

## IMPORTANT NOTICE

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THE SECURITIES DESCRIBED HEREIN HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION, AND THE SECURITIES DESCRIBED HEREIN MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES, OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT), EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND ANY APPLICABLE STATE OR LOCAL SECURITIES LAWS.

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ANY INVESTMENT DECISION SHOULD BE MADE ON THE BASIS OF THE FINAL TERMS AND CONDITIONS OF THE RELEVANT SECURITIES SET FORTH IN THE OFFERING CIRCULAR. IF YOU HAVE GAINED ACCESS TO THIS TRANSMISSION CONTRARY TO ANY OF THE FOREGOING RESTRICTIONS, YOU ARE NOT AUTHORIZED AND WILL NOT BE ABLE TO PURCHASE THE SECURITIES DESCRIBED THEREIN.

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

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## Korea Midland Power Co., Ltd.

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

### US\$300,000,000 2.50% Senior Unsecured Notes due July 21, 2021

The US\$300,000,000 2.50% Senior Unsecured Notes due July 21, 2021 (the “Notes”) of Korea Midland Power Co., Ltd. (the “Company” or “KOMIPO”) will mature on July 21, 2021. The Notes will bear interest at the rate of 2.50% per annum from, and including, January 21, 2016 (the “Issue Date” or the “Closing Date”) to, but excluding, July 21, 2021. Interest will be payable in arrears on January 21 and July 21 in each year, commencing July 21, 2016. We may, at our option, redeem all, but not some only, of the Notes at any time at their principal amount plus accrued interest in the event of certain changes in tax law as described under “Terms and Conditions of the Notes — Optional Redemption Due to Changes in Tax Treatment”.

The Notes are expected to be rated Aa2 by Moody’s Investors Service, Inc. and AA- by Fitch Ratings, Inc. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organization.

The Notes will be unsecured and will be the direct, unconditional and unsubordinated general obligations of us and will rank *pari passu* among themselves and at least equally with all of our other outstanding unsecured and unsubordinated general obligations, except as may be required by mandatory provisions of law.

Approval in-principle has been received for the listing and quotation of the Notes on the Singapore Exchange Securities Trading Limited (the “Singapore Stock Exchange”). The Singapore Stock Exchange assumes no responsibility for the correctness of any of the statements made or opinions expressed or reports contained in this Offering Circular. Approval in-principle from, admission to the Official List of, and listing and quotation of any Notes on, the Singapore Stock Exchange are not to be taken as an indication of our merits or the merits of the Notes.

The Notes will be evidenced by a global note (the “Global Note”) in registered form, which will be registered in the name of a nominee of, and deposited with a common depository for, Euroclear Bank SA/NV (“Euroclear”) and Clearstream Banking, *société anonyme* (“Clearstream”). Beneficial interests in the Global Note will not be shown on, and transfers thereof will be effected only through, records maintained by Euroclear and Clearstream and their respective accountholders. Except as described herein, individual certificates for Notes will not be issued in exchange for beneficial interests in the Global Note.

**The Notes have not been and will not be registered under the United States Securities Act of 1933, as amended (the “Securities Act”) or the securities laws of any other jurisdiction, and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the Securities Act (“Regulation S”)) except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Accordingly, the Notes are being offered and sold only outside the United States and to non-U.S. persons in offshore transactions in reliance on Regulation S, in compliance with applicable laws, regulations and directives. For further details about eligible offers and resale restrictions, see “Plan of Distribution” and “Transfer Restrictions”.**

Investing in the Notes involves risks. See “Risk Factors” beginning on page 9 to read about certain risk factors you should consider before buying the Notes.

**Price: 99.196% per Note plus accrued interest, if any, from January 21, 2016.**

Delivery of the Notes in book-entry form will be made on or about January 21, 2016.

*Joint Bookrunners*

**Barclays**

**BNP PARIBAS**

**Morgan Stanley**

The date of this Offering Circular is January 13, 2016.

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**You should rely only on the information contained in this Offering Circular or to which we have referred you. We have not authorized anyone to provide you with information that is different. This Offering Circular may only be used where it is legal to sell these securities. The information in this Offering Circular may only be accurate on the date of this Offering Circular.**

IN CONNECTION WITH THIS OFFERING, TO THE EXTENT PERMITTED BY, AND IN ACCORDANCE WITH, APPLICABLE LAWS AND REGULATIONS, MORGAN STANLEY & CO. INTERNATIONAL PLC (THE “STABILIZING MANAGER”) (OR PERSONS ACTING ON BEHALF OF THE STABILIZING MANAGER) MAY OVER-ALLOT 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 (OR PERSONS ACTING ON BEHALF OF THE STABILIZING MANAGER) 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 NOTES IS MADE AND, IF BEGUN, MAY BE ENDED AT ANY TIME, BUT IT MUST END NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE ISSUE DATE OF THE NOTES AND 60 DAYS AFTER THE DATE OF THE ALLOTMENT OF THE NOTES.

**THE NOTES HAVE NOT BEEN REGISTERED WITH THE FINANCIAL SERVICES COMMISSION OF KOREA UNDER THE FINANCIAL INVESTMENT SERVICES AND CAPITAL MARKETS ACT OF KOREA. ACCORDINGLY, THE NOTES HAVE NOT BEEN AND WILL NOT BE OFFERED, DELIVERED, OR SOLD DIRECTLY OR INDIRECTLY IN KOREA OR TO OR FOR THE ACCOUNT OR BENEFIT OF ANY RESIDENT OF KOREA (AS DEFINED IN THE FOREIGN EXCHANGE TRANSACTION LAW OF KOREA AND THE REGULATIONS THEREUNDER) EXCEPT AS OTHERWISE PERMITTED UNDER APPLICABLE KOREAN LAWS AND REGULATIONS. IN ADDITION, WITHIN ONE YEAR FOLLOWING THE ISSUANCE OF THE NOTES, THE NOTES MAY NOT BE TRANSFERRED TO ANY RESIDENT OF KOREA OTHER THAN A QUALIFIED INSTITUTIONAL BUYER (OR A “QIB”, AS DEFINED IN THE REGULATION ON ISSUANCE, PUBLIC DISCLOSURE, ETC. OF SECURITIES OF KOREA) REGISTERED WITH THE KOREA FINANCIAL INVESTMENT ASSOCIATION (THE “KOFIA”) AS A QIB AND SUBJECT TO THE REQUIREMENT OF MONTHLY REPORTS WITH THE KOFIA OF ITS HOLDING OF QIB BONDS AS DEFINED IN THE REGULATION ON ISSUANCE, PUBLIC DISCLOSURE, ETC. OF SECURITIES OF KOREA, PROVIDED 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 QIBS IN THE PRIMARY MARKET IS LIMITED TO LESS THAN 20 PER CENT. OF THE AGGREGATE ISSUE AMOUNT OF THE NOTES, (C) THE NOTES ARE LISTED ON ONE OF THE MAJOR OVERSEAS SECURITIES MARKETS DESIGNATED BY THE FINANCIAL SUPERVISORY SERVICE OF KOREA, OR CERTAIN PROCEDURES, SUCH AS REGISTRATION OR REPORT WITH A FOREIGN FINANCIAL INVESTMENT REGULATOR, HAVE BEEN COMPLETED FOR OFFERING OF THE NOTES IN A MAJOR OVERSEAS SECURITIES MARKET, (D) THE ONE-YEAR RESTRICTION ON OFFERING, DELIVERING OR SELLING OF NOTES TO A KOREAN RESIDENT OTHER THAN A QIB IS EXPRESSLY STATED IN THE NOTES, THE RELEVANT UNDERWRITING AGREEMENT, SUBSCRIPTION AGREEMENT, AND THE OFFERING CIRCULAR AND (E) THE ISSUER AND THE INITIAL PURCHASERS SHALL INDIVIDUALLY OR COLLECTIVELY KEEP THE EVIDENCE OF FULFILLMENT OF CONDITIONS (A) THROUGH (D) ABOVE AFTER HAVING TAKEN NECESSARY ACTIONS THEREFOR.**

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No person has been authorized in connection with any offering of the Notes to give any information or make any representation other than as contained in this Offering Circular and, if given or made, that information or representation must not be relied upon as having been authorized by us or by the Initial Purchasers (as defined in “Plan of Distribution”). This Offering Circular does not constitute an offer to sell or a solicitation of an offer to buy any Notes by any person except in compliance with all applicable laws and regulations. No representation or warranty, express or implied, is made, and no responsibility or liability is accepted, by the Initial Purchasers or any of their directors, employees, affiliates or advisers as to the accuracy or completeness of the information contained in this Offering Circular, and nothing contained in this Offering Circular is, or shall be relied upon as, a promise or representation by the Initial Purchasers or their directors, employees, affiliates or advisers. Neither the delivery of this Offering Circular nor any sale made in connection with this Offering Circular shall under any circumstances imply that the information in this Offering Circular is correct as of any date subsequent to the date of this Offering Circular or constitute a representation that there has been no change or development reasonably likely to involve a material adverse change in our affairs since the date of this Offering Circular.

We, having made all reasonable inquiries, confirm that this Offering Circular contains all information with respect to us and the Notes which is material in the context of the issue and offering of the Notes, that the information contained 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 expressed in this Offering Circular misleading in any material respect. We accept

responsibility accordingly. Information provided in this Offering Circular with respect to Korea and its political status and economy, has been derived from information published by the Korean government and other public sources, and we accept responsibility only for the accurate extraction of information from such sources.

The Notes have not been registered with or approved or disapproved by the United States Securities and Exchange Commission, any state securities commission or other regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the merits of this offering or the accuracy or adequacy of this Offering Circular. Any representation to the contrary is a criminal offense.

This Offering Circular does not constitute, and may not be used for purposes of, an offer, invitation or solicitation by anyone in any jurisdiction or in any circumstances in which such offer, invitation or solicitation is not authorized or to any person to whom it is unlawful to make such offer, invitation or solicitation. The distribution of this Offering Circular and the offering of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular may come are required by us and the Initial Purchasers to inform themselves about and to observe the relevant restrictions. For a description of certain restrictions on offers and sales of the Notes and distribution of this Offering Circular, see “Plan of Distribution” and “Transfer Restrictions”. No action is being taken in any jurisdiction to permit an offering to the general public of Notes or the distribution of this Offering Circular in any jurisdiction where action would be required for those purposes.

In making an investment decision, prospective investors must rely on their own examination of us and the terms of the offering of the Notes, including the merits and risks involved. We and the Initial Purchasers are not making any representation to any purchaser of the Notes regarding the legality of an investment in the Notes by such purchaser under any legal investment or similar laws or regulations. The contents of this Offering Circular should not be construed as providing legal, business, accounting or tax advice.

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## CERTAIN DEFINED TERMS AND CONVENTIONS

All references to “Korea” or the “Republic” herein are references to The Republic of Korea. All references to the “Government” herein are references to the Government of The Republic of Korea. All references to “KOMIPO”, the “Issuer” or the “Company” herein are references to Korea Midland Power Co., Ltd. All references to “we” or “us” herein are references to the Company or to the Company and its subsidiaries, as the context requires.

In this Offering Circular, references to “Won” or “₩ ” are to the currency of Korea and all references to “U.S. dollars”, “Dollars”, “\$” or “US\$” are to the currency of the United States of America. We maintain our 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 noon buying rate of the Federal Reserve Board, between U.S. dollars and Won (the “Noon Buying Rate”). The source of these rates is the Federal Reserve Bank of New York until December 31, 2008. Since January 1, 2009, the Federal Reserve Bank of New York discontinued publication of foreign exchange rates. The source of the rates since January 1, 2009 is the H.10 statistical release of the Federal Reserve Board. Unless otherwise indicated, all translations from Won to U.S. dollars herein indicated as of or for the year ended December 31, 2014 and as of or for the nine months ended September 30, 2015 were made at the rate of ₩1,184.6 to US\$1.00, which was the Noon Buying Rate in effect as of September 30, 2015. The exchange rate between the U.S. dollar and the Won may be highly volatile from time to time and the U.S. dollar amounts referred to in this report should not be relied upon as an accurate reflection of the Issuer’s results of operations. On January 8, 2016, the Noon Buying Rate was ₩1,207.0 = US\$1.00. See “Exchange Rates”.

Any discrepancies in the tables included in this Offering Circular between the listed amounts and totals thereof are due to rounding.

## **ENFORCEABILITY OF CIVIL LIABILITIES**

We are a corporation with limited liability organized under the laws of Korea. All of our directors and officers and certain other persons named in this Offering Circular reside in Korea, and all or a significant portion of the assets of the directors and officers and certain other persons named in this Offering Circular and substantially all of our assets are located in Korea. As a result, it may not be possible for you to effect service of process within the United States upon such persons or to enforce against them or against us in U.S. courts judgments predicated upon the civil liability provisions of the federal securities laws of the United States. There is doubt as to the enforceability in Korea, either in original actions or in actions for enforcement of judgments of U.S. courts, of civil liabilities predicated on the U.S. federal securities laws.

## **PRESENTATION OF FINANCIAL INFORMATION**

Our consolidated financial statements as of and for the years ended December 31, 2013 and 2014, and as of September 30, 2015 and for the nine months ended September 30, 2014 and 2015, included in this Offering Circular, have been prepared in accordance with the Korean International Financial Reporting Standards (“K-IFRS”), which may differ in certain respects from International Financial Reporting Standards (“IFRS”) applied in other countries. In making an investment decision, investors must rely upon their own independent examination of us, 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 Initial Purchasers that any recipient of this Offering Circular should purchase the Notes.

All financial information in this Offering Circular has been presented on a consolidated basis unless otherwise specified or the context otherwise requires.

## **FORWARD-LOOKING STATEMENTS**

This Offering Circular includes “forward-looking statements,” as defined in Section 27A of the Securities Act, and Section 21E of the U.S. Securities Exchange Act of 1934, as amended (the “Exchange Act”), including statements regarding our 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 our financial position and results, business strategy, plans and objectives of management for future operations, including development plans and objectives relating to our products and services, are forward-looking statements. Such forward-looking statements and any other projections contained in this Offering Circular (whether made by us 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 our present and future business strategies and the environment in which we will operate in the future. Among the important factors that could cause some or all of those assumptions not to occur or cause our actual results, performance or achievements to differ materially from those in the forward-looking statements include, among other things, our ability to successfully implement our business strategy and our safety policies, the condition of and changes in the Korean, Asian or global economies, the our growth and expansion, including whether we succeed in our capital investment program to increase our installed capacity, changes in interest rates and exchange rates and changes in government regulation and licensing of our businesses in Korea and in other jurisdictions where we may operate, and the change in the price of electricity sold by us. Additional factors that could cause our 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 us and the Initial Purchasers 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 our expectations with regard thereto or any change in events, conditions, assumptions or circumstances on which any such statement was based.

## SUMMARY

### The Company

#### *Overview*

We were established on April 2, 2001 as one of six wholly-owned electricity generation subsidiaries of Korea Electric Power Corporation (“KEPCO”). These subsidiaries generate substantially all of the electricity in Korea. As of September 30, 2015, we owned approximately 9% of the total electricity generating capacity in Korea (excluding plants generating electricity primarily for private or emergency use). In 2013, 2014 and the nine months ended September 30, 2015, we sold 55,661, 50,217 and 33,482 gigawatt-hours of electricity, respectively. We sell all of our electricity to KEPCO through the Korea Power Exchange (“KPX”). KEPCO is currently the sole electricity transmission and distribution company in Korea.

Demand for electricity in Korea grew at a compounded average rate of 3.9% per annum for the five years ended December 31, 2014, according to KEPCO, compared to the real gross domestic product (“GDP”) compounded growth rate of approximately 3.7% per annum for the same period, according to The Bank of Korea. The GDP growth rate was 3.3% for 2014, 3.0% for 2013 and 2.3% for 2012. According to the Korea Energy Economics Institute (“KEEI”), total demand for electricity in Korea increased by 1.7% in 2014, 3.0% in 2013 and 2.5% during 2012, in each case, year on year.

