve for loss on valuation of derivatives	Reserve for loss on overseas operations translation credit	Share in other comprehensive income (loss) of associates	Total
Beginning balance	₩	2,789	(7,114)	(5,852)	835	(9,342)
Valuation of available-for-sale financial assets		(5,049)	-	-	-	(5,049)
Valuation of derivatives		-	4,278	-	-	4,278
Overseas operations translation		-	-	548	-	548
Valuation of investments in associates		-	-	-	2,794	2,794
Tax effect		1,222	(1,035)	-	(676)	(489)
Ending balance	₩	<u>(1,038)</u>	<u>(3,871)</u>	<u>(5,304)</u>	<u>2,953</u>	<u>(7,260)</u>

(3) No changes occurred during the year ended December 31, 2017 and 2016.

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2017 and 2016

28. Hybrid Securities

Hybrid securities classified as equity as of December 31, 2017 and 2016 are as follows:

In millions of won

Type	Description	Issue date	Maturity date	Annual interest rate	2017	2016
Bond-hybrid capital securities #1	Interest-bearing, unwarranted and subordinated bonds to bear	2012.10.18	-	-	₩ -	100,000
Issuance costs					-	(250)
					₩ -	99,750

(*) The Group issued hybrid securities in October 2012 and repaid in full during the year ended December 31, 2017

29. Sales

Details of sales for the years ended December 31, 2017 and 2016 are as follows:

(i) For the year ended December 31, 2017

In millions of won

	Domestic	Overseas
Sales of electricity	₩ 4,184,708	-
Services	10,022	27,719
	₩ 4,194,730	27,719

(ii) For the year ended December 31, 2016

In millions of won

	Domestic	Overseas
Sales of electricity	₩ 4,158,126	-
Services	6,021	15,635
	₩ 4,164,147	15,635

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2017 and 2016

30. Selling and Administrative Expenses

Composition of selling and administrative expenses for the years ended December 31, 2017 and 2016 are as follows:

<i>In millions of won</i>		2017	2016
Employee health and welfare benefit funds	₩	10,286	11,775
Salaries		25,561	26,103
Retirement benefit expense		1,997	1,907
Welfare and benefit expense		2,966	2,837
Insurance expense		75	45
Depreciation		14,508	13,589
Amortization		1,967	2,296
Commission		18,396	15,620
Advertising expense		6,113	1,004
Training expense		259	70
Vehicle maintenance expense		66	49
Publishing expense		172	159
Business promotion expense		122	98
Rent expense		1,323	936
Telecommunication expense		807	872
Transportation expense		2	-
Taxes and dues		1,703	1,486
Expendable supplies expense		1,155	804
Water, light and heating expense		148	451
Repairs and maintenance expense		2,246	3,854
Ordinary development expense		17,240	16,431
Travel expense		1,267	768
Clothing expense		2	-
Survey and analysis expense		1	1
Others		3,781	2,917
	₩	<u>112,163</u>	<u>104,072</u>

31. Other Non-operating Income and Expense

(1) Other non-operating income for the years ended December 31, 2017 and 2016 are as follows:

<i>In millions of won</i>		2017	2016
Rental income	₩	4,370	3,834
Gains from assets contributed		362	152
	₩	<u>4,732</u>	<u>3,986</u>

(2) Other non-operating expenses for the years ended December 31, 2017 and 2016 are as follows:

<i>In millions of won</i>		2017	2016
Donations	₩	6,123	642

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2017 and 2016

32. Other Income and Loss

Composition of other income and loss for the years ended December 31, 2017 and 2016 are as follows:

<i>In millions of won</i>	2017	2016
Gain on disposal of property, plant, and equipment	₩ 995	4,333
Gain on foreign currency translation	863	-
Gain on foreign currency transaction	19,624	2,673
Other gains	40,057	12,414
Loss on disposal of property, plant, and equipment	(12,959)	(5,952)
Loss on disposal of intangible assets	-	-
Loss on impairment of property, plant and equipment, net	(39,656)	-
Loss on foreign currency translation	(1)	(1,728)
Loss on foreign currency transaction	(7,739)	(3,820)
Other losses	(10,535)	(3,105)
	₩ (9,351)	4,815

33. Finance Income

(1) Finance income for the years ended December 31, 2017 and 2016 are as follows:

<i>In millions of won</i>	2017	2016
Interest income	₩ 2,086	1,845
Gain on valuation of derivatives	-	49,498
Gain on transaction of derivatives	3,566	-
Gain on foreign currency translation	127,005	872
Gain on foreign currency transaction	39,591	10,275
	₩ 172,248	62,490

(2) Interest income included in finance income for the years ended December 31, 2017 and 2016 are as follows:

<i>In millions of won</i>	2017	2016
Cash and cash equivalents	₩ 1,651	1,447
Loans and receivables	435	398
	₩ 2,086	1,845

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2017 and 2016

34. Finance Expenses

(1) Finance expenses for the years ended December 31, 2017 and 2016 are as follows:

<i>In millions of won</i>	2017	2016
Interest expense	₩ 122,359	70,890
Impairment loss on available-for-sale financial assets	-	502
Loss on valuation of derivatives	127,868	1,168
Loss on transaction of derivatives	60,844	13,222
Loss on foreign currency translation	-	49,044
	₩ <u>311,071</u>	<u>134,826</u>

(2) Interest expenses included in finance expenses for the years ended December 31, 2017 and 2016 are as follows:

<i>In millions of won</i>	2017	2016
Short term borrowings	₩ 2,861	3,543
Long term borrowings	16	20
Debentures	130,398	137,041
Trade and other payables	152	86
	<u>133,427</u>	<u>140,690</u>
Less: capitalized borrowing costs	(11,068)	(69,800)
	₩ <u>122,359</u>	<u>70,890</u>

35. Income Tax Expense

(1) Components of income tax expense for the years ended December 31, 2017 and 2016 are as follows:

<i>In millions of won</i>	2017	2016
Current income tax expense		
Current income tax	₩ 37,497	116,444
Adjustment for prior period	(23,147)	1,540
Income tax charged directly to equity	(9,567)	2,795
	<u>4,783</u>	<u>120,779</u>
Deferred income tax expense		
Generation and realization of temporary differences	11,441	(4,930)
Reclassification of equity to profit or loss	(749)	140
Amount due to tax deficits, tax credits and temporary differences that were not recognized in the past	30,614	-
Tax credit carry-forwards	-	2,131
	<u>41,306</u>	<u>(2,659)</u>
Income tax expense	₩ <u>46,089</u>	<u>118,120</u>

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2017 and 2016

35. Income Tax Expense, Continued

(2) Reconciliation between the actual income tax expense and that amount computed by applying 24.2% to profit before income tax expense for the years ended December 31, 2017 and 2016 are as follows:

<i>In millions of won</i>	2017	2016
Profit before income tax expense	₩ 148,918	511,314
Income tax expense in accordance with statutory tax rate	37,811	126,053
Adjustments		
Effects of the application of accumulative tax rate	(462)	(462)
Effects on non-taxable income	785	-
Effects of non-deductible expenses	2,145	34
Effects of tax credits or exemptions	(1,657)	(9,045)
Amount due to tax deficits, tax credits and temporary differences that were not recognized in the past	30,614	-
	31,425	(9,473)
Adjustment for prior period	(23,147)	1,540
Income tax expense	₩ 46,089	118,120

The average effective tax rates for the years ended December 31, 2017 and 2016 are 30.95% and 23.10%, respectively.

(3) Relating to items directly to equity in income tax for the years ended December 31, 2017 and 2016 are as follows:

<i>In millions of won</i>	2017	2016
Interest payments on hybrid securities	₩ 975	980

(4) Income tax recognized in other comprehensive income (loss) for the years ended December 31, 2017 and 2016 are as follows:

<i>In millions of won</i>	2017	2016
Gain (loss) on valuation of available-for-sale financial assets, net	₩ (9,489)	1,222
Loss on valuation of derivatives using cash flow hedge accounting, net	1,232	(1,176)
Remeasurements of defined benefit obligation	(2,285)	1,768
Income tax expenses (benefit)	₩ (10,542)	1,814

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2017 and 2016

35. Income Tax Expense, Continued

(5) Recognized deferred income tax assets (liabilities) in the statement of financial position for the years ended December 31, 2017 and 2016 are as follows:

(i) For the year ended December 31, 2017

In millions of won

	Balance as of January 1, 2017	Amounts recognized in profit or loss	Amounts recognized in other comprehensive income (loss)	Amounts recognized directly in equity	Amounts reclassified equity to profit or loss	Balance as of December 31, 2017
Deferred tax on temporary differences						
Long-term employee benefits ₩	16,970	2,130	(2,285)	-	-	16,815
Cash flow hedges	(35,205)	39,286	1,232	-	(749)	4,564
Property, plant and equipment	(276,581)	(51,315)	-	-	-	(327,896)
Intangible assets	56	-	-	-	-	56
Available-for-sale financial assets	453	(1,033)	(9,489)	-	-	(10,069)
Foreign currency translation	37,177	(38,525)	-	-	-	(1,348)
Other provision	(4,239)	-	-	-	-	(4,239)
Others	45,515	17,707	-	975	-	64,197
	<u>(215,854)</u>	<u>(31,750)</u>	<u>(10,542)</u>	<u>975</u>	<u>(749)</u>	<u>(257,920)</u>
Tax credit	-	-	-	-	-	-
Total ₩	<u>(215,854)</u>	<u>(31,750)</u>	<u>(10,542)</u>	<u>975</u>	<u>(749)</u>	<u>(257,920)</u>

(ii) For the year ended December 31, 2016

In millions of won

	Balance as of January 1, 2016	Amounts recognized in profit or loss	Amounts recognized in other comprehensive income (loss)	Amounts recognized directly in equity	Amounts reclassified equity to profit or loss	Balance as of December 31, 2016
Deferred tax on temporary differences						
Long-term employee benefits ₩	13,024	2,178	1,768	-	-	16,970
Cash flow hedges	(30,937)	(3,232)	(1,176)	-	140	(35,205)
Property, plant and equipment	(271,058)	(5,523)	-	-	-	(276,581)
Intangible assets	56	-	-	-	-	56
Available-for-sale financial assets	(890)	121	1,222	-	-	453
Foreign currency translation	34,997	2,180	-	-	-	37,177
Other provision	(4,239)	-	-	-	-	(4,239)
Others	38,174	6,361	-	980	-	45,515
	<u>(220,873)</u>	<u>2,085</u>	<u>1,814</u>	<u>980</u>	<u>140</u>	<u>(215,854)</u>
Tax credit	2,131	(2,131)	-	-	-	-
Total ₩	<u>(218,742)</u>	<u>(46)</u>	<u>1,814</u>	<u>980</u>	<u>140</u>	<u>(215,854)</u>

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2017 and 2016

35. Income Tax Expense, Continued

(6) Deferred tax assets (liabilities) presented in the statement of financial position are as follows:

<i>In millions of won</i>		2017	2016
Deferred income tax assets	₩	234	144
Deferred income tax liabilities		(258,154)	(215,998)
	₩	<u>(257,920)</u>	<u>(215,854)</u>

36. Expenses Classified by Nature

Expenses classified by nature for the years ended December 31, 2017 and 2016 are as follows:

(1) For the year ended December 31, 2017

<i>In millions of won</i>		Selling and administrative expenses	Cost of sales	Total
Raw materials used	₩	-	2,740,581	2,740,581
Employee health and welfare benefit funds		10,286	-	10,286
Salaries		25,561	170,417	195,978
Retirement benefit expense		1,997	18,933	20,930
Welfare and benefit expense		2,966	15,012	17,978
Insurance expense		75	11,582	11,657
Depreciation		14,508	573,408	587,916
Amortization		1,967	1,349	3,316
Commission		18,396	22,386	40,782
Advertising expense		6,113	608	6,721
Training expense		259	235	494
Vehicle maintenance expense		66	70	136
Publishing expense		172	176	348
Business promotion expense		122	286	408
Rent expense		1,323	13,512	14,835
Telecommunication expense		807	141	948
Transportation expense		2	37	39
Taxes and dues		1,703	21,792	23,495
Expendable supplies expense		1,155	706	1,861
Water, light and heating expense		148	887	1,035
Repairs and maintenance expense		2,246	146,384	148,630
Ordinary development expense		17,240	12,307	29,547
Travel expense		1,267	684	1,951
Clothing expense		2	301	303
Survey and analysis expense		1	87	88
Others		3,781	(3,079)	702
	₩	<u>112,163</u>	<u>3,748,802</u>	<u>3,860,965</u>

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2017 and 2016

36. Expenses Classified by Nature, Continued

(2) For the year ended December 31, 2016

In millions of won

	Selling and administrative expenses	Cost of sales	Total
Raw materials used	₩ -	2,612,115	2,612,115
Employee health and welfare benefit funds	11,775	-	11,775
Salaries	26,103	135,887	161,990
Retirement benefit expense	1,907	15,035	16,942
Welfare and benefit expense	2,837	12,035	14,872
Insurance expense	45	4,443	4,488
Depreciation	13,589	459,898	473,487
Amortization	2,296	663	2,959
Commission	15,620	14,577	30,197
Advertising expense	1,004	434	1,438
Training expense	70	216	286
Vehicle maintenance expense	49	56	105
Publishing expense	159	199	358
Business promotion expense	98	212	310
Rent expense	936	12,037	12,973
Telecommunication expense	872	132	1,004
Transportation expense	-	12	12
Taxes and dues	1,486	21,171	22,657
Expendable supplies expense	804	375	1,179
Water, light and heating expense	451	559	1,010
Repairs and maintenance expense	3,854	137,890	141,744
Ordinary development expense	16,431	10,379	26,810
Travel expense	768	480	1,248
Clothing expense	-	278	278
Survey and analysis expense	1	111	112
Others	2,917	47,855	50,772
	₩ <u>104,072</u>	<u>3,487,049</u>	<u>3,591,121</u>

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2017 and 2016

37. Earnings per Share

(1) Basic earnings per share for the years ended December 31, 2017 and 2016 are as follows:

<i>In won</i>		<u>2017</u>	<u>2016</u>
Basic earnings per share	₩	3,085	12,345

(*) Since the Group does not own dilutive securities, basic earnings per share is identical to dilutive earnings per share.

(2) Profit attributable to controlling interests and weighted average number of common shares outstanding for the years ended December 31, 2017 and 2016 are as follows:

<i>In millions of won, except for number of share</i>		<u>2017</u>	<u>2016</u>
Profit attributable to controlling interest	₩	102,813	393,271
Weighted average number of common shares		33,329,119	31,856,785

38. Risk Management

(1) Capital risk management

The Group manages its capital to ensure that it will be able to continue as a going concern while maximizing the return to shareholder through the optimization of the debt and equity balance. The capital structure of the Group consists of net debt (offset by cash and bank balances) and equity. The Group's overall capital risk management strategy remains unchanged from that of the prior year.

Details of the Group's capital management accounts as of December 31, 2017 and 2016 are as follows:

<i>In millions of won</i>		<u>2017</u>	<u>2016</u>
Total borrowings and debentures	₩	4,998,742	5,010,393
Cash and cash equivalents		(35,416)	(246,692)
Net borrowings and debentures		<u>4,963,326</u>	<u>4,763,701</u>
Total shareholder's equity	₩	<u>3,882,393</u>	<u>3,923,278</u>
Debt to equity percentage		<u>127.84%</u>	<u>121.42%</u>

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2017 and 2016

38. Risk Management, Continued

(2) Financial risk management

The Group is exposed to various risks related to its financial instruments, such as, market risk (currency risk, interest rate risk, price risk), credit risk. The Group monitors and manages the financial risks relating to the operations of the Group through internal risk reports which analyse exposures by degree and magnitude of risks.

The Group uses derivative financial instruments to certain hedge risk exposures. The Group's overall financial risk management strategy remains unchanged from the prior year.

1) Credit risk

Book values of the financial assets represent the maximum exposure of the credit risk. Details of the Group's level of maximum exposure to credit risk as of December 31, 2017 and 2016 are as follows:

<i>In millions of won</i>		2017	2016
Cash and cash equivalents	₩	35,416	246,692
Loans and receivables		17,991	16,483
Short-term financial instruments		50,000	10,000
Derivative assets (trading)		-	1,468
Derivative assets (hedge accounting)		3,988	145,590
Trade and other receivables		653,619	579,594
Available-for-sale financial assets		133,788	94,837
Financial guarantee contract (*1)		6,214	-
	₩	<u>901,016</u>	<u>1,094,664</u>

(*1) This amount is the maximum amount the Group will pay if requested by the assisting party. Details of financial guarantee contracts as of December 31, 2017 are as follows.

<i>In thousands of USD</i>	Company	Amount of Guarantee
Subsidiaries company	KEPCO Bylong Australia Pty., Ltd.	5,800

2) Market risk

Market risk is the risk that the Group's fair values of the financial instruments or future cash flows are affected by the changes in the market. Market risk consists of interest rate risk, currency risk and other price risk.

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2017 and 2016

38. Risk Management, Continued

(2) Financial risk management, Continued

3) Sensitivity analysis

a) Major assets and liabilities with uncertainties in underlying assumptions

① Defined benefit obligation

A sensitivity analysis on the Group's defined benefit obligation assuming a 1% increase or decrease in various assumptions as of December 31, 2017 and 2016 are as follows:

In millions of won

Type	Accounts	2017		2016	
		1% Increase	1% Decrease	1% Increase	1% Decrease
Future salary increase rate	Defined benefit obligation	₩ 12,124	(10,365)	11,698	(10,233)
Discount rate	Defined benefit obligation	(10,785)	12,929	(10,546)	12,595

b) Management judgment effected by uncertainties in underlying assumptions

① Foreign currency risk

The Group undertakes transactions denominated in foreign currencies; consequently, exposures to currency exchange rate fluctuations arise. The carrying amount of the Group's, except for the Group's foreign subsidiary, foreign currency denominated monetary assets and monetary liabilities at the end of the reporting year are as follows:

(i) As of December 31, 2017

In thousands of foreign currencies

	USD	JPY	AUD	GBP	EUR	CHF
Assets						
Cash and cash equivalents	38	-	-	-	-	-
Liabilities						
Trade and Other Payables	(35,414)	(27,950)	-	-	(165)	-
Debentures	(800,000)	-	-	-	-	(200,000)
	<u>(835,414)</u>	<u>(27,950)</u>	<u>-</u>	<u>-</u>	<u>(165)</u>	<u>(200,000)</u>
	<u>(835,376)</u>	<u>(27,950)</u>	<u>-</u>	<u>-</u>	<u>(165)</u>	<u>(200,000)</u>

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2017 and 2016

38. Risk Management, Continued

(2) Financial risk management, Continued

3) Sensitivity analysis

(ii) As of December 31, 2016

*In thousands of
foreign currencies*

	USD	JPY	AUD	GBP	EUR	CHF
Assets						
Cash and cash equivalents	2,817	50	30	-	-	-
Liabilities						
Trade and Other Payables	(72,683)	(208,828)	-	(28)	(35)	-
Debentures	(1,300,000)	-	-	-	-	(200,000)
Borrowings	(32,923)	-	-	-	-	-
	<u>(1,405,606)</u>	<u>(208,828)</u>	<u>-</u>	<u>(28)</u>	<u>(35)</u>	<u>(200,000)</u>
	<u>(1,402,789)</u>	<u>(208,778)</u>	<u>30</u>	<u>(28)</u>	<u>(35)</u>	<u>(200,000)</u>

A sensitivity analysis on the Group's profit with a 10% increase or decrease in currency exchange rates for the years ended December 31, 2017 and 2016 are as follows:

In millions of won

	2017		2016	
	10% Increase	10% Decrease	10% Increase	10% Decrease
Increase (decrease) of profit before income tax	₩ (111,444)	111,444	(193,376)	193,376
Increase (decrease) of shareholder's equity (*1)	(111,444)	111,444	(193,376)	193,376

(*1) Tax effect is not considered.

Sensitivity analysis above is conducted for monetary assets and liabilities denominated in foreign currencies other than functional currency, without consideration of hedge effect of related derivatives, as of December 31, 2017 and 2016.

To manage its foreign currency risk related to foreign currency denominated receivables and payables, the Group has a policy to enter into currency swap agreements. In addition, to manage its foreign currency risk related to foreign currency denominated expected sales transactions and purchase transactions, the Group enters into cross-currency forward agreements.

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2017 and 2016

38. Risk Management, Continued

(2) Financial risk management, Continued

3) Sensitivity analysis, Continued

b) Management judgment effected by uncertainties in underlying assumptions, Continued

② Interest rate risk

The Group is exposed to interest rate risk due to its borrowing with floating interest rates. A 1% increase or decrease is used when reporting interest rate risk internally to key management personnel which represents management's assessment of the reasonably possible change in interest rates.

The Group's borrowings and debentures with floating interest rates as of December 31, 2017 and 2016 are as follows:

<i>In millions of won</i>		2017	2016
Long-term borrowings	₩	1,896	2,435

Sensitivity analysis on the Group's borrowings and debentures assuming a 1% increase or decrease in interest rates for the year ended December 31, 2017 and 2016 are as follows:

<i>In millions of won</i>		2017		2016	
		1% Increase	1% Decrease	1% Increase	1% Decrease
Increase (decrease) of profit before income tax	₩	(19)	19	(24)	24
Increase (decrease) of shareholder's equity (*1)		(19)	19	(24)	24

(*1) Tax effect is not considered.

To manage its interest rate risks, in addition to maintaining an appropriate mix of fixed and floating rate loans, the Group enters into certain interest rate swap agreements. This analysis measures interest rate risk before reflecting hedging effect of derivatives.

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2017 and 2016

38. Risk Management, Continued

(2) Financial risk management, Continued

4) Liquidity risk

The Group has established an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities.

In addition, the Group has established credit lines on its trade financing and bank overdrafts, and through payment guarantees it has received, it maintains an adequate credit (borrowing) line. In addition, in case of major construction investment, the Group has the ability to use reserve cash or utilize long-term borrowings.

Details of contractual maturities of the Group's non-derivative financial liabilities based on agreement terms are as follows. The amount disclosed below represents the undiscounted cash flows of the principal and estimated interest amounts that the Group is obligated to pay in the future based on the earliest repayment date:

(i) As of December 31, 2017

<i>In millions of won</i>	Less than 1 year	1-2 years	2-5 years	More than 5 years	Total
Borrowings and debentures	₩ 1,022,798	803,263	1,532,645	2,413,463	5,772,169
Trade and other payables	278,370	2,189	-	-	280,559
	<u>₩ 1,301,168</u>	<u>805,452</u>	<u>1,532,645</u>	<u>2,413,463</u>	<u>6,052,728</u>

(ii) As of December 31, 2016

<i>In millions of won</i>	Less than 1 year	1-2 years	2-5 years	More than 5 years	Total
Borrowings and debentures	₩ 1,203,050	1,066,769	1,823,169	1,436,323	5,529,311
Trade and other payables	379,866	78	-	-	379,944
	<u>₩ 1,582,916</u>	<u>1,066,847</u>	<u>1,823,169</u>	<u>1,436,323</u>	<u>5,909,255</u>

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2017 and 2016

38. Risk Management, Continued

(2) Financial risk management, Continued

4) Liquidity risk, Continued

The expected maturities for non-derivative financial assets as of December 31, 2017 and 2016 in details are as follows:

(i) As of December 31, 2017

<i>In millions of won</i>		Less than 1 year	1-5 years	Over 5 years	Uncertain	Total
Cash and cash equivalents	₩	35,416	-	-	-	35,416
Available-for-sale financial assets		-	-	-	133,788	133,788
Loans and receivables		3,083	16,331	-	-	19,414
Short-term financial instruments		50,000	-	-	-	50,000
Trade and other receivables		653,698	219	-	-	653,917
	₩	<u>742,197</u>	<u>16,550</u>	<u>-</u>	<u>133,788</u>	<u>892,535</u>

(ii) As of December 31, 2016

<i>In millions of won</i>		Less than 1 year	1-5 years	Over 5 years	Uncertain	Total
Cash and cash equivalents	₩	246,692	-	-	-	246,692
Available-for-sale financial assets		-	-	-	94,837	94,837
Loans and receivables		3,002	14,904	-	-	17,906
Short-term financial instruments		10,000	-	-	-	10,000
Trade and other receivables		579,041	808	-	-	579,849
	₩	<u>838,735</u>	<u>15,712</u>	<u>-</u>	<u>94,837</u>	<u>949,284</u>

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2017 and 2016

38. Risk Management, Continued

(2) Financial risk management, Continued

4) Liquidity risk, Continued

Derivative financial liabilities classified by maturity periods which from reporting date to maturity date of contract as of December 31, 2017 and 2016 as follows:

(i) As of December 31, 2017

<i>In millions of won</i>		Less than 1 year	1-2 years	2-5 years	More than 5 years	Total
Net settlement						
-Trading purpose	₩	-	-	-	-	-
Gross settlement						
-Trading purpose		866	-	-	-	866
-Hedge accounting purpose		5,865	16,116	-	-	21,981
	₩	<u>6,731</u>	<u>16,116</u>	<u>-</u>	<u>-</u>	<u>22,847</u>

(ii) As of December 31, 2016

<i>In millions of won</i>		Less than 1 year	1-2 years	2-5 years	More than 5 years	Total
Net settlement						
-Trading purpose	₩	-	-	-	-	-
Gross settlement						
-Trading purpose		356	-	-	-	356
-Hedge accounting purpose		-	-	-	-	-
	₩	<u>356</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>356</u>

(3) Fair value risk

The fair value of the Group's actively-traded financial instruments (i.e. available-for-sale financial assets, etc.) is based on the traded market-price as of the reporting period end. The fair value of the Group's financial assets is the amount which the asset could be exchanged for or the amount a liability could be settled for.