Since our inception, we, along with KEPCO and its other generation subsidiaries, have made substantial expenditures for the construction of generation plants and other facilities to meet increased demand for electric power. According to the Seventh Power Supply and Demand Basic Plan (the “Seventh Basic Plan”) released in July 2015, the consumption of electric power is expected to increase by 2.1% per annum from 2015 to 2029. Pursuant to the Seventh Basic Plan, we plan to continue to make substantial expenditures to expand and enhance our generating system in the future, including two coal-fired power plants in ShinBoryeong, each with generation capacity of 1,000 megawatts with target completion in 2016 and 2017, respectively, and a combined-cycle power plant in Seoul with generation capacity of 800 megawatts with target completion in 2016.

As of September 30, 2015, we had total installed generating capacity of 8,444 megawatts, of which 4,400 megawatts, 3,730 megawatts, 285 megawatts, 7.5 megawatts, 8 megawatts, 3 megawatts and 10.3 megawatts were attributable to our coal-fired units, LNG-fired units (combined cycle included), oil-fired units, mini-hydro units, photovoltaic units, wind power plants and other renewable energy units, respectively.

In 2013 and 2014, we generated sales of ₩5,702 billion and ₩5,112 billion, respectively, and profit for the period of ₩56 billion and ₩117 billion, respectively. For the nine months ended September 30, 2015, we generated sales of ₩3,026 billion and profit for the period of ₩175 billion compared to the first nine months of 2014, when we generated sales of ₩3,875 billion and profit for the period of ₩98 billion.

## *Strategy*

Based on the “Vision 2025 Management Strategy” adopted in July 2013, we aim to become a global top class energy company by 2025 by significantly increasing our asset size, revenues and operating profit, enhancing the return on invested capital and strengthening a firm-wide culture emphasizing safety and ethics. Under this vision, we will focus on four major strategies: (i) strengthen our core competencies, (ii) expand into new growth businesses, (iii) enhance our global competitiveness, and (iv) build out a management system for sustainable development. More specifically:

- *Strengthen our core competencies.* We plan to (i) strengthen our safety management system to meet widely established global standards, including safety recalls, (ii) improve the efficiency of facility operation through successful completion of the new thermal generation units in ShinBoryeong and ShinSeocheon and installing a combined cycle unit in Seoul which will complement the aged units in Boryeong, and (iii) construct, on a timely basis, new generation units, such as base load coal facilities, in accordance with the Seventh Basic Plan.
- *Expand into new growth businesses.* We plan to (i) selectively enter into new businesses, including with domestic partners and/or adding onto existing international projects as well as entering into new ones, (ii) strengthen green energy businesses by meeting the Renewable Portfolio Standard (“RPS”) requirements and exploring advanced solar power businesses and green credit businesses, and (iii) procure stable and economic supply of fuels by expanding the liquefied natural gas (“LNG”) storage facilities and assessing various investment opportunities related to resource development and mining.
- *Enhance our global competitiveness.* We plan to (i) enhance our capabilities to operate generation facilities meeting global standards, including in areas of maintenance and overhaul and potentially establishing a subsidiary specializing in overseas maintenance, (ii) develop proprietary technology for production of core parts and materials, and (iii) strengthen human capital with global competence through employee education and expanding global marketing and business networks.
- *Enhance our management system for sustainable development.* We plan to (i) bolster a firm-wide culture that stresses global social responsibilities and ethical management, (ii) encourage innovation by further improving labor relations and creating further opportunities for employees to add value, and (iii) enhance risk management for the entire company by ramping out an enterprise resource management and improving our capital structure.

## THE OFFERING

The following is a brief summary of some of the terms of the Notes. This summary is derived from, and is qualified in its entirety by, the full text of the terms of the Notes. For a more detailed description of the terms of the Notes, see “Terms and Conditions of the Notes”. Terms used in this summary and not otherwise defined shall have the meanings given to them in “Terms and Conditions of the Notes”.

Issuer .....	Korea Midland Power Co., Ltd.
Offering .....	US\$300,000,000 2.50% Senior Unsecured Notes due July 21, 2021.
Issue Price .....	99.196% of principal amount of the Notes.
Issue Date .....	January 21, 2016
Maturity Date .....	July 21, 2021
Ranking .....	The Notes will be unsecured and will be the direct, unconditional, unsubordinated and general obligations of us and shall at all times rank <i>pari passu</i> and without any preference or priority among themselves and at least equally with all other present and future unsecured and unsubordinated obligations of us, except as may be required by mandatory provisions of law.
Interest .....	2.50% per annum, from, and including, the Closing Date to, but excluding, the Maturity Date, payable semi-annually in arrears.
Interest Payment Dates .....	January 21 and July 21 of each year, commencing on July 21, 2016. For a further description of payments of interest on the Notes, see “Terms and Conditions of the Notes — Payments”.
Tax Redemption .....	We may redeem the Notes at our option, in whole but not in part, at their principal amount plus accrued interest to, but excluding, the date fixed for redemption, if we have or would become obligated to pay Additional Amounts in respect of certain Korean taxes imposed in respect of payments of principal of or interest on the Notes. See “Terms and Conditions of the Notes — Optional Redemption Due to Changes in Tax Treatment”.
Korean Taxes .....	Payments in respect of the Notes will be made free and clear of and without withholding or deduction for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of Korea or by or within any political subdivision of Korea or any authority or agency of Korea having power to tax, unless the withholding or deduction of such taxes, duties, assessments or governmental charges is required by law. In that event, we will (subject to certain exceptions) pay such Additional Amounts as will result in the holders of the Notes (the “Holders”) receiving such amounts as they would have received in respect of such Notes had no such withholding or deduction been required, except in certain circumstances. See “Terms and Conditions of the Notes — Additional Amounts” and “Korean Taxation”.

Denominations and Form.....	<p>The Notes will be deliverable only in registered form and only in denominations in principal amounts of US\$200,000 and integral multiples of US\$1,000 in excess thereof. The Notes will initially be represented by the Global Note in registered form deposited on the Closing Date with, and registered in the name of a nominee of, Deutsche Bank AG, Hong Kong Branch, as common depositary for Euroclear and Clearstream. Beneficial interests in the Global Note will be shown on, and transfers thereof will be effected only through, the records maintained by Euroclear and Clearstream and their respective accountholders. Except as described herein, definitive certificates representing the Notes (each a “Certificated Note”) will not be issued in exchange for beneficial interests in the Global Note. See “Form of the Notes”. The Notes may not be sold or otherwise transferred except in accordance with the restrictions described under “Transfer Restrictions”.</p>
Certain Covenants.....	<p>The Notes contain certain limitations on the creation, incurrence, issuance or assumption or the guarantee by us of certain debt secured by mortgage, charge, pledge or other security interest on any of our property or asset and on the consolidation, merger and sale of our assets. The Notes also contain certain limitations on sale and leaseback transactions by us. See “Terms and Conditions of the Notes — Covenants of the Company”.</p>
Listing and Trading.....	<p>Approval in-principle has been received for the listing and quotation of the Notes on the Singapore Stock Exchange. For so long as the Notes are listed on the Singapore Stock Exchange and the rules of the Singapore Stock Exchange so require, the Notes will be traded on the Singapore Stock Exchange in a minimum board lot size of S\$200,000 (or its equivalent in foreign currencies). Accordingly, the Notes will be traded on the Singapore Stock Exchange in a minimum board lot size of US\$200,000.</p>
Korean Transfer Restrictions.....	<p>The Notes may not be transferred to any resident of Korea other than “qualified institutional buyers” (as defined in the Regulation on Issuance, Public Disclosure, etc. of Securities of Korea) until the expiration of one year after the issuance of the Notes.</p>
Governing Law.....	<p>The Notes and the Fiscal Agency Agreement will be governed by, and construed in accordance with, the laws of the State of New York.</p>

Fiscal Agent, Principal Paying  
Agent and Registrar.....

Deutsche Bank AG, Hong Kong Branch will act as the fiscal agent (the “Fiscal Agent”) and the principal paying agent, and Deutsche Bank Luxembourg S.A. will act as the registrar, the authenticating agent and the transfer agent under the Fiscal Agency Agreement for the Notes to be dated January 21, 2016. For so long as the Notes are listed on the Singapore Stock Exchange and the rules of the Singapore Stock Exchange so require, we will appoint and maintain a paying agent in Singapore, where such Notes may be presented or surrendered for payment or redemption, in the event that the Global Note is exchanged for Certificated Notes. In addition, in the event that the Global Note representing the Notes is exchanged for Certificated Notes, an announcement of such exchange will be made through the Singapore Stock Exchange. Such announcement will include all material information with respect to the delivery of the Certificated Notes, including details of the paying agent in Singapore.

Use of Proceeds .....

The net proceeds from the sale of the Notes, which are expected to be approximately US\$296,838,000, after deduction of commission to the Initial Purchasers but before out-of-pocket expenses related to this offering, will be used for repayment of certain existing debt, capital expenditures and other general corporate purposes.

ISIN .....

XS1341490602

Common Code .....

134149060

## SUMMARY FINANCIAL INFORMATION

The following tables summarize certain financial information and other data as of and for the years ended December 31, 2013 and 2014 and as of September 30, 2015 and for the nine months ended September 30, 2014 and 2015. The summary financial information and other data set forth below have been derived from and should be read in conjunction with our audited consolidated financial statements and notes thereto as of and for the years ended December 31, 2013 and 2014 and our unaudited consolidated interim financial statements and notes thereto as of September 30, 2015 and for the nine months ended September 30, 2014 and 2015 which are included elsewhere in this Offering Circular.

Our audited consolidated financial statements as of and for the years ended December 31, 2013 and 2014 have been prepared in accordance with K-IFRS. Our unaudited consolidated interim financial statements as of September 30, 2015 and for the nine-months periods ended September 30, 2014 and 2015 have been prepared in accordance with K-IFRS No. 1034 'Interim Financial Reporting.'

Our results of operations for the nine months ended September 30, 2015 may not be indicative of our results of operations for any future interim period or for the full year 2015.

	For the Year Ended December 31,			For the Nine Months Ended September 30,		
	2013	2014	2014 <sup>(1)</sup>	2014	2015	2015 <sup>(1)</sup>
	(in billions of Won and millions of U.S. dollars, except per share data)					
<b>Consolidated Statement of Comprehensive Income Information:</b>						
<b>Sales</b> .....	₩5,702	₩5,112	US\$4,315	₩3,875	₩3,026	US\$2,555
Cost of sales .....	(5,538)	(4,857)	(4,100)	(3,647)	(2,746)	(2,318)
<b>Gross profit</b> .....	164	255	215	228	280	237
Selling and administrative expenses .....	(64)	(89)	(75)	(48)	(51)	(43)
<b>Operating income</b> .....	100	166	140	180	229	194
Other income .....	30	37	32	3	4	3
Other expenses .....	(3)	(1)	(1)	(0.4)	(1)	(1)
Other profit .....	(3)	(1)	(1)	(4)	13	11
Finance income .....	38	38	32	20	59	50
Finance costs .....	(116)	(95)	(80)	(68)	(97)	(82)
Net income related to associates and joint ventures .....	16	18	15	7	14	12
Gains on disposal of subsidiaries .....	—	—	—	—	6	5
<b>Profit before income tax</b> .....	62	162	137	137	227	192
Income tax expense .....	(6)	(45)	(38)	(39)	(52)	(44)
<b>Profit for the period</b> .....	<u>₩56</u>	<u>₩117</u>	<u>US\$99</u>	<u>₩98</u>	<u>₩175</u>	<u>US\$148</u>
<b>Other comprehensive income (loss), net of tax</b> .....	7	(15)	(13)	(14)	8	7
<b>Total comprehensive income for the period</b> .....	<u>₩63</u>	<u>₩102</u>	<u>US\$86</u>	<u>₩84</u>	<u>₩183</u>	<u>US\$155</u>
<b>Earnings per share</b>						
Basic and diluted earnings per share .....	₩2	₩4	US\$4	₩4	₩6	US\$5

	As of December 31,			As of September 30,	
	2013	2014	2014 <sup>(1)</sup>	2015	2015 <sup>(1)</sup>
(in billions of Won and millions of U.S. dollars)					
<b>Consolidated Statement of Financial Position Information:</b>					
<i>Assets:</i>					
Cash and cash equivalents.....	₩91	₩105	US\$89	₩161	US\$136
Other current assets <sup>(2)</sup> .....	852	842	710	751	634
Property, plant and equipment.....	4,983	5,866	4,952	6,608	5,578
Other non-current assets <sup>(3)</sup> .....	384	406	343	453	382
Total assets.....	<u>₩6,310</u>	<u>₩7,219</u>	<u>US\$6,094</u>	<u>₩7,973</u>	<u>US\$6,730</u>
<i>Liabilities and shareholder's equity:</i>					
Short-term borrowings.....	₩70	₩—	US\$—	₩8	US\$7
Current portion of long-term borrowings....	0.4	20	17	19	16
Current portion of bonds payable, net of discount.....	300	330	279	359	303
Other current liabilities <sup>(4)</sup> .....	709	677	571	497	420
Bonds payable, net of discount (excluding current portion).....	1,856	2,723	2,299	3,361	2,837
Long-term borrowings (excluding current portion).....	106	89	75	152	128
Other non-current liabilities <sup>(5)</sup> .....	332	353	298	383	323
Total liabilities.....	<u>₩3,373</u>	<u>₩4,192</u>	<u>US\$3,539</u>	<u>₩4,779</u>	<u>US\$4,034</u>
Total equity.....	₩2,937	₩3,027	US\$2,555	₩3,194	US\$2,696
Total liabilities and equity.....	<u>₩6,310</u>	<u>₩7,219</u>	<u>US\$6,094</u>	<u>₩7,973</u>	<u>US\$6,730</u>
Net working capital (deficit) <sup>(6)</sup> .....	₩(136)	₩(80)	US\$(68)	₩29	US\$24

	For the Year Ended December 31,			For the Nine Months Ended September 30,		
	2013	2014	2014 <sup>(1)</sup>	2014	2015	2015 <sup>(1)</sup>
	(in billions of Won and millions of U.S. dollars)					
<b>Consolidated Other Financial Information:</b>						
Capital expenditures <sup>(7)</sup> .....	₩896	₩1,299	US\$1,065	₩860	₩1,074	US\$907
Depreciation and amortization <sup>(8)</sup> .....	370	412	347	302	296	250
Cash flows provided by operating activities.....	416	454	383	438	434	366
Cash flows used in investing activities.....	(809)	(1,234)	(1,042)	(870)	(1,052)	(888)
Cash flows provided by financing activities.....	283	795	671	594	672	567
Margins (as percentage of sales)						
Operating income margin (%) .....	1.75%	3.25%		4.66%	7.58%	
Net income margin (%) .....	0.99%	2.29%		2.54%	5.77%	
Debt to equity ratio (%) <sup>(9)</sup> .....	79.43%	104.43%		97.46%	122.05%	
Net debt to equity ratio (%) <sup>(10)</sup> .....	76.32%	100.95%		89.11%	117.00%	
Total liabilities to equity ratio (%).....	114.86%	138.48%		126.08%	149.61%	
<b>Consolidated Operating Information:</b>						
Total power sold (gigawatt hours).....	55,661	50,217		37,687	33,482	
Total installed capacity (megawatts).....	8,933	8,434		8,434	8,444	

*Notes:*

- (1) We maintain our financial statements in Won. The Won financial information as of and for the year ended December 31, 2014 and as of and for the nine months ended September 30, 2015 has been translated into U.S. dollars at the exchange rate of ₩1,184.6 to US\$1.00, which was the Noon Buying Rate in effect as of September 30, 2015.
- (2) Other current assets consist of current financial assets, trade and other receivables, inventories, current income tax assets, current non-financial assets and non-current assets classified as held-for-sale.
- (3) Other non-current assets consist of non-current financial assets, long-term trade and other receivables, goodwill, intangible assets excluding goodwill, investments in joint ventures, investments in associates and non-current non-financial assets.
- (4) Other current liabilities consist of trade and other payables, current portion of derivative liabilities, current income tax liabilities, current non-financial liabilities and current provisions.
- (5) Other non-current liabilities consist of long-term trade and other payables, non-current non-financial liabilities, employee benefit liabilities, deferred tax liabilities and non-current provisions.
- (6) Net working capital (deficit) means total current assets minus total current liabilities.
- (7) Capital expenditures consist of acquisition of property, plant and equipment, increases in intangible assets (excluding research and normal development expenditures) and capitalized interest.
- (8) In respect of cost of sales only, and not selling and administrative expenses.
- (9) Debt-to-equity ratio equals the sum of bonds payable (net of discount) and long-term borrowings (including the current portion) and short-term borrowings divided by total equity.
- (10) Net debt-to-equity ratio equals (i) the sum of bonds payable (net of discount) and long-term borrowings (including the current portion) and short-term borrowings less (ii) cash and cash equivalents and short-term investment securities, divided by (iii) total equity.