The fair values of financial instruments where no active market exists or where quoted prices are not otherwise available are determined by using valuation techniques. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the Group uses that technique.

For trade receivables and payables, the Group considers the carrying value, net of impairment, as fair value. While for disclosure purposes, the fair value of financial liabilities is estimated by discounting a financial instrument with similar contractual cash flows using the effective interest method.

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2017 and 2016

38. Risk Management, Continued

(3) Fair value risk, Continued

1) Fair value and book value of financial assets and liabilities as of December 31, 2017 and 2016 are as follows:

In millions of won

	2017		2016	
	Book value	Fair value	Book value	Fair value
Assets recognized at fair value				
Available-for-sale financial assets	₩ 133,788	133,788	94,837	94,837
Derivatives assets (trading)	-	-	1,468	1,468
Derivatives assets (hedge accounting)	3,988	3,988	145,590	145,590
	<u>137,776</u>	<u>137,776</u>	<u>241,895</u>	<u>241,895</u>
Assets carried at amortized cost				
Trade and other receivables	653,619	653,619	579,594	579,594
Loans and receivables	17,991	17,991	16,483	16,483
Short-term financial instruments	50,000	50,000	10,000	10,000
	<u>721,610</u>	<u>721,610</u>	<u>606,077</u>	<u>606,077</u>
Liabilities carried at fair value				
Derivatives liabilities (trading)	866	866	356	356
Derivatives liabilities (hedge accounting)	21,981	21,981	-	-
	<u>22,847</u>	<u>22,847</u>	<u>356</u>	<u>356</u>
Liabilities carried at amortized cost				
Borrowings	1,896	1,896	392,222	392,222
Debentures	4,996,846	4,964,773	4,618,171	4,715,376
Trade and other payables	280,559	280,559	379,944	379,944
	<u>₩ 5,279,301</u>	<u>5,247,228</u>	<u>5,390,337</u>	<u>5,487,542</u>

2) The discount rate used for calculating fair value is derived from interest rates which are observable from the market, such as government bond interest rate, after considering credit spread.

The discount rates used for calculating fair value as of December 31, 2017 and 2016 are as follows:

Type	December 31, 2017 (%)	December 31, 2016 (%)
Derivatives	1.34 ~ 1.48	1.11 ~ 1.31
Debentures	0.08 ~ 2.97	0.02 ~ 2.53

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2017 and 2016

38. Risk Management, Continued

(3) Fair value risk, Continued

3) Fair value hierarchy

Fair values of financial instruments by hierarchy level as of December 31, 2017 and 2016, respectively, are as follows:

(i) As of December 31, 2017

In millions of won

	Level 1	Level 2	Level 3	Total
Financial assets at fair value:				
Available-for-sale financial assets	₩ 111,653	-	22,135	133,788
Derivative assets (trading)	-	-	-	-
Derivative assets (hedge accounting)	-	3,988	-	3,988
	<u>111,653</u>	<u>3,988</u>	<u>22,135</u>	<u>137,776</u>
Financial liabilities at fair value:				
Derivative liabilities (trading)	-	866	-	866
Derivative liabilities (hedge accounting)	-	21,981	-	21,981
	<u>₩ -</u>	<u>22,847</u>	<u>-</u>	<u>22,847</u>

(ii) As of December 31, 2016

In millions of won

	Level 1	Level 2	Level 3	Total
Financial assets at fair value:				
Available-for-sale financial assets	₩ 71,840	-	22,997	94,837
Derivative assets (trading)	-	1,468	-	1,468
Derivative assets (hedge accounting)	-	145,590	-	145,590
	<u>71,840</u>	<u>147,058</u>	<u>22,997</u>	<u>241,895</u>
Financial liabilities at fair value:				
Derivative liabilities (trading)	₩ -	356	-	356

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2017 and 2016

39. Related Party Transactions

(1) The nature of the Group's relationship as of December 31, 2017 is as follows:

Control relationship	Related party
Parent company	Korea Electric Power Corporation
Associate company	Cheongna Energy Co., Ltd. Pioneer Gas Power., Ltd. Eurasia Energy Holdings Xe-Pian Xe-Namnoy Power Co., Ltd. PT. Mutiara Jawa Korea Offshore Wind Power Co., Ltd. Daegu Solar Power Plant Co., Ltd. Dongducheon Dream Power Co., Ltd. Solar Power Plants Happy City Co., Ltd. Shin Pyeongtaek Power Co., Ltd. Solar School Plant Co., Ltd. KEPCO Energy Solution Co., Ltd.
Joint venture company	Rabigh O&M Co., Ltd.
Other related company	Korea Hydro & Nuclear Power Co., Ltd. Korea South-East Power Co., Ltd. Korea Midland Power Co., Ltd. Korea Southern Power Co., Ltd. Korea East-West Power Co., Ltd. KEPCO Engineering & Construction Company Inc. KEPCO KPS Co., Ltd. KEPCO KDN Co., Ltd. KEPCO Nuclear Fuel Co., Ltd. Korea Gas Corporation Korea Electronic Power Industrial Development Co., Ltd. Korea Power Exchange Korea Development Bank KEPCO Bylong Australia Pty., Ltd.

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

39. Related Party Transactions, Continued

(2) All transactions between KOWEPO and its consolidated subsidiaries are eliminated upon consolidation, and transactions with related parties other than subsidiaries for the years ended December 31, 2017 and 2016 are as follows:

<i>In millions of won</i>		Sales and others		Purchase and others	
Related parties		2017	2016	2017	2016
Korea Electric Power Corporation	₩	4,265,124	4,185,565	73,609	125,011
Korea Hydro & Nuclear Power Co., Ltd.		-	-	79	89
Korea Southern Power Co., Ltd.		1,983	4,355	251	769
Korea East-West Power Co., Ltd.		1	10	119	12
Korea South-East Power Co., Ltd.		1	10	4	-
Korea Midland Power Co., Ltd.		43	10	-	2,629
KEPCO Engineering & Construction Company Inc.		-	-	9,844	12,395
KEPCO KPS Co., Ltd.		1,886	1,842	72,612	77,478
KEPCO KDN Co., Ltd.		-	-	12,124	11,655
Cheongna Energy Co., Ltd.		6,416	5,332	59	73
Korea Offshore Wind Power Co., Ltd.		236	262	-	-
Daegu Solar Power Plant Co., Ltd.		349	-	2,680	2,426
Dongducheon Dream Power Co., Ltd.		1,042	430	-	-
Solar power plants happy city Co., Ltd.		-	-	299	275
Rabigh O&M Co., Ltd.		2,784	2,395	-	-
Korea Gas Corporation		3,976	1,462	639,617	956,658
Korea Electronic Power Industrial Development Co., Ltd.		4,924	4,392	33,359	31,477
Korea Power Exchange		-	-	4,491	4,897
Pioneer Gas Power., Ltd.		62	164	-	-
Shin Pyeongtaek Power Co., Ltd.		9,025	3,534	-	-
Xe-Pian Xe-Namnoy Power Co., Ltd.		661	773	-	-
KEPCO Energy Solution Co., Ltd.		109	49	-	-
Solar School Plant Co., Ltd.		129	37	-	-
KEPCO Bylong Australia Pty Ltd.		1	-	-	-
PT. Mutiara Jawa		47	-	-	-
Korea Development Bank		-	-	86	30
	₩	<u>4,298,799</u>	<u>4,210,622</u>	<u>849,233</u>	<u>1,225,874</u>

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2017 and 2016

39. Related Party Transactions, Continued

(3) Receivables and payables arising from related party transactions as of December 31, 2017 and 2016 are as follows:

In millions of won		Receivables		Payables	
Company name	Type	2017	2016	2017	2016
Korea Electric Power Corporation	Trade receivables	₩ 383,071	446,621	-	-
	Non-trade receivables and others	252,540	116,965	-	-
	Trade payables	-	-	4,892	6,455
	Non-trade payables and others	-	-	1,302	705
Korea Hydro & Nuclear Power Co., Ltd.	Non-trade payables and others	-	-	22	21
Korea Southern Power Co., Ltd.	Non-trade receivables and others	-	627	-	-
	Non-trade payables and others	-	-	92	-
Korea East-West Power Co., Ltd.	Non-trade receivables and others	47	63	-	-
	Non-trade payables and others	-	-	1,122	-
Korea Midland Power Co., Ltd.	Non-trade payables and others	-	-	120	2,809
KEPCO Engineering & Construction Company Inc.	Non-trade payables and others	-	-	418	2,155
KEPCO KPS Co., Ltd.	Non-trade receivables and others	17	13	-	-
	Non-trade payables and others	-	-	119	8,179
KEPCO KDN Co., Ltd.	Non-trade payables and others	-	-	142	915
Cheongna Energy Co., Ltd.	Non-trade payables and others	-	-	1	82
Korea Offshore Wind Power Co., Ltd.	Non-trade receivables and others	260	289	-	-
Dongducheon Dream Power Co., Ltd.	Non-trade receivables and others	526	-	-	-
Rabigh O&M Co., Ltd.	Non-trade receivables	869	2,275	-	-
Shin Pyeongtaek Power Co., Ltd.	Non-trade receivables and others	210	215	-	-
	Non-trade payables and others	-	-	52	-
Pioneer Gas Power, Ltd.	Non-trade receivables and others	-	82	-	-
Korea Gas Corporation	Non-trade receivables and others	294	64	-	-
	Trade payables	-	-	41,084	83,816
	Non-trade payables and others	-	-	569	484
Korea Electronic Power Industrial Development Co., Ltd.	Trade receivables	295	324	-	-
	Non-trade receivables and others	30	27	-	-
	Non-trade payables and others	-	-	1,937	2,702
Korea Power Exchange	Non-trade payables and others	-	-	1	1
Xe-Pian Xe-Namnoy Power Co., Ltd.	Non-trade receivables and others	53	58	-	-
	Loans	1,413	1,413	-	-
KEPCO Energy Solution Co., Ltd.	Non-trade receivables and others	38	39	-	-
Solar School Plant Co., Ltd.	Non-trade receivables and others	-	41	-	-
KEPCO Bylong Australia Pty Ltd.	Non-trade receivables and others	42	-	-	-
Korea Development Bank	Accrued expenses	-	-	-	31

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2017 and 2016

39. Related Party Transactions, Continued

(4) Borrowings from related parties as of December 31, 2017 and 2016 are as follows:

In millions of won

Lender	Beginning balance	Borrowing	Repayment	Ending balance
Korea Development Bank	21,158	16,324	37,482	-

(5) The salaries and other compensations to the key members of management for the years ended December 31, 2017 and 2016 are as follows:

In millions of won

Type	2017	2016
Short-term employee benefits	₩ 709	726
Retirement and severance benefits	25	79

(6) Guarantees provided to affiliates as of December 31, 2017 are as follows:

In millions of won, In thousands of USD, SAR

Debt repayment guarantee provider	Related Parties	Type of guarantees	Credit limit	Guarantee
Korea Western Power Co., Ltd.	Cheongna Energy Co., Ltd.	Investments in associate pledged as collateral	KRW 27,211	KEB Hana Bank, etc.
Korea Western Power Co., Ltd.	Dongducheon Dream Power Co., Ltd.	Investments in associate pledged as collateral	KRW 53,233	Kookmin Bank
Korea Western Power Co., Ltd.	Daegu Solar Power Plant Co., Ltd.	Investments in associate pledged as collateral	KRW 1,230	Industrial Bank of Korea
Korea Western Power Co., Ltd.	KEPCO Bylong Australia Pty., Ltd	Borrowing payment guarantees	USD 5,800	The Export-Import Bank of Korea
Korea Western Power Co., Ltd.	PT Mutiara Jawa	Investments in associate pledged as collateral	USD 2,610	Woori Bank
Korea Western Power Co., Ltd.	Rabigh O&M Co., Ltd.	Contract performance guarantees, etc.	SAR 5,600	Saudi Arabia British Bank
Korea Western Power Co., Ltd.	Xe-Pian Xe-Namnoy Power Co., Ltd.	Investments in associate pledged as collateral	USD 62,253	Krung Thai Bank
Korea Western Power Co., Ltd.	Xe-Pian Xe-Namnoy Power Co., Ltd.	Performance guarantees	USD 2,500	Krung Thai Bank
Korea Western Power Co., Ltd.	Xe-Pian Xe-Namnoy Power Co., Ltd	Guarantees of Impounding bonus (*1)	USD 5,000	SK E&C
Korea Western Power Co., Ltd.	Solar Power Plants Happy City Co., Ltd.	Investments in associate pledged as collateral	KRW 194	NH bank
Korea Western Power Co., Ltd.	Shin Pyeongtaek Power Co., Ltd.	Investments in associate pledged as collateral	KRW 43,920	Kookmin Bank

(*1) Xe-Pian Xe-Namnoy Power Co., Ltd. entered into the agreement to pay incentives to SK E&C when the impoundment occurs upon the completion of the hydropower project. For the case that Xe-Pian Xe-Namnoy Power Co., Ltd. becomes unable to pay the incentives to SK E&C, the Group provides guarantees for payment of USD 5,000 thousands.

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

39. Related Party Transactions, Continued

(7) Cheongna Energy Co., Ltd. operates integrated energy transportation and distributions and has outstanding loans from the financial institutions. In relation to the loans, the Group entered into the supplemental funding agreement for Cheongna Energy Co., Ltd. According to the agreement, all shareholders of Cheongna Energy Co., Ltd. are required to raise additional funds based on the shareholders' equity ratios when Cheongna Energy Co., Ltd. is unable to repay the principal and interest amounts.

40. Asset held for sale

Asset held for sale as of December 31, 2017 and 2016 are as follows:

<i>In millions of won</i>		2017	2016
Investments in associates	₩	-	41,170

The market situation has deteriorated since the first classification as held for sale and as a result assets were not sold until the end of the current period. The shares of Dongducheon Dream Power Co., Ltd. were reclassified as investments in associates.

41. Non-cash Transactions

Significant non-cash transactions for the years ended December 31, 2017 and 2016 are as follows:

<i>In millions of won</i>		2017	2016
Reclassification of long-term borrowings and debentures to current portion	₩	895,332	675,566
Reclassification of construction-in-progress		1,168,444	3,080,080
Reclassification of non-cash purchases of property, plant and equipment's acquisition		(27,908)	1,976
Reclassification of advances from customers related with disposition of land		-	2,837
Reclassification of long-term loans to current portion		1,121	(55)
Reclassification of long-term prepaid expenses to current portion		1,489	1,300
Reclassification of long-term deposit to current portion		2,205	3

42. Commitments for Expenditure

Agreements for acquisition of property, plant and equipment as of December 31, 2017 and 2016 are as follows:

<i>In millions of won</i>		2017		2016	
Description		Contract	Residual	Contract	Residual
Payments	₩	1,863,234	56,035	2,018,418	116,726

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2017 and 2016

43. Commitments and Contingencies

(1) Ongoing litigations of December 31, 2017 and 2016 are as follows:

In millions of won

	2017		2016	
	Number of cases	Claim amount	Number of cases	Claim amount
As the defendant (*1)	17 ₩	41,551	18 ₩	43,060
As the plaintiff	6	108,633	1	50

(*1) The amount includes the total claim amount of ₩27,152 million as a co-defendant with Korea South-East Power Co., Ltd., Korea Midland Power Co., Ltd., Korea Southern Power Co., Ltd. and Korea East-West Power Co., Ltd. As of December 31, 2017, the Company recorded ₩115 million as litigation provisions. Except for the lawsuits that resulted in litigation provisions, the outcome of the other litigations cannot be determined. However, the Company management believes that the ultimate outcomes will not have a significant impact on the Company's operations and financial position.

(2) Credit lines provided by financial institutions as of December 31, 2017 are as follows:

In millions of won, In thousands of USD

Description	Financial Institutions	Currency	Limited amount	Exercised amount
Foreign currency payment guarantee	NH Bank	USD	4,680	4,392
	Kookmin Bank	USD	40,000	362
Commitments on Bank-overdraft	NH Bank	KRW	200,000	-
Derivatives trading credit	NH Bank	USD	8,000	168
Loan limit	Bank of Communications	USD	30,000	-
	SC Bank	USD	50,000	-
	Bank of Nova Scotia	USD	20,000	-
	BNP PARIBAS	USD	40,000	-
	Credit Agricole Corporate & Investment Bank	USD	50,000	-
	DBS Bank	USD	100,000	-
	Deutsche Bank AG	USD	30,000	-
	Korea Development Bank	USD	80,000	-
	Mizuho Corporate Bank Ltd	USD	188,000	-
	Societe Generale	USD	50,000	-
	Kookmin Bank	KRW	10,000	-
	NH Bank	KRW	5,000	-
	Shinhan Bank	KRW	10,000	-
	Woori Bank	KRW	10,000	-
	Industrial Bank of Korea	KRW	5,000	-
	KEB Hana Bank	KRW	5,000	-
	KEB Hana Bank	USD	10,000	222
	NH Bank	USD	50,000	748
	Shinhan Bank	USD	50,000	-
	Industrial Bank of Korea	USD	25,000	-
	Woori Bank	USD	30,000	2,728
Certification of payment on L/C				

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2017 and 2016

43. Commitments and Contingencies, Continued

(3) Main raw material purchase agreements as of December 31, 2017 are as follows:

Raw materials	Supplier	Contract period	Amount for year (thousand tons, thousand kls)
Bituminous coal	Australia	2018.01~2022.03	1,744
	Indonesia	2018.01~2020.09	1,152
	Russia	2018.01~2022.03	936
	Republic of South Africa	2018.01~2018.03	440
	U.S.A	2018.02~2022.03	160
			<u>4,432</u>
Bunker-C Oil	Posco Daewoo	2017.12~2018.02	45
	Hyundai Corporation	2017.12~2018.02	45
			<u>90</u>
LNG	Korea Gas Corporation	2007~2026	Determined annually
	Korea Gas Corporation	2015~2025	Determined annually

(4) Details of long-term marine transportation commitment for the safe transport of bituminous coal as of December 31, 2017 are as follows:

Shipping company	Ship name	Contract period
Daebo International Shipping Co., Ltd.	Glovis Daylight	2015.12~2030.11
Wooyang Shipping Co., Ltd.	Wooyang Queen	2016.07~2026.06
Hansung Line Co., Ltd.	Western Marine	2012.01~2026.12
Five Ocean Corporation	Nozomi	2016.12~2026.11
H-Line Shipping Co., Ltd	HL Balikpapan	2011.07~2026.06
H-Line Shipping Co., Ltd	Hyundai Leader	2016.04~2031.03
H-Line Shipping Co., Ltd	HL Taeon	2018.1st half ~ 2036.1st half
K-Line	Dolce	2007.08~2018.05
K-Line	Elettra	2009.02~2019.01
K-Line	Arpeggio	2009.02~2019.01
K-Line	CSK Brilliance	2011.11~2021.10
MOL	Gloriosa Lily	2008.10~2019.01
MOL	TTM HOPE	2008.10~2018.09
MOL	Pacific Power	2008.11~2019.04
NYK	Frontier Expedition	2013.02~2028.01
SK Shipping Co., Ltd.	K. Western Dream	2016.03~2028.02
SK Shipping Co., Ltd.	K.Taeon	2018.2 nd half ~2036.2 nd half

(5) As described in Note 39, the Group provides financial supports including the debt repayment guarantees to related parties.

Independent Auditors' Report

The Board of Directors and Shareholder
Korea Western Power Co., Ltd.:

We have audited the accompanying consolidated financial statements of Korea Western Power Co., Ltd. and its subsidiaries (the "Group"), which comprise the consolidated statements of financial position as of December 31, 2016 and 2015, the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2016 and 2015 and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with Korean International Financial Reporting Standards.

Other matter

The procedures and practices utilized in the Republic of Korea to audit such consolidated financial statements may differ from those generally accepted and applied in other countries.

KPMG Samjong Accountij Corp.

Seoul, Korea
March 2, 2017

This report is effective as of March 2, 2017, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying consolidated financial statements and notes thereto. Accordingly, the readers of the audit report should understand that the above audit report has not been updated to reflect the impact of such subsequent events or circumstances, if any.

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Consolidated Statements of Financial Position
For the years ended December 31, 2016 and 2015

<i>In millions of won</i>	Note	2016	2015
Assets			
Cash and cash equivalents	6,7,38	₩ 246,692	105,559
Current financial assets	6,10,11,38	45,811	47,328
Trade and other receivables, net	6,8,38,39	578,932	525,443
Inventories	12	227,388	238,824
Current non-financial assets	13	34,866	27,006
Assets held for sale	15,40	41,170	41,170
Total current assets		1,174,859	985,330
Non-current financial assets	6,9,10,11,27,38,39	222,566	119,282
Non-current trade and other receivables, net	6,8,38	662	2,115
Property, plant and equipment, net	16,42	8,154,367	7,916,158
Intangible assets, net	17	15,744	14,039
Investments in associates and joint ventures	15,39,40	213,948	164,533
Non-current non-financial assets	13	10,813	6,359
Deferred tax assets	35	144	56
Total non-current assets		8,618,244	8,222,542
Total assets		₩ 9,793,103	9,207,872

See accompanying notes to the consolidated financial statements.

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Consolidated Statements of Financial Position, Continued
For the years ended December 31, 2016 and 2015

In millions of won

	Note	2016	2015
Liabilities			
Trade and other payables	6,18,38,39	₩ 379,866	347,791
Current financial liabilities	6,10,19,20,38	1,084,427	894,500
Current tax liabilities	35	85,880	58,684
Current non-financial liabilities	23	100,328	69,182
Total current liabilities		<u>1,650,501</u>	<u>1,370,157</u>
Non-current trade and other payables	6,18,38	78	78
Non-current financial liabilities	6,19,38	3,926,322	4,067,926
Non-current non-financial liabilities	23	199	2,632
Employee benefits obligations, net	21,25,38	71,604	58,199
Deferred tax liabilities	35	215,998	218,798
Non-current provisions	22,43	5,123	4,096
Total non-current liabilities		<u>4,219,324</u>	<u>4,351,729</u>
Total liabilities		<u>5,869,825</u>	<u>5,721,886</u>
Equity			
Share capital	24	1,272,898	1,192,365
Retained earnings	25,26	2,593,422	2,244,738
Other components of equity	9,10,27	(49,043)	(51,125)
Hybrid securities	28	99,750	99,750
Equity attributable to owners of KOWEPO		<u>3,917,027</u>	<u>3,485,728</u>
Non-controlling interests		<u>6,251</u>	<u>258</u>
Total equity		<u>3,923,278</u>	<u>3,485,986</u>
Total liabilities and equity		<u>₩ 9,793,103</u>	<u>9,207,872</u>

See accompanying notes to the consolidated financial statements.

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Consolidated Statements of Comprehensive Income
For the years ended December 31, 2016 and 2015

*In millions of won, except earnings
per share information*

	Note	2016	2015
Sales	5,29,39 ₩	4,179,782	4,224,675
Cost of sales	36,39	(3,487,049)	(3,653,430)
Gross profit		692,733	571,245
Selling and administrative expenses	30,36	(104,072)	(82,344)
Operating income		588,661	488,901
Other non-operating income	31	3,986	3,689
Other non-operating expenses	31	(642)	(443)
Other income, net	32	4,815	1,534
Finance income	6,10,33	62,490	124,642
Finance expenses	6,9,10,34	(134,826)	(192,849)
Loss from associate and joint ventures	14,15	(13,170)	(13,169)
Profit before income tax		511,314	412,305
Income tax expense	35	(118,120)	(111,996)
Profit for the year		393,194	300,309
Other comprehensive income (loss), net of tax:			
Items that will never be reclassified to profit or loss			
Remeasurements of benefit liability, net of tax	21,25	(5,539)	(3,466)
Share in other comprehensive income (loss) of associates and joint ventures, net of tax		259	(295)
Items that are or may be reclassified to profit or loss			
Net change in the unrealized fair value of available-for-sale financial assets, net of tax	9,27	(3,827)	503
Net change in the unrealized fair value of derivatives using cash flow hedge accounting, net of tax	10,27	3,243	4,773
Foreign currency translation of foreign operations, net of tax		550	(611)
Share in other comprehensive income of associates and joint ventures, net of tax		2,118	1,880
Total other comprehensive income (loss), net of tax		(3,196)	2,784
Total comprehensive income for the year	₩	389,998	303,093

See accompanying notes to the consolidated financial statements.

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Consolidated Statements of Comprehensive Income, Continued
For the years ended December 31, 2016 and 2015

*In millions of won, except earnings
per share information*

	Note	2016	2015
Profit (loss) attributable to:			
Owners of KOWEPO	₩	393,271	300,260
Non-controlling interests		(77)	49
		<u>393,194</u>	<u>300,309</u>
Total comprehensive Income (loss) attributable to:			
Owners of KOWEPO		390,073	303,044
Non-controlling interests		(75)	49
		<u>389,998</u>	<u>303,093</u>
Earnings per share			
Basic and diluted earnings per share (in won)	37 ₩	<u>12,345</u>	<u>9,445</u>

See accompanying notes to the consolidated financial statements.

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Consolidated Statements of Changes in Equity
For the years ended December 31, 2016 and 2015

In millions of won

		Equity attributable to owners of KOWEPO					Non-controlling interests	Total equity
		Share Capital	Retained earnings	Hybrid securities	Other components of equity	Subtotal		
Balance at January 1, 2015	₩	1,192,365	1,974,058	99,750	(57,670)	3,208,503	209	3,208,712
Total comprehensive income (loss) for the year:								
Profit for the year		-	300,260	-	-	300,260	49	300,309
Net change in the unrealized fair value of available-for-sale financial assets, net of tax		-	-	-	503	503	-	503
Net change in the unrealized fair value of derivatives using cash flow hedge accounting, net of tax		-	-	-	4,773	4,773	-	4,773
Remeasurements of benefit liability, net of tax		-	(3,466)	-	-	(3,466)	-	(3,466)
Share in other comprehensive income of associates and joint ventures, net of tax		-	(295)	-	1,880	1,585	-	1,585
Foreign currency translation of foreign operations, net of tax		-	-	-	(611)	(611)	-	(611)
Transactions with owners recognized directly in equity:								
Dividends paid		-	(22,749)	-	-	(22,749)	-	(22,749)
Interest payments on hybrid securities		-	(3,070)	-	-	(3,070)	-	(3,070)
Balance at December 31, 2015	₩	<u>1,192,365</u>	<u>2,244,738</u>	<u>99,750</u>	<u>(51,125)</u>	<u>3,485,728</u>	<u>258</u>	<u>3,485,986</u>

See accompanying notes to the consolidated financial statements.

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Consolidated Statements of Changes in Equity, Continued
For the years ended December 31, 2016 and 2015

In millions of won

		Equity attributable to owners of KOWEPO					Non-controlling interests	Total equity
		Share Capital	Retained earnings	Hybrid securities	Other components of equity	Subtotal		
Balance at January 1, 2016	₩	1,192,365	2,244,738	99,750	(51,125)	3,485,728	258	3,485,986
Total comprehensive income (loss) for the year:								
Profit (loss) for the year		-	393,271	-	-	393,271	(77)	393,194
Net change in the unrealized fair value of available-for-sale financial assets, net of tax		-	-	-	(3,827)	(3,827)	-	(3,827)
Net change in the unrealized fair value of derivatives using cash flow hedge accounting, net of tax		-	-	-	3,243	3,243	-	3,243
Remeasurements of benefit liability, net of tax		-	(5,539)	-	-	(5,539)	-	(5,539)
Share in other comprehensive income of associates and joint ventures, net of tax		-	260	-	2,118	2,378	-	2,378
Foreign currency translation of foreign operations, net of tax		-	-	-	548	548	2	550
Transactions with owners recognized directly in equity:								
Dividends paid		-	(36,238)	-	-	(36,238)	-	(36,238)
Paid-in capital increase		80,533	-	-	-	80,533	-	80,533
Changes in consolidation scope		-	-	-	-	-	6,068	6,068
Interest payments on hybrid securities		-	(3,070)	-	-	(3,070)	-	(3,070)
Balance at December 31, 2016	₩	<u>1,272,898</u>	<u>2,593,422</u>	<u>99,750</u>	<u>(49,043)</u>	<u>3,917,027</u>	<u>6,251</u>	<u>3,923,278</u>

See accompanying notes to the consolidated financial statements.

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Consolidated Statements of Cash Flows
For the years ended December 31, 2016 and 2015

In millions of won

	2016	2015
Cash flows from operating activities		
Profit for the year	₩ 393,194	300,309
Adjustments for:		
Income tax expense	118,120	111,996
Depreciation	473,487	419,939
Amortization of intangible assets	2,959	5,536
Loss on disposals of property, plant and equipment	1,619	3,426
Retirement benefit expenses	16,942	14,233
Interest expense	70,890	70,580
Interest income	(1,845)	(2,542)
Impairment loss on available-for-sale financial assets	502	-
Loss on disposals of available-for-sale financial assets	-	82
Loss from associates and joint ventures	13,170	13,169
Gain on derivative instruments, net	(35,108)	(120,724)
Loss on foreign currency translations, net	49,900	121,043
Gain on foreign currency transactions	(10,275)	-
Provisions for employee benefits	30,002	36,637
Provisions for renewable portfolio standard	40,418	19,154
Provisions for litigation	1,018	4,833
Provisions for greenhouse gas emission	-	9,315
Reversal of provisions for employee benefits	(1,288)	-
Reversal of provisions for renewable portfolio standard	(5,851)	(15,038)
Reversal of provisions for litigation	-	(1,957)
Reversal of greenhouse gas emission	(513)	-
Others, net	909	222
	<u>765,056</u>	<u>689,904</u>
Changes in:		
Trade receivables	(68,069)	42,269
Other current receivables	13,739	(58,546)
Other non-current receivables	941	-
Inventories	11,434	68,535
Current non-financial assets	(7,866)	64,176
Non-current non-financial assets	(5,076)	(205)
Trade payables	(19,981)	(181,703)
Other current payables	(42,685)	(112,703)
Other non-current payables	-	(315)
Current non-financial liabilities	6,995	25
Non-current provisions	-	(26,010)
Non-current non-financial payables	58	908
Payments of retirement benefit obligations	(9,702)	(10,472)
Increase in plan assets	(4,685)	(5,536)
	<u>₩ (124,897)</u>	<u>(219,577)</u>

See accompanying notes to the consolidated financial statements.

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Consolidated Statements of Cash Flows, Continued
For the years ended December 31, 2016 and 2015

In millions of won

	2016	2015
Cash generated from operating activities:		
Dividend received	₩ 2,344	-
Interest received	1,497	2,767
Interest paid	(79,338)	(58,358)
Income tax paid	(90,414)	(44,518)
Net cash provided by operating activities	867,442	670,527
Cash flows from investing activities		
Collection of loans	742	2,594
Increase in loans	(2,667)	(3,552)
Decrease in guarantee deposits	2,127	6,898
Increase in guarantee deposits	(995)	(147)
Increase in short-term financial instruments	(2,000)	(500)
Proceeds from disposals of available-for-sale financial assets	-	50
Acquisition of disposals of available-for-sale financial assets	-	(393)
Acquisition of investments in associates and joint ventures	(62,552)	(9,244)
Proceeds from disposals of property, plant and equipment	8,322	20,858
Acquisition of property, plant and equipment	(656,279)	(1,581,574)
Proceeds from disposals of intangible assets	-	1
Acquisition of intangible assets	(519)	(145)
Government grants received	2,645	5,111
Increase in other investments	472	2,750
Net cash used in investing activities	(710,704)	(1,557,293)
Cash flows from financing activities		
Proceeds from borrowings	1,385,194	2,385,189
Repayment of borrowings	(1,455,293)	(1,939,189)
Proceeds from debentures	498,649	598,305
Repayment of debentures	(425,525)	(99,985)
Dividends paid	(36,238)	(22,749)
Settlement of derivative instruments	21,750	-
Interest payments on hybrid securities	(4,050)	(4,050)
Net cash provided by (used in) financing activities	(15,513)	917,521
Net increase in cash and cash equivalents before effect of exchange rate fluctuations	141,225	30,755
Effect of exchange rate on foreign operations financial statements translation	(151)	61
Effect of exchange rate fluctuations on cash held	59	(4)
Net increase in cash and cash equivalents	141,133	30,812
Cash and cash equivalents at beginning of the year	105,559	74,747
Cash and cash equivalents at end of the year	₩ 246,692	105,559

See accompanying notes to the consolidated financial statements.

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2016 and 2015

1. Reporting Entity

In accordance with a restructuring plan dated January 21, 1999 for the electricity industry in the Republic of Korea, announced by the Ministry of Commerce, Industry and Energy and the Act on Promotion of Restructuring the Electric Power Industry published on December 23, 2000, Korea Western Power Co., Ltd. (the "KOWEPO") was incorporated on April 2, 2001 through the spin-off of the power generation division of Korea Electric Power Corporation (the "KEPCO"). KOWEPO and its subsidiaries (the "Group") engage in the generation of electricity and development of electric power resources. The Group sells all generated electricity to KEPCO through the Korea Power Exchange ("KPX") in accordance with Article 31 of the Electricity Business Law.

As of December 31, 2016, the KOWEPO owns and operates five power plants with a total annual capacity of 10,725MW.

The KOWEPO's head office is located in Taejeon-gun, Chungcheongnam-do, Korea. The share capital of the KOWEPO as of December 31, 2016 amounts to ₩166,646 million and the Group's sole shareholder is KEPCO (100%).

In accordance with Korea International Financial Reporting Standards ("K-IFRS") 1110 'Consolidated Financial Statements', the Group's consolidated financial statements includes the financial results of KOWEPO, the parent company, Garolim Tidal power Co., Ltd. and four other subsidiaries ("consolidated entity"). Cheongna Energy Co., Ltd. and 10 other investments are accounted for as equity method investments.

2. Basis of Preparation and Changes in accounting policies

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*.

(1) 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

(2) Functional and presentation currency

These consolidated financial statements are presented in Korean won, which is KOWEPO's functional currency and the currency of the primary economic environment in which the Group operates.

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2016 and 2015

2. Basis of Preparation and Changes in accounting policies, Continued

(3) 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.

a. The judgment of management

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements is included in the following note.

- ✓ Note 14 : Scope of consolidation - whether the Group has de facto control over an investee

b. The uncertainty of assumptions and estimates

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

- ✓ Note 21: Measurement of defined benefit obligations - key actuarial assumptions
- ✓ Note 22 and 43: Recognition and measurement of provisions and contingencies – key assumptions about the likelihood and magnitude of an outflow of resources

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2016 and 2015

2. Basis of Preparation and Changes in accounting policies, Continued

(3) Use of estimates and judgments, Continued

c. Fair Value Measurement

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

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

Significant valuation issues are reported to the Group Audit Committee.

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

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

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

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

- ✓ Note 38: Risk management

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2016 and 2015

3. Changes in accounting policies

Except for the changes below, the Group has consistently applied the accounting policies set out in Note 4 to all periods presented in these financial statements. The Group has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of January 1, 2016.

- ✓ Amendments to K-IFRS 1016 'Property, Plant and Equipment'

The Group has adopted amendments to K-IFRS 1016, 'Property, Plant and Equipment', since January 1, 2016. Amendments to K-IFRS 1016, 'Property, Plant and Equipment', specify that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate.

Upon adoption of the amendments, there is no significant impact on the Group's consolidated financial statements.

- ✓ Amendments to K-IFRS 1038 'Intangible Assets'

The Group has adopted amendments to K-IFRS 1038, 'Intangible Assets', since January 1, 2016. Amendments to K-IFRS 1038, 'Intangible Assets', introduce a rebuttable presumption that the use of revenue-based amortization methods for intangible assets is inappropriate. This presumption can be rebutted only when revenue and the consumption of the economic benefits of the intangible asset are highly correlated, or when the intangible asset is expressed as a measure of revenue.

Upon adoption of the amendments, there is no significant impact on the Group's consolidated financial statements.

- ✓ Amendments to K-IFRS 1111 'Joint Arrangement'

The Group has adopted amendments to K-IFRS 1111, 'Joint Arrangement', since January 1, 2016. Amendments to K-IFRS 1111, 'Joint Arrangement', require an investor to apply the principles of business combination accounting when it acquires an interest in a joint operation that constitutes a business as defined in K-IFRS 1103, 'Business Combinations'.

Upon adoption of the amendments, there is no significant impact on the Group's consolidated financial statements.

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2016 and 2015

4. Significant Accounting Policies

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

(1) Consolidation

(i) Business combination

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

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

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

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

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

(ii) Non-controlling interests

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

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

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2016 and 2015

4. Significant Accounting Policies, Continued

(1) Consolidation, Continued

(iii) Subsidiaries

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

(iv) Loss of control

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

(v) Interests in equity-accounted investees

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

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

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

(vi) Transactions eliminated on consolidation

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

(vii) Business combination under common control

For business combinations arising from transfers of interests in the entities that are under common control, the assets and liabilities acquired are recognized at the carrying amounts recognized previously in the Group controlling shareholder's consolidated financial statements. The components of equity of the acquired entities are presented in the same components within the Group's equity except that any share capital of the acquired entities is recognized as part of share premium.

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2016 and 2015

4. Significant Accounting Policies, Continued

(2) Cash and cash equivalents

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

(3) Inventories

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

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

(4) Non-derivative financial assets

The Group recognizes and measures non-derivative financial assets by the following four categories: financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables and available-for-sale financial assets. The Group recognizes financial assets in the consolidated statement of financial position when the Group becomes a party to the contractual provisions of the instrument.

Upon initial recognition, non-derivative financial assets are measured at their fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the asset's acquisition or issuance.

(i) Financial assets at fair value through profit or loss

A financial asset is classified as financial assets at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Upon initial recognition, transaction costs are recognized in profit or loss when incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss.

(ii) Held-to-maturity investments

A non-derivative financial asset with a fixed or determinable payment and fixed maturity, for which the Group has the positive intention and ability to hold to maturity, are classified as held-to-maturity investments. Subsequent to initial recognition, held-to-maturity investments are measured at amortized cost using the effective interest method.

(iii) Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method except for loans and receivables of which the effect of discounting is immaterial.

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2016 and 2015

4. Significant Accounting Policies, Continued

(4) Non-derivative financial assets, Continued

(iv) Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified as financial assets at fair value through profit or loss, held-to-maturity investments or loans and receivables. Subsequent to initial recognition, they are measured at fair value, which changes in fair value, net of any tax effect, recorded in other comprehensive income in equity. Investments in equity instruments 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 instruments are measured at cost. When a financial asset is derecognized or impairment losses are recognized, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss. Dividends on an available-for-sale equity instrument are recognized in profit or loss when the Group's right to receive payment is established.

(v) De-recognition of financial assets

The Group derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognized as a separate asset or liability.

If the Group retains substantially all the risks and rewards of ownership of the transferred financial assets, the Group continues to recognize the transferred financial assets and recognizes financial liabilities for the consideration received.

(vi) Offsetting between financial assets and financial liabilities

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

(5) Derivative financial instruments, including hedge accounting

Derivatives are initially recognized at fair value. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are either recognized in profit or loss or, when the derivatives are designated in a hedging relationship and the hedge is determined to be an effective hedge, other comprehensive income.

(i) Hedge accounting

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

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

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2016 and 2015

4. Significant Accounting Policies, Continued

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

(i) Hedge accounting, Continued

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 forecasted 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.

① Fair value hedge

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

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

② Cash flow hedge

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

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

(ii) Other derivative financial instruments

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

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2016 and 2015

4. Significant Accounting Policies, Continued

(6) Impairment of financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably. However, losses expected as a result of future events, regardless of likelihood, are not recognized.

In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

If financial assets have objective evidence that they are impaired, impairment losses are 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.

(ii) Financial assets carried at cost

If there is objective evidence that an impairment loss has occurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses shall not be reversed.

(iii) Available-for-sale financial assets

When a decline in the fair value of an available-for-sale financial asset has been recognized in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss that had been recognized in other comprehensive income shall be reclassified from equity to profit or loss as a reclassification adjustment even though the financial asset has not been derecognized. Impairment losses recognized in profit or loss for an investment in an equity instrument classified as available-for-sale shall not be reversed through profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss shall be reversed, with the amount of the reversal recognized in profit or loss.

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2016 and 2015

4. Significant Accounting Policies, Continued

(7) Property, plant and equipment

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

Subsequent to initial recognition, an item of property, plant and equipment shall be carried at its cost less any accumulated depreciation and any accumulated impairment losses.

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

Property, plant and equipment, except for land, are depreciated on a straight-line basis over estimated useful lives that appropriately reflect the pattern in which the asset's future economic benefits are expected to be consumed. A component that is significant compared to the total cost of property, plant and equipment is depreciated over its separate useful life.

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

The estimated useful lives of the Group's assets are as follows:

	Useful lives (years)
Buildings	8 ~ 30
Structures	8 ~ 30
Machinery	6 ~ 24
Vehicles	4
Finance lease	6~ 30
Other property, plant and equipment ("the other PP&E")	4

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

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2016 and 2015

4. Significant Accounting Policies, Continued

(8) Intangible assets

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

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

	<u>Useful lives (years)</u>
Computer software	5
Development costs	5
Leasehold rights	10
Others	5~20

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

(i) Research and development

Expenditures 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 expenditures are capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Group intends to and has sufficient resources to complete development and to use or sell the asset. Other development expenditures are recognized in profit or loss as incurred.

(ii) Subsequent expenditures

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

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2016 and 2015

4. Significant Accounting Policies, Continued

(9) Borrowing costs

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

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

(10) Government grants

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

Government grants whose primary condition is that the Group purchase, construct or otherwise acquire long-term assets are deducted in calculating the carrying amount of the asset. The grant is recognized in profit or loss over the life of a depreciable asset as a reduction to depreciation expense.

Government grants which are intended to compensate the Group for expenses incurred shall be recognized as other income in profit or loss over the periods in which the Group recognizes the related costs as expenses.

(11) Impairment of non-financial assets

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

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2016 and 2015

4. Significant Accounting Policies, Continued

(11) Impairment of non-financial assets, Continued

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

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

Goodwill acquired in a business combination is allocated to each CGU that is expected to benefit from the synergies arising from the goodwill acquired. Any impairment identified at the CGU level will first reduce the carrying value of goodwill and then be used to reduce the carrying amount of the other assets in the CGU on a pro rata basis. Except for impairment losses in respect of goodwill which are never reversed, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(12) Leases

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

(i) Finance leases

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

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

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

(ii) Operating leases

Leases where the lessor retains a significant portion of the risks and rewards of ownership are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are recognized in profit or loss on a straight-line basis over the period of the lease.

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2016 and 2015

4. Significant Accounting Policies, Continued

(12) Leases, Continued

(iii) Determining whether an arrangement contains a lease

Determining whether an arrangement is, or contains, a lease shall be based on the substance of the arrangement and requires an assessment of whether fulfillment of the arrangement is dependent on the use of a specific asset or assets (the asset) and the arrangement conveys a right to use the asset.

At inception or reassessment of the arrangement, the Group separates payments and other consideration required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Group concludes for a financial lease that it is impracticable to separate the payments reliably, the Group recognizes an asset and a liability at an amount equal to the fair value of the underlying asset that was identified as the subject of the lease. Subsequently, the liability shall be reduced as payments are made and an imputed finance charge on the liability recognized using the purchaser's incremental borrowing rate of interest.

(13) Non-current assets held for sale

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

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

(14) Non-derivative financial liabilities

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

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

Financial liabilities at fair value through profit or loss include financial liabilities held for trading or designated as such upon initial recognition. Subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss. Upon initial recognition, transaction costs that are directly attributable to the acquisition are recognized in profit or loss as incurred.

(ii) Other financial liabilities

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

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

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2016 and 2015

4. Significant Accounting Policies, Continued

(15) Employee benefits

(i) Short-term employee benefits

Short-term employee benefits are employee benefits that are due to be settled within 12 months after the end of the period in which the employees render the related service. When an employee has rendered service to the Group during an accounting period, the Group recognizes the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service.

(ii) Other long-term employee benefits

Other long-term employee benefits include employee benefits that are settled beyond 12 months after the end of the period in which the employees render the related service, and are calculated at the present value of the amount of future benefit that employees have earned in return for their service in the current and prior periods, less the fair value of any related assets. Remeasurements are recognized in profit or loss in the period in which they arise.

(iii) Retirement benefits: defined benefit plans

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 plans is calculated 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. The fair value of plan assets is deducted. The calculation is performed annually by an independent actuary using the projected unit credit method.

The discount rate is the yield at the reporting date on corporate 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 Group recognizes all actuarial gains and losses arising from actuarial assumption changes and experiential adjustments in other comprehensive income when incurred.

When the fair value of plan assets exceeds the present value of the defined benefit obligation, the Group recognizes an asset, to the extent of the total of cumulative unrecognized past service cost and the present value of any economic benefits available in the form of refunds from the plan or reduction in the future contributions to the plan.

Past service costs which are the change in the present value of the defined benefits obligation for employee service in prior periods, resulting in the current period from the introduction of, or change to post-employment benefits, is recognized as an expense on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits are already vested immediately following the introduction of, or changes to, a defined benefit plan, the Group recognizes the past service cost immediately.

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2016 and 2015

4. Significant Accounting Policies, Continued

(16) Provisions

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

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

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

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

(17) Foreign currencies

(i) 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 are retranslated to the functional currency using the reporting date's exchange rate. 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. 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.

(ii) Foreign operations

If the presentation currency of the Group is different from a foreign operation's functional currency, the financial statements of the foreign operation are translated into the presentation currency using the following methods:

The assets and liabilities of foreign operations, whose functional currency is not the currency of a hyperinflationary economy, are translated to presentation currency at exchange rates at the reporting date. The income and expenses of foreign operations are translated to functional currency at exchange rates at the dates of the transactions. Foreign currency differences are recognized in other comprehensive income.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of that foreign operation is treated as assets and liabilities of the foreign operation. Thus they are expressed in the functional currency of the foreign operation and translated at the closing rate.