## RISK FACTORS

*An investment in the Notes is subject to numerous risks, including those listed below. Investors should carefully consider the following risks as well as the other information contained in this Offering Circular before purchasing the Notes. These risks could materially affect our ability to meet our obligations under the Notes. In such case, investors may lose all or part of their original investment in, and the expected return on, the Notes.*

### **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.***

From time to time, the Government considers various policy initiatives to foster efficiency in the Korean electric power industry, and at times have adopted policy measures that have substantially modified our business and operations. For example, in January 1999, with the aim of introducing greater competition in the Korean electric power industry and thereby improving its efficiency, the Government announced a restructuring plan for the Korean electric power industry, or the “Restructuring Plan”. For a detailed description of the Restructuring Plan, see “The Korean Electricity Industry — Restructuring of the Electricity Industry in Korea”. As part of this initiative, in April 2001, the Government established the KPX to enable the sale and purchase of electricity through a competitive bidding process, established the Korea Electricity Commission (“KOREC”) to ensure fair competition in the restructured Korean electricity industry, and, in order to promote competition in electricity generation, split off the electricity generation business of KEPCO to form five non-nuclear generation companies and one nuclear generation company to be wholly owned by KEPCO. In 2002, the Government introduced a plan to privatize the five non-nuclear generation subsidiaries of KEPCO, but this plan was suspended indefinitely in 2003 due to prevailing market conditions and other policy considerations. The Restructuring Plan and the privatization plan for KEPCO’s generation subsidiaries have generated labor unrest. See “— Labor unrest may adversely affect our operations” below.

On August 25, 2010, the Ministry of Trade, Industry and Energy (the “MOTIE”) announced the Proposal for the Improvement in the Structure of the Electricity Industry. This proposal includes a decision to continue the current structure of KEPCO as the parent of its six wholly-owned generation subsidiaries, thereby ending speculation that the Government may further restructure the electric power industry by way of a potential consolidation of one or more of the generation subsidiaries of KEPCO or a potential merger of any one or more of such subsidiaries into KEPCO. Pursuant to this proposal, in December 2010 the MOTIE announced guidelines for a cooperative framework between KEPCO and its generation subsidiaries, including us, and in January 2011 the five thermal generation subsidiaries, including us, formed a “joint cooperation unit” and transferred their pumped-storage hydroelectric business units to Korea Hydro & Nuclear Power Co., Ltd. (“KHNP”). Furthermore, in January 2011 the six generation subsidiaries were officially designated as “market-oriented public enterprises,” whereupon the President of Korea appoints the president and the standing director who is to become a member of the audit committee of each such subsidiary; the selection of outside directors of each such subsidiary is subject to approval by the minister of the Ministry of Strategy and Finance (the “MOSF,” formerly the Ministry of Finance and Economy); the president of each such subsidiary is required to enter into a management contract directly with the minister of the MOTIE; and the Committee for Management of Public Institutions conducts performance evaluation of such subsidiaries. Previously, KEPCO’s president appointed the president and the statutory auditor of each such subsidiary; the selection of outside directors of each such subsidiary was subject to approval by KEPCO’s president; the president of each such subsidiary entered into a management contract with KEPCO’s president; and KEPCO’s evaluation committee conducted performance evaluation of such subsidiaries.

For reasons relating to changes in policy considerations, economic and market conditions and/or other factors, the Government may resume the implementation of the Restructuring Plan or initiate other steps that may change the structure of the Korean electric power industry or our operations. Any such measures may have a negative effect on our business, results of operations and financial condition. In addition, the Government indirectly owns a majority of our shares and exercises significant control over our business and operations, and it may from time to time pursue policy initiatives with respect to our business and operations.

### ***The Newly Adopted Vesting Contract System May Not Achieve Desired Benefits.***

On May 20, 2014, the Electricity Business Act was amended, with effect from November 21, 2014, to introduce a “vesting contract” system in determining the price and quantity of electricity to be sold and purchased through the Korea Power Exchange between the purchaser of electricity (namely, KEPCO) and the sellers of electricity (namely, KEPCO’s generation subsidiaries (including us) and independent power producers). While the vesting contract system will work in conjunction with the cost-based pool system, the former will also substantially revamp and rationalize the latter as currently in effect, particularly with respect to the adjusted coefficient component.

Under the vesting contract system as currently contemplated by the amended Electricity Business Act and the Enforcement Decree of the Electricity Business Act, producers of electricity to be generated from base load fuels (such as nuclear, coal, hydro and by-product gas) at a particular generation unit will be required to enter into a contract with the purchaser of electricity (namely, KEPCO), which will specify, among other things, the quantity of electricity to be generated and sold from such generation unit and the price at which such electricity will be sold and purchased. The contracted quantity will be subject to annual adjustment in consideration of past generation amounts, maintenance and overhaul periods, among others. The contracted price will be subject to monthly adjustment largely depending on the fuel price movements, provided that in the event of a drastic change in electricity tariff rates, inflation rate and the general market conditions of electricity supply and demand, the contracted price may be further adjusted on an as-needed basis. Generally, the contractual terms will be subject to prior consultation with the Korea Electricity Commission and approval by the Minister of the MOTIE in order to ensure fair and standardized application of the vesting contract system to all producers of electricity.

In addition to aiming to stabilize the electricity supply market, a key feature of the vesting contract system is to provide a settlement mechanism that is designed to incentivize producers of electricity to supply electricity at or exceeding the contracted quantity. Under this settlement mechanism, an electricity producer is required to settle, among others, the difference between the contracted price and the market price of electricity sold at a given hour through the Korea Power Exchange (namely, the system marginal price), as multiplied by the contracted quantity of electricity. For further details of this settlement mechanism, see “The Korean Electricity Industry — Vesting Contract System”. Under this settlement mechanism, assuming sale of electricity in the contracted quantity and further assuming the system marginal price being higher than the contracted price, the consideration to be received by the seller of electricity net of the settlement amount will effectively amount to the product of the contracted quantity multiplied by the contracted price. If the seller sells a quantity of electricity exceeding the contracted quantity at a given hour, under the settlement mechanism and assuming the system marginal price being higher than the contracted price, the seller is entitled to an extra return (effectively, an incentive) equal to the product of the excess quantity multiplied by the difference between the system marginal price and the contracted price. On the other hand, if the seller sells a quantity of electricity falling short of the contracted quantity at a given hour, under the settlement mechanism and assuming the system marginal price being higher than the contracted price, the seller is required to pay an amount (effectively, a penalty) equal to the product of the shortfall quantity multiplied by the difference between the system marginal price and the contracted price. The foregoing notions of incentive and penalty are intended to minimize the additional cost of purchasing electricity at the higher system marginal price in the event that the seller of electricity fails to deliver the contracted quantity of electricity. Details of the settlement mechanism in the event of the system marginal price being lower than the contracted price have not yet been finalized.

The vesting contract system was introduced principally in order to prevent excessive profit-taking by low-cost producers of electricity by replacing the adjusted coefficient as the basis for determining the guaranteed return to generation companies, as well as to attain the following objectives. First, this system seeks to increase transactional certainty and stability of electricity supply and purchase by requiring that a relatively long-term (generally one-year) contract be entered in relation to electricity supply, which had been previously made entirely through what was effectively a spot market. Second, in order to foster responsible management of electricity supply by generation companies, the generation companies will become subject to minimum supply requirements and will be rewarded or penalized depending on whether they meet these requirements. Third, the introduction of standard contractual prices is designed to encourage cost savings and productivity enhancements on the part of the generation companies, who will be rewarded or penalized depending on whether they can supply electricity at such standard contractual prices.

In order to minimize undue impact on the electricity trading market in Korea, the vesting contract system will be implemented in phases, with the target date of implementation for coal-based electricity in 2016 and for nuclear power in 2017, although vesting contracts have been entered in February 2015 between KEPCO and two independent power producers of by-product gas-based electricity (namely, POSCO Energy and Hyundai Green Power) at a contractual price set a level at which the vesting contract system replaced the adjustment coefficient mechanism previously in effect with equal economic effect. By-product gas-based electricity accounted for 1.7% of electricity purchased by KEPCO in 2014. Since the vesting contract system is still in the early stages of implementation and many of the related details are still being finalized, it presently remains unclear in what final form the vesting contract system will actually operate, whether the vesting contract system will be able to achieve the desired results and whether there will be any adverse unintended consequences from the application of the system, and no assurance can be given that such system 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 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 Power Supply and Demand Basic Plan (the “Basic Plan”), which is announced and revised generally every two years by the Government. In July 2015, the Government announced the Seventh Basic Plan relating to the future supply and demand of electricity. The Seventh Basic Plan, which is effective for the period from 2015 to 2029, focuses 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.

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.

We cannot assure you that the Seventh Basic Plan, the Second Basic National Energy Plan, or the respective plans to be subsequently adopted, will successfully achieve the intended goals, the foremost of which is to formulate a capacity expansion plan that will result in balanced overall electricity supply and demand in Korea at an affordable cost to end users. If there is a significant variance between actual capacity expansions by us based on the projected electricity supply and demand and the actual supply and demand of electricity, this may result in inefficient use of our capital, mispricing of electricity and undue financing costs which may have a material adverse effect on our financial condition, results of operations and cash flows.

***We are dependent on fuel imported from overseas suppliers in currencies other than Won and under contracts with varying quantity and duration, and rising fuel costs could adversely affect our results of operations.***

Fuel costs constituted 82%, 77% and 66% of our sales and 84%, 81% and 72% of our cost of sales in 2013, 2014 and the first nine months of 2015, respectively. A substantial majority of the fuel we use comes from sources outside Korea at prices determined in part by prevailing market prices in currencies other than Won. 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 30 suppliers located in four countries, which are Indonesia, Australia, Russia and the United States, under long-term or spot contracts. Approximately 86% and 75% of our bituminous coal requirements were purchased under long-term contracts and 14% and 25% were purchased on the spot market in 2014 and the first nine months of 2015, respectively. Approximately 38%, 39%, 14% and 7% of our annual bituminous coal requirements were imported from Indonesia, Australia, Russia and the United States, respectively, in 2014. Approximately 32%, 48% and 12% and 8% of our bituminous coal requirements were imported from Indonesia, Australia, Russia and the United States, respectively, in the first nine months of 2015. We purchase a substantial portion of our LNG from Korea Gas Corporation (“KOGAS”) under a long-term supply contract.

Our anthracite coal requirements are sourced from three suppliers in Vietnam and one domestic supplier, Korea Coal Association. In 2014, we purchased approximately 64% and 36% of our anthracite coal requirements under long-term contracts and on the spot market, respectively, and in the first nine months of 2015, we purchased approximately 55% and 45% of our anthracite coal requirements under long-term contracts and on the spot market, respectively. In 2014, approximately 64%, and 36% of our anthracite coal requirements were purchased from suppliers in Vietnam and Korea, respectively, and in the first nine months of 2015, approximately 55% and 45% of our anthracite coal requirements were purchased from suppliers in Vietnam and Korea, respectively.

In recent years, the prices of bituminous coal, oil 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, anthracite 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.

In addition, 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 its generation subsidiaries, considers various factors, including the market prices of fuels, electricity tariff rates and their impacts on the relative fair investment returns for KEPCO and its generation subsidiaries, among others. Therefore, in the event of a sustained or rapid rise in fuel costs whose 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 KEPCO’s generation subsidiaries, including us, and, in turn, the overall profitability of our operations. Furthermore, in March 2013 the Cost Evaluation Committee imposed a price cap on the marginal price of electricity sold by us to KEPCO. While such price cap is expected to affect generation units using the most expensive fuel types, namely LNG and oil, since LNG and oil accounted for approximately 14% in aggregate of our installed capacity as of September 30, 2015, the price cap has had and may have a material adverse effect on our results of operation and financial condition. See “The Korean Electricity Industry — Power Purchase — Cost-based Pool System — Marginal Price”.

Furthermore, further to the announcement by the MOTIE in February 2010, a new electricity tariff system went into effect on July 1, 2011. This system was designed to overhaul the prior system for determining electricity tariff that KEPCO charges to its customers by more closely aligning the tariff levels to the movements in fuel prices, with the aim of providing more timely pricing signals to the market regarding the expected changes in electricity tariff levels and encouraging more efficient use of electricity by customers. This system was intended to provide greater financial stability and ensure a minimum return on investment to electricity suppliers, such as KEPCO. However, due to inflationary and other policy considerations relating to protecting the consumers from sudden and substantial rises in electricity tariff, the MOTIE issued a hold order on July 29, 2011 suspending the application of the fuel cost-related adjustment

and eventually abolished the adjustment system altogether on May 21, 2014 and generally reverted to the tariff system in place prior to the adoption of the system. Any similar development may have a material adverse effect on KEPCO's and, in turn by impacting the adjusted coefficient for the marginal prices for the electricity sold by us or otherwise, our business, financial condition, results of operations and cash flows.

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

We anticipate that substantial capital expenditures will be required through the years for construction of additional generation facilities as discussed in "Business — Capital Investment Program". In 2013, 2014 and the first nine months of 2015, we spent ₩896 billion, ₩1,299 billion and ₩1,074 billion respectively, on capital expenditures (including capitalized interest). We have budgeted ₩1,303 billion, ₩1,584 billion and ₩1,521 billion for capital expenditures (including capitalized interest) for 2016, 2017 and 2018, respectively. 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 international capital markets. It is possible that required financing may not be available to us or that the cost at which such financing may be provided may not be acceptable to us owing to events that disrupt the capital markets or other factors beyond our control. 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 guideline 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 assure whether 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 impact of Won depreciation may have an adverse effect on us.***

The depreciation of the Won against the U.S. dollar may have a material effect on the cost of servicing our foreign currency debt and the cost of our purchases of a substantial majority of fuel and equipment from overseas sources. As of September 30, 2015, 17% in principal amount of our bonds payable (net of discount) and long-term borrowings (including the current portion) was denominated in foreign currencies, all of which were in U.S. dollars. We have mitigated our exposure to exchange rate fluctuations through currency option contracts and cross currency swaps in respect of all of our foreign-currency denominated notes. The prices for a substantial majority of our fuel requirements and certain equipment we purchase are stated in currencies other than Won, generally in U.S. dollars. Since substantially all of our revenues are denominated in Won, we must generally obtain foreign currencies through the conversion of Won or foreign-currency denominated financings to effect such purchases or service such debt. In addition, even if we make payments in Won for certain fuel materials and equipment, these fuel materials (for example, LNG) and equipment may originate from other countries and their prices accordingly are affected by the exchange rates between the Won and foreign currencies, especially U.S. dollars. As a result, any significant depreciation of the Won against the U.S. dollar may have an adverse impact on us.

***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. Our primary foreign currency rate exposure is the U.S. dollar. To mitigate risks associated with foreign currency fluctuations, 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.