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2016 and 2015

4. Significant Accounting Policies, Continued

(17) Foreign currencies, Continued

(ii) Foreign operations, Continued

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.

(iii) Translation of net investments on foreign operations

Foreign exchange gains or losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely to occur in the foreseeable future and which in substance is considered to form part of the net investment in the foreign operation, are recognized in other comprehensive income in the translation reserve.

(18) Equity capital

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

Preference share capital is classified as equity if it is non-redeemable, or redeemable only at the Group's option, and any dividends are discretionary. Dividends thereon are recognized as distributions within equity upon approval by the Group'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.

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

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement. In the case of hybrid securities that have an unconditional right for the Group to avoid the delivery of financial assets such as cash to settle a contractual obligation, it is classified as equity instruments, presented as part of the equity.

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2016 and 2015

4. Significant Accounting Policies, Continued

(19) Revenue

Revenue from the sale of goods, rendering of services or use of the Group assets is measured at the fair value of the consideration received or receivable which are recognized as a reduction of revenue.

(i) Sales of goods

The Group recognizes revenue from the sale of goods when the significant risks and rewards of ownership of the goods are transferred to the buyer. The Group is primarily an electric power generation company through operations of the thermal and combined-cycle plants. Electric energy revenue is recognized upon transmission to the customers.

(ii) Sales of service

Revenue from services rendered is recognized in profit or loss in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed by reference to surveys of work performed or 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 or other methods that reliably measures the services performed.

(iii) Dividend income and interest income

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.

Interest income is recognized as it accrues in profit or loss, using the effective interest method. 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.

(20) Finance income and finance costs

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

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

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2016 and 2015

4. Significant Accounting Policies, Continued

(21) 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.

(i) Current tax

Current tax is the expected tax payable or receivable on the taxable profit or loss for the year, using tax rates enacted or substantively enacted at the end of the reporting period and any adjustment to tax payable 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.

(ii) 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 measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax assets or deferred tax liabilities on investment properties measured at fair value, unless any contrary evidence exists, are measured using the assumption that the carrying amount of the property will be recovered entirely through sale.

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.

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2016 and 2015

4. Significant Accounting Policies, Continued

(22) Earnings per share

KOWEPO presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of KOWEPO by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for own shares held, for the effects of all dilutive potential ordinary shares.

(23) Greenhouse gas emission rights and obligations

With Enforcement of Allocation and Trading of Greenhouse Gas Emissions Allowances, the Group applies the following accounting policies for emissions rights and obligations.

(i) Emissions rights

Greenhouse gas emissions rights consist of the allowances received free of charge from the government and the ones purchased. The cost of the emissions rights includes expenditures arising directly from the acquisition and any other costs incurred during normal course of the acquisition.

Emissions rights are held by the Group to fulfill the legal obligation and recorded as intangible assets. To the extent that the portion to be submitted to the government within one year from the end of reporting period, the emissions rights are classified as current assets. Emissions rights recorded as intangible assets are initially measured at cost and substantially remeasured at cost less accumulated impairment losses.

Greenhouse gas emission rights are derecognized on submission to the government or when no future economic benefits are expected from its use or disposal.

(ii) Emissions obligations

Emissions obligations are the Group's present legal obligation to submit the emissions allowances to the government and recognized when an outflow of resources is probable and a reliable estimate can be made of the amount of the obligation. Emissions obligations are measured as the sum of the carrying amount of the allocated rights that will be submitted to the government and the best estimate of expenditure required to settle the obligation at the end of the reporting period for any excess emission.

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2016 and 2015

4. Significant Accounting Policies, Continued

(24) New standards and interpretations not yet adopted

The following new standards, interpretations and amendments to existing standards have been published for mandatory application for annual periods beginning after January 1, 2016.

(i) K-IFRS 1109, 'Financial Instruments'

K-IFRS 1109, published on September 25, 2015, is effective for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. It replaces existing guidance in K-IFRS 1039, 'Financial Instruments: Recognition and Measurement'. The Group plans to adopt K-IFRS 1109 for the year beginning on January 1, 2018. K-IFRS 1109 will generally be applied retrospectively; however the Group plans to take advantage of the exemption allowing it not to restate the comparative information for prior periods with respect to classification and measurement including impairment changes. New hedge accounting requirements will generally be applied prospectively except for certain exemptions including the accounting for the time value of options.

Key features of the new standard, K-IFRS 1109, are 1) classification and measurement of financial assets that reflects the business model in which the assets are managed and their cash flow characteristics, 2) impairment methodology that reflects 'expected credit loss' (ECL) model for financial assets, and 3) expanded scope of hedged items and hedging instruments which qualify for hedge accounting and changes in assessment method for effect of hedging relationships.

K-IFRS 1109 will require the Group to assess the financial impact from application of K-IFRS 1109 and revise its accounting processes and internal controls related to financial instruments. Actual impact of adopting K-IFRS 1109 will be dependent on the financial instruments the Group holds and economic conditions at that time as well as accounting policy elections and judgment that it will make in the future.

The Group has not initiated any changes in internal controls processes or accounting processing systems, and has not performed an assessment of the impact resulting from the application of K-IFRS 1109. The Group has not performed a detailed assessment of the potential impact from the application of K-IFRS 1109. Expected impacts on the consolidated financial statements are generally categorized as follows:

① Classification and measurement of financial assets

Under K-IFRS 1109, financial assets are classified into three principal categories; measured at amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL) based on the business model in which assets are managed and their cash flow characteristics. Under K-IFRS 1109, derivatives embedded in hybrid contracts where the host is a financial asset are not bifurcated. Instead, the hybrid financial instrument as a whole is assessed for classification.

As there are additional requirements for a financial asset to be classified as measured at amortized costs or FVOCI under K-IFRS 1109 compared to the existing guidance in K-IFRS 1039, the adoption of K-IFRS 1109 would potentially increase the proportion of financial assets that are measured at FVTPL, increasing volatility in the Group's profit or loss.

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2016 and 2015

4. Significant Accounting Policies, Continued

(24) New standards and interpretations not yet adopted, Continued

(i) K-IFRS 1109, 'Financial Instruments', Continued

① Classification and measurement of financial assets, Continued

The criteria for classification and measurement of financial assets under K-IFRS 1109 are as follows:

- A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL: 1) the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and 2) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

- A financial asset is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL: 1) the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and 2) the contractual terms of the financial asset give rise on specified dates to cash flow that are solely payments of principal and interest on the principal amount outstanding.

- On initial recognition of equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in fair value in OCI, and will not reclassify (recycle) the those items in OCI to profit or loss subsequently.

- A financial asset is measured at FVTPL if the contractual terms of the financial asset give rise to specified dates to cash flows that are not solely payments of principal and interest on the principal amount outstanding, the debt instrument is held within a business model whose objective is to sell the asset, or the equity instruments that are not elected to be designated as measured at FVOCI.

As of December 31, 2016, the Group has loans and receivables amounting to ~~₩~~852,768 million, available-for-sale financial assets amounting to ~~₩~~94,837 million, and financial assets at fair value through profit or loss amounting to ~~₩~~1,468 million.

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2016 and 2015

4. Significant Accounting Policies, Continued

(24) New standards and interpretations not yet adopted, Continued

(i) K-IFRS 1109, 'Financial Instruments', Continued

② Classification and measurement of financial liabilities

Under K-IFRS 1109, the amount of change in the fair value attributable to the changes in the credit risk of the financial liabilities is presented in OCI, not recognized in profit or loss, and the OCI amount will not be reclassified (recycled) to profit or loss. However, if doing so creates or increase an accounting mismatch, the amount of change in the fair value is recognized in profit or loss.

As a portion of fair value change which was recognized in profit or loss under the existing standard, K-IFRS 1039, will be presented in OCI under K-IFRS 1109, profit or loss related to valuation of the same financial liabilities is likely to decrease.

The Group does not have any financial liability designated as at FVTPL as of December 31, 2016.

③ Impairment: Financial assets and contract assets

K-IFRS 1109 replaces the 'incurred loss' model in the existing standard with a forward-looking 'expected credit loss' (ECL) model for debt instruments, lease receivables, contractual assets, loan commitments, financial guarantee contracts.

Under K-IFRS 1109, impairment losses are likely to be recognized earlier than using the incurred loss model under the existing guidance in K-IFRS 1039 as loss allowances will be measured on either of the 12-month or lifetime ECL based on the extent of increase in credit risk since inception as shown in the below table.

Classification		Loss allowances
Stage 1	Credit risk has not increased significantly since the initial recognition	12-month ECL: ECLs that resulted from possible default events within the 12 months after the reporting date
Stage 2	Credit risk has increased significantly since the initial recognition	Lifetime ECL: ECL that resulted from all possible default events over the expected life of a financial instrument
Stage 3	Credit-impaired	

Under K-IFRS 1109, financial assets of which the credit was impaired at the initial recognition, cumulative changes in lifetime ECL since the initial recognition are recognized as loss allowances.

As of December 31, 2016, the Group has debt instruments in financial assets measured at amortized cost amounting to ₩852,768 million (loans and receivables) and has not recognized loss allowances.

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2016 and 2015

4. Significant Accounting Policies, Continued

(24) New standards and interpretations not yet adopted, Continued

(i) K-IFRS 1109, 'Financial Instruments', Continued

④ Hedge accounting

K-IFRS 1109 retains the mechanics of hedge accounting (fair value hedge, cash flow hedge, hedging on net investment in a foreign operation) which was defined in the existing guidance in K-IFRS 1109, but provides principle-based and less complex guidance in hedging which focuses on the risk management activities. More hedged items and hedging instruments would qualify for hedge accounting, more qualitative and forward-looking approach will be taken to assessing hedge effectiveness, and qualitative threshold (80~125%) is removed under K-IFRS 1109.

Certain transactions which were not qualified for hedge accounting under the existing standard will be likely to qualify for hedge accounting under K-IFRS 1109, decreasing volatility in the Group's profits or loss.

When initially applying K-IFRS 1109, the Group may choose as its accounting policy to continue to apply the hedge accounting requirements of K-IFRS 1039.

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

K-IFRS 1115, 'Revenue from Contracts from Customers', published on November 6, 2015, is effective for annual periods beginning on or after January 1, 2018, with earlier adoption permitted.

It replaces existing revenue recognition guidance, including K-IFRS 1018, 'Revenue', K-IFRS 1011, 'Construction Contracts', K-IFRS 2031, 'Revenue-Barter transactions involving advertising services', K-IFRS, '2113 Customer Loyalty Programs', K-IFRS 2115, 'Agreements for the construction of real estate', K-IFRS 2118, 'Transfers of assets from customers'. The Group plans to adopt K-IFRS 1115 in its consolidated financial statements for the year ending December 31, 2018, and retrospectively adjust the comparative period presented in the set of financial statements, in accordance with K-IFRS 1008, 'Accounting Policies, changes in accounting estimates and errors'. The Group plans to use the practical expedients for completed contracts- i.e. completed contracts as of January 1, 2017 are not restated.

Existing K-IFRS standards and interpretations including K-IFRS 1018 provide revenue recognition guidance by transaction types such as sales of goods, rendering of services, interest income, royalty income, dividend income and construction revenue; however, under the new standard, K-IFRS 1115, the five-step approach (Step 1: Identify the contract(s) with a customer, Step 2: Identify the performance obligations in the contract, Step 3: Determine the transaction price, Step 4: Allocate the transaction price to the performance obligations in the contract, Step 5: Recognize revenue when the entity satisfied a performance obligation) is applied for all types of contracts or agreements.

As of December 31, 2016, the Group has not launch into revising internal control, changing accounting system and analyzing effects for imposing on K-IFRS 1115.

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2016 and 2015

5. Operating segment

(1) Substantially all of the Group's revenue and non-current assets are generated and located in Korea. The Group's chief operating decision maker ("CODM") does not receive and therefore does not review discrete financial information for any component of the Group.

(2) Information about major customer

Sales attributable to KEPCO, the main customer, are ₩4,185,565 million and ₩4,167,451 million for the years ended December 31, 2016 and 2015, respectively.

6. Categories of Financial Instruments

(1) Financial assets

Categories of financial assets as of December 31, 2016 and 2015 are as follows:

(i) As of December 31, 2016

In millions of won

	Financial assets at fair value through profit or loss	Loans and receivables	Available- for-sale financial assets	Derivatives using hedge accounting	Total
Current financial assets:					
Cash and cash equivalents	₩ -	246,692	-	-	246,692
Current financial asset					
Loans and receivables	-	2,853	-	-	2,853
Short-term Financial instruments	-	10,000	-	-	10,000
Derivative assets	1,468	-	-	31,490	32,958
Trade and other receivables, net	-	578,932	-	-	578,932
	<u>1,468</u>	<u>838,477</u>	<u>-</u>	<u>31,490</u>	<u>871,435</u>
Non-current financial assets:					
Non-current financial assets					
Available-for-sale financial assets	-	-	94,837	-	94,837
Loans and receivables	-	13,629	-	-	13,629
Derivative assets	-	-	-	114,100	114,100
Non-current trade and other receivables, net	-	662	-	-	662
	<u>-</u>	<u>14,291</u>	<u>94,837</u>	<u>114,100</u>	<u>223,228</u>
₩	<u>1,468</u>	<u>852,768</u>	<u>94,837</u>	<u>145,590</u>	<u>1,094,663</u>

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2016 and 2015

6. Categories of Financial Instruments, Continued

(1) Financial assets, Continued

Categories of financial assets as of December 31, 2016 and 2015 are as follows, Continued:

(ii) As of December 31, 2015

<i>In millions of won</i>	Financial assets at fair value through profit or loss	Loans and receivables	Available- for-sale financial assets	Derivatives using hedge accounting	Total
Current financial assets:					
Cash and cash equivalents ₩	-	105,559	-	-	105,559
Current financial asset					
Loans and receivables	-	3,523	-	-	3,523
Short-term Financial instruments	-	8,000	-	-	8,000
Derivative assets	1,205	-	-	34,600	35,805
Trade and other receivables, net	-	525,443	-	-	525,443
	<u>1,205</u>	<u>642,525</u>	<u>-</u>	<u>34,600</u>	<u>678,330</u>
Non-current financial assets:					
Non-current financial assets					
Available-for-sale financial assets	-	-	13,720	-	13,720
Loans and receivables	-	11,468	-	-	11,468
Derivative assets	-	-	-	94,094	94,094
Non-current trade and other receivables, net	-	2,115	-	-	2,115
	<u>-</u>	<u>13,583</u>	<u>13,720</u>	<u>94,094</u>	<u>121,397</u>
₩	<u>1,205</u>	<u>656,108</u>	<u>13,720</u>	<u>128,694</u>	<u>799,727</u>

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2016 and 2015

6. Categories of Financial Instruments, Continued

(2) Financial liabilities

Categories of financial liabilities as of December 31, 2016 and 2015 are as follows:

(i) As of December 31, 2016

In millions of won

	Financial liabilities at fair value through profit or loss	Financial liabilities measured at amortized cost	Total
Current financial liabilities:			
Trade and other payables	₩ -	379,866	379,866
Borrowings	-	390,163	390,163
Debentures	-	693,908	693,908
Derivative liabilities	356	-	356
	<u>356</u>	<u>1,463,937</u>	<u>1,464,293</u>
Non-current financial liabilities:			
Non-current trade and other payables	-	78	78
Borrowings	-	2,059	2,059
Debentures	-	3,924,263	3,924,263
	<u>-</u>	<u>3,926,400</u>	<u>3,926,400</u>
₩	<u>356</u>	<u>5,390,337</u>	<u>5,390,693</u>

(ii) As of December 31, 2015

In millions of won

	Financial liabilities at fair value through profit or loss	Financial liabilities measured at amortized cost	Total
Current financial liabilities:			
Trade and other payables	₩ -	347,791	347,791
Borrowings	-	454,751	454,751
Debentures	-	438,916	438,916
Derivative liabilities	833	-	833
	<u>833</u>	<u>1,241,458</u>	<u>1,242,291</u>
Non-current financial liabilities:			
Non-current trade and other payables	-	78	78
Borrowings	-	2,435	2,435
Debentures	-	4,065,491	4,065,491
	<u>-</u>	<u>4,068,004</u>	<u>4,068,004</u>
₩	<u>833</u>	<u>5,309,462</u>	<u>5,310,295</u>

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2016 and 2015

6. Categories of Financial Instruments, Continued

(3) Finance income and expenses

Finance income and expenses on each category of financial instruments for the years ended December 31, 2016 and 2015 are as follows:

<i>In millions of won</i>				
Type	Description		2016	2015
Cash and cash equivalents	Interest income	₩	1,447	1,795
	Gain (loss) on foreign currency transactions and translations, net		59	(4)
Available-for-sale financial assets	Interest income		-	22
	Loss on disposal of available-for-sale financial assets		-	(82)
	Impairment loss on available-for-sale financial assets		(502)	-
	Gain (loss) on valuation of available-for-sale financial assets, net (equity, before tax)		(5,049)	664
Loans and receivables	Interest income		-	201
	Amortization of present value discount		398	524
Financial liabilities recorded at amortized cost	Loss on foreign currency transactions and translations, net		(37,956)	(120,807)
	Interest expense of borrowings and debentures		(70,804)	(70,486)
	Other interest expense		(87)	(94)
Derivatives (trading)	Gain on valuation of derivative instruments, net		1,112	372
	Loss on transactions of derivative instruments, net		(372)	-
Derivatives (hedge accounting)	Gain on valuation of derivative instruments, net (profit or loss)		47,218	120,352
	Gain on valuation of derivative instruments, net (equity, before tax)		4,278	6,297
	Loss on transaction of derivatives		(12,850)	-

7. Cash and Cash Equivalents

Cash and cash equivalents as of December 31, 2016 and 2015 are as follows:

<i>In millions of won</i>			2016	2015
Cash	₩		1	1
Other demand deposits			227,839	99,799
Short-term investments classified as cash equivalents			18,852	5,759
	₩		<u>246,692</u>	<u>105,559</u>

(*) There are no financial instruments restricted in use as of December 31, 2016 and 2015.

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2016 and 2015

8. Trade and Other Receivables

(1) Trade and other receivables as of December 31, 2016 and 2015 are as follows:

(i) As of December 31, 2016

In millions of won

	Gross receivables	Present value discount	Book value
Current assets:			
Trade receivables	₩ 453,710	-	453,710
Other receivables	125,331	(109)	125,222
	<u>579,041</u>	<u>(109)</u>	<u>578,932</u>
Non-current assets:			
Other receivables	808	(146)	662
	<u>₩ 579,849</u>	<u>(255)</u>	<u>579,594</u>

(*) There are no trade and other receivables which are overdue or impaired as of December 31, 2016.

(ii) As of December 31, 2015

In millions of won

	Gross receivables	Present value discount	Book value
Current assets:			
Trade receivables	₩ 385,641	-	385,641
Other receivables	139,911	(109)	139,802
	<u>525,552</u>	<u>(109)</u>	<u>525,443</u>
Non-current assets:			
Other receivables	2,259	(144)	2,115
	<u>₩ 527,811</u>	<u>(253)</u>	<u>527,558</u>

(2) Details of other receivables as of December 31, 2016 and 2015 are as follows:

(i) As of December 31, 2016

In millions of won

	Gross receivables	Present value discount	Book value
Current assets:			
Non-trade receivables	₩ 7,396	-	7,396
Accrued income	113,972	-	113,972
Guarantee	3,963	(109)	3,854
	<u>125,331</u>	<u>(109)</u>	<u>125,222</u>
Non-current assets:			
Guarantee	730	(146)	584
Others	78	-	78
	<u>808</u>	<u>(146)</u>	<u>662</u>
	<u>₩ 126,139</u>	<u>(255)</u>	<u>125,884</u>

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2016 and 2015

8. Trade and Other Receivables, Continued

(2) Details of other receivables as of December 31, 2016 and 2015 are as follows, Continued:

(ii) As of December 31, 2015

In millions of won

	Gross receivables	Present value discount	Book value
Current assets:			
Non-trade receivables	₩ 9,145	-	9,145
Accrued income	126,181	-	126,181
Guarantee	4,585	(109)	4,476
	<u>139,911</u>	<u>(109)</u>	<u>139,802</u>
Non-current assets:			
Guarantee	1,240	(144)	1,096
Others	1,019	-	1,019
	<u>2,259</u>	<u>(144)</u>	<u>2,115</u>
	<u>₩ 142,170</u>	<u>(253)</u>	<u>141,917</u>

9. Available-for-sale Financial Assets

(1) Available-for-sale financial assets as of December 31, 2016 and 2015 are as follows:

In millions of won

	Ownership	2016 Non-current	2015 Non-current
Equity securities listed :			
PT Bayan Resources TBK	4.00% ₩	71,840	-
Equity securities unlisted :			
Korea Power Exchange	7.14%	16,455	12,811
Kepco UHDE	2.40%	14	516
HeeMang Sunlight Power Co., Ltd	8.33%	393	393
KEPCO Bylong Australia Pty., Ltd	2.00%	6,135	-
	₩	<u>94,837</u>	<u>13,720</u>

(2) Changes in available-for-sale financial assets during the year ended December 31, 2016 are as follows:

In millions of won

	Beginning balance	Acquisition	Impairment	Valuation	Ending balance
Equity securities listed	₩ -	80,533	-	(8,693)	71,840
Equity securities unlisted	13,720	6,135	(502)	3,644	22,997
	<u>₩ 13,720</u>	<u>86,668</u>	<u>(502)</u>	<u>(5,049)</u>	<u>94,837</u>

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2016 and 2015

10. Derivatives

(1) Derivatives as of December 31, 2016 and 2015 are as follows:

In millions of won

<i>In millions of won</i>		2016		2015	
		Current	Non-current	Current	Non-current
Derivative Assets:					
Currency forward	₩	1,468	-	1,205	-
Currency swap		31,490	114,100	34,600	94,094
		32,958	114,100	35,805	94,094
Derivative Liabilities:					
Currency forward	₩	356	-	833	-

(2) Currency swap contracts as of December 31, 2016 are as follows:

In millions of won, and thousands of USD and CHF

Type	Counterparty	Period	Contract amounts		Contract interest rate		Contract currency
			Pay (KRW)	Receive	Pay (%)	Receive (%)	
Cash flow hedge	Morgan Stanley	2012~2017	285,000	USD 250,000	3.763	3.125	1,140.00
	Credit Agricole						
	Corporate & Investment Bank	2012~2017	142,500	USD 125,000	3.83	3.125	1,140.00
	JPMorgan	2012~2017	142,500	USD 125,000	3.83	3.125	1,140.00
	Credit Agricole						
	Corporate & Investment Bank	2013~2019	118,343	CHF 100,000	3.47	1.625	1,183.43
	Morgan Stanley	2013~2019	59,172	CHF 50,000	3.403	1.625	1,183.43
	Nomura Securities Co., Ltd.	2013~2019	59,172	CHF 50,000	3.47	1.625	1,183.43
	Morgan Stanley	2013~2018	107,360	USD 100,000	3.273	2.875	1,073.60
	Credit Agricole						
	Corporate & Investment Bank	2013~2018	107,360	USD 100,000	3.34	2.875	1,073.60
	JPMorgan	2013~2018	161,040	USD 150,000	3.34	2.875	1,073.60
	SC Bank	2013~2018	161,040	USD 150,000	3.34	2.875	1,073.60
	SC Bank	2014~2019	104,490	USD 100,000	2.77	2.625	1,044.90
	Credit Agricole						
	Corporate & Investment Bank	2014~2019	104,490	USD 100,000	2.77	2.625	1,044.90
	Morgan Stanley	2014~2019	104,490	USD 100,000	2.703	2.625	1,044.90

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2016 and 2015

10. Derivatives, Continued

(3) Currency forward contracts as of December 31, 2016 are as follows:

In millions of won and thousands of USD

Counterparty	Contract Date	Maturity Date	Contract amounts		Contract currency
			Receive	Purchase	
BNP PARIBAS	2016.11.22	2017.01.25	KRW 2,351	USD 2,000	1,175.40
BNP PARIBAS	2016.11.25	2017.01.31	KRW 2,353	USD 2,000	1,176.40
Citi Bank	2016.11.25	2017.01.31	KRW 1,029	USD 874	1,177.85
Mizuho Corporate Bank Ltd.	2016.12.30	2017.03.03	KRW 9,596	USD 8,000	1,199.45
The Hongkong and Shanghai Banking Co., Ltd.	2016.11.18	2017.05.22	KRW 4,717	USD 4,000	1,179.35
The Hongkong and Shanghai Banking Co., Ltd.	2016.11.22	2017.01.25	KRW 7,046	USD 6,000	1,174.32
The Hongkong and Shanghai Banking Co., Ltd.	2016.12.07	2017.02.09	KRW 4,669	USD 4,000	1,167.15
The Hongkong and Shanghai Banking Co., Ltd.	2016.12.15	2017.01.25	USD 2,489	KRW 2,923	1,174.32
The Hongkong and Shanghai Banking Co., Ltd.	2016.12.28	2017.02.09	USD 3,424	KRW 3,997	1,167.15
The Hongkong and Shanghai Banking Co., Ltd.	2016.12.29	2017.01.25	USD 2,693	KRW 3,162	1,174.32
The Hongkong and Shanghai Banking Co., Ltd.	2016.12.30	2017.03.03	KRW 3,605	USD 3,000	1,201.55
The Hongkong and Shanghai Banking Co., Ltd.	2016.12.30	2017.03.03	KRW 8,396	USD 7,000	1,199.45
SC Bank	2016.12.13	2017.02.15	KRW 871	USD 748	1,163.60
Bank of Nova Scotia	2016.11.22	2017.01.23	KRW 7,080	USD 6,000	1,180.03
Bank of Nova Scotia	2016.11.24	2017.01.31	KRW 3,004	USD 2,540	1,182.55
Bank of Nova Scotia	2016.12.26	2017.02.28	KRW 2,397	USD 2,000	1,198.70
Bank of Nova Scotia	2016.12.30	2017.03.03	KRW 6,017	USD 5,000	1,203.30
Bank of Nova Scotia	2016.12.30	2017.03.03	KRW 9,597	USD 8,000	1,199.60
NH Bank	2016.11.22	2017.01.25	KRW 2,446	USD 2,083	1,174.73
NH Bank	2016.12.27	2017.02.28	KRW 2,410	USD 2,000	1,205.20
Credit Agricole Corporate & Investment Bank	2016.11.21	2017.01.23	KRW 1,182	USD 1,000	1,181.55
Credit Agricole Corporate & Investment Bank	2016.12.26	2017.02.28	KRW 2,397	USD 2,000	1,198.25
Societe Generale	2016.11.22	2017.01.25	KRW 2,352	USD 2,000	1,175.90
Societe Generale	2016.11.30	2017.02.02	KRW 1,167	USD 1,000	1,166.70
Societe Generale	2016.12.29	2017.02.02	USD 913	KRW 1,065	1,166.70
Societe Generale	2016.12.06	2017.02.08	KRW 1,168	USD 1,000	1,167.65
Societe Generale	2016.12.23	2017.02.27	KRW 4,807	USD 4,000	1,201.78

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2016 and 2015

10. Derivatives, Continued

(4) The gain (loss) on valuation of derivatives for the years ended December 31, 2016 and 2015 are as follows:

(i) For the year ended December 31, 2016

In millions of won

Type	Net income effect of valuation gain	Net income effect of transaction loss	Other comprehensive income
Currency forward	₩ 1,112	(372)	-
Currency swap	47,218	(12,850)	4,278
	₩ 48,330	(13,222)	4,278

(*) The loss on valuation of derivative instruments using cash flow hedge accounting is recognized as accumulated other comprehensive loss amounting to ₩3,870 million, net of tax as of December 31, 2016.

(ii) For the year ended December 31, 2015

In millions of won

Type	Net income effect of valuation gain	Other comprehensive income
Currency forward	₩ 372	-
Currency swap	120,352	6,297
	₩ 120,724	6,297

11. Other Financial Assets

(1) Other financial assets as of December 31, 2016 and 2015 are as follows:

In millions of won

	2016		2015	
	Current	Non-current	Current	Non-current
Loans and receivables	₩ 2,853	13,629	3,523	11,468
Short-term financial instruments	10,000	-	8,000	-
Derivative assets	32,958	114,100	35,805	94,094
Available-for-sale financial assets	-	94,837	-	13,720
	₩ 45,811	222,566	47,328	119,282

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2016 and 2015

11. Other Financial Assets, Continued

(2) Loans and receivables as of December 31, 2016 and 2015 are as follows:

(i) For the year ended December 31, 2016

<i>In millions of won</i>	Face value	Present value discount	Book value
Short-term loans			
Loans for tuition	₩ 2,831	(148)	2,683
Others	171	-	171
	<u>3,002</u>	<u>(148)</u>	<u>2,854</u>
Long-term loans			
Loans for tuition	13,330	(1,275)	12,055
Others	1,574	-	1,574
	<u>14,904</u>	<u>(1,275)</u>	<u>13,629</u>
	<u>₩ 17,906</u>	<u>(1,423)</u>	<u>16,483</u>

(ii) For the year ended December 31, 2015

<i>In millions of won</i>	Face value	Present value discount	Book value
Short-term loans			
Loans for tuition	₩ 3,514	(161)	3,353
Others	170	-	170
	<u>3,684</u>	<u>(161)</u>	<u>3,523</u>
Long-term loans			
Loans for tuition	11,101	(1,455)	9,646
Others	1,822	-	1,822
	<u>12,923</u>	<u>(1,455)</u>	<u>11,468</u>
	<u>₩ 16,607</u>	<u>(1,616)</u>	<u>14,991</u>

12. Inventories

Inventories as of December 31, 2016 and 2015 are as follows:

<i>In millions of won</i>	2016	2015
Raw materials	₩ 81,767	124,847
Supplies	61,455	57,860
Inventory-in-transit	84,021	56,015
Others	145	102
	<u>₩ 227,388</u>	<u>238,824</u>

(*) There is no valuation allowance for inventories as of December 31, 2016 and 2015.

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2016 and 2015

13. Non-financial Assets

Non-financial assets as of December 31, 2016 and 2015 are as follows:

		2016		2015	
		Current	Non-current	Current	Non-current
<i>In millions of won</i>					
Advanced payments	₩	8,065	53	2,160	73
Prepaid expenses		13,949	1,511	8,454	1,733
Others		12,852	9,249	16,392	4,553
	₩	34,866	10,813	27,006	6,359

14. Information related to the consolidated entities

(1) Information related to the consolidated entities as of December 31, 2016 and 2015 are as follows:

Company	Key operating activities	Location	Rate of ownership or voting right	
			2016	2015
Garolim Tidal power Co., Ltd. (*1)	Power generation	Republic of Korea	49.00%	49.00%
Kowepo Australia Pty., Ltd.	Overseas resources development	Australia	100.00%	100.00%
Kowepo International Corporation	Managing power plant	Philippines	99.99%	99.99%
Kowepo India Private Limited	Overseas resources development	India	100.00%	100.00%
PT Kowepo Sumsel Operation and Maintenance Services	Managing power plant	Indonesia	95.00%	95.00%
KOWEPO Bylong Pty., Ltd (*2) (*3)	Overseas resources development	Australia	100.00%	-
KOWEPO Lao International (*2)	Managing power plant	Laos	100.00%	-

(*1) Despite holding less than a majority ownership, the Group has the ability to appoint or dismiss the majority of the Board of Directors by the shareholders' agreements and has the ability to control the entity's operating and financial policies.

(*2) They are newly acquired during the year ended December 31, 2016.

(*3) The ownership interest in KOWEPO Bylong Pty., Ltd is the percentage of common share capital excluding preferred share capital which has no voting rights.

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2016 and 2015

14. Information related to the consolidated entities, Continued

(2) Summary financial information of the subsidiaries as of and for the years ended December 31, 2016 and 2015 are as follows:

(i) As of and for the year ended December 31, 2016

In millions of won

<u>Company</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Sales</u>	<u>Net profit or loss</u>
Garolim Tidal power Co., Ltd.	₩ 632	346	-	(24)
Kowepo Australia Pty., Ltd.	25,550	10	5,357	4,012
Kowepo International Corporation	-	-	-	-
Kowepo India Private Limited	879	-	-	1
PT Kowepo Sumsel Operation and Maintenance Services	1,439	700	6,165	(96)
KOWEPO Bylong Pty., Ltd.	6,135	-	-	-
KOWEPO Lao International	218	181	-	(108)

(ii) As of and for the year ended December 31, 2015

In millions of won

<u>Company</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Sales</u>	<u>Net profit or loss</u>
Garolim Tidal power Co., Ltd.	₩ 655	346	-	(76)
Kowepo Australia Pty., Ltd.	18,390	1,648	4,729	353
Kowepo International Corporation	-	-	-	-
Kowepo America., LLC. (*1)	-	-	-	3,201
Kowepo India Private Limited	911	10	-	(105)
PT Kowepo Sumsel Operation and Maintenance Services	2,053	51	5,405	1,762

(*1) Kowepo America., LLC. was liquidated during the year ended December 31, 2015.

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2016 and 2015

14. Information related to the consolidated entities, Continued

(3) Details of non-controlling interest as of and for the year ended December 31, 2016 are as follows:

In millions of won

	Garolim Tidal power Co., Ltd	PT Kowepo Sumsel Operation and Maintenance Services
Current assets	₩ 631	1,373
Non-current assets	1	66
Current liabilities	(346)	(700)
Net assets	286	739
Percentage of non-controlling interest	51%	5%
Book value of non-controlling interest	146	37
Sales	-	6,165
Loss for the year	(24)	(96)
Loss for the year attributable to non-controlling interest	(12)	(5)
Cash flows from operating activities	(12)	(41)
Cash flows from investing activities	16	(1)
Cash flows from financing activities	-	-
Net increase (decrease) of cash and cash equivalents	4	(42)

(4) Disposal of subsidiary for the years ended December 31, 2016 and 2015 are as follows:

(i) There is no disposal of subsidiary for the year ended December 31, 2016.

(ii) Kowepo America., LLC. was liquidated as of December 22, 2015.

① The fair value of disposal price is as follows:

In millions of won

	Amount
Cash and cash equivalent received from disposal	₩ 10,111

② At the disposal date, the book value of assets and liabilities of the subsidiary as follows:

In millions of won

	Amount
Current assets:	
Cash and cash equivalents	₩ 10,111

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2016 and 2015

14. Information related to the consolidated entities, Continued

(4) Disposal of subsidiary for the years ended December 31, 2016 and 2015 are as follows, Continued:

(ii) Kowepo America., LLC. was liquidated as of December 22, 2015., Continued

③ Gain on disposal of investments in subsidiary during 2015 was as follows:

<i>In millions of won</i>		Amount
The fair value of disposal price	₩	10,111
Book value of net assets disposed		(10,111)
Non-controlling interests		-
Realization of unrealized gain		470
Gain on disposal of investments in subsidiary	₩	470

The Group reclassified ₩470 million of exchange differences on translating foreign operations, which was the balance at the disposal, into gain on disposal of interests in subsidiaries. The reclassified amount was recognized as loss from associates and joint ventures in Consolidated Statements of Comprehensive Income.

④ Net cash flow on disposal of the subsidiary was as follows:

<i>In millions of won</i>		Amount
Consideration received in cash and cash equivalents	₩	10,111
Less : Disposal of cash and cash equivalents		(10,111)
Net cash flow	₩	-

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2016 and 2015

15. Investments in Associates and Joint Ventures

(1) Investments in associates and joint ventures as of December 31, 2016 and 2015 are as follows:

Company	Major operation	Location	Rate of ownership or voting right	
			2016	2015
Associates				
Cheongna Energy Co., Ltd.	Energy supply	Republic of Korea	43.90%	43.90%
Pioneer Gas Power., Ltd.	Energy supply	India	40.00%	40.00%
Eurasia Energy Holdings	Energy supply	Russia	40.00%	40.00%
Xe-Pian Xe-Namnoy Power Co., Ltd.	Energy supply	Laos	25.00%	25.00%
PT. Mutiara Jawa	Energy supply	Indonesia	29.00%	29.00%
Korea Offshore Wind Power Co., Ltd. (*1)	Energy supply	Republic of Korea	12.50%	12.50%
Daegu Solar Power Plant Co., Ltd.	Energy supply	Republic of Korea	29.00%	29.00%
Dongducheon Dream Power Co., Ltd.	Energy supply	Republic of Korea	33.61%	33.61%
Solar Power Plants Happy City Co., Ltd.	Energy supply	Republic of Korea	28.00%	28.00%
Shin Pyeongtaek Power Co., Ltd.	O&M	Republic of Korea	40.00%	40.00%
Solar School Plant Co.,Ltd. (*2)	Energy supply	Republic of Korea	8.33%	-
KEPCO Energy Solution Co., Ltd. (*2)	Energy supply	Republic of Korea	8.33%	-
Joint ventures				
Rabigh O&M Co., Ltd. (*3)	O&M	Saudi Arabia	40.00%	40.00%

(*1) It is included in the scope of investments in associates as the Group can exercise significant influence according to the shareholders agreement despite the Group's ownership interest is less than 20%.

(*2) They are newly acquired during the year ended December 31, 2016. It is included in the scope of investments in associates as the Group can exercise significant influence according to the shareholders' agreement despite the Group's ownership interest is less than 20%.

(*3) The Group accounts for its investments of Rabigh O&M Co., Ltd. as investments in joint ventures since the strategic financial and operating policy decisions relating to the activities of the joint ventures require unanimous consent of the investors.

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2016 and 2015

15. Investments in Associates and Joint Ventures, Continued

(2) Changes in investments in associates and joint ventures during the years ended December 31, 2016 and 2015 are as follows:

(i) For the year ended December 31, 2016

In millions of won

Company	Beginning balance	Acquisitions	Dividends received	Share of income (loss)	Other comprehensive income (loss)	Retained earnings	Ending balance
Associates							
Cheongna Energy Co., Ltd. ₩	19,490	-	-	(7,117)	-	-	12,373
Pioneer Gas Power., Ltd.	51,187	-	-	(698)	251	-	50,740
Eurasia Energy Holdings (*1)	-	-	-	-	-	-	-
Xe-Pian Xe-Namnoy Power Co., Ltd. (*2)	31,863	16,402	-	1,576	1,703	-	51,544
PT. Mutiara Jawa (*3)	-	-	-	-	-	-	-
Korea Offshore Wind Power Co., Ltd. (*2)	662	4,500	-	(615)	(65)	-	4,482
Daegu Solar Power Plant Co., Ltd.	1,886	-	(411)	225	-	-	1,700
Dongducheon Dream Power Co., Ltd.	55,669	-	-	(8,759)	-	(34)	46,876
Solar Power Plants Happy City Co., Ltd.	191	-	-	(10)	-	-	181
Shin Pyeong Taek Power Co., Ltd. (*4)	-	-	-	-	-	-	-
Solar School Plant Co., Ltd. (*5)	-	16,650	-	-	-	-	16,650
KEPCO Energy Solution Co., Ltd. (*5).	-	25,000	-	(25)	-	-	24,975
	<u>160,948</u>	<u>62,552</u>	<u>(411)</u>	<u>(15,423)</u>	<u>1,889</u>	<u>(34)</u>	<u>209,521</u>
Joint ventures							
Rabigh O&M Co., Ltd.	3,585	-	(1,933)	2,252	229	294	4,427
₩	<u>164,533</u>	<u>62,552</u>	<u>(2,344)</u>	<u>(13,171)</u>	<u>2,118</u>	<u>260</u>	<u>213,948</u>

(*1) The investment has been reduced to zero, which resulted in discontinuation of the equity method. The accumulated unrecognized loss is ₩194 million as of December 31, 2016.

(*2) The investee issued additional shares to increase capitals during the year ended December 31, 2016.

(*3) The investment has been reduced to zero, which resulted in discontinuation of the equity method. The accumulated unrecognized loss is ₩1,835 million as of December 31, 2016.

(*4) The investment has been reduced to zero, which resulted in discontinuation of the equity method. The accumulated unrecognized loss is ₩5,917 million as of December 31, 2016.

(*5) They are newly acquired during the year ended December 31, 2016.

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2016 and 2015

15. Investments in Associates and Joint Ventures, Continued

(2) Changes in investments in associates and joint ventures during the years ended December 31, 2016 and 2015 are as follows, Continued:

(ii) For the year ended December 31, 2015

In millions of won

Company	Beginning balance	Acquisitions	Dividends received	Share of income (loss)	Other comprehensive income	Retained earnings	Other	Ending balance
Associates								
Cheongna Energy Co., Ltd.	₩ 28,771	-	-	(9,281)	-	-	-	19,490
Pioneer Gas Power., Ltd.	50,669	-	-	59	459	-	-	51,187
Eurasia Energy Holdings	-	-	-	-	-	-	-	-
Xe-Pian Xe-Namnoy Power Co., Ltd.	22,152	9,244	-	(749)	1,216	-	-	31,863
PT. Mutiara Jawa	818	-	-	(818)	-	-	-	-
Korea Offshore Wind Power Co., Ltd.	1,193	-	-	(531)	-	-	-	662
Daegu Solar Power Plant Co., Ltd.	1,581	-	-	305	-	-	-	1,886
Dongducheon Dream Power Co., Ltd.	100,545	-	-	(3,411)	-	(295)	(41,170)	55,669
Solar Power Plants Happy City Co., Ltd.	223	-	-	(32)	-	-	-	191
Shin Pyeong Taek Power Co.,Ltd.	(288)	-	-	288	-	-	-	-
	<u>205,664</u>	<u>9,244</u>	<u>-</u>	<u>(14,170)</u>	<u>1,675</u>	<u>(295)</u>	<u>(41,170)</u>	<u>160,948</u>
Joint ventures								
Rabigh O&M Co., Ltd.	4,629	-	(1,780)	531	205	-	-	3,585
₩	<u>210,293</u>	<u>9,244</u>	<u>(1,780)</u>	<u>(13,639)</u>	<u>1,880</u>	<u>(295)</u>	<u>(41,170)</u>	<u>164,533</u>

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2016 and 2015

15. Investments in Associates and Joint Ventures, Continued

(3) Summary financial information of investments in associates and joint ventures as of and for the years ended December 31, 2016 and 2015 are as follows:

(i) As of and for the year ended December 31, 2016

In millions of won

Company		Assets	Liabilities	Sales	Net profit or loss
Associates					
Cheongna Energy Co., Ltd.	₩	469,843	447,216	46,484	(16,127)
Pioneer Gas Power., Ltd.		345,791	276,978	14,353	396
Eurasia Energy Holdings		618	1,103	-	-
Xe-Pian Xe-Namnoy Power Co., Ltd.		772,699	543,472	-	6,458
PT. Mutiara Jawa		28,104	34,671	7,175	(1,361)
Korea Offshore Wind Power Co., Ltd.		37,826	2,048	-	(4,960)
Daegu Solar Power Plant Co., Ltd.		18,909	13,047	3,317	739
Dongducheon Dream Power Co., Ltd.		1,670,945	1,427,773	946,379	(27,936)
Solar Power Plants Happy City Co., Ltd.		2,937	2,297	427	(47)
Shin Pyeong Taek Power Co.,Ltd.		54,174	60,518	-	(3,291)
Solar School Plant Co.,Ltd		200,268	259	1	9
KEPCO Energy Solution Co., Ltd		299,933	233	-	(300)
Joint ventures					
Rabigh O&M Co., Ltd.		25,032	13,965	25,607	4,870

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2016 and 2015

15. Investments in Associates and Joint Ventures, Continued

(3) Summary financial information of investments in associates and joint ventures as of and for the years ended December 31, 2016 and 2015 are as follows, Continued:

(ii) As of and for the year ended December 31, 2015

In millions of won

Company	Assets	Liabilities	Sales	Net profit or loss
Associates				
Cheongna Energy Co., Ltd.	₩ 458,205	419,353	48,519	(21,108)
Pioneer Gas Power., Ltd.	310,761	240,833	-	148
Eurasia Energy Holdings	599	1,069	-	-
Xe-Pian Xe-Namnoy Power Co., Ltd.	506,970	341,261	-	2,760
PT. Mutiara Jawa	25,013	29,913	1,943	(7,247)
Korea Offshore Wind Power Co., Ltd.	7,582	2,359	-	(4,252)
Daegu Solar Power Plant Co., Ltd.	21,039	14,535	3,977	1,051
Dongducheon Dream Power Co., Ltd.	1,668,235	1,397,026	1,003,346	(10,307)
Solar Power Plants Happy City Co., Ltd.	3,128	2,452	490	81
Shin Pyeong Taek Power Co.,Ltd.	25,875	29,190	-	(2,595)
Joint ventures				
Rabigh O&M Co., Ltd.	18,186	9,222	22,203	2,144

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2016 and 2015

16. Property, Plant and Equipment

(1) Property, plant and equipment as of December 31, 2016 and 2015 are as follows:

(i) As of December 31, 2016

In millions of won

	Acquisition cost	Government grants	Accumulated depreciation	Accumulated impairment loss	Book value
Land	₩ 627,556	-	-	-	627,556
Buildings	1,385,484	(764)	(337,205)	-	1,047,515
Structures	1,266,914	-	(403,190)	-	863,724
Machinery	6,722,334	(51)	(2,180,083)	-	4,542,200
Vehicles	8,275	(13)	(6,205)	-	2,057
Equipment	91,129	(73)	(57,036)	-	34,020
Tools	27,160	-	(19,831)	-	7,329
Construction-in-progress	916,031	(101,834)	-	(35,094)	779,103
Finance lease assets	320,937	-	(70,074)	-	250,863
	₩ 11,365,820	(102,735)	(3,073,624)	(35,094)	8,154,367

(ii) As of December 31, 2015

In millions of won

	Acquisition cost	Government grants	Accumulated depreciation	Accumulated impairment loss	Book value
Land	₩ 630,245	-	-	-	630,245
Buildings	977,432	(487)	(290,210)	-	686,735
Structures	946,820	-	(366,197)	-	580,623
Machinery	4,485,717	(88)	(1,813,497)	-	2,672,132
Vehicles	7,004	-	(5,839)	-	1,165
Equipment	72,126	(49)	(47,417)	-	24,660
Tools	21,805	-	(18,357)	-	3,448
Construction-in-progress	3,310,448	(99,546)	-	(35,094)	3,175,808
Finance lease assets	201,702	-	(60,360)	-	141,342
	₩ 10,653,299	(100,170)	(2,601,877)	(35,094)	7,916,158

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2016 and 2015

16. Property, Plant and Equipment, Continued

(2) Changes in property, plant and equipment during the years ended December 31, 2016 and 2015 are as follows:

(i) For the year ended December 31, 2016

In millions of won

	Beginning balance	Acquisition / Capital expenditure	Disposal	Depreciation (*1)	Others (*2)	Ending balance
Land	₩ 630,245	-	(2,689)	-	-	627,556
Buildings	687,222	13	(3,769)	(48,733)	413,546	1,048,279
(Government grants)	(487)	-	-	23	(300)	(764)
Structures	580,623	-	-	(36,993)	320,094	863,724
Machinery	2,672,220	52,573	(6,308)	(369,933)	2,193,699	4,542,251
(Government grants)	(88)	-	-	41	(4)	(51)
Vehicles	1,165	-	-	(586)	1,492	2,071
(Government grants)	-	-	-	-	(14)	(14)
Equipment	24,709	71	(12)	(12,252)	21,577	34,093
(Government grants)	(49)	-	-	16	(40)	(73)
Tools	3,448	24	-	(2,087)	5,944	7,329
Construction-in-progress	3,275,354	605,574	-	-	(2,999,991)	880,937
(Government grants)	(99,546)	-	-	-	(2,288)	(101,834)
Finance lease assets	141,342	-	-	(9,713)	119,234	250,863
	₩ 7,916,158	658,255	(12,778)	(480,217)	72,949	8,154,367

(*1) ₩6,528 million of depreciation expenses are recognized as construction-in-progress and ₩202 million of depreciation expenses are recognized as other losses.

(*2) Other additions in the amount of ₩72,949 million consist of ₩10,000 million transferred from retirement benefits expense and depreciation expense, ₩69,800 million of capitalized interest expense, ₩267 million transferred from intangible assets, ₩95 million of translation effect of overseas operation financial statements, ₩2,645 million of receipt of government subsidy, and ₩4,568 million transferred to intangible assets. The weighted average capitalization rates for the years ended December 31, 2016 and 2015 are 2.90% and 3.43%, respectively.

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2016 and 2015

16. Property, Plant and Equipment, Continued

(2) Changes in property, plant and equipment during the years ended December 31, 2016 and 2015 are as follows, Continued:

(ii) For the year ended December 31, 2015

In millions of won

	Beginning balance	Acquisition / Capital expenditure	Disposal	Depreciation	Others	Ending balance
Land	₩ 560,071	-	(643)	-	70,817	630,245
Buildings	482,199	10	(4,419)	(39,564)	248,996	687,222
(Government grants)	(98)	-	-	12	(401)	(487)
Structures	577,735	-	-	(35,590)	38,478	580,623
Machinery	2,667,179	68,378	(13,544)	(328,465)	278,672	2,672,220
(Government grants)	(129)	-	-	41	-	(88)
Vehicles	1,466	-	-	(745)	444	1,165
Equipment	16,133	86	(2)	(8,647)	17,139	24,709
(Government grants)	-	-	-	1	(50)	(49)
Tools	3,688	43	-	(1,675)	1,392	3,448
Construction-in-progress	2,567,171	1,287,548	(5,676)	-	(573,689)	3,275,354
(Government grants)	(94,885)	-	-	-	(4,661)	(99,546)
Finance lease assets	135,510	-	-	(7,881)	13,713	141,342
	<u>₩ 6,916,040</u>	<u>1,356,065</u>	<u>(24,284)</u>	<u>(422,513)</u>	<u>90,850</u>	<u>7,916,158</u>

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2016 and 2015

17. Intangible Assets

(1) Intangible assets as of December 31, 2016 and 2015 are as follows:

(i) As of December 31, 2016

In millions of won

	Acquisition cost	Accumulated depreciation	Accumulated impairment loss	Book value
Computer software	₩ 30,965	(26,745)	-	4,220
Mining rights	9,330	(2,312)	-	7,018
Development costs	3,104	(1,932)	-	1,172
Leasehold rights	1,725	(183)	-	1,542
Others	83,198	(81,175)	(231)	1,792
	₩ 128,322	(112,347)	(231)	15,744

(ii) As of December 31, 2015

In millions of won

	Acquisition cost	Accumulated depreciation	Accumulated impairment loss	Book value
Computer software	₩ 28,465	(24,678)	-	3,787
Mining rights	8,620	(1,621)	-	6,999
Development costs	2,690	(1,387)	-	1,303
Leasehold rights	76	(52)	-	24
Others	83,195	(81,038)	(231)	1,926
	₩ 123,046	(108,776)	(231)	14,039

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2016 and 2015

17. Intangible Assets, Continued

(2) Changes in intangible assets during the years ended December 31, 2016 and 2015 are as follows:

(i) For the year ended December 31, 2016

<i>In millions of won</i>		Beginning balance	Acquisition/ Capital expenditure	Disposals	Amortization (*1)	Others (*2)	Ending balance
Computer software	₩	3,787	1	-	(1,806)	2,238	4,220
Mining rights		6,999	518	-	(651)	152	7,018
Development costs		1,303	-	-	(545)	414	1,172
Leasehold rights		24	-	-	(131)	1,649	1,542
Others		1,926	-	-	(137)	3	1,792
	₩	<u>14,039</u>	<u>519</u>	<u>-</u>	<u>(3,270)</u>	<u>4,456</u>	<u>15,744</u>

(*1) ₩311 million of amortization expenses are recognized as other losses.

(*2) Other additions of ₩4,456 million consist of ₩4,568 million replaced from construction-in-progress, ₩267 million replaced to construction-in-progress and offset by ₩155 million resulting from translation of overseas operation financial statements.

(ii) For the year ended December 31, 2015

<i>In millions of won</i>		Beginning balance	Acquisition/ Capital expenditure	Amortization	Others	Ending balance
Computer software	₩	7,087	3	(4,609)	1,306	3,787
Mining rights		7,862	142	(601)	(404)	6,999
Development costs		1,103	-	(440)	640	1,303
Leasehold rights		32	-	(8)	-	24
Others		2,068	-	(137)	(5)	1,926
	₩	<u>18,152</u>	<u>145</u>	<u>(5,795)</u>	<u>1,537</u>	<u>14,039</u>

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2016 and 2015

18. Trade and Other Payables

Accounts and other payables as of December 31, 2016 and 2015 are as follows:

In millions of won

		2016		2015	
		Current	Non-current	Current	Non-current
Trade payables	₩	224,508	-	204,772	-
Other payables		84,341	-	58,455	-
Accrued expenses		70,940	78	84,485	78
Other deposits		77	-	79	-
	₩	<u>379,866</u>	<u>78</u>	<u>347,791</u>	<u>78</u>

19. Borrowings and Debentures

(1) Details of borrowings as of December 31, 2016 and 2015 are as follows:

In millions of won

		2016	2015
Current Liabilities:			
Short-term borrowings	₩	389,787	454,375
Current portion of long-term borrowings		376	376
Current portion of long-term debentures		694,250	439,175
Less: discount on debentures		(342)	(259)
		<u>1,084,071</u>	<u>893,667</u>
Non-current Liabilities:			
Long-term borrowings		2,059	2,435
Debentures		3,933,066	4,077,303
Less: discount on debentures		(8,803)	(11,812)
		<u>3,926,322</u>	<u>4,067,926</u>
	₩	<u><u>5,010,393</u></u>	<u><u>4,961,593</u></u>

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2016 and 2015

19. Borrowings and Debentures, Continued

(2) Short-term borrowings as of December 31, 2016 are as follows:

In millions of won

Type	Lender	Annual interest rate		Maturity date	2016
Domestic short-term borrowings	Woori Investment Bank Co., Ltd.	Fixed rate	1.65%	2017.01.25	₩ 30,000
		Fixed rate	1.72%	2017.02.15	30,000
		Fixed rate	1.72%	2017.02.15	30,000
		Fixed rate	1.76%	2017.02.20	30,000
		Fixed rate	1.74%	2017.01.25	10,000
	KTB Investments & Securities. Co., Ltd. Dongbu Securities. Co., Ltd. Shinyoung Securities Co., Ltd. BNK Securities Co., Ltd.	Fixed rate	1.72%	2017.02.15	50,000
		Fixed rate	1.72%	2017.02.15	20,000
		Fixed rate	1.72%	2017.02.15	40,000
		Fixed rate	1.74%	2017.01.25	20,000
		Fixed rate	1.54%	2017.03.27	90,000
					350,000
Foreign short-term borrowings	Mizuho Corporate Bank Ltd.	Fixed rate	1.63%	2017.03.30	4,462
		Fixed rate	1.63%	2017.03.30	14,167
	Korea Development Bank	Fixed rate	1.58%	2017.05.24	4,393
		Fixed rate	1.58%	2017.05.26	16,765
					₩ 389,787

(3) Long-term borrowings as of December 31, 2016 and 2015 are as follows:

In millions of won

				Maturity date	2016	2015
Lender	Description	Annual interest rate				
Korea Resource Corporation	Long term borrowings	Floating rate	KTB (three years) – 2.25%	2023.03.15	₩ 1,871	2,171
				2023.06.15	73	84
				2023.12.15	190	218
				2024.06.15	56	63
				2024.09.15	161	182
				2025.06.15	9	10
				2025.12.15	75	83
					2,435	2,811
	Less: current portion					
				(376)	(376)	
				₩ 2,059	2,435	

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2016 and 2015

19. Borrowings and Debentures, Continued

(4) Domestic debentures as of December 31, 2016 and 2015 are as follows:

<i>In millions of won</i>	Issue date	Maturity date	Annual interest rate	2016	2015
Corporate bond #15-1	2011.05.27	2016.05.27	Fixed rate 4.09%	₩ -	100,000
Corporate bond #15-2	2011.05.27	2018.05.27	Fixed rate 4.19%	100,000	100,000
Corporate bond #16-1	2011.11.18	2016.11.18	Fixed rate 3.97%	-	160,000
Corporate bond #16-2	2011.11.18	2018.11.18	Fixed rate 4.04%	60,000	60,000
Corporate bond #16-3	2011.11.18	2021.11.18	Fixed rate 4.15%	80,000	80,000
Corporate bond #17-1	2012.10.22	2022.10.22	Fixed rate 3.22%	100,000	100,000
Corporate bond #17-2	2012.10.22	2027.10.22	Fixed rate 3.26%	100,000	100,000
Corporate bond #18-1	2013.05.07	2023.05.07	Fixed rate 2.93%	120,000	120,000
Corporate bond #18-2	2013.05.07	2028.05.07	Fixed rate 3.03%	80,000	80,000
Corporate bond #19-1	2013.06.14	2018.06.14	Fixed rate 3.16%	90,000	90,000
Corporate bond #19-2	2013.06.14	2023.06.14	Fixed rate 3.38%	100,000	100,000
Corporate bond #20-1	2013.09.12	2018.09.12	Fixed rate 3.46%	110,000	110,000
Corporate bond #20-2	2013.09.12	2020.09.12	Fixed rate 3.62%	100,000	100,000
Corporate bond #21	2013.10.22	2023.10.22	Fixed rate 3.67%	110,000	110,000
Corporate bond #22	2013.10.31	2023.10.31	Fixed rate 3.607%	90,000	90,000
Corporate bond #23-1	2014.10.23	2019.10.23	Fixed rate 2.467%	80,000	80,000
Corporate bond #23-2	2014.10.23	2024.10.23	Fixed rate 2.815%	120,000	120,000
Corporate bond #24-1	2014.11.20	2017.11.20	Fixed rate 2.21%	90,000	90,000
Corporate bond #24-2	2014.11.20	2024.11.20	Fixed rate 2.812%	110,000	110,000
Corporate bond #25	2014.12.11	2019.12.11	Fixed rate 2.488%	80,000	80,000
Corporate bond #26-1	2015.03.05	2020.03.05	Fixed rate 2.139%	110,000	110,000
Corporate bond #26-2	2015.03.05	2025.03.05	Fixed rate 2.427%	90,000	90,000
Corporate bond #27-1	2015.05.08	2020.05.08	Fixed rate 2.334%	120,000	120,000
Corporate bond #27-2	2015.05.08	2025.05.08	Fixed rate 2.701%	80,000	80,000
Corporate bond #28	2015.07.17	2020.07.17	Fixed rate 2.268%	80,000	80,000
Corporate bond #29	2015.09.21	2020.09.21	Fixed rate 1.997%	120,000	120,000
Corporate bond #30-1	2016.01.28	2021.01.28	Fixed rate 1.884%	90,000	-
Corporate bond #30-2	2016.01.28	2026.01.28	Fixed rate 2.103%	110,000	-
Corporate bond #31	2016.07.05	2021.07.05	Fixed rate 1.356%	100,000	-
Corporate bond #32-1	2016.09.09	2021.09.09	Fixed rate 1.447%	90,000	-
Corporate bond #32-2	2016.09.09	2026.09.09	Fixed rate 1.609%	110,000	-
				2,820,000	2,580,000
Less: discount on debentures				(5,289)	(5,075)
Less: current portion				(89,926)	(259,889)
				<u>₩ 2,724,785</u>	<u>2,315,036</u>

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2016 and 2015

19. Borrowings and Debentures, Continued

(5) Foreign debentures as of December 31, 2016 and 2015 are as follows:

<i>In millions of won</i>						
	<u>Issue date</u>	<u>Maturity date</u>	<u>Annual interest rate</u>		<u>2016</u>	<u>2015</u>
Euro bond #2	2006.09.29	2016.09.29	Fixed rate 5.50%	₩	-	179,175
Global bond #1	2012.05.10	2017.05.10	Fixed rate 3.125%		604,250	586,000
Swiss franc bond #1	2013.09.26	2019.03.26	Fixed rate 1.625%		236,266	237,078
Global bond #2	2013.10.10	2018.10.10	Fixed rate 2.875%		604,250	586,000
Euro bond #3	2014.09.22	2019.09.22	Fixed rate 2.625%		362,550	348,225
					<u>1,807,316</u>	<u>1,936,478</u>
Less: discount on debentures					(3,856)	(6,995)
Less: current portion					<u>(603,982)</u>	<u>(179,028)</u>
				₩	<u>1,199,478</u>	<u>1,750,455</u>

(6) Retirement plans of debentures and borrowings as of December 31, 2016 are as follows:

<i>In millions of won</i>		<u>Less than 1 year</u>	<u>1 - 2 years</u>	<u>2 - 5 years</u>	<u>More than 5 years</u>	<u>Total</u>
Short-term borrowings	₩	389,787	-	-	-	389,787
Long-term borrowings		376	375	1,126	558	2,435
Debentures		<u>694,250</u>	<u>964,250</u>	<u>1,648,816</u>	<u>1,320,000</u>	<u>4,627,316</u>
	₩	<u>1,084,413</u>	<u>964,625</u>	<u>1,649,942</u>	<u>1,320,558</u>	<u>5,019,538</u>

20. Other Financial Liabilities

Other financial liabilities as of December 31, 2016 and 2015 are as follows:

<i>In millions of won</i>		<u>2016</u>		<u>2015</u>	
		<u>Current</u>	<u>Non-current</u>	<u>Current</u>	<u>Non-current</u>
Derivative liabilities	₩	356	-	833	-

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2016 and 2015

21. Employee Benefit Obligations

(1) The principal assumptions used on actuarial valuation as of December 31, 2016 and 2015 are as follows:

	<u>2016</u>	<u>2015</u>
Discount rate	2.56%	2.52%
Future salary increase rate	4.08 ~ 7.97%	4.08 ~ 7.97%

(2) Details of the Group's expense relating to its defined benefit plans for the years ended December 31, 2016 and 2015 are as follows:

In millions of won

	<u>2016</u>	<u>2015</u>
Current service cost	₩ 12,204	10,628
Interest cost	2,057	2,035
Gain on settlement	(86)	(221)
Expected return on plan assets	(493)	(421)
	<u>₩ 13,682</u>	<u>12,021</u>

The Group's expense relating to its defined benefit plans in the financial statements are as follows:

In millions of won

	<u>2016</u>	<u>2015</u>
Cost of sales	₩ 10,077	8,387
Selling and administrative expenses	1,278	1,092
Construction-in-progress	2,327	2,542
	<u>₩ 13,682</u>	<u>12,021</u>

Employee benefit obligations expenses of ₩4,958 million and ₩4,207 million, respectively, are recognized as cost of sales, and ₩629 million and ₩548 million, respectively, are recognized as selling and administrative expenses, and ₩1,145 million and ₩1,275 million, respectively, are recognized as construction-in-progress, relates to the Group's defined contribution plans for the years ended December 31, 2016 and 2015.

(3) Employee benefit obligation as of December 31, 2016 and 2015 are as follows:

In millions of won

	<u>2016</u>	<u>2015</u>
Present value of defined benefit obligation from funded plans	₩ 94,896	76,519
Fair value of plan assets	(23,917)	(18,873)
Net employee benefits obligation from defined benefit plans	<u>₩ 70,979</u>	<u>57,646</u>

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2016 and 2015

21. Employee Benefit Obligations, Continued

(4) Changes in retirement benefit obligation during the years ended December 31, 2016 and 2015 are as follows:

<i>In millions of won</i>		2016	2015
Beginning balance	₩	76,519	64,106
Current service cost		12,204	10,628
Gain on settlement		(86)	(221)
Interest cost		2,057	2,035
Remeasurements loss		7,172	4,447
Actual payments		(2,970)	(4,476)
Ending balance	₩	<u>94,896</u>	<u>76,519</u>

(5) Changes in the fair value of the plan assets during the years ended December 31, 2016 and 2015 are as follows:

<i>In millions of won</i>		2016	2015
Beginning balance	₩	18,873	13,076
Expected return on plan assets		493	421
Remeasurements loss		(135)	(126)
Contributions by the employers		4,686	5,535
Actual payments		-	(33)
Ending balance	₩	<u>23,917</u>	<u>18,873</u>

Accumulated remeasurements loss on employee benefit obligations recorded as other comprehensive loss amounts to ₩32,523 million and ₩26,984 million, respectively, for the years ended December 31, 2016 and 2015.

(6) Fair value of major categories of plan assets as of December 31, 2016 and 2015 are as follows:

<i>In millions of won</i>		2016	2015
Equity instrument	₩	1,076	684
Debt instrument		2,270	2,665
Deposits		2,947	8,770
Others		17,624	6,754
	₩	<u>23,917</u>	<u>18,873</u>

Actual returns for the years ended December 31, 2016 and 2015 are ₩358 million and ₩296 million, respectively.

(7) Other long-term employee benefit liabilities as of December 31, 2016 and 2015 are as follows:

<i>In millions of won</i>		2016	2015
Long-service leave	₩	625	553

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2016 and 2015

21. Employee Benefit Obligations, Continued

(8) Remeasurement component recognized in other comprehensive income (loss) for the years ended December 31, 2016 and 2015 are as follows:

<i>In millions of won</i>		2016	2015
Remesurements loss (gain) from changes in financial assumptions	₩	(502)	4,999
Experience adjustments		7,674	(552)
Expected return		135	126
	₩	<u>7,307</u>	<u>4,573</u>

22. Provisions

(1) Provisions as of December 31, 2016 and 2015 are as follows:

<i>In millions of won</i>		2016	2015
		Current	Non-current
Litigation provisions (*1)	₩	-	5,123
		-	4,096

(*1) On December 18, 2013, the Supreme Court of Korea made a ruling regarding the scope of Ordinary Wage which could be the basis for overtime payment, allowance for night work and others. As of December 31, 2016, the Group recognized the litigation provisions for such amount expected to be paid to employees in relation to the on-going litigation over the Ordinary Wage.

(2) Changes in provisions during the years ended December 31, 2016 and 2015 is as follows:

(i) For the year ended December 31, 2016

<i>In millions of won</i>		Beginning balance	Provision increase	Others	Ending balance
Litigation Provisions	₩	4,096	1,017	10	5,123

(ii) For the year ended December 31, 2015

<i>In millions of won</i>		Beginning balance	Provision increase	Provision reversals	Provision utilization	Ending balance
Litigation Provisions	₩	27,230	4,833	(1,957)	(26,010)	4,096

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2016 and 2015

23. Non-financial Liabilities

Other non-financial liabilities as of December 31, 2016 and 2015 are as follows:

<i>In millions of won</i>	2016		2015	
	Current	Non-current	Current	Non-current
Advance received	₩ -	-	-	2,492
Unearned revenue	278	-	8	-
Withholdings	6,004	-	5,116	-
Others (*1)	94,046	199	64,058	140
	₩ 100,328	199	69,182	2,632

(*1) Others are primarily comprised of renewable portfolio standard (RPS) provisions for the governmental regulations requiring the production of energies from renewable energy sources, and provisions for the greenhouse gas emission rights.

24. Share Capital

(1) Share capital as of December 31, 2016 and 2015 are as follows:

<i>In millions of won, except par value and number of shares</i>				2016		2015	
Type	Number of shares authorized	Number of shares issued	Par value	Govt.	Non-govt.	Govt.	Non-govt.
Common Stock	100,000,000	33,329,119	₩ 5,000	-	166,646	-	158,946

(2) Changes in number of outstanding capital stock during the years ended December 31, 2016 and 2015 are as follows:

<i>Number of shares</i>	2016	2015
Beginning number of shares	31,789,285	31,789,285
Changes for the year	1,539,834	-
Ending number of shares	33,329,119	31,789,285

(3) Share premium as of December 31, 2016 and 2015 are as follows:

<i>In millions of won</i>	2016	2015
Paid-in capital in excess of par value	₩ 1,106,253	1,033,419

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2016 and 2015

25. Retained Earnings and Dividends

(1) Retained earnings as of December 31, 2016 and 2015 are as follows:

<i>In millions of won</i>		2016	2015
Legal reserves (*1)	₩	66,015	62,392
Voluntary reserves		1,446,166	1,197,947
Retained earnings before appropriations		1,081,241	984,399
	₩	<u>2,593,422</u>	<u>2,244,738</u>

(*1) The Commercial Code of the Republic of Korea requires KOWEPO to appropriate as a legal reserve, an amount equal to a minimum of 10% of annual cash dividends paid, until the reserve equals 50% of its issued capital stock. The reserve is not available for the payment of cash dividends, but may be transferred to capital stock through a resolution of the Board of Directors or used to reduce accumulated deficit, if any, with the ratification of the shareholders.

(2) Composition of voluntary reserves as of December 31, 2016 and 2015 are as follows:

<i>In millions of won</i>		2016	2015
Reserve for business stabilization (*1)	₩	181	181
Reserve for research and human development (*2)		-	6,129
Reserve for investment on social overhead capital		13,000	13,000
Reserve for business expansion		1,432,985	1,178,637
	₩	<u>1,446,166</u>	<u>1,197,947</u>

(*1) Prior to 2002, KOWEPO appropriated certain tax-deductible benefits as reserve for business stabilization, for offsetting future deficit in accordance with the relevant tax laws. Due to the amendment of such tax laws on December 11, 2002, the reserve is no longer required. However, KOWEPO continues to maintain such reserve on a voluntary basis.

(*2) The reserve for research and human development is appropriated by KOWEPO to use as qualified tax credits to reduce corporate tax liabilities. The reserve is available for cash dividends for a certain period as defined by the Tax Incentive Control Law of Korea.