***Our insurance coverage may not be sufficient.***

We have obtained a general commercial insurance policy to insure against fire, natural disasters and mechanical accidents up to ₩13,268 billion. In addition, we have obtained construction insurance on our generation facilities at ShinBoryeong, Seoul, Boryeong, Sangmyeong and ShinSeocheon up to ₩1,990 billion, ₩654 billion, ₩43 billion, ₩47 billion and ₩1,000 billion as of September 30, 2015, respectively; construction insurance provides coverage in respect of a certain portion of assets being newly installed or constructed. We also have marine cargo insurance in respect of imported fuel and procurement with insurance coverage of ₩1,481 billion as of September 30, 2015, as well as general vehicle 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. We also do not carry insurance against terrorist attacks. 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”.

***Environmental regulations may limit 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 all 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. 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.

In addition, in order to deal with the shortage of fuel and other resources and also to comply with various environmental standards, the Government adopted the RPS in December 2010, under which each generation subsidiary is required to supply 10% of the total energy generated from such subsidiary in the form of renewable energy by 2024, with fines being levied on any unit failing to do so in the prescribed timeline. We have met the RPS target in 2014 and 2015 and thus have not been levied any fine for non-compliance for those years, but there is no assurance that we will continue to meet the RPS target and will not incur a substantial amount of capital expenditure over the next 10 years. We expect that such additional capital expenditure, if any, 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. However, 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.

***Newly adopted coal consumption tax may have a material adverse effect on our business, operations and profitability.***

On January 1, 2014, largely based on policy considerations of tax equity among different fuel types as well as environmental concerns, the MOSF announced that, effective July 1, 2014, consumption tax will apply to bituminous coal, which previously was not subject to consumption tax unlike other fuel types such as LNG or bunker oil. Pursuant to the amended Individual Consumption Tax Act effective as of July 1, 2015, the base tax rate (which is subject to certain adjustments) is ₩24 per kilogram for bituminous coal; however, due to concerns on the potential adverse effect on industrial activities, the applicable tax rate is ₩22 per kilogram for bituminous coal with net heat generation of less than 5,000 kilo calories per kilogram. In contrast, the applicable tax rate for LNG is ₩60 per kilogram. Since bituminous coal currently represents

the largest fuel type for our electricity generation, accounting for approximately 34.1% and 47.6% of our entire fuel requirements in 2014 and the first nine months of 2015, respectively, in terms of electricity output, we expect the recently adopted consumption tax thereon will result in an increase of our overall fuel costs, notwithstanding the decrease in the consumption tax rate for LNG, which accounted for approximately 58.2% and 43.9% of our entire fuel requirements in 2014 and the first nine months of 2015, respectively, in terms of electricity output. While we expect that such additional fuel costs 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 September 30, 2015, approximately 48% of our employees were members of the Korea Midland Power Labor Union, which membership comprises entirely of our employees, and approximately 44% of our employees were members of the Korean Power Plant Industry Union, of which employees of other non-nuclear generation companies are also members. The Restructuring Plan and the privatization plan for KEPCO's non-nuclear generation subsidiaries generated labor unrest in the past, and in February 2002, the labor unions of the five non-nuclear generation subsidiaries, including us, commenced a six-week strike to protest the Government's plan. Although the strike in 2002 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 have a material adverse effect on our business or results of operations. While we believe that we have trained a sufficient number of alternative staff and employees to run our operations in the event of a strike, there can be no assurances that this would prove to be successful. Labor unrest may adversely affect our results of operations by disrupting the power supply.

In addition, the National Assembly of Korea amended the Labor Union and Labor Relations Mediation Act, which, pursuant to the relevant amendments, prohibits a company from paying any wages to full-time labor union officers starting from July 1, 2010 unless otherwise provided in its collective bargaining agreement or consented to by the employer and permits multiple labor unions in a company starting from July 1, 2011. These changes may cause increased frictions between management and labor force, which could result in social unrest and could adversely affect our operations and the financial conditions of Korean companies in general. These developments 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.

***Following from the recent decision of the Supreme Court of Korea, we may be exposed to potential claims made by current or previous employees for unpaid wages for the past three years under the expanded scope of ordinary wages and become subject to additional labor costs arising from the broader interpretation of ordinary wages under such decision.***

Under the Labor Standards Act, an employee is legally entitled to "ordinary wages." Under the guidelines previously issued by the Ministry of Employment and Labor, ordinary wages include base salary and certain fixed monthly allowances for work performed overtime during night shifts and holidays. Prior to the Supreme Court decision described below, many companies in Korea had typically interpreted these guidelines as excluding from the scope of ordinary wages fixed bonuses that are paid other than on a monthly basis, namely on a bi-monthly, quarterly or biannually basis, although such interpretation had been a subject of controversy and had been overruled in a few court cases.

In a decision rendered on December 18, 2013, the Supreme Court of Korea ruled that regular bonuses (including those that are paid other than on a monthly basis) shall be deemed to be ordinary wages if these bonuses are paid "regularly" and "uniformly" on a "fixed basis" notwithstanding differential amounts based on seniority. Under this decision, any collective bargaining agreement or labor-management agreement which attempts to exclude such regular bonuses from ordinary wage will be deemed void for violation of the mandatory provisions of Korean law. However, the Supreme Court further ruled that an employee's claim for underpayments under the expanded scope of ordinary wages for the past three years within the statute of limitations may be denied based on the principles of good faith if (i) there is an agreement between the employer and employees that the regular bonus shall be excluded from an ordinary wage in determining the

total amount of wage, (ii) such claim results in further wage payments that far exceed the level of total amount of wage agreed between the employer and employees, and (iii) such claim would cause unexpected financial burden to the employer causing material managerial difficulty or threat to the existence of the employer. The principles of good faith, however, do not apply to an agreement on wages entered into between the employer and employees after December 18, 2013, the date of the above decision of the Supreme Court of Korea.

We anticipate that this decision will result in additional labor costs to us in the form of additional payments under the expanded scope of ordinary wages incurred in the past three years as well as to be incurred in the future if there has not been any additional payment to, or agreement with, the relevant employees regarding the increased ordinary wages. Although we believe that the amount of such additional costs at least for past unpaid wages under the expanded scope of ordinary wages will be limited, there is no assurance that such additional payments will not have an adverse effect on our results of operation and cash flows.

***We may face greater competition in the future.***

We compete with KEPCO's other non-nuclear generation subsidiaries and, to a lesser extent, with independent power generators for the sale of electricity in Korea. The independent power generators accounted for 24% of total power sold in terms of sales in the first nine months of 2015 and 17% of total generation capacity as of September 30, 2015. As of September 30, 2015, there were 11 independent power generators in Korea.

In July 2004, the Government adopted the Community Energy System to enable regional districts to source electricity from independent power producers to supply electricity without having to undergo the cost-based pool system used by us and most independent power producers to distribute electricity nationwide. A supplier of electricity under the Community Energy System must be authorized by the KOREC and be approved by the MOTIE in accordance with the Electricity Business Act. 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 Community Energy System. As of September 30, 2015, 28 districts were using this system. The generation capacity installed or under construction of the electricity suppliers in these 28 districts amounted to approximately 4% of the aggregate generation capacity of the generation subsidiaries of KEPCO as of September 30, 2015. If the Community Energy System is widely adopted, it will erode our market position in the generation of electricity in Korea and may have a material adverse effect on our business, growth, revenues 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 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.

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

Companies in Korea, including us, are subject to accounting standards that differ in significant respects from those applicable to companies in other countries. 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 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.

While in the aftermath of the global financial crisis that started in the second half of 2008 there have been mixed signs of recovery for the global and Korean economy, substantial uncertainties remain in the form of anticipated tightening of the U.S. monetary policy, continued fiscal and financial challenges for the European, U.S. and global economies, fluctuations in oil and commodity prices, signs of cooling of the Chinese economy and a rise of military and political tension in the Crimean peninsula and former members of the Soviet Union. Accordingly, the overall prospects for the Korean and global economy in 2016 and beyond remain uncertain. Any future deterioration of the global economy may have an adverse impact on the Korean economy, which in turn could adversely affect our business, financial condition and results of operations. As the Korean economy is highly dependent on the health and direction of the global economy, the prices of our securities may be adversely affected by investors' reactions to developments in other countries. In addition, due to the ongoing volatility in the global financial markets, the value of the Won relative to the U.S. dollar has also fluctuated significantly in recent years, which in turn also may adversely affect our financial condition and results of operation.

Factors that determine economic and business cycles of the Korean or global economy are for the most part beyond our control and inherently uncertain. In light of the high level of interdependence of the global economy, any of the foregoing developments could have a material adverse effect on the Korean economy and financial markets, and in turn on our business and profitability.

More specifically, factors that could hurt Korea's economy in the future include, among others:

- monetary tightening by the U.S. government known as "tapering," further deterioration of the fiscal and financial difficulties in Europe, the slowdown of the Chinese economy, as well as rising military and political tension in the Crimean peninsula and former members of the Soviet Union, which could have adverse effects on the global, and in turn Korean, credit and financial markets as well as the exchange rates of Won to other major foreign currencies, particularly U.S. dollar;
- increases in inflation levels, volatility in foreign currency reserve levels, commodity prices (including oil prices), exchange rates (particularly against the U.S. dollar), interest rates, stock market prices and inflows and outflows of foreign capital, either directly, into the stock markets, through derivatives or otherwise;

- increased reliance on exports to service foreign currency debts, which could cause friction with Korea's trading partners;
- adverse developments in the economies of countries to which Korea exports goods and services (such as the United States, China and Japan), or in emerging market economies in Asia or elsewhere that could result in a loss of confidence in the Korean economy;
- the continued emergence of China, to the extent its benefits (such as increased exports to China) are outweighed by its costs (such as competition in export markets or for foreign investment and relocation of the manufacturing base from Korea to China);
- social and labor unrest or declining consumer confidence or spending resulting from lay-offs, increasing unemployment and lower levels of income;
- uncertainty and volatility in real estate prices arising, in part, from the Government's policy-driven tax and other regulatory measures;
- a decrease in tax revenues and a substantial increase in the Government's expenditures for unemployment compensation and other social programs that together could lead to an increased Government budget deficit;
- political uncertainty or increasing strife among or within political parties in Korea, including as a result of the increasing polarization of the positions of the ruling conservative party and the progressive opposition;
- deterioration in economic or diplomatic relations between Korea and its trading partners or allies, including such deterioration resulting from trade disputes or disagreements in foreign policy;
- any other development that has a material adverse effect in the global economy, such as an act of war, a terrorist act or a breakout of an epidemic such as SARS, avian flu, swine flu, Middle East Respiratory Syndrome or ebola, or natural disasters such as earthquakes and tsunamis and the related disruptions in the relevant economies with global repercussions;
- hostilities involving oil-producing countries in the Middle East and elsewhere and any material disruption in the supply of oil or a material increase in the price of oil resulting from such hostilities; and
- an increase in the level of tensions or an outbreak of hostilities in the Korean peninsula.

Any future deterioration of the Korean economy could have an adverse effect on our business, financial condition and results of operation.

***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.

There recently has been increased uncertainty about the future of North Korea's political leadership and its implications for the economic and political stability of the region. Shortly after the death of Kim Jong-il, a long-standing former ruler of North Korea, in December 2011 his son Kim Jong-un was named North Korea's Supreme Commander of the Armed Forces. Whether Kim Jong-un will successfully solidify his political power or whether he will implement policies that will successfully assist North Korea in withstanding the many challenges it faces, however, remains uncertain. If the consolidation of power by Kim Jong-un is not successful or there exist any conflicts among different political factions, there may be significant uncertainty regarding the policies, actions and initiatives that North Korea might pursue in the future. For example, in December 2013, Jang Sung-Taek, husband to Kim Jong-un's aunt, who was widely speculated to be the second in command after Kim, particularly in terms of influencing North Korea's

economic policies, was executed on charges of sedition, among others. Although the implications of such development remains uncertain, it may lead to an extensive political purge in the North Korean leadership and cause further political and social instability in North Korea and/or adoption of more hostile policies that could enhance friction with Korea and the rest of the world.

In recent years, there have been heightened security concerns stemming from North Korea's nuclear weapons and long-range missile programs and increased uncertainty regarding North Korea's actions and possible responses from the international community. In January 2003, North Korea renounced its obligations under the Nuclear Non-Proliferation Treaty and conducted three rounds of nuclear tests between October 2006 and February 2013, which increased tensions in the region and elicited strong objections worldwide. Following the third round of nuclear tests, North Korea also made threats to take further military actions, potentially including a fourth round of nuclear tests. In response, the United Nations Security Council unanimously passed resolutions that condemned North Korea for the nuclear tests and expanded sanctions against North Korea, most recently in March 2013. On January 6, 2016, North Korea announced that it had successfully conducted its first hydrogen bomb test, hours after international monitors detected a 5.1 magnitude earthquake near a known nuclear testing site in the country. The claims have not been verified independently. The alleged test followed a statement made in the previous month by Kim Jong-un, who claimed that North Korea had developed a hydrogen bomb.

North Korea has recently undertaken other hostile actions. For example, 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.

On April 3, 2013, North Korea blocked South Koreans from entering the Kaesong Industrial Complex, an economic cooperation zone within North Korea, and on April 26, 2013, South Korea decided to withdraw its workers from the complex. In September 2013, however, Korea and North Korea reached an agreement and resumed operation of the Kaesong Industrial Complex and have since made efforts to improve the business environment of the complex, including by building radio frequency identification data transfer systems and launching internet service, among others. In February 2014, the U.S. Congressional Research Service reported that the Government's approach towards the expansion and internationalization of the Kaesong Industrial Complex could conflict with U.S. legislative efforts to expand its sanctions on North Korea, and there is no assurance that the Government will not reverse or reduce such efforts at detente.

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. High-ranking officials from North Korea and Korea subsequently met for discussions and entered into an agreement on August 25, 2015 intended to diffuse military tensions.

There can be no assurance that the level of tension on the Korean peninsula will not escalate in the future. Furthermore, North Korea's economy also faces severe challenges, including severe inflation and food shortages, which may further aggravate social and political tensions within North Korea. In addition, reunification of Korea and North Korea could occur in the future, which would entail significant expenditure and economic commitment by Korea. Any further increase in economic or political difficulties within North Korea or escalation of military tension between Korea and North Korea could have a material adverse effect on our business, financial condition and results of operations as well as lead to a decline in the market value of the Notes.

## **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. The Notes may only be sold 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 US\$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 (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 Transaction Law of Korea and its Enforcement Decree), except as otherwise permitted under applicable Korean laws and regulations.

In addition, during the first year after the issuance of the Notes, the Notes may not be transferred to any resident of Korea other than a “qualified institutional buyer” (a “Korean QIB”, as defined in the Regulation on Issuance, Public Disclosure, Etc. of Securities of Korea) who is registered with Korea Financial Investment Association (“KOFIA”) for Korean QIB bond trading. Furthermore, any such Korean QIB must file monthly reports to KOFIA concerning Korean QIB bondholdings and the Notes acquired by all Korean QIBs at the time of issuance must be less than 20% of the aggregate principal amount of the Notes.

### ***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 for the listing and quotation of the Notes on the Singapore Stock Exchange. The offer and sale of the Notes is not conditioned on obtaining a listing of the Notes on the Singapore Stock Exchange or any other exchange. Although the Initial Purchasers 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 Initial Purchasers’ planned market-making activities, see “Plan of Distribution”.

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 market price and liquidity 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 Fiscal Agency Agreement governing the Notes does not contain various 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.

## USE OF PROCEEDS

We expect the net proceeds from the sale of the Notes of approximately US\$296,838,000, after deduction of commissions to the Initial Purchasers but before certain out-of-pocket expenses relating to this offering, will be used for repayment of certain existing debt, capital expenditures and other general corporate purposes.

## EXCHANGE RATES

The following table sets forth, for the periods and dates indicated, certain information concerning the Noon Buying Rate in Won per US\$1.00. No representation is made that the Won or the U.S. dollar amounts referred to herein could have been or could be converted into U.S. dollars or Won, as the case may be, at any particular rate or at all.