(3) Changes in retained earnings before appropriations during the years ended December 31, 2016 and 2015 are as follows:

<i>In millions of won</i>		2016	2015
Beginning balance	₩	984,399	831,648
Profit for the year - Controlling company		393,271	300,260
Dividends paid		(36,238)	(22,749)
Remeasurements loss		(5,539)	(3,466)
Transfers to reserves		(257,971)	(124,058)
Appropriation to reserves		6,129	6,129
Hybrid securities interest		(3,070)	(3,070)
Adjustment of retained earnings of equity method		260	(295)
Ending balance	₩	<u>1,081,241</u>	<u>984,399</u>

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2016 and 2015

25. Retained Earnings and Dividends, Continued

(4) Dividends paid for the years ended December 31, 2016 and 2015 are as follows:

(i) For the year ended December 31, 2016

Type	Number of shares issued	Number of treasury shares	Number of share eligible for dividends	Dividends per share (in won)	Total dividends (in millions of won)
Common Stock	33,329,119	-	33,329,119	1,087	36,238

(ii) For the year ended December 31, 2015

Type	Number of shares issued	Number of treasury shares	Number of share eligible for dividends	Dividends per share (in won)	Total dividends (in millions of won)
Common Stock	31,789,285	-	31,789,285	716	22,749

(5) Changes in retained earnings of equity method during the years ended December 31, 2016 and 2015 are as follows:

<i>In millions of won</i>	2016	2015
Beginning balance	₩ (295)	-
Changes during the year	260	(295)
Ending balance	₩ (35)	(295)

(6) Changes in accumulated remeasurements loss on employee benefit obligations during the years ended December 31, 2016 and 2015 are as follows:

<i>In millions of won</i>	2016	2015
Beginning balance	₩ (26,984)	(23,518)
Changes during the year	(7,307)	(4,573)
Income tax effect	1,768	1,107
Ending balance	₩ (32,523)	(26,984)

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2016 and 2015

26. Statement of appropriation of retained earnings

Statements of appropriation of retained earnings of KOWEPO based on its separate financial statements for the years ended December 31, 2016 and 2015 are as follows:

Date of appropriation for 2016: March 30, 2017

Date of appropriation for 2015: March 30, 2016

In millions of won

	2016	2015
Unappropriated retained earnings		
Balance at beginning of year	₩ 711,596	711,596
Hybrid securities interest	(3,070)	(3,070)
Net income	401,936	294,617
Remeasurements loss	(5,539)	(3,466)
Balance at end of year before appropriation	<u>1,104,923</u>	<u>999,677</u>
Reverse of reserve for research and human development	-	6,129
	<u>1,104,923</u>	<u>1,005,806</u>
Appropriation of retained earnings		
Cash dividends	(66,992)	(36,238)
Legal reserve	(6,699)	(3,624)
Reserve for business expansion	(319,636)	(254,348)
Unappropriated retained earnings to be carried over	<u>₩ 711,596</u>	<u>711,596</u>

27. Other Components of Equity

(1) Other components of equity as of December 31, 2016 and 2015 are as follows:

In millions of won

	2016	2015
Accumulated other comprehensive loss	₩ (7,260)	(9,342)
Other equity	<u>(41,783)</u>	<u>(41,783)</u>
	<u>₩ (49,043)</u>	<u>(51,125)</u>

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2016 and 2015

27. Other Components of Equity, Continued

(2) Changes in accumulated other comprehensive income (loss) during the years ended December 31, 2016 and 2015 are as follows:

(i) For the year ended December 31, 2016

In millions of won

		Available- for-sale financial assets valuation reserve	Reserve for income (loss) on valuation of derivatives	Reserve for income (loss) on overseas operations translation credit	Share in other comprehensive income (loss) of associates	Total
Beginning balance	₩	2,789	(7,114)	(5,852)	835	(9,342)
Valuation of available-for-sale financial assets		(5,049)	-	-	-	(5,049)
Valuation of derivatives		-	4,278	-	-	4,278
Overseas operations translation		-	-	548	-	548
Valuation of investments in associates		-	-	-	2,794	2,794
Tax effect		1,222	(1,035)	-	(676)	(489)
Ending balance	₩	<u>(1,038)</u>	<u>(3,871)</u>	<u>(5,304)</u>	<u>2,953</u>	<u>(7,260)</u>

(ii) For the year ended December 31, 2015

In millions of won

		Available -for-sale financial assets valuation reserve	Reserve for income (loss) on valuation of derivatives	Reserve for loss on overseas operations translation credit	Share in other comprehensive income (loss) of associates	Total
Beginning balance	₩	2,286	(11,887)	(5,241)	(1,045)	(15,887)
Valuation of available-for-sale financial assets		664	-	-	-	664
Valuation of derivatives		-	6,297	-	-	6,297
Overseas operations translation		-	-	(611)	-	(611)
Valuation of investments in associates		-	-	-	2,480	2,480
Tax effect		(161)	(1,524)	-	(600)	(2,285)
Ending balance	₩	<u>2,789</u>	<u>(7,114)</u>	<u>(5,852)</u>	<u>835</u>	<u>(9,342)</u>

(3) No changes occurred during the year ended December 31, 2016 and 2015.

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2016 and 2015

28. Hybrid Securities

Hybrid securities classified as equity as of December 31, 2016 and 2015 are as follows :

In millions of won

Type	Description	Issue date	Maturity date	Annual interest rate		December 31, 2016	December 31, 2015
Bond-hybrid capital securities #1	Interest-bearing, unwarranted and subordinated bonds to bear	2012.10.18	2042.10.18	KTB(five years) +1.20%	₩	100,000	100,000
Issuance costs						(250)	(250)
					₩	<u>99,750</u>	<u>99,750</u>

In October 2012, KOWEPO issued hybrid securities and KOWEPO has a right to extend the maturity date of the hybrid securities with the same condition of it at the maturity date, continually.

Interest payments may be deferred under certain conditions, such as resolution from the general meeting of stockholders that a dividend not be paid.

The hybrid securities holders' preference in the event of liquidation is higher than the common stock holders, but lower than other creditors.

29. Sales

Details of sales for the years ended December 31, 2016 and 2015 are as follows:

(i) For the year ended December 31, 2016

In millions of won

		Domestic	Overseas
Sales of electricity	₩	4,158,126	-
Services		6,021	15,635
	₩	<u>4,164,147</u>	<u>15,635</u>

(ii) For the year ended December 31, 2015

In millions of won

		Domestic	Overseas
Sales of electricity	₩	4,205,989	4,730
Services		4,571	9,385
	₩	<u>4,210,560</u>	<u>14,115</u>

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2016 and 2015

30. Selling and Administrative Expenses

Composition of selling and administrative expenses for the years ended December 31, 2016 and 2015 are as follows:

<i>In millions of won</i>	2016	2015
Employee health and welfare benefit funds ₩	11,775	5,342
Salaries	26,103	21,590
Retirement benefit expense	1,907	1,639
Welfare and benefit expense	2,837	2,043
Insurance expense	45	41
Depreciation	13,589	7,377
Amortization	2,296	4,881
Commission	15,620	13,680
Advertising expense	1,004	594
Training expense	70	68
Vehicle maintenance expense	49	70
Publishing expense	159	152
Business promotion expense	98	100
Rent expense	936	4,207
Telecommunication expense	872	344
Transportation expense	-	204
Taxes and dues	1,486	600
Expendable supplies expense	804	464
Water, light and heating expense	451	295
Repairs and maintenance expense	3,854	1,147
Ordinary development expense	16,431	12,114
Travel expense	768	813
Survey and analysis expense	1	1
Others	2,917	4,578
₩	<u>104,072</u>	<u>82,344</u>

31. Other Non-operating Income and Expense

(1) Other non-operating income for the years ended December 31, 2016 and 2015 are as follows:

<i>In millions of won</i>	2016	2015
Rental income ₩	3,834	3,689
Gain on gratuitous conveyance of assets from outside	152	-
₩	<u>3,986</u>	<u>3,689</u>

(2) Other non-operating expenses for the years ended December 31, 2016 and 2015 are as follows:

<i>In millions of won</i>	2016	2015
Donations ₩	642	443

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2016 and 2015

32. Other Income and Loss

Composition of other income and loss for the years ended December 31, 2016 and 2015 are as follows:

<i>In millions of won</i>		2016	2015
Gain on disposal of property, plant, and equipment	₩	4,333	9,885
Gain on foreign currency translation		-	242
Gain on foreign currency transaction		2,673	3,196
Other gains		12,414	20,645
Loss on disposal of property, plant, and equipment		(5,952)	(13,310)
Loss on disposal of intangible assets		-	-
Loss on foreign currency translation		(1,728)	(164)
Loss on foreign currency transaction		(3,820)	(3,880)
Other losses		(3,105)	(15,080)
	₩	<u>4,815</u>	<u>1,534</u>

33. Finance Income

(1) Finance income for the years ended December 31, 2016 and 2015 are as follows:

<i>In millions of won</i>		2016	2015
Interest income	₩	1,845	2,542
Gain on valuation of derivatives		49,498	121,557
Gain on foreign currency translation		872	-
Gain on foreign currency transaction		10,275	543
	₩	<u>62,490</u>	<u>124,642</u>

(2) Interest income included in finance income for the years ended December 31, 2016 and 2015 are as follows:

<i>In millions of won</i>		2016	2015
Cash and cash equivalents	₩	1,447	1,795
Loans and receivables		398	725
Available-for-sale financial assets		-	22
	₩	<u>1,845</u>	<u>2,542</u>

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2016 and 2015

34. Finance Expenses

(1) Finance expenses for the years ended December 31, 2016 and 2015 are as follows:

<i>In millions of won</i>		2016	2015
Interest expense	₩	70,890	70,580
Loss on disposal of financial assets		-	82
Impairment loss on available-for-sale financial assets		502	-
Loss on valuation of derivatives		1,168	833
Loss on transaction of derivatives		13,222	-
Loss on foreign currency translation		49,044	121,121
Loss on foreign currency transaction		-	233
	₩	<u>134,826</u>	<u>192,849</u>

(2) Interest expenses included in finance expenses for the years ended December 31, 2016 and 2015 are as follows:

<i>In millions of won</i>		2016	2015
Short term borrowings	₩	3,543	7,243
Long term borrowings		20	23
Debentures		137,041	154,713
Trade and other payables		86	94
		<u>140,690</u>	<u>162,073</u>
Less: capitalized borrowing costs		(69,800)	(91,493)
	₩	<u>70,890</u>	<u>70,580</u>

35. Income Tax Expense

(1) Components of income tax expense for the years ended December 31, 2016 and 2015 are as follows:

<i>In millions of won</i>		2016	2015
Current income tax expense			
Current income tax	₩	116,444	74,016
Adjustment for prior period		1,540	1,296
Income tax charged directly to equity		2,795	402
		<u>120,779</u>	<u>75,714</u>
Deferred income tax expense			
Generation and realization of temporary differences		(4,930)	2,217
Reclassification of equity to profit or loss		140	-
Tax credit carryforwards		2,131	34,065
		<u>(2,659)</u>	<u>36,282</u>
Income tax expense	₩	<u>118,120</u>	<u>111,996</u>

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2016 and 2015

35. Income Tax Expense, Continued

(2) Reconciliation between the actual income tax expense and that amount computed by applying 24.2% to profit before income tax expense for the years ended December 31, 2016 and 2015 are as follows:

<i>In millions of won</i>	2016	2015
Profit before income tax expense	₩ 511,314	412,305
Income tax expense in accordance with statutory tax rate	<u>126,053</u>	<u>98,171</u>
Adjustments		
Effects of the application of accumulative tax rate	(462)	(462)
Effects of non-deductible expenses	34	1,448
Effects of tax credits or exemptions	<u>(9,045)</u>	<u>11,543</u>
	(9,473)	12,529
Adjustment for prior period	1,540	1,296
Income tax expense	<u>₩ 118,120</u>	<u>111,996</u>

The average effective tax rates for the years ended December 31, 2016 and 2015 are 23.10% and 27.16%, respectively.

(3) Relating to items directly to equity in income tax for the years ended December 31, 2016 and 2015 are as follows:

<i>In millions of won</i>	2016	2015
Interest payments on hybrid securities	₩ 980	980

(4) Income tax recognized in other comprehensive income (loss) for the years ended December 31, 2016 and 2015 are as follows:

<i>In millions of won</i>	2016	2015
Gain (loss) on valuation of available-for-sale financial assets, net	₩ 1,222	(161)
Loss on valuation of derivatives using cash flow hedge accounting, net	(1,176)	(1,524)
Remeasurements of defined benefit obligation	1,768	1,107
Income tax expenses (benefit)	<u>₩ 1,814</u>	<u>(578)</u>

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2016 and 2015

35. Income Tax Expense, Continued

(5) Recognized deferred income tax assets (liabilities) in the statement of financial position for the years ended December 31, 2016 and 2015 are as follows:

(i) For the year ended December 31, 2016

		Balance as of January 1, 2016	Amounts recognized in profit or loss	Amounts recognized in other comprehensive income (loss)	Amounts recognized directly in equity	Amounts reclassified equity to profit or loss	Balance as of December 31, 2016
<i>In millions of won</i>							
Deferred tax on temporary differences							
Long-term employee	₩	13,024	2,178	1,768	-	-	16,970
Cash flow hedges		(30,937)	(3,232)	(1,176)	-	140	(35,205)
Property, plant and		(271,058)	(5,523)	-	-	-	(276,581)
Intangible assets		56	-	-	-	-	56
Available-for-sale financial							
assets		(890)	121	1,222	-	-	453
Foreign currency translation		34,997	2,180	-	-	-	37,177
Other provision		(4,239)	-	-	-	-	(4,239)
Others		38,174	6,361	-	980	-	45,515
		(220,873)	2,085	1,814	980	140	(215,854)
Tax credit		2,131	(2,131)	-	-	-	-
Total	₩	(218,742)	(46)	1,814	980	140	(215,854)

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2016 and 2015

35. Income Tax Expense, Continued

(5) Recognized deferred income tax assets (liabilities) in the statement of financial position for the years ended December 31, 2016 and 2015 are as follows, Continued:

(ii) For the year ended December 31, 2015

<i>In millions of won</i>	Balance as of January 1, 2015	Amounts recognized in profit or loss	Amounts recognized in other comprehensive income (loss)	Amounts recognized directly in equity	Balance as of December 31, 2015
Deferred tax on temporary differences					
Long-term employee benefits ₩	10,871	1,046	1,107	-	13,024
Cash flow hedges	(324)	(29,089)	(1,524)	-	(30,937)
Property, plant and equipment	(255,298)	(15,760)	-	-	(271,058)
Intangible assets	56	-	-	-	56
Available-for-sale financial assets	(729)	-	(161)	-	(890)
Foreign currency translation	5,682	29,315	-	-	34,997
Allowance for doubtful accounts	(1,116)	1,116	-	-	-
Other provision	(4,239)	-	-	-	(4,239)
Reserve for research and human development	(1,896)	1,896	-	-	-
Others	28,284	8,910	-	980	38,174
	(218,709)	(2,566)	(578)	980	(220,873)
Tax credit	36,197	(34,066)	-	-	2,131
Total ₩	(182,512)	(36,632)	(578)	980	(218,742)

(6) Deferred tax assets (liabilities) presented in the statement of financial position are as follows:

<i>In millions of won</i>	2016	2015
Deferred income tax assets ₩	144	56
Deferred income tax liabilities	(215,998)	(218,798)
	₩ (215,854)	(218,742)

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2016 and 2015

36. Expenses Classified by Nature

Expenses classified by nature for the years ended December 31, 2016 and 2015 are as follows:

(1) For the year ended December 31, 2016

In millions of won

	Selling and administrative expenses	Cost of sales	Total
Raw materials used	₩ -	2,612,115	2,612,115
Employee health and welfare benefit funds	11,775	-	11,775
Salaries	26,103	135,887	161,990
Retirement benefit expense	1,907	15,035	16,942
Welfare and benefit expense	2,837	12,035	14,872
Insurance expense	45	4,443	4,488
Depreciation	13,589	459,898	473,487
Amortization	2,296	663	2,959
Commission	15,620	14,577	30,197
Advertising expense	1,004	434	1,438
Training expense	70	216	286
Vehicle maintenance expense	49	56	105
Publishing expense	159	199	358
Business promotion expense	98	212	310
Rent expense	936	12,037	12,973
Telecommunication expense	872	132	1,004
Transportation expense	-	12	12
Taxes and dues	1,486	21,171	22,657
Expendable supplies expense	804	375	1,179
Water, light and heating expense	451	559	1,010
Repairs and maintenance expense	3,854	137,890	141,744
Ordinary development expense	16,431	10,379	26,810
Travel expense	768	480	1,248
Clothing expense	-	278	278
Survey and analysis expense	1	111	112
Others	2,917	47,855	50,772
	₩ <u>104,072</u>	<u>3,487,049</u>	<u>3,591,121</u>

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2016 and 2015

36. Expenses Classified by Nature, Continued

(2) For the year ended December 31, 2015

In millions of won

	Selling and administrative expenses	Cost of sales	Total
Raw materials used	₩ -	2,890,622	2,890,622
Employee health and welfare benefit funds	5,342	-	5,342
Salaries	21,590	120,945	142,535
Retirement benefit expense	1,639	12,594	14,233
Welfare and benefit expense	2,043	10,610	12,653
Insurance expense	41	7,962	8,003
Depreciation	7,377	412,562	419,939
Amortization	4,881	655	5,536
Commission	13,680	14,244	27,924
Advertising expense	594	437	1,031
Training expense	68	221	289
Vehicle maintenance expense	70	53	123
Publishing expense	152	105	257
Business promotion expense	100	140	240
Rent expense	4,207	13,163	17,370
Telecommunication expense	344	467	811
Transportation expense	204	98	302
Taxes and dues	600	19,831	20,431
Expendable supplies expense	464	324	788
Water, light and heating expense	295	240	535
Repairs and maintenance expense	1,147	120,774	121,921
Ordinary development expense	12,114	13,876	25,990
Travel expense	813	319	1,132
Clothing expense	-	350	350
Survey and analysis expense	1	95	96
Others	4,578	12,743	17,321
	₩ <u>82,344</u>	<u>3,653,430</u>	<u>3,735,774</u>

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2016 and 2015

37. Earnings per Share

(1) Basic earnings per share for the years ended December 31, 2016 and 2015 are as follows:

<i>In won</i>		2016	2015
Basic earnings per share	₩	12,345	9,445

(*) Since the Group does not own dilutive securities, basic earnings per share is identical to dilutive earnings per share.

(2) Controlling interest in profit and weighted average number of common shares outstanding for the years ended December 31, 2016 and 2015 are as follows:

<i>In millions of won, except for number of share</i>		2016	2015
Controlling interest in profit	₩	393,271	300,260
Weighted average number of common share		31,856,785	31,789,285

38. Risk Management

(1) Capital risk management

The Group manages its capital to ensure that it will be able to continue as a going concern while maximizing the return to shareholder through the optimization of the debt and equity balance. The capital structure of the Group consists of net debt (offset by cash and bank balances) and equity. The Group's overall capital risk management strategy remains unchanged from that of the prior year.

Details of the Group's capital management accounts as of December 31, 2016 and 2015 are as follows:

<i>In millions of won</i>		2016	2015
Total borrowings and debentures	₩	5,010,393	4,961,593
Cash and cash equivalents		(246,692)	(105,559)
Net borrowings and debentures		4,763,701	4,856,034
Total shareholder's equity	₩	3,923,278	3,485,986
Debt to equity percentage		121.42%	139.30%

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2016 and 2015

38. Risk Management, Continued

(2) Financial risk management

The Group is exposed to various risks related to its financial instruments, such as, market risk (currency risk, interest rate risk, price risk), credit risk. The Group monitors and manages the financial risks relating to the operations of the Group through internal risk reports which analyse exposures by degree and magnitude of risks.

The Group uses derivative financial instruments to certain hedge risk exposures. The Group's overall financial risk management strategy remains unchanged from the prior year.

1) Credit risk

Book values of the financial assets represent the maximum exposure of the credit risk. Details of the Group's level of maximum exposure to credit risk as of December 31, 2016 and 2015 are as follows:

<i>In millions of won</i>		2016	2015
Cash and cash equivalents	₩	246,692	105,559
Loans and receivables		16,483	14,991
Short-term financial instruments		10,000	8,000
Derivative assets (trading)		1,468	1,205
Derivative assets (hedge accounting)		145,590	128,694
Trade and other receivables		579,594	527,558
Available-for-sale financial assets		94,837	13,720

2) Market risk

Market risk is the risk that the Group's fair values of the financial instruments or future cash flows are affected by the changes in the market. Market risk consists of interest rate risk, currency risk and other price risk.

3) Sensitivity analysis

a) Major assets and liabilities with uncertainties in underlying assumptions

① Defined benefit obligation

A sensitivity analysis on the Group's defined benefit obligation assuming a 1% increase or decrease in various assumptions as of December 31, 2016 and 2015 are as follows:

<i>In millions of won</i>		2016		2015	
Type	Accounts	1% Increase	1% Decrease	1% Increase	1% Decrease
Future salary increase rate	Defined benefit obligation	₩ 11,698	(10,233)	9,514	(8,243)
Discount rate	Defined benefit obligation	(10,546)	12,595	(8,641)	10,247

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2016 and 2015

38. Risk Management, Continued

(2) Financial risk management, Continued

3) Sensitivity analysis, Continued

b) Management judgment effected by uncertainties in underlying assumptions

① Foreign currency risk

The Group undertakes transactions denominated in foreign currencies; consequently, exposures to currency exchange rate fluctuations arise. The carrying amount of the Group's, except for the Group's foreign subsidiary, foreign currency denominated monetary assets and monetary liabilities at the end of the reporting year are as follows:

<i>In thousands of foreign currencies</i>	Assets		Liabilities	
	2016	2015	2016	2015
USD	2,817	333	1,405,606	1,547,284
JPY	50	-	208,828	50,879
EUR	-	-	35	67
CHF	-	-	200,000	200,000
GBP	-	-	28	2
AUD	30	-	-	-

A sensitivity analysis on the Group's profit with a 10% increase or decrease in currency exchange rates for the years ended December 31, 2016 and 2015 are as follows:

<i>In millions of won</i>	2016		2015	
	10% Increase	10% Decrease	10% Increase	10% Decrease
Increase (decrease) of profit before income tax	₩ (193,376)	193,376	(205,069)	205,069
Increase (decrease) of shareholder's equity (*1)	(193,376)	193,376	(205,069)	205,069

(*1) Tax effect is not considered.

Sensitivity analysis above is conducted for monetary assets and liabilities denominated in foreign currencies other than functional currency, without consideration of hedge effect of related derivatives, as of December 31, 2016 and 2015.

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2016 and 2015

38. Risk Management, Continued

(2) Financial risk management, Continued

3) Sensitivity analysis, Continued

b) Management judgment effected by uncertainties in underlying assumptions, Continued

① Foreign currency risk, Continued

To manage its foreign currency risk related to foreign currency denominated receivables and payables, the Group has a policy to enter into currency swap agreements. In addition, to manage its foreign currency risk related to foreign currency denominated expected sales transactions and purchase transactions, the Group enters into cross-currency forward agreements.

② Interest rate risk

The Group is exposed to interest rate risk due to its borrowing with floating interest rates. A 1% increase or decrease is used when reporting interest rate risk internally to key management personnel which represents management's assessment of the reasonably possible change in interest rates.

The Group's borrowings and debentures with floating interest rates as of December 31, 2016 and 2015 are as follows:

<i>In millions of won</i>		2016	2015
Short-term borrowings	₩	-	34,375
Long-term borrowings		2,435	2,810
	₩	<u>2,435</u>	<u>37,185</u>

Sensitivity analysis on the Group's borrowings and debentures assuming a 1% increase or decrease in interest rates for the year ended December 31, 2016 and 2015 are as follows:

<i>In millions of won</i>		2016		2015	
		1% Increase	1% Decrease	1% Increase	1% Decrease
Increase (decrease) of profit before income tax	₩	(24)	24	(372)	372
Increase (decrease) of shareholder's equity (*1)		(24)	24	(372)	372

(*1) Tax effect is not considered.

To manage its interest rate risks, in addition to maintaining an appropriate mix of fixed and floating rate loans, the Group enters into certain interest rate swap agreements. This analysis measures interest rate risk before reflecting hedging effect of derivatives.

4) Liquidity risk

The Group has established an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities.

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2016 and 2015

38. Risk Management, Continued

(2) Financial risk management, Continued

4) Liquidity risk, Continued

In addition, the Group has established credit lines on its trade financing and bank overdrafts, and through payment guarantees it has received, it maintains an adequate credit (borrowing) line. In addition, in case of major construction investment, the Group has the ability to use reserve cash or utilize long-term borrowings.