Year Ended December 31,	At End of Period	Average <sup>(1)</sup>	High	Low
		(Won per US\$1.00)		
2010 .....	1,130.6	1,155.7	1,253.2	1,104.0
2011 .....	1,158.5	1,106.9	1,197.5	1,049.2
2012 .....	1,063.2	1,126.2	1,185.0	1,063.2
2013 .....	1,055.3	1,094.7	1,161.3	1,050.1
2014 .....	1,090.9	1,052.3	1,117.7	1,008.9
2015 .....	1,169.3	1,131.0	1,196.4	1,063.0
2016 (through January 8) .....	1,207.0	1,196.4	1,207.0	1,190.4

*Source: Federal Reserve Bank of New York (for the periods ended on or prior to December 31, 2008) and Federal Reserve Board (for the period since January 1, 2009).*

*Note:*

(1) Represents the daily average of the Noon Buying Rates on the last day of each month during the relevant period.

## CAPITALIZATION

The following table sets forth our capitalization (1) as derived from our unaudited consolidated interim financial statements as of September 30, 2015 included in this Offering Circular and (2) as adjusted to give effect to the gross proceeds of US\$300,000,000 from the issuance of the Notes on the assumption that proceeds from the issuance of the Notes are not used for immediate repayment of outstanding indebtedness.

The table below should be read in connection with our unaudited consolidated interim financial statements as of September 30, 2015 included in this Offering Circular.

	As of September 30, 2015 <sup>(1)</sup>			
	Actual		As Adjusted	
	(in billions of Won and millions of U.S. dollars)			
Long-term debt:				
Borrowings (excluding current portion), net of discount .....	₩152	US\$128	₩152	US\$128
Bonds Payable (excluding current portion), net of discount <sup>(2)</sup> .....	3,361	2,837	3,716	3,137
Total long-term debt.....	<u>₩3,513</u>	<u>US\$2,965</u>	<u>₩3,868</u>	<u>US\$3,265</u>
Equity:				
Issued capital of ₩5,000 par value; Authorized — 100,000,000 shares; Issued and outstanding — 27,467,967 shares .	₩137	US\$116	₩137	US\$116
Share premium .....	1,053	889	1,053	889
Retained earnings:				
Legal reserves .....	78	66	78	66
Voluntary reserves.....	1,345	1,135	1,345	1,135
Unappropriated retained earnings .....	864	729	864	729
Other components of equity:				
Accumulated other comprehensive loss .....	(12)	(10)	(12)	(10)
Other equity .....	(290)	(245)	(290)	(245)
Equity attributable to owner of the Company .....	3,175	2,680	3,175	2,680
Non-controlling interests .....	19	16	19	16
Total equity .....	<u>₩3,194</u>	<u>US\$2,696</u>	<u>₩3,194</u>	<u>US\$2,696</u>
Total capitalization <sup>(3)</sup> .....	<u>₩6,707</u>	<u>US\$5,661</u>	<u>₩7,062</u>	<u>US\$5,961</u>

*Notes:*

- (1) Except as disclosed herein, there has been no material change in our capitalization since September 30, 2015.
- (2) The exchange rate used to convert U.S. dollars into Won in the case of the Notes now being issued is ₩1,184.6 to US\$1.00, which was the Noon Buying Rate in effect as of September 30, 2015.
- (3) Total capitalization is defined as total long-term debt plus total equity.

## THE KOREAN ELECTRICITY INDUSTRY

### Background

Demand for electricity in Korea grew at a compounded average rate of 3.9% per annum for the five years ended December 31, 2014, according to KEPCO, compared to the real GDP compounded growth rate of approximately 3.7% per annum for the same period, according to The Bank of Korea. The GDP growth rate was 3.3% for 2014, 3.0% for 2013 and 2.3% for 2012. According to KEEI, total demand for electricity in Korea increased by 1.7% in 2014, 3.0% in 2013 and 2.5% during 2012, in each case, year on year.

Historically, KEPCO and its 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 its generation subsidiaries plan to continue to make substantial expenditures to expand and enhance its 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 September 30, 2015, 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 KEPCO 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 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 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 ran from January 1, 1999 to April 2, 2001, KEPCO continued to be the principal electricity generator, with a few independent power producers 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 generating capacity into five separate wholly owned generation subsidiaries, namely, Korea East-West Power Co., Ltd ("EWP"), Korea Southern Power Co., Ltd. ("KOSPO"), Korea Western Power Co., Ltd. ("KOWEPO"), Korea South-East Power Co., Ltd. ("KOSEP") and us, each with its own management structure, assets and liabilities. KEPCO's hydroelectric and nuclear generating 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 Community Energy System 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 was established on April 2, 2001 and is a cost-based system. For a further description of the pool system, see "— Power Purchase — Cost-based Pool System" below.

Pursuant to the Electricity Business Law 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 five of KEPCO's generation subsidiaries, including us, other than its nuclear and hydropower generation subsidiary. KEPCO commenced the process for selling 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, on September 25, 2006, KEPCO established nine strategy business units (which, together with KEPCO’s other business units, were subsequently restructured into 14 such units in February 2012) having a separate management structure with limited autonomy and separate financial accounting and performance evaluation criteria. Based on whether the strategic business units successfully achieve their intended goals of improving operational efficiency and internal competition, KEPCO may expand the use of strategic business units. On August 11, 2008, the MOSF announced plans to privatize, merge, and make adjustments to 41 public enterprises. This announcement, however, did not contain any measures affecting KEPCO or any of its subsidiaries, including us.

### ***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. Under the plan, KHNP would consolidate and take over the pumping storage hydro power plants, which were operated by five non-nuclear generation subsidiaries of KEPCO, including us, in order to increase synergy and stabilize the electricity trading system. A market-based public enterprise system was also to be introduced. Under this system, KEPCO will continue to oversee the generation companies’ financial and ownership structure and take the lead in exports of nuclear power plants and overseas energy resources development. However, individual generation companies will have management autonomy in areas such as construction and management of power plants and procurement of fuel. Otherwise, the industry structure consisting of KEPCO, KHNP and the five non-nuclear generation companies, including us, will remain the same. The relationship between KEPCO and the power generation companies including us, will change under the plan. Selection of executives and evaluation of performance will no longer be the purview of KEPCO. Instead, the President of Korea will select the president and the statutory auditor of the generation companies that are designated as market-based public enterprises, and the MOSF will select the non-executive directors.

Pursuant to this plan, in December 2010, the MOTIE announced guidelines for a cooperative framework between KEPCO and its 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. We have revised our articles of incorporation in 2011 to accommodate the above changes according to the Public Enterprise Management Act.

## 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 KEPCO's six generation subsidiaries including us, which were spun off from KEPCO in April 2001, and independent power producers, which numbered 11 as of September 30, 2015. 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 of KEPCO, 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 liquefied natural gas, 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 KEPCO's 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 its 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 KEPCO's generation subsidiaries sell electricity to KEPCO is determined using the following formula:

$$\text{Variable cost} + [\text{System marginal price} - \text{Variable cost}] * \text{Adjusted coefficient}$$

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. To elaborate, 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 its electricity generation costs by making its generation process more efficient, sourcing fuels from most 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.

The adjusted coefficient applies uniformly to all generation units that use the same type of fuel, and is generally higher for generation units that use fuel types that inherently entail higher construction and maintenance costs, such as nuclear plants. The adjusted coefficient is determined by the Cost Evaluation Committee in principle on a semi-annual basis, although in exceptional cases driven by external factors such as fuel costs and electricity tariff rates, the adjusted coefficient may be adjusted on a quarterly basis. In determining the adjusted coefficient, the Cost Evaluation Committee considers various factors, including the market prices of fuels, electricity tariff rates and their impacts on the relative fair investment returns for KEPCO and its generation subsidiaries, among others.

Under the "vesting contract" system which is currently being implemented in phases as to the purchase and sale of electricity between KEPCO and the suppliers of electricity (namely, generation subsidiaries including us and independent power producers) pursuant to an amendment to the Electricity Business Act, effective November 21, 2014, the application of adjusted coefficient will gradually cease in tandem with the rollout of the vesting contract system depending on various fuel types, and the adjustment mechanism for determining the price KEPCO currently pays to its generation subsidiaries and independent power producers for electricity sold to KEPCO will be replaced by the vesting contract system as further described below in "— Vesting Contract System".

In March 2013, the Cost Evaluation Committee imposed a price cap on the system marginal price, which cap affects, in practice, only those generation units using the most expensive fuel types, namely LNG and oil.

### *Capacity Price*

In addition to payment in respect of the variable cost of generating electricity, KEPCO's 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 KEPCO's generational subsidiaries. Currently, the capacity price is ₩7.46/kWh and since January 1, 2013 has applied equally to all generation units, regardless of fuel types used.

Effective as of January 1, 2007, a regionally differentiated capacity price system was introduced by setting a standard capacity reserve ratio in the range of 12% to 20% in order to prevent excessive capacity build-up as well as induce optimal capacity investment at the regional level. The capacity reserve ratio 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 ratio receive increased capacity price. Conversely, generation units in a region where available capacity exceeds demand for electricity as evidenced by satisfaction of the standard capacity reserve ratio receive reduced capacity price. Other than the foregoing region-based variations, the capacity price generally applies uniformly to all generation units regardless of fuel types used.

### **Increases in Electricity Tariff Rates**

Most recently, on November 19, 2013, the Government announced that, effective as of November 21, 2013, the average electricity rates that KEPCO charges to end-users would be increased as set forth below. As a result of these adjustments, the average electricity rate that KEPCO charges to its customers increased by 5.4%.

<u>Type of Usage</u>	<u>Residential</u>	<u>Commercial</u>	<u>Educational</u>	<u>Industrial</u>	<u>Agricultural</u>	<u>Street lighting</u>	<u>Night power usage</u>
% increase .....	2.7	5.8	0.0	6.4	3.0	5.4	5.4

### **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 in determining the price and quantity of electricity to be sold and purchased through the Korea Power Exchange between the purchaser of electricity (namely, KEPCO) and the sellers of electricity (namely, KEPCO's generation subsidiaries (including us) and independent power producers). While the vesting contract system will work in conjunction with the cost-based pool system, the former will also substantially revamp and rationalize the latter as currently in effect, particularly with respect to the adjusted coefficient component.

Under the vesting contract system as currently contemplated by the amended Electricity Business Act and the Enforcement Decree of the Electricity Business Act, producers of electricity to be generated from base load fuels (such as nuclear, coal, hydro and by-product gas) at a particular generation unit will be required to enter into a contract with the purchaser of electricity (namely, KEPCO), which will specify, among other things, the quantity of electricity to be generated and sold from such generation unit and the price at which such electricity will be sold and purchased. The contracted quantity will be subject to annual adjustment in consideration of past generation amounts, maintenance and overhaul periods, among others. The contracted price will be subject to monthly adjustment largely depending on the fuel price movements, provided that in the event of a drastic change in electricity tariff rates, inflation rate and the general market conditions of electricity supply and demand, the contracted price may be further adjusted on an as-needed basis. Generally, the contractual terms will be subject to prior consultation with the Korea Electricity Commission and approval by the Minister of the MOTIE in order to ensure fair and standardized application of the vesting contract system to all producers of electricity.

In addition to aiming to stabilize the electricity supply market, a key feature of the vesting contract system is to provide a settlement mechanism that is designed to incentivize producers of electricity to supply electricity at or exceeding the contracted quantity. Under this settlement mechanism, an electricity producer is required to settle, among others, the difference between the contracted price and the market price of electricity sold at a given hour through the Korea Power Exchange (namely, the system marginal price), as multiplied by the contracted quantity of electricity.

To elaborate, the net consideration that the seller of electricity at a particular generation unit is entitled to receive upon sale of the contracted quantity of electricity through the Korea Power Exchange at a given hour is determined using the following formula:

Net consideration = Gross consideration — Settlement amount, assuming the system marginal price is higher than the contracted price, where:

- (A) Gross consideration equals the sum of:
  - (i) System marginal price \* quantity of electricity sold; and
  - (ii) Capacity price (as discussed above), as applicable to the particular generation unit; and
- (B) Settlement amount equals the sum of:
  - (i) Contracted quantity \* (system marginal price — contracted price); and
  - (ii) Capacity price.

Accordingly, under this settlement mechanism, assuming sale of electricity in the contracted quantity and further assuming the system marginal price being higher than the contracted price, the consideration to be received by the seller of electricity net of the settlement amount will effectively amount to the product of the contracted quantity multiplied by the contracted price. If the seller sells a quantity of electricity exceeding the contracted quantity at a given hour, under the settlement mechanism and assuming the system marginal price being higher than the contracted price, the seller is entitled to an extra return (effectively, an incentive) equal to the product of the excess quantity multiplied by the difference between the system marginal price and the contracted price. On the other hand, if the seller sells a quantity of electricity falling short of the contracted quantity at a given hour, under the settlement mechanism and assuming the system marginal price being higher than the contracted price, the seller is required to pay an amount (effectively, a penalty) equal to the product of the shortfall quantity multiplied by the difference between the system marginal price and the contracted price. The foregoing notions of incentive and penalty are intended to minimize the additional cost of purchasing electricity at the higher system marginal price in the event that the seller of electricity fails to deliver the contracted quantity of electricity. Details of the settlement mechanism in the event of the system marginal price being lower than the contracted price have not yet been finalized.

The vesting contract system was introduced principally in order to prevent excessive profit-taking by low-cost producers of electricity by replacing the adjusted coefficient as the basis for determining the guaranteed return to generation companies, as well as to attain the following objectives. First, this system seeks to increase transactional certainty and stability of electricity supply and purchase by requiring that a relatively long-term (generally one-year) contract be entered in relation to electricity supply, which had been previously made entirely through what was effectively a spot market. Second, in order to foster responsible management of electricity supply by generation companies, the generation companies will become subject to minimum supply requirements and will be rewarded or penalized depending on whether they meet these requirements. Third, the introduction of standard contractual prices is designed to encourage cost savings and productivity enhancements on the part of the generation companies, who will be rewarded or penalized depending on whether they can supply electricity at such standard contractual prices.

In order to minimize undue impact on the electricity trading market in Korea, the vesting contract system will be implemented in phases, with the target date of implementation for hydro power in the second half of 2015, for coal-based electricity in 2016 and for nuclear power in 2017, although vesting contracts have been entered in February 2015 between KEPCO and two independent power producers of by-product gas-based electricity (namely, POSCO Energy and Hyundai Green Power) at a contractual price set a level at which the vesting contract system replaced the adjustment coefficient mechanism previously in effect with equal economic effect. By-product gas-based electricity accounted for 1.7% of electricity purchased by KEPCO in 2014. Since the vesting contract system is still in the early stages of implementation and many of the related details are still being finalized, it presently remains unclear in what final form the vesting

contract system will actually operate, whether the vesting contract system will be able to achieve the desired results and whether there will be any adverse unintended consequences from the application of the system, and no assurance can be given that such system will not adversely affect our business, results of operation or financial condition in the future.

### **Fuel Cost Pass-through Adjustment to the Electricity Tariff System**

Further to the announcement by the MOTIE in February 2010, a new electricity tariff system went into effect on July 1, 2011. This system was designed to overhaul the prior system for determining electricity tariff that KEPCO charges to its customers by more closely aligning the tariff levels to the movements in fuel prices, with the aim of providing more timely pricing signals to the market regarding the expected changes in electricity tariff levels and encouraging more efficient use of electricity by customers. Previously, the electricity tariff consisted of two components: (i) base rate and (ii) usage rate based on the cost of electricity and the amount of electricity consumed by the end-users. Under the new tariff system, the electricity tariff is also to have a third component of fuel cost pass-through adjustment (“FCPTA”) rate, which is to be added to or subtracted from the sum of the base rate and the usage rate based on the movements of coal, LNG and oil prices. The fuel cost-related adjustment will be made on a monthly basis to the existing rate in effect two months prior.

The new tariff system was intended to provide greater financial stability and ensure a minimum return on investment to electricity suppliers, such as KEPCO. However, due to inflationary and other policy considerations relating to protecting the consumers from sudden and substantial rises in electricity tariff, the MOTIE issued a hold order on July 29, 2011 suspending KEPCO’s billing and collecting of the FCPTA amount and eventually abolished the FCPTA system altogether on May 21, 2014 and generally reverted to the tariff system in place prior to the adoption of the FCPTA system.

### **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 generating companies in Korea will be required to be sourced from renewable energy by 2024. Fines are levied on any generation subsidiary that fail 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.

## SELECTED FINANCIAL AND OTHER DATA

The following tables present selected financial and other data as of and for the years ended December 31, 2013 and 2014, and as of September 30, 2015 and for the nine months ended September 30, 2014 and 2015. The selected financial information and other data set forth below have been derived from and should be read in conjunction with our audited consolidated financial statements and notes thereto as of and for the years ended December 31, 2013 and 2014 and our unaudited consolidated interim financial statements and notes thereto as of September 30, 2015 and for the nine months ended September 30, 2014 and 2015 are included elsewhere in this Offering Circular.

Our consolidated financial statements as of and for the years ended December 31, 2013 and 2014 have been prepared in accordance with K-IFRS. Our consolidated interim financial statements as of September 30, 2015 and for the nine-months periods ended September 30, 2014 and 2015 have been prepared in accordance with K-IFRS No. 1034 'Interim Financial Reporting.'

Our results of operations for the nine months ended September 30, 2015 may not be indicative of our results of operations for any future interim period or for the full year 2015.

	For the Year Ended December 31,			For the Nine Months Ended September 30,		
	2013	2014	2014 <sup>(1)</sup>	2014	2015	2015 <sup>(1)</sup>
	(in billions of Won and millions of U.S. dollars, except per share data)					
<b>Consolidated Statement of Comprehensive Income Data:</b>						
<b>Sales</b> .....	₩5,702	₩5,112	US\$4,315	₩3,875	₩3,026	US\$2,555
Cost of sales .....	(5,538)	(4,857)	(4,100)	(3,647)	(2,746)	(2,318)
<b>Gross profit</b> .....	<u>164</u>	<u>255</u>	<u>215</u>	<u>228</u>	<u>280</u>	<u>237</u>
Selling and administrative expenses .....	(64)	(89)	(75)	(48)	(51)	(43)
<b>Operating income</b> .....	<u>100</u>	<u>166</u>	<u>140</u>	<u>180</u>	<u>229</u>	<u>194</u>
Other income .....	30	37	32	3	4	3
Other expenses .....	(3)	(1)	(1)	(0.4)	(1)	(1)
Other profit .....	(3)	(1)	(1)	(4)	13	11
Finance income .....	38	38	32	20	59	50
Finance costs .....	(116)	(95)	(80)	(68)	(97)	(82)
Net income related to associates and joint ventures .....	16	18	15	7	14	12
Gains on disposal of subsidiaries .....	—	—	—	—	6	5
<b>Profit before income tax</b> .....	<u>62</u>	<u>162</u>	<u>137</u>	<u>137</u>	<u>227</u>	<u>192</u>
Income tax expense .....	(6)	(45)	(38)	(39)	(52)	(44)
<b>Profit for the period</b> .....	<u>₩56</u>	<u>₩117</u>	<u>US\$99</u>	<u>₩98</u>	<u>₩175</u>	<u>US\$148</u>
<b>Other comprehensive income (loss), net of tax</b> .....	<u>7</u>	<u>(15)</u>	<u>(13)</u>	<u>(14)</u>	<u>8</u>	<u>7</u>
<b>Total comprehensive income for the period</b> .....	<u>₩63</u>	<u>₩102</u>	<u>US\$86</u>	<u>₩84</u>	<u>₩183</u>	<u>US\$154</u>
<b>Earnings per share</b>						
Basic and diluted earnings per share .....	₩2	₩4	US\$4	₩4	₩6	US\$5

	As of December 31,			As of September 30,	
	2013	2014	2014 <sup>(1)</sup>	2015	2015 <sup>(1)</sup>
(in billions of Won and millions of U.S. dollars)					
<b>Consolidated Statement of Financial Position Data:</b>					
<i>Assets:</i>					
Cash and cash equivalents .....	₩91	₩105	US\$89	₩161	US\$136
Other current assets <sup>(2)</sup> .....	852	842	710	751	634
Property, plant and equipment .....	4,983	5,866	4,952	6,608	5,578
Other non-current assets <sup>(3)</sup> .....	384	406	343	453	382
Total assets .....	<u>₩6,310</u>	<u>₩7,219</u>	<u>US\$6,094</u>	<u>₩7,973</u>	<u>US\$6,730</u>
<i>Liabilities and shareholder's equity:</i>					
Short-term borrowings .....	₩70	₩—	US\$—	₩8	US\$7
Current portion of long-term borrowings .....	0.4	20	17	19	16
Current portion of bonds payable, net of discount .....	300	330	279	359	303
Other current liabilities <sup>(4)</sup> .....	709	677	571	497	420
Bonds payable, net of discount (excluding current portion) .....	1,856	2,723	2,299	3,361	2,837
Long-term borrowings (excluding current portion) .....	106	89	75	152	128
Other non-current liabilities <sup>(5)</sup> .....	332	353	298	383	323
Total liabilities .....	<u>₩3,373</u>	<u>₩4,192</u>	<u>US\$3,539</u>	<u>₩4,779</u>	<u>US\$4,034</u>
Total equity .....	₩2,937	₩3,027	US\$2,555	₩3,194	US\$2,696
Total liabilities and equity .....	<u>₩6,310</u>	<u>₩7,219</u>	<u>US\$6,094</u>	<u>₩7,973</u>	<u>US\$6,730</u>
Net working capital (deficit) <sup>(6)</sup> .....	₩(136)	₩(80)	US\$(68)	₩29	US\$24

	For the Year Ended December 31,			For the Nine Months Ended September 30,		
	2013	2014	2014 <sup>(1)</sup>	2014	2015	2015 <sup>(1)</sup>
	(in billions of Won and millions of U.S. dollars)					
<b>Consolidated Other Financial Data:</b>						
Capital expenditures <sup>(7)</sup> .....	₩896	₩1,299	US\$1,065	₩860	₩1,074	US\$907
Depreciation and amortization <sup>(8)</sup> .....	370	412	347	302	296	250
Cash flows provided by operating activities.....	416	454	383	438	434	366
Cash flows used in investing activities.....	(809)	(1,234)	(1,042)	(870)	(1,056)	(888)
Cash flows provided by financing activities.....	283	795	671	594	672	567
Margins (as percentage of sales)						
Operating income margin (%).....	1.75%	3.25%		4.66%	7.58%	
Net income margin (%).....	0.99%	2.29%		2.54%	5.77%	
Debt to equity ratio (%) <sup>(9)</sup> .....	79.43%	104.43%		97.46%	122.05%	
Net debt to equity ratio (%) <sup>(10)</sup> ..	76.32%	100.95%		89.11%	117.00%	
Total liabilities to equity ratio (%).....	114.86%	138.48%		126.08%	149.61%	
<b>Consolidated Operating Information:</b>						
Total power sold (gigawatt hours).....	55,661	50,217		37,687	33,482	
Total installed capacity (megawatts).....	8,933	8,434		8,434	8,444	

*Notes:*

- (1) We maintain our financial statements in Won. The Won financial information as of and for the year ended December 31, 2014 and as of and for the nine months ended September 30, 2015 has been translated into U.S. dollars at the exchange rate of ₩1,184.6 to US\$1.00, which was the Noon Buying Rate in effect as of September 30, 2015.
- (2) Other current assets consist of current financial assets, trade and other receivables, inventories, current income tax assets, current non-financial assets and non-current assets classified as held-for-sale.
- (3) Other non-current assets consist of non-current financial assets, long-term trade and other receivables, goodwill, intangible assets excluding goodwill, investments in joint ventures, investments in associates and non-current non-financial assets.
- (4) Other current liabilities consist of trade and other payables, current portion of derivative liabilities, current income tax liabilities, current non-financial liabilities and current provisions.
- (5) Other non-current liabilities consist of long-term trade and other payables, non-current non-financial liabilities, employee benefit liabilities, deferred tax liabilities and non-current provisions.
- (6) Net working capital (deficit) means total current assets minus total current liabilities.
- (7) Capital expenditures consist of acquisition of property, plant and equipment, increases in intangible assets (excluding research and normal development expenditures) and capitalized interest.
- (8) In respect of cost of sales only, and not selling and administrative expenses.
- (9) Debt-to-equity ratio equals the sum of bonds payable (net of discount) and long-term borrowings (including the current portion) and short-term borrowings divided by total equity.
- (10) Net debt-to-equity ratio equals (i) the sum of bonds payable (net of discount) and long-term borrowings (including the current portion) and short-term borrowings less (ii) cash and cash equivalents and short-term investment securities, divided by (iii) total equity.

## BUSINESS

### Overview

We were established on April 2, 2001 as one of six wholly-owned electricity generation subsidiaries of KEPCO. These subsidiaries generate substantially all of the electricity in Korea. As of September 30, 2015, we owned approximately 9% of the total electricity generating capacity in Korea (excluding plants generating electricity primarily for private or emergency use). In 2013, 2014 and the nine months ended September 30, 2015, we sold 55,661, 50,217 and 33,482 gigawatt-hours of electricity, respectively. We sell all of our electricity to KEPCO through the KPX. KEPCO is currently the sole electricity transmission and distribution company in Korea.

Demand for electricity in Korea grew at a compounded average rate of 3.9% per annum for the five years ended December 31, 2014, according to KEPCO, compared to the real GDP compounded growth rate of approximately 3.7% per annum for the same period, according to The Bank of Korea. The GDP growth rate was 3.3% for 2014, 3.0% for 2013 and 2.3% for 2012. According to KEEI, total demand for electricity in Korea increased by 1.7% in 2014, 3.0% in 2013 and 2.5% during 2012, in each case, year on year.

Since our inception, we, along with KEPCO and its other generation subsidiaries, have made substantial expenditures for the construction of generation plants and other facilities to meet increased demand for electric power. According to the Seventh Basic Plan released in July 2015, the consumption of electric power is expected to increase by 2.1% per annum from 2015 to 2029. Pursuant to the Seventh Basic Plan, we plan to continue to make substantial expenditures to expand and enhance our generating system in the future, including two coal-fired power plants in ShinBoryeong, each with generation capacity of 1,000 megawatts with target completion in 2016 and 2017, respectively, and a combined-cycle power plant in Seoul with generation capacity of 800 megawatts with target completion in 2016.

As of September 30, 2015, we had total installed generating capacity of 8,444 megawatts, of which 4,400 megawatts, 3,730 megawatts, 285 megawatts, 7.5 megawatts, 8 megawatts, 3 megawatts and 10.3 megawatts were attributable to our coal-fired units, LNG-fired units (combined cycle included), oil-fired units, mini-hydro units, photovoltaic units, wind power plants and other renewable energy units, respectively.

In 2013 and 2014, we generated sales of ₩5,702 billion and ₩5,112 billion, respectively, and profit for the period of ₩56 billion and ₩117 billion, respectively. For the nine months ended September 30, 2015, we generated sales of ₩3,026 billion and profit for the period of ₩175 billion compared to the first nine months of 2014, when we generated sales of ₩3,875 billion and profit for the period of ₩98 billion.

### Strategy

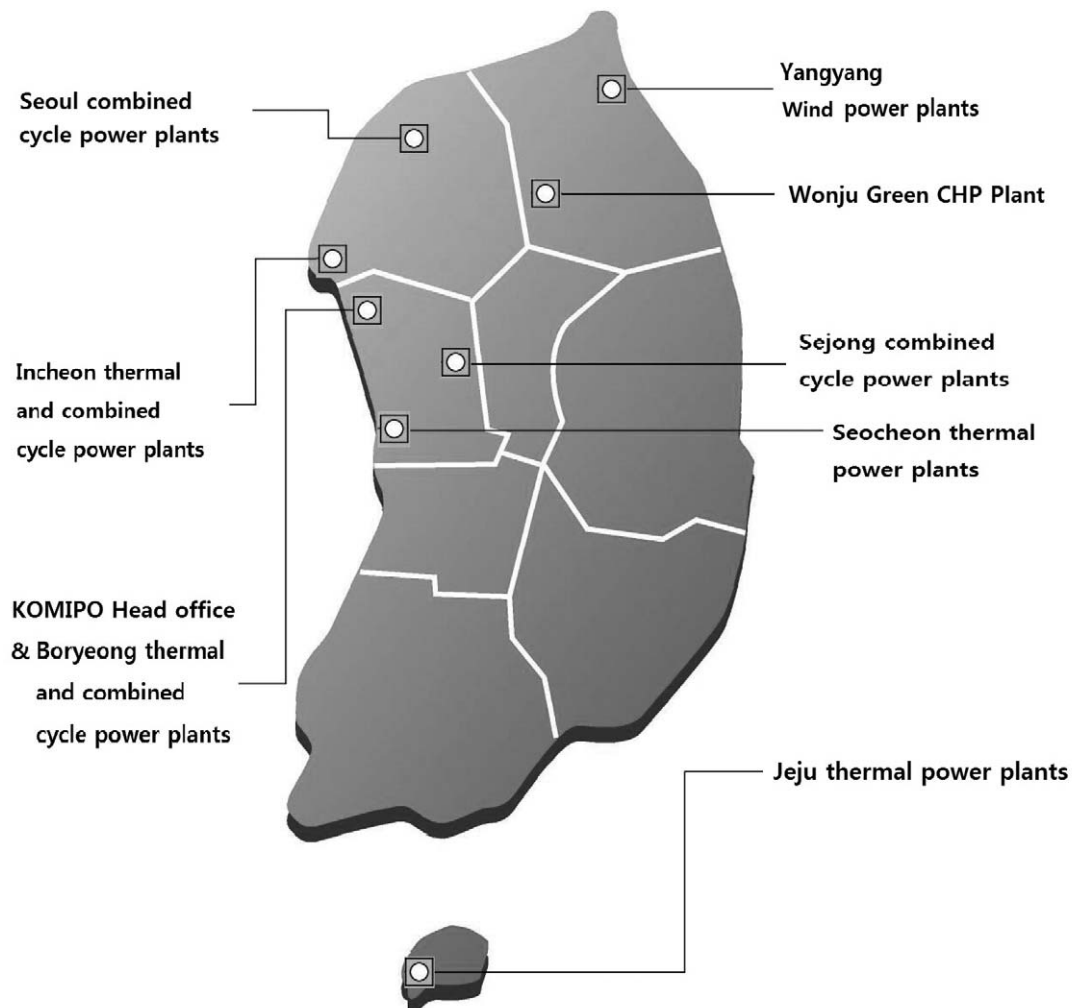
Based on the “Vision 2025 Management Strategy” adopted in July 2013, we aim to become a global top class energy company by 2025 by significantly increasing our asset size, revenues and operating profit, enhancing the return on invested capital and strengthening a firm-wide culture emphasizing safety and ethics. Under this vision, we will focus on four major strategies: (i) strengthen our core competencies, (ii) expand into new growth businesses, (iii) enhance our global competitiveness, and (iv) build out a management system for sustainable development. More specifically:

- *Strengthen our core competencies.* We plan to (i) strengthen our safety management system to meet widely established global standards, including safety recalls, (ii) improve the efficiency of facility operation through successful completion of the new thermal generation units in ShinBoryeong and ShinSeocheon and installing a combined cycle unit in Seoul which will complement the aged units in Boryeong, and (iii) construct, on a timely basis, new generation units, such as base load coal facilities, in accordance with the Seventh Basic Plan.

- *Expand into new growth businesses.* We plan to (i) selectively enter into new businesses, including with domestic partners and/or adding onto existing international projects as well as entering into new ones, (ii) strengthen green energy businesses by meeting the RPS requirements and exploring advanced solar power businesses and green credit businesses, and (iii) procure stable and economic supply of fuels by expanding the LNG storage facilities and assessing various investment opportunities related to resource development and mining.
- *Enhance our global competitiveness.* We plan to (i) enhance our capabilities to operate generation facilities meeting global standards, including in areas of maintenance and overhaul and potentially establishing a subsidiary specializing in overseas maintenance, (ii) develop proprietary technology for production of core parts and materials, and (iii) strengthen human capital with global competence through employee education and expanding global marketing and business networks.
- *Enhance our management system for sustainable development.* We plan to (i) bolster a firm-wide culture that stresses global social responsibilities and ethical management, (ii) encourage innovation by further improving labor relations and creating further opportunities for employees to add value, and (iii) enhance risk management for the entire company by ramping out an enterprise resource management and improving our capital structure.