Details of contractual maturities of the Group's non-derivative financial liabilities based on agreement terms are as follows. The amount disclosed below represents the undiscounted cash flows of the principal and estimated interest amounts that the Group is obligated to pay in the future based on the earliest repayment date:

(i) As of December 31, 2016

<i>In millions of won</i>	Less than 1 year	1-2 years	2-5 years	More than 5 years	Total
Borrowings and debentures	₩ 1,203,050	1,066,769	1,823,169	1,436,323	5,529,311
Trade and other payables	379,866	78	-	-	379,944
	<u>₩ 1,582,916</u>	<u>1,066,847</u>	<u>1,823,169</u>	<u>1,436,323</u>	<u>5,909,255</u>

(ii) As of December 31, 2015

<i>In millions of won</i>	Less than 1 year	1-2 years	2-5 years	More than 5 years	Total
Borrowings and debentures	₩ 1,029,811	784,987	2,427,864	1,315,686	5,558,348
Trade and other payables	347,791	78	-	-	347,869
	<u>₩ 1,377,602</u>	<u>785,065</u>	<u>2,427,864</u>	<u>1,315,686</u>	<u>5,906,217</u>

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2016 and 2015

38. Risk Management, Continued

(2) Financial risk management, Continued

4) Liquidity risk, Continued

The expected maturities for non-derivative financial assets as of December 31, 2016 and 2015 in details are as follows:

(i) As of December 31, 2016

<i>In millions of won</i>		Less than 1 year	1-5 years	Over 5 years	Uncertain	Total
Cash and cash equivalents	₩	246,692	-	-	-	246,692
Available-for-sale financial assets		-	-	-	94,837	94,837
Loans and receivables		3,002	14,904	-	-	17,906
Short-term financial instruments		10,000	-	-	-	10,000
Trade and other receivables		579,041	808	-	-	579,849
	₩	<u>838,735</u>	<u>15,712</u>	<u>-</u>	<u>94,837</u>	<u>949,284</u>

(ii) As of December 31, 2015

<i>In millions of won</i>		Less than 1 year	1-5 years	Over 5 years	Uncertain	Total
Cash and cash equivalents	₩	105,559	-	-	-	105,559
Available-for-sale financial assets		-	-	-	13,720	13,720
Loans and receivables		3,684	12,923	-	-	16,607
Short-term financial instruments		8,000	-	-	-	8,000
Trade and other receivables		525,553	2,258	-	-	527,811
	₩	<u>642,796</u>	<u>15,181</u>	<u>-</u>	<u>13,720</u>	<u>671,697</u>

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2016 and 2015

38. Risk Management, Continued

(2) Financial risk management, Continued

4) Liquidity risk, Continued

Derivative financial liabilities classified by maturity periods which from reporting date to maturity date of contract as of December 31, 2016 and 2015 as follows:

(i) As of December 31, 2016

<i>In millions of won</i>	Less than 1 year	1-2 years	2-5 years	More than 5 years	Total
Net settlement					
-Trading purpose	₩ -	-	-	-	-
Gross settlement					
-Trading purpose	356	-	-	-	356
-Hedge accounting purpose	-	-	-	-	-
₩	<u>356</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>356</u>

(ii) As of December 31, 2015

<i>In millions of won</i>	Less than 1 year	1-2 years	2-5 years	More than 5 years	Total
Net settlement					
-Trading purpose	₩ -	-	-	-	-
Gross settlement					
-Trading purpose	833	-	-	-	833
-Hedge accounting purpose	-	-	-	-	-
₩	<u>833</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>833</u>

(3) Fair value risk

The fair value of the Group's actively-traded financial instruments (i.e. available-for-sale financial assets, etc.) is based on the traded market-price as of the reporting period end. The fair value of the Group's financial assets is the amount which the asset could be exchanged for or the amount a liability could be settled for.

The fair values of financial instruments where no active market exists or where quoted prices are not otherwise available are determined by using valuation techniques. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the Group uses that technique.

For trade receivables and payables, the Group considers the carrying value, net of impairment, as fair value. While for disclosure purposes, the fair value of financial liabilities is estimated by discounting a financial instrument with similar contractual cash flows using the effective interest method.

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2016 and 2015

38. Risk Management, Continued

(3) Fair value risk, Continued

1) Fair value and book value of financial assets and liabilities as of December 31, 2016 and 2015 are as follows:

In millions of won

	2016		2015	
	Book value	Fair value	Book value	Fair value
Assets recognized at fair value				
Available-for-sale financial assets	₩ 94,837	94,837	13,720	13,720
Derivatives assets (trading)	1,468	1,468	1,205	1,205
Derivatives assets (hedge accounting)	145,590	145,590	128,694	128,694
	<u>241,895</u>	<u>241,895</u>	<u>143,619</u>	<u>143,619</u>
Assets carried at amortized cost				
Trade and other receivables	579,594	579,594	527,558	527,558
Loans and receivables	16,483	16,483	14,991	14,991
Short-term financial instruments	10,000	10,000	8,000	8,000
	<u>606,077</u>	<u>606,077</u>	<u>550,549</u>	<u>550,549</u>
Liabilities carried at fair value				
Derivatives liabilities (trading)	356	356	833	833
Liabilities carried at amortized cost				
Borrowings	392,222	392,222	457,185	457,185
Debentures	4,618,171	4,715,376	4,504,408	4,665,108
Trade and other payables	379,944	379,944	347,869	347,869
	<u>₩ 5,390,337</u>	<u>5,487,542</u>	<u>5,309,462</u>	<u>5,470,162</u>

2) The discount rate used for calculating fair value is derived from interest rates which are observable from the market, such as government bond interest rate, after considering credit spread.

The discount rates used for calculating fair value as of December 31, 2016 and 2015 are as follows:

Type	December 31, 2016 (%)	December 31, 2015 (%)
Derivatives	1.11 ~ 1.31	1.42 ~ 1.85
Debentures	0.02 ~ 2.53	0.15 ~ 2.58

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2016 and 2015

38. Risk Management, Continued

(3) Fair value risk, Continued

3) Fair value hierarchy

Fair values of financial instruments by hierarchy level as of December 31, 2016 and 2015, respectively, are as follows:

(i) As of December 31, 2016

In millions of won

	Level 1	Level 2	Level 3	Total
Financial assets at fair value:				
Available-for-sale financial assets	₩ 71,840	-	22,997	94,837
Derivative assets (trading)	-	1,468	-	1,468
Derivative assets (hedge accounting)	-	145,590	-	145,590
	<u>71,840</u>	<u>147,058</u>	<u>22,997</u>	<u>241,895</u>

Financial liabilities at fair value:

Derivative liabilities (trading)	₩ -	356	-	356
----------------------------------	-----	-----	---	-----

(ii) As of December 31, 2015

In millions of won

	Level 1	Level 2	Level 3	Total
Financial assets at fair value:				
Available-for-sale financial assets	₩ -	-	13,720	13,720
Derivative assets (trading)	-	1,205	-	1,205
Derivative assets (hedge accounting)	-	128,694	-	128,694
	<u>-</u>	<u>129,899</u>	<u>13,720</u>	<u>143,619</u>

Financial liabilities at fair value:

Derivative liabilities (trading)	₩ -	833	-	833
----------------------------------	-----	-----	---	-----

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2016 and 2015

39. Related Party Transactions

(1) The nature of the Group's relationship as of December 31, 2016 is as follows:

Control relationship	Related party
Parent company	Korea Electric Power Corporation
Associate company	Cheongna Energy Co., Ltd. Pioneer Gas Power., Ltd. Eurasia Energy Holdings Xe-Pian Xe-Namnoy Power Co., Ltd. PT. Mutiara Jawa Korea Offshore Wind Power Co., Ltd. Daegu Solar Power Plant Co., Ltd. Dongducheon Dream Power Co., Ltd. Solar Power Plants Happy City Co., Ltd. Shin Pyeongtaek Power Co., Ltd. Solar School Plant Co.,Ltd KEPCO Energy Solution Co., Ltd.
Joint venture company	Rabigh O&M Co., Ltd.
Other related company	Korea Hydro & Nuclear Power Co., Ltd. Korea South-East Power Co., Ltd. Korea Midland Power Co., Ltd. Korea Southern Power Co., Ltd. Korea East-West Power Co., Ltd. KEPCO Engineering & Construction Company Inc. KEPCO KPS Co., Ltd. KEPCO KDN Co., Ltd. KEPCO Nuclear Fuel Co., Ltd. Korea Gas Corporation Korea Electronic Power Industrial Development Co., Ltd. Korea Power Exchange Korea Development Bank

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2016 and 2015

39. Related Party Transactions, Continued

(2) All transactions between KOWEPO and its consolidated subsidiaries are eliminated upon consolidation, and transactions with related parties other than subsidiaries for the years ended December 31, 2016 and 2015 are as follows:

<i>In millions of won</i>		Sales and others		Purchase and others	
Related parties		2016	2015	2016	2015
Korea Electric Power Corporation	₩	4,185,565	4,167,451	125,011	91,718
Korea Hydro & Nuclear Power Co., Ltd.		-	-	89	89
Korea Southern Power Co., Ltd.		4,355	1,742	769	983
Korea East-West Power Co., Ltd.		10	-	12	41
Korea South-East Power Co., Ltd.		10	-	-	-
Korea Midland Power Co., Ltd.		10	-	2,629	37
KEPCO Engineering & Construction Company Inc.		-	-	12,395	18,556
KEPCO KPS Co., Ltd.		1,842	1,739	77,478	86,352
KEPCO KDN Co., Ltd.		-	-	11,655	9,788
Cheongna Energy Co., Ltd.		5,332	19,671	73	-
Korea Offshore Wind Power Co., Ltd.		262	252	-	-
Daegu Solar Power Plant Co., Ltd.		-	-	2,426	2,864
Dongducheon Dream Power Co., Ltd.		430	473	-	-
Solar power plants happy city Co., Ltd.		-	-	275	295
Rabigh O&M Co., Ltd.		2,395	1,780	-	-
Korea Gas Corporation		1,462	2,670	956,658	1,254,351
Korea Electronic Power Industrial Development Co., Ltd.		4,392	6,735	31,477	36,073
Korea Power Exchange		-	-	4,897	4,054
Pioneer Gas Power., Ltd.		164	274	-	-
Shin Pyeongtaek Power Co., Ltd.		3,534	5,109	-	-
Xe-Pian Xe-Namnoy Power Co., Ltd.		773	584	-	-
KEPCO Energy Solution Co., Ltd.		49	-	-	-
Solar School Plant Co., Ltd.		37	-	-	-
Korea Development Bank		-	-	30	-
	₩	<u>4,210,622</u>	<u>4,208,480</u>	<u>1,225,874</u>	<u>1,505,201</u>

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2016 and 2015

39. Related Party Transactions, Continued

(3) Receivables and payables arising from related party transactions as of December 31, 2016 and 2015 are as follows:

<i>In millions of won</i>		Receivables		Payables	
Company name	Type	2016	2015	2016	2015
Korea Electric Power Corporation	Trade receivables	₩ 446,621	376,933	-	-
	Non-trade receivables and others	116,965	132,437	-	-
	Trade payables	-	-	6,455	6,379
	Non-trade payables and others	-	-	705	11
Korea Hydro & Nuclear Power Co., Ltd.	Non-trade payables and others	-	-	21	23
Korea Southern Power Co., Ltd.	Non-trade receivables and others	627	689	-	-
	Non-trade payables and others	-	-	-	83
Korea East-West Power Co., Ltd.	Non-trade receivables and others	63	227	-	-
	Non-trade payables and others	-	-	-	22
Korea South-East Power Co., Ltd.	Non-trade payables and others	-	-	-	11
Korea Midland Power Co., Ltd.	Non-trade payables and others	-	-	2,809	23
KEPCO Engineering & Construction Company Inc.	Non-trade payables and others	-	-	2,155	-
KEPCO KPS Co., Ltd.	Non-trade receivables and others	13	13	-	-
	Non-trade payables and others	-	-	8,179	11,013
KEPCO KDN Co., Ltd.	Non-trade payables and others	-	-	915	-
Cheongna Energy Co., Ltd.	Non-trade receivables and others	-	375	-	-
	Non-trade payables and others	-	-	82	-
Korea Offshore Wind Power Co., Ltd.	Non-trade receivables and others	289	277	-	-
Rabigh O&M Co., Ltd.	Non-trade receivables	2,275	1,780	-	-
Shin Pyeongtaek Power Co., Ltd.	Non-trade receivables and others	215	56	-	-
Pioneer Gas Power, Ltd.	Non-trade receivables and others	82	26	-	-
Korea Gas Corporation	Non-trade receivables and others	64	23	-	-
	Trade payables	-	-	83,816	85,480
	Non-trade payables and others	-	-	484	68
Korea Electronic Power Industrial Development Co., Ltd.	Trade receivables	324	396	-	-
	Non-trade receivables and others	27	33	-	-
	Non-trade payables and others	-	-	2,702	2,921
Korea Power Exchange	Non-trade payables and others	-	-	1	128
Xe-Pian Xe-Namnoy Power Co., Ltd.	Non-trade receivables and others	58	-	-	-
	Loans	1,413	1,413	-	-
PT. Mutiara Jawa	Loans	-	450	-	-
KEPCO Energy Solution Co., Ltd.	Non-trade receivables and others	39	-	-	-
Solar School Plant Co., Ltd.	Non-trade receivables and others	41	-	-	-
Korea Development Bank	Accrued expenses	-	-	31	-

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2016 and 2015

39. Related Party Transactions, Continued

(4) Borrowings from related parties as of December 31, 2016 and 2015 are as follows:

In millions of won

Lender	Beginning balance	Borrowing	Repayment	Ending balance
Korea Development Bank	-	21,158	-	21,158

(5) The salaries and other compensations to the key members of management for the years ended December 31, 2016 and 2015 are as follows:

In millions of won

Type	2016	2015
Short-term employee benefits	₩ 726	607
Retirement and severance benefits	79	36

(6) Guarantees provided to affiliates as of December 31, 2016 are as follows:

In millions of won, In thousands of USD, SAR

Debt repayment guarantee provider	Related Parties	Type of guarantees	Credit limit	Guarantee
Korea Western Power Co., Ltd.	Cheongna Energy Co., Ltd.	Investments in associate pledged as collateral	KRW 27,211	KEB Hana Bank, etc.
Korea Western Power Co., Ltd.	Dongducheon Dream Power Co., Ltd.	Investments in associate pledged as collateral	KRW 111,134	Kookmin Bank
Korea Western Power Co., Ltd.	Daegu Solar Power Plant Co., Ltd.	Investments in associate pledged as collateral	KRW 1,230	Industrial Bank of Korea
Korea Western Power Co., Ltd.	PT Mutiara Jawa	Investments in associate pledged as collateral	USD 2,610	Woori Bank
Korea Western Power Co., Ltd.	Rabigh O&M Co., Ltd.	Contract performance guarantees, etc.	SAR 5,600	Saudi Arabia British Bank
Korea Western Power Co., Ltd.	Xe-Pian Xe-Namnoy Power Co., Ltd.	Investments in associate pledged as collateral	USD 43,276	Krung Thai Bank
Korea Western Power Co., Ltd.	Xe-Pian Xe-Namnoy Power Co., Ltd.	Performance guarantees	USD 2,500	Krung Thai Bank
Korea Western Power Co., Ltd.	Xe-Pian Xe-Namnoy Power Co., Ltd.	Guarantees of Impounding bonus (*1)	USD 5,000	SK E&C
Korea Western Power Co., Ltd.	Solar Power Plants Happy City Co., Ltd.	Investments in associate pledged as collateral	KRW 194	NH bank
Korea Western Power Co., Ltd.	Shin Pyeongtaek Power Co., Ltd.	Investments in associate pledged as collateral	KRW 40	Kookmin Bank

(*1) Xe-Pian Xe-Namnoy Power Co., Ltd. entered into the agreement to pay incentives to SK E&C when the impoundment occurs upon the completion of the hydropower project. For the case that Xe-Pian Xe-Namnoy Power Co., Ltd. becomes unable to pay the incentives to SK E&C, the Group provides guarantees for payment of USD 5,000 thousands.

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2016 and 2015

39. Related Party Transactions, Continued

(7) Cheongna Energy Co., Ltd. operates integrated energy transportation and distributions and has outstanding loans from the financial institutions. In relation to the loans, the Group entered into the supplemental funding agreement for Cheongna Energy Co., Ltd. According to the agreement, all shareholders of Cheongna Energy Co., Ltd. are required to raise additional funds based on the shareholders' equity ratios when Cheongna Energy Co., Ltd. is unable to repay the principal and interest amounts.

40. Asset held for sale

Asset held for sale as of December 31, 2016 and 2015 are as follows:

<i>In millions of won</i>		2016	2015
Investments in associates (*1)	₩	41,170	41,170

(*1) Representing the carrying amount for the portion of investment in Dongducheon Dream Power Co., Ltd., that the Group intends to sell.

41. Non-cash Transactions

Significant non-cash transactions for the years ended December 31, 2016 and 2015 are as follows:

<i>In millions of won</i>		2016	2015
Reclassification of long-term borrowings and debentures to current portion	₩	675,566	428,291
Reclassification of construction-in-progress		3,080,080	671,793
Reclassification of non-cash purchases of property, plant and equipment's acquisition		1,976	(225,509)
Reclassification of advances from customers related with disposition of land		2,837	-
Reclassification of long-term loans to current portion		(55)	1,409
Reclassification of long-term prepaid expenses to current portion		1,300	1,028
Reclassification of long-term deposit to current portion		3	125

42. Commitments for Expenditure

Agreements for acquisition of property, plant and equipment as of December 31, 2016 and 2015 are as follows:

<i>In millions of won</i>		2016		2015	
		Contract	Residual	Contract	Residual
Payments	₩	2,018,418	116,726	2,122,633	252,092

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2016 and 2015

43. Commitments and Contingencies

(1) Ongoing litigations of December 31, 2016 and 2015 are as follows:

In millions of won

	2016		2015	
	Number of cases	Claim amount	Number of cases	Claim amount
As the defendant (*1)	18 ₩	43,060	10 ₩	26,872
As the plaintiff	1	50	2	3,049

(*1) As of December 31, 2016, the Group recorded ₩5,123 million as litigation provisions. Except for the lawsuits that resulted in litigation provisions, the outcome of the other litigations cannot be determined. However, the Group management believes that the ultimate outcomes will not have a significant impact on the Group's operations and financial position.

(2) Credit lines provided by financial institutions as of December 31, 2016 are as follows:

In millions of won, In thousands of USD

Description	Financial Institutions	Currency	Limited amount	Exercised amount
Contract performance guarantee	NH Bank	USD	3,000	2,193
Commitments on Bank-overdraft	NH Bank	KRW	200,000	-
Loan limit	Bank of Communications	USD	30,000	-
	Bank of Nova Scotia	USD	20,000	-
	BNP PARIBAS	USD	40,000	-
	Credit Agricole Corporate & Investment Bank	USD	50,000	-
	DBS Bank	USD	100,000	-
	Deutsche Bank AG	USD	70,000	-
	Korea Development Bank	USD	80,000	17,508
	Mizuho Corporate Bank Ltd.	USD	100,000	89,887
	Societe Generale	USD	50,000	-
	The Hongkong and Shanghai Banking Co., Ltd.	USD	40,000	-
	The Hongkong and Shanghai Banking Co., Ltd.	USD	50,000	-
	Kookmin Bank	KRW	30,000	-
	NH Bank	KRW	10,000	-
	Shinhan Bank	KRW	30,000	-
	Woori Bank	KRW	10,000	-
	SC Bank	USD	50,000	-
Certification of payment on L/C	KEB Hana Bank	USD	25,800	-
	NH Bank	USD	50,000	1,224
	Shinhan Bank	USD	50,000	29,172
	Woori Bank	USD	30,000	-

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2016 and 2015

43. Commitments and Contingencies, Continued

(3) Main raw material purchase agreements as of December 31, 2016 are as follows:

Raw materials	Supplier	Contract period	Amount for year (thousand tons, thousand kls)
Bituminous coal	Australia	2016.05~2020.09	2,716
	Indonesia	2016.10~2020.03	1,190
	Russia	2016.10~2020.08	700
	Republic of South Africa	2016.10~2017.12	845
	U.S.A	2016.11~2017.06	140
			<u>5,591</u>
Bunker-C Oil	Hyundai Corporation	2016.11~2017.01	90
	Vitol	2016.12~2017.02	45
			<u>135</u>
LNG	Korea Gas Corporation	2007~2026	Determined annually
	Korea Gas Corporation	2015~2025	Determined annually

(4) Details of long-term marine transportation commitment for the safe transport of bituminous coal as of December 31, 2016 are as follows:

Shipping company	Ship name	Contract period
Daebo International Shipping Co., Ltd.	Glovis Daylight	2015.12~2030.11
H-Line Shipping Co., Ltd	Hanjin Balikpapan	2011.07~2026.06
Hansung Line Co., Ltd.	Western Marine	2012.01~2026.12
H-Line Shipping Co., Ltd	Hyundai Leader	2016.04~2031.03
K-Line	CSK Brilliance	2011.11~2021.10
K-Line	Elettra	2009.02~2019.01
K-Line	Arpeggio	2009.02~2019.01
K-Line	Dolce	2007.08~2017.07
MOL	Gloriosa Lily	2008.10~2018.09
MOL	TTM HOPE	2008.10~2018.09
MOL	Pacific Power	2008.11~2018.10
NYK	Lowlands Phoenix	2013.02~2028.01
SK Shipping Co., Ltd.	K Western Dream	2016.03~2028.02
Wooyang Shipping Co., Ltd	Wooyang Queen	2016.07~2026.06
Five Ocean Corporation	Nozomi	2016.12~2026.12
H-Line Shipping Co., Ltd	HL Taeon	2018.01~2036.06
SK Shipping Co., Ltd.	K.Taeon	2018.01~2036.06

(5) As described in Note 39, the Group provides financial supports including the debt repayment guarantees to related parties.

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2016 and 2015

44. Subsequent Events

(1) The Group has issued interest-bearer coupon debentures for facilities and operation funds as follows:

In millions of won

	<u>Issue date</u>	<u>Maturity date</u>	<u>Interest rate</u>		<u>Amounts</u>
Corporate bond #33-1	2017.02.22	2022.02.22	2.036%	₩	70,000
Corporate bond #33-2	2017.02.22	2027.02.22	2.342%		130,000
				₩	<u>200,000</u>

(2) Subsequent to December 31, 2016, the Group has issued short-term bonds for funds of facilities and operation as follows:

In thousands of USD

<u>Type</u>	<u>Lender</u>	<u>Issue date</u>	<u>Maturity date</u>	<u>Interest rate</u>	<u>Amounts</u>
Foreign short-term borrowings	Korea Development Bank	2017.01.11	2017.07.10	1.62%	13,618

(3) On January 19, 2017, Marubeni Korea Corporation filed an arbitration against the Group to the Korean Commercial Arbitration Board in relation to the refund of ₩4,050 million paid by Marubeni Korea Corporation to the Group as a penalty for the delayed delivery of Pyeongtaek 2 compound main equipment. It was notified to the Group on February 14, 2017 and the Group plans to appoint an arbitrator to proceed with arbitration. The management of the Group anticipates that the result of the arbitration will not have a significant impact on the Group's business or financial position.

THE ISSUER

Korea Western Power Co., Ltd.
285, Jungang-ro
Taeon-eup, Taeon-gun
Chungcheongnam-do 32140, Korea

FISCAL AGENT

Citicorp International Limited
39th Floor, Champion Tower,
3 Garden Road
Central, Hong Kong

PRINCIPAL PAYING AGENT, CALCULATION AGENT, TRANSFER AGENT, EXCHANGE AGENT AND REGISTRAR

Citibank, N.A., London Branch
c/o Citibank, N.A., Dublin Branch
1 North Wall Quay
Dublin 1
Ireland

LEGAL ADVISERS

*To the Issuer
as to matters of Korean law*

Shin & Kim
8th Floor, State Tower Namsan
100 Toegye-ro, Jung-gu
Seoul 04631, Korea

*To the Arranger and Dealers
as to matters of U.S. law*

Cleary Gottlieb Steen & Hamilton LLP
19F, Ferrum Tower
19, Eulji-ro 5-gil, Jung-gu
Seoul 04539, Korea

INDEPENDENT AUDITORS

KPMG Samjong Accounting Corp.
Gangnam Finance Center 27th Fl.
152 Teheran-ro, Gangnam-gu
Seoul 06236, Korea

SINGAPORE LISTING AGENT

Shook Lin & Bok LLP
1 Robinson Road
#18-00 AIA Tower
Singapore 048542

DEALERS

BNP Paribas
63/F, Two International Finance Centre
8 Finance Street, Central
Hong Kong

Citigroup Global Markets Limited
Citigroup Centre, Canada Square
Canary Wharf
London E14 5LB
United Kingdom

The Hongkong and Shanghai Banking Corporation Limited
Level 17, HSBC Main Building
1 Queen's Road Central
Hong Kong