## Power Generation

The following map shows the geographic locations of our domestic power plants as of September 30, 2015.



As of September 30, 2015, we owned and operated in Korea 17 thermal generating units at six power plant complexes in Boryeong, Incheon, Jeju, Seocheon, Sejong and Seoul (not including units under construction), seven combined-cycle units at our power plant complexes in Boryeong, Sejong and Incheon, six mini-hydro units at our power plant complex in Boryeong (not including units under construction), two wind power units at our power plant complex in Yangyang (not including units under construction), ten photovoltaic units at our power plant complexes in Seoul, Seocheon, Boryeong, Incheon, Yeosu and Jeju (not including units under construction) and one fuel cell unit at our power plant complex in Boryeong (not including units under construction). In addition, we have plans to construct a wind power plant in Sangmyeong with aggregate installed capacity of 21 megawatts by the first half of 2016, two coal-fired power plants in ShinBoryeong, each with generation capacity of 1,000 megawatts with target completion in 2016 and 2017, respectively and an LNG power plant in Seoul with aggregate installed capacity of 800 megawatts by the second half of 2017. We decommissioned thermal unit no. 4 in Seoul with installed capacity of 138 megawatts during the second half of 2015 and plan to decommission thermal unit no. 5 in Seoul with installed capacity of 250 megawatts during the second half of 2016. Our thermal units produce electricity using steam turbine generators and include units fired by bituminous coal, anthracite coal, oil and LNG. Our combined-cycle units produce electricity using gas turbine generators and steam turbine generators fired by LNG or oil. Our mini-hydro units utilize the coolant water discharged from our Boryeong power plant to spin a water turbine to produce electricity. Our wind power units convert wind energy into electricity using wind turbines that generate electricity by the rotation of its blades that are connected to a power generator. Our photovoltaic units utilize solar cells to directly convert sunlight into electricity and our fuel cell units convert chemical energy from fuel sources such as LNG into electricity through a chemical reaction with oxygen with hydrogen.

In accordance with the Government's Proposal for Improvements in the Structure of the Electric Power Industry announced in August 2010, we, together with all other generation subsidiaries of KEPCO, transferred all our pumped storage hydroelectric business units (namely four pumped storage units in Yangyang) and the related proportionate share of liabilities to KHNP, effective as of January 1, 2011.

The table below sets forth as of or for the nine months ended September 30, 2015, for each 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.

	Weighted Average Age of Units	Installed Capacity <sup>(1)</sup>	Average Capacity Factor <sup>(2)</sup>	Average Fuel Cost
	(years)	(megawatts)	(percent)	(Won/kWh)
<b>Thermal:</b>				
Bituminous:				
Boryeong units no. 1, 2, 3, 4, 5, 6, 7, 8.....	20.8	4,000.00	93.3	₩39.6
Anthracite:				
Seocheon units no. 1, 2 .....	32.3	400.00	72.1	74.8
Oil-fired:				
Jeju units no. 1, 2, 3.....	13.7	285.00	47.7	157.4
RDF:				
Wonju units no. 1 .....	0	10.00	0	0
LNG:				
Seoul units no. 4, 5 <sup>(3)</sup> .....	45.3	387.50	4.8	242.2
Sejong units no. 1,2.....	1.8	530.44	58.6	111.2
Total thermal.....	<u>22.7</u>	<u>5,612.94</u>	<u>79.9</u>	<u>51.3</u>
<b>Combined-cycle<sup>(4)</sup>:</b>				
Boryeong unit no. 3 .....	15.3	1,350.00	5.3	₩139.3
Incheon unit no. 3 .....	6.6	1,462.45	55.4	109.7
Total combined-cycle .....	<u>10.9</u>	<u>2,812.45</u>	<u>31.4</u>	<u>₩112.1</u>
<b>Mini-hydro:</b>				
Boryeong units no. 1,2.....	6.8	7.50	0	₩0
<b>Wind power<sup>(5)</sup>:</b>				
Yangyang units no. 1,2.....	9.3	3.00	0	₩0
<b>Photovoltaic:</b>				
Seocheon units no. 1,2 .....	7.3	1.23	0	₩0
Boryeong units no. 1,2.....	6.8	0.57	13.7	₩0
Incheon unit no. 1 .....	4.3	0.30	13.8	₩0
Seoul unit no. 1.....	4.3	1.30	15.4	₩0
Jeju and Yeosu units no. 1,2 .....	4.6	4.56	16.2	₩0
Total photovoltaic .....	<u>5.4</u>	<u>7.96</u>	<u>15.7</u>	<u>₩0</u>
<b>Fuel cell:</b>				
Boryeong unit no. 1 .....	7.3	0.30	90.6	₩0
Total .....	<u>12.4</u>	<u>8,444.15</u>	<u>63.6</u>	<u>61.5</u>

*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 generating units at installed capacity expressed as a percentage.
- (3) Our thermal units in the Seoul power plant complex supply heat to Korea District Housing Corp., for which we receive additional subsidies.
- (4) Combined-cycle units are fueled by LNG or oil. The power generation mechanics for these units are different from that of the LNG-fueled thermal units.
- (5) Fuel cost for our wind power units represent the cost of the fuel used to start up the units initially.

As of September 30, 2015, we had an aggregate installed capacity of 8,444 megawatts. In 2013, we completed construction of an LNG power plant in Sejong and in 2014 completed construction of a refuse-derived fuel unit in Wonju. As of the date of this Offering Circular, additional generating capacity is being constructed, in joint projects with independent power producers, as follows: (i) two coal-fired units, each with a 1,000 megawatt installed capacity, in ShinBoryeong for target completion by 2016 and 2017, respectively and (ii) an LNG combined-cycle power plant with aggregate installed capacity of 800 megawatt in Seoul for target completion by 2016. We are also participating in the development of community energy service projects that will supply heat and electricity to industrial complexes in Seoul with installed capacity of 800 megawatts. We are also currently constructing and developing various renewable energy projects including, among others, photovoltaic power, wind power, biomass power, mini-hydro power and fuel cell units. We also have plans to construct a wind power plant in Sangmyeong with aggregate installed capacity of 21 megawatts by the first half of 2016, two coal-fired power plants in ShinBoryeong, each with generation capacity of 1,000 megawatts with target completion in 2016 and 2017, respectively and an LNG power plant in Seoul with aggregate installed capacity of 800 megawatts by the second half of 2017. We decommissioned thermal unit no. 4 in Seoul with installed capacity of 138 megawatts during the second half of 2015 and plan to decommission thermal unit no. 4 in Seoul with installed capacity of 250 megawatts during the second half of 2016. See “— Capital Investment Program”.

Our capacity factor has decreased in past years. The average capacity factor of our generating units decreased from 78.2% in 2013 to 70.2% in 2014. Our average capacity factor decreased from 70.1% in the first nine months of 2014 to 63.6% in the first nine months of 2015, largely due to the decommissioning of two aged power plants in Incheon, an increase in electricity reserves as a result of restarting operations of a nuclear power plant by KHNP and a decrease in average capacity factor of LNG power plants.

In 2013 and 2014, we generated 55,661 gigawatt-hours and 50,217 gigawatt-hours, respectively. For the first nine months of 2014 and 2015, we generated 39,477 gigawatt-hours and 33,482 gigawatt-hours, respectively.

Our production cost has decreased in recent years principally due to the general decline in market fuel prices. In 2013 and 2014, our production cost was approximately ₩103 million per gigawatt-hour and ₩100 million per gigawatt-hour, respectively. Our production cost further decreased from approximately ₩100 million per gigawatt-hour during the first nine months of 2014 to approximately ₩86 million per gigawatt-hour during the first nine months of 2015, largely as a result of a decrease in the amount and average price of LNG purchased.

The maintenance cycle for our power generating units typically ranges from 24 to 48 months depending on the type and installed capacity of units. The duration of each maintenance depends on the nature and degree of maintenance involved and may last from five days to 45 days depending on the unit. In 2013 and 2014, we incurred maintenance expenses in the amount of ₩120 billion and ₩125 billion, respectively. For the first nine months of 2015, we incurred maintenance expenses in the amount of ₩78 billion.

The Unplanned Outage Rate is determined using the following formula:

$$\text{Unplanned Outage Rate} = \frac{\text{total volume (kilowatt-hours) of unplanned outage losses}}{\text{total electricity bidding volume (kilowatt-hours) on KPX for sales}} \times 100$$

In 2013 and 2014, our Unplanned Outage Rate was 0.96% and 0.90%, respectively. For the first nine months of 2014 and 2015, our Unplanned Outage Rate was 0.55% and 0.25%, respectively.

We have in the past and will continue to improve our power generation capacity through remodeling or recommissioning our thermal units. Recommissioning includes installation of anti-pollution devices, modification of control systems and overall rehabilitation and maintenance of existing equipment.

Efficient operation of generating units requires that such units be run continuously at relatively constant energy output levels. As electricity cannot be stored in significant amounts, generation output must be managed continuously 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, peak 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 through 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 bituminous coal-fired units in Boryeong and our anthracite coal-fired units in Seocheon operate at base load while our oil-fired thermal units in Jeju and our combined-cycle units in Boryeong, Incheon and Seoul generally operate at peak load. In 2014, base load and peak load accounted for 70% and 30%, respectively, in terms of our installed capacity. In the first nine months of 2015, base load and peak load accounted for 71.2% and 28.7%, respectively.

The table below sets forth our installed capacity at the end of each period and peak and average load in each period for the years ended December 31, 2013 and 2014 and the nine months ended September 30, 2015.

	Year Ended December 31,		Nine Months Ended
	2013	2014	September 30, 2015
	(megawatts)		
Installed capacity.....	8,934	8,434	8,444
Peak load <sup>(1)</sup> .....	4,400	4,400	4,400
Average load <sup>(2)</sup> .....	4,534	4,034	4,044

*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 84%, 81% and 72% of our cost of sales for the years ended December 31, 2013 and 2014 and the nine months ended September 30, 2015, respectively. The table below sets forth, for each type of generating unit owned by us, the total fuel cost and average fuel cost for net electricity generated for the periods indicated.

	Year Ended December 31,						Nine Months Ended September 30,		
	2013			2014			2015		
	Total	Average		Total	Average		Total	Average	
	(in billions of Won)			(in billions of Won)			(in billions of Won)		
		(%)	(Won/kWh)		(%)	(Won/kWh)		(%)	(Won/kWh)
Bituminous coal.....	₩1,394.9	29.9	33.8	₩1,334.2	34.1	41.6	₩944.7	47.6	39.6
Anthracite coal.....	37.5	0.8	82.3	33.1	0.8	76.0	21.2	1.1	74.8
LNG <sup>(1)</sup> .....	2,925.2	62.5	148.8	2,280.2	58.2	154.9	871.0	43.9	113.9
Oil.....	319.8	6.8	208.6	270.4	6.9	205.8	146.6	7.4	157.4
Total fuel cost <sup>(2) (3)</sup> .....	₩4,677.4	100.0	86.0	₩3,917.9	100.0	80.6	₩1,983.5	100.0	61.5

### Notes:

- (1) LNG is used as fuel for LNG-fired thermal units and combined-cycle units.
- (2) Total fuel cost does not include fuel costs for refuse-derived fuel and wood pellet, which amounted to ₩4.1 billion, ₩49.7 billion and ₩19.6 billion in 2013, 2014 and the first nine months of 2015, respectively, with average fuel costs of Won 85.97, Won 80.56 and Won 61.53 per kilowatt hour in the same periods, respectively.
- (3) Total fuel cost figures represent gross amounts of fuel costs for our domestic activities excluding payments received from the Electricity Industry Infrastructure Fund. Such payment amounts were ₩2.7 billion, ₩2.3 billion and ₩2.1 billion in 2013, 2014 and the first nine months of 2015, respectively.

In order to ensure stable supplies of fuel, we enter into long-term and medium-term contracts with various suppliers, and supplement remaining fuel requirements with purchases of fuel on spot markets. A substantial majority of the fuel that we use is purchased directly or indirectly 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 and under contracts with varying quantity and duration, and rising fuel costs 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. We are currently striving to reduce the costs of fuel procurement while maximizing the stability of fuel supply.

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.

## Coal

As of December 31, 2013, 2014 and September 30, 2015, 45%, 47% and 47% of our total installed generating capacity was represented by plants burning bituminous coal, respectively, and 4.5%, 4.7% and 4.7% of such generating capacity was represented by plants burning anthracite coal, respectively. We expect all of the new coal-fired plants that we currently plan on building to be fired by bituminous coal.

### Bituminous coal

In 2013, 2014 and the first nine months of 2015, we purchased 14 million tons, 14 million tons and 10 million tons of bituminous coal, respectively. Substantially all of our bituminous coal requirements are met by imports from 30 suppliers located in four countries, which are Indonesia, Australia, Russia and the United

States, under long-term contracts or spot contracts. Approximately 38%, 39%, 14% and 7% of our bituminous coal requirements were imported from Indonesia, Australia, Russia and the United States, respectively, in 2014. Approximately 32%, 48%, 12% and 8% of our bituminous coal requirements were imported from Indonesia, Australia, Russia and the United States, respectively, in the first nine months of 2015.

Approximately 86% and 75% of our bituminous coal requirements were purchased under long-term contracts and 14% and 25% were purchased on the spot market in 2014 and the first nine months of 2015, respectively. See “Risk Factors — Risks Relating to Our Business — We are dependent on fuel imported from overseas suppliers in currencies other than Won and under contracts with varying quantity and duration, and rising fuel costs 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 or decrease the quantity of bituminous coal under the relevant supply contract by up to approximately 100%. In addition, under the long-term contracts, we have the option to reduce the required annual purchase quantity in the event of a revision in plant construction schedule, fluctuations in spot market prices, suspension of plant operation and alteration of the power generation plan as a result of an accident or an unavoidable cause. The average cost of bituminous coal per ton purchased under such contracts was approximately ₩91,750, ₩70,036 and ₩59,757 in 2013, 2014 and the first nine months of 2015, respectively. We will, if necessary, augment our supplies by entering into new short-term import contracts and by making spot purchases.

We estimate that the delivery time for bituminous coal imported from overseas is generally one to three weeks, depending on the location of origination. Currently, we maintain approximately a 15-day reserve of bituminous coal.

#### *Anthracite coal*

In 2013, 2014 and the first nine months of 2015, we purchased 0.28 million tons, 0.27 million tons and 0.16 million tons of anthracite coal, respectively. Our anthracite coal requirements are sourced from three suppliers in Vietnam and one domestic supplier, Korea Coal Association. In 2014, approximately 64% and 36% of our anthracite coal requirements were purchased from suppliers in Vietnam and Korea, respectively, and in the first nine months of 2015, approximately 55% and 45% of our anthracite coal requirements were purchased from suppliers in Vietnam and Korea, respectively. In 2013 and 2014, we purchased 57% and 64% respectively, of our total anthracite coal requirements under long-term supply contracts, with the remainder purchased in spot markets. We purchase anthracite coal from Korea entirely under long-term supply contracts. Under our contract (which is annually renewed) with Korea Coal Association, we are required to notify the suppliers, on a monthly basis, of an estimate of our requirements based on the Government’s coal supply and demand plan. Pursuant to the Coal Industry Act of Korea, we are subject to the MOTIE’s direction in respect of the specific volume of anthracite coal we must use for electricity generation purposes to support the domestic coal industry. The price for anthracite coal is typically set by the Government at the highest selling price of domestic anthracite coal announced by the Government. The average cost of anthracite coal per ton purchased under such contracts was approximately ₩162,553, ₩162,977 and ₩164,832 in 2013, 2014 and the first nine months of 2015, respectively. Currently, we maintain approximately a 15-day reserve for anthracite coal.

#### *Oil*

In 2013, 2014 and the first nine months of 2015, we purchased approximately 380,628 kiloliters, 361,342 kiloliters and 245,135 kiloliters of fuel oil, respectively. We purchase oil through competitive open bidding with other bidders, including four Korean refiners, for three to six-month terms of supply. Purchase prices, including taxes and other expenses, of oil are based on the spot market in Singapore. The average cost per kiloliter was approximately ₩822 thousand, ₩771 thousand and ₩544 thousand in 2013, 2014 and the first nine months of 2015, respectively. We estimate that oil purchased from Korean oil refineries and Singapore oil refineries takes approximately two days and ten days, respectively, to be delivered to our power plant complexes. Currently, we maintain approximately a 20-day reserve for bunker C oil.

## **LNG**

In 2013, 2014 and the first nine months of 2015, we purchased approximately 3.0 million tons, 2.2 million tons and 1.1 million tons of LNG, respectively. A substantial portion of our LNG requirements are purchased from KOGAS, a Korean corporation of which KEPCO owns 20.47%. In 2013, 2014 and the first nine months of 2015, we purchased approximately 100%, 95%, 70% of our LNG requirement from KOGAS. We entered into 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 annual minimum purchase quantity is determined by our negotiations with KOGAS, subject to the Government’s approval, and may be adjusted through negotiations between the parties. If KOGAS and we cannot agree on the annual purchase quantity, we will continue to purchase LNG from KOGAS under the LNG Contract, in which case the purchase quantity will be determined based on the average of the quantities purchased for the preceding three years. According to the terms of the LNG Contract, which reflect the contractual terms between KOGAS and its suppliers, we are under a “take or pay” obligation to pay KOGAS the price stipulated in the contract between KOGAS and its suppliers if we in turn fail to purchase that amount from KOGAS. To date, however, we have not been subject to such “take or pay” obligation from KOGAS because KOGAS has been able to dispose of such LNG to third parties without any significant loss. 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 of KEPCO and other Korean gas companies. The average cost per ton of LNG under such contract was approximately ₩1,002,593, ₩1,065,930 and ₩795,012 in 2013, 2014 and the first nine months of 2015, respectively.

We also purchase LNG directly from suppliers other than KOGAS. Approximately, 14%, 8%, 5% and 3% of our LNG requirements were imported from Russia, Nigeria, Indonesia and Papua New Guinea in the first nine months of 2015. Approximately, 98% and 95% of our LNG requirements were purchased under long-term contracts and 2% and 5% were purchased on the spot market in 2014 and the first nine months of 2015, respectively.

## **Sales and Purchase of Power**

### ***Sales to KEPCO***

Pursuant to Article 31 of the Electricity Business Law of Korea, we sell all of the electricity we generate to KEPCO through the KPX. KEPCO is the only company engaged in the transmission and distribution of electricity in Korea as of the date hereof.

Generation Companies Combined

The tables below set forth electricity sales of each of KOMIPO and other generation subsidiaries of KEPCO for the years ended December 31, 2013 and 2014 and the nine months ended September 30, 2015 based on the power trading results of KPX.

	For the Year Ended December 31, 2013				
	Volume	Percentage of Total Volume	Sales to KEPCO <sup>(1)</sup>	Percentage of Total Sales	Unit Price
	(Gigawatt hours)	(%)	(in billions of Won)	(%)	(Won/kWh)
<b>Generation Companies:</b>					
KHNP .....	138,021	28.8	6,274	14.9	45.45
KOSPO .....	65,720	13.7	7,117	16.9	108.29
<b>KOMIPO</b> .....	55,661	11.6	5,637	13.4	101.42
KOWEPO .....	55,984	11.7	5,736	13.6	102.45
KOSEP .....	59,242	12.4	3,999	9.5	67.50
EWP .....	54,098	11.3	5,269	12.5	97.39
Others .....	50,816	10.6	8,112	19.2	159.63
<b>Total</b> .....	<u>479,542</u>	<u>100.0</u>	<u>42,144</u>	<u>100.0</u>	<u>87.90</u>
<b>Energy Sources:</b>					
Nuclear .....	132,465	27.6	5,181	12.3	39.12
Bituminous coal.....	186,987	39.0	10,978	26.1	58.71
Oil.....	14,692	3.1	3,254	7.7	221.50
Anthracite coal .....	7,371	1.5	676	1.6	91.73
LNG.....	4,768	1.0	1,040	2.5	218.05
Combined-cycle .....	115,238	24.0	18,267	43.4	158.51
Hydro.....	3,561	0.7	609	1.4	170.92
Pumped storage .....	4,088	0.9	836	2.0	204.42
Renewables.....	10,181	2.1	1,223	2.9	120.09
Others .....	186	0.0	28	0.1	150.28
<b>Total</b> .....	<u>479,539</u>	<u>100.0</u>	<u>42,091</u>	<u>100.0</u>	<u>87.77</u>
<b>Load:</b>					
Base load .....	323,271	67.4	16,304	38.8	50.43
Non-base load.....	156,268	32.6	25,768	61.2	164.90
<b>Total</b> .....	<u>479,539</u>	<u>100.0</u>	<u>42,072</u>	<u>100.0</u>	<u>87.73</u>

Source: KEPCO, except for data relating to us, which has been provided by us.

Note:

- (1) Includes power trading fees paid to KPX. Our sales to KEPCO net of power trading fees in the amount of ₩4.4 billion paid to KPX was ₩5,633 billion.

For the Year Ended December 31, 2014

	Volume	Percentage of Total Volume	Sales to KEPCO <sup>(1)</sup>	Percentage of Total Sales	Unit Price
	(Gigawatt hours)	(%)	(in billions of Won)	(%)	(Won/kWh)
<b>Generation Companies:</b>					
KHNP .....	155,008	31.6	9,193	20.9	59.31
KOSPO .....	56,727	11.6	6,178	14.1	108.91
<b>KOMIPO</b> .....	50,217	10.2	4,927	11.2	98.12
KOWEPO .....	48,424	9.9	4,829	11	99.72
KOSEP .....	63,923	13	4,345	9.9	67.96
EWP .....	48,586	9.9	4,430	10.1	91.18
Others .....	67,487	13.8	10,047	22.9	148.87
<b>Total</b> .....	<u>490,372</u>	<u>100.0</u>	<u>43,948</u>	<u>100.0</u>	<u>89.62</u>
<b>Energy Sources:</b>					
Nuclear .....	149,165	30.4	8,199	18.7	54.96
Bituminous coal.....	189,471	38.6	12,004	27.3	63.36
Oil.....	7,565	1.6	1,671	1.6	220.86
Anthracite coal .....	7,752	1.5	707	3.8	91.19
LNG.....	1,258	0.3	290	0.7	230.23
Combined-cycle .....	113,682	23.2	18,192	41.4	160.02
Hydro.....	2,071	0.4	333	0.8	160.91
Pumped storage .....	5,041	1.0	866	2.0	171.82
Renewables .....	14,169	2.9	1,659	3.8	117.08
Others .....	197	0.0	28	0.1	142.75
<b>Total</b> .....	<u>490,372</u>	<u>100.0</u>	<u>43,948</u>	<u>100.0</u>	<u>86.62</u>
<b>Load:</b>					
Base load.....	342,386	69.8	20,347	46.3	59.43
Non-base load.....	147,986	30.2	23,601	53.7	159.48
<b>Total</b> .....	<u>490,372</u>	<u>100.0</u>	<u>43,948</u>	<u>100.0</u>	<u>89.62</u>

Source: KEPCO, except for data relating to us, which has been provided by us.

Note:

- (1) Includes power trading fees paid to KPX. Our sales to KEPCO net of power trading fees in the amount of ₩4.7 billion paid to KPX was ₩4,922 billion.

For the Nine Months Ended September 30, 2015

	Volume	Percentage of Total Volume	Sales to KEPCO <sup>(1)</sup>	Percentage of Total Sales	Unit Price
	(Gigawatt hours)	(%)	(in billions of Won)	(%)	(Won/kWh)
<b>Generation Companies:</b>					
KHNP .....	118,255	31.9	7,296	24.2	61.69
KOSPO .....	36,352	9.8	3,261	10.8	89.70
<b>KOMIPO</b> .....	33,482	9.0	2,890	9.6	86.18
KOWEPO .....	35,213	9.5	3,113	10.3	88.41
KOSEP .....	51,279	13.8	3,489	11.6	68.04
EWP .....	35,093	9.5	2,909	9.6	82.89
Others .....	61,080	16.5	7,246	24	118.62
<b>Total</b> .....	<u>370,754</u>	<u>100.0</u>	<u>30,204</u>	<u>100.0</u>	<u>81.45</u>
<b>Energy Sources:</b>					
Nuclear .....	144,846	31.0	6,853	22.7	59.67
Bituminous coal.....	147,145	39.7	9,588	31.8	65.16
Oil.....	5,563	1.5	934	2.0	167.84
Anthracite coal .....	5,367	1.5	610	3.1	113.09
LNG.....	373	0.1	71	0.2	189.66
Combined-cycle .....	81,352	21.9	10,406	34.5	127.91
Hydro.....	1,317	0.4	157	0.5	119.39
Pumped storage .....	2,841	0.8	379	1.3	133.36
Renewables .....	11,731	3.2	1,181	3.9	100.67
Others .....	189	0.1	20	0.1	106.96
<b>Total</b> .....	<u>370,755</u>	<u>100.0</u>	<u>30,199</u>	<u>100.0</u>	<u>81.45</u>
<b>Load:</b>					
Base load.....	264,058	71.2	16,708	55.3	63.27
Non-base load.....	106,698	28.8	13,490	44.7	126.43
<b>Total</b> .....	<u>370,756</u>	<u>100.0</u>	<u>30,199</u>	<u>100.0</u>	<u>81.45</u>

Source: KEPCO, except for data relating to us, which has been provided by us.

Note:

- (1) Includes power trading fees paid to KPX. Our sales to KEPCO net of power trading fees in the amount of ₩2.9 billion paid to KPX was ₩2,887 billion.

KOMIPO (Standalone)

The tables below set forth our electricity sales (excluding power trading fees paid to KPX) depending on the energy sources and a breakdown of base load and non-base load electricity sales for the years ended December 31, 2013 and 2014 and the nine months ended September 30, 2015 based on the power trading results of KPX.

For the Year Ended December 31, 2013					
	Volume	Percentage of Total Volume	Sales to KEPCO	Percentage of Total Sales	Unit Price
	(Gigawatt hours)	(%)	(in billions of Won)	(%)	(Won/kWh)
<b>Energy Sources:</b>					
Bituminous coal.....	33,140	60	1,819	38	64.58
Anthracite coal .....	2,662	5	267	5	98.76
Oil.....	1,347	2	331	6	244.54
Combined-cycle <sup>(1)</sup> .....	18,506	33	3,171	51	152.78
Others <sup>(2)</sup> .....	34	0	5	0	158.82
<b>Total</b> .....	<u>55,689</u>	<u>100</u>	<u>5,593</u>	<u>100</u>	<u>99.94</u>
<b>Load:</b>					
Base load.....	35,802	65	2,085	43	67.12
Non-base load.....	19,887	35	3,508	57	158.95
<b>Total</b> .....	<u>55,689</u>	<u>100</u>	<u>5,593</u>	<u>100</u>	<u>99.94</u>

Notes:

(1) Includes LNG.

(2) Includes mini-hydro, wind power, photovoltaic and fuel cell units.

For the Year Ended December 31, 2014					
	Volume	Percentage of Total Volume	Sales to KEPCO	Percentage of Total Sales	Unit Price
	(Gigawatt hours)	(%)	(in billions of Won)	(%)	(Won/kWh)
<b>Energy Sources:</b>					
Bituminous coal.....	31,832	63	1,953	41	62.05
Anthracite coal .....	2,524	5	258	5	99.52
Oil.....	1,161	2	283	6	241
Combined-cycle <sup>(1)</sup> .....	14,696	29	2,424	49	160.96
Others <sup>(2)</sup> .....	33	0	5	0	145.45
<b>Total</b> .....	<u>50,246</u>	<u>100</u>	<u>4,923</u>	<u>100</u>	<u>97.05</u>
<b>Load:</b>					
Base load.....	34,356	68	2,211	46	64.79
Non-base load.....	15,890	31	2,712	53	166.77
<b>Total</b> .....	<u>50,246</u>	<u>100</u>	<u>4,923</u>	<u>100</u>	<u>97.05</u>

Notes:

(1) Includes LNG.

(2) Includes mini-hydro, wind power, photovoltaic and fuel cell units.

For the Nine Months Ended September 30, 2015

	Volume	Percentage of Total Volume	Sales to KEPCO	Percentage of Total Sales	Unit Price
	(Gigawatt hours)	(%)	(in billions of Won)	(%)	(Won/kWh)
<b>Energy Sources:</b>					
Bituminous coal.....	23,174	69	1,510	52	65.15
Anthracite coal.....	1,707	5	204	7	119.74
Oil.....	833	2	156	5	187.03
Combined-cycle <sup>(1)</sup> .....	7,738	23	1010	35	130.50
Others <sup>(2)</sup> .....	30	0	3	0	100.00
<b>Total</b> .....	<u>33,482</u>	<u>100</u>	<u>2,883</u>	<u>100</u>	<u>86.10</u>
<b>Load:</b>					
Base load.....	24,881	74	1,714	59	68.89
Non-base load.....	8,601	25	1,169	40	135.91
<b>Total</b> .....	<u>33,482</u>	<u>100</u>	<u>2,883</u>	<u>100</u>	<u>86.10</u>

*Notes:*

(1) Includes LNG.

(2) Includes mini-hydro, wind power, photovoltaic and fuel cell units.

**Cost-based Pool System**

Currently, the purchase and sale of electricity in Korea is required to be made through the KPX. The price of electricity in the Korean electricity market is known as 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.

Demand for electricity in Korea grew at a compounded average rate of 3.9% per annum for the five years ended December 31, 2014, according to KEPCO, compared to the real GDP compounded growth rate of approximately 3.7% per annum for the same period, according to The Bank of Korea. The GDP growth rate was 3.3% for 2014, 3.0% for 2013 and 2.3% for 2012. According to KEEI, total demand for electricity in Korea increased by 1.7% in 2014, 3.0% in 2013 and 2.5% during 2012, in each case, year on year.

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.

	2010	2011	2012	2013	2014
Growth in GDP.....	6.5%	3.7%	2.3%	3.0%	3.3%
Growth in electricity consumption.....	10.1%	4.8%	2.5%	1.8%	0.6%

Electricity demand in Korea varies within each year for a variety of reasons other than general growth in GDP demand. Electricity demand tends to be higher during daylight hours due to commercial and industrial activity and electrical appliance use. Due to the use of air conditioning during the summer and heating during the winter, electricity demand is higher during these two seasons than the spring or the fall. Variation in weather conditions may also cause significant variation in electricity demand.

## Demand by Class of Customer

The table below sets forth the consumption of electric power, and growth of such consumption on a year-on-year basis, by the type of usage (in gigawatt hours) for the periods indicated.

	For the Year Ended December 31,					% of Total 2014
	2010	2011	2012	2013	2014	
	(Gigawatt hours)					
Residential .....	82,890	82,130	83,104	82,311	79,115	16.6%
Commercial .....	97,410	99,504	101,593	102,196	100,761	21.1%
Educational .....	7,453	7,568	7,860	7,947	7,438	1.6%
Industrial.....	232,672	251,491	258,102	265,373	272,552	57.1%
Agricultural .....	10,654	11,232	12,776	13,866	14,505	3.0%
Street lighting .....	3,081	3,145	3,158	3,156	3,221	0.7%
<b>Total</b> .....	<u>434,160</u>	<u>455,070</u>	<u>466,593</u>	<u>474,849</u>	<u>477,592</u>	<u>100.0%</u>

Demand for electricity increased by 0.6% to 477,592 gigawatt hours in 2014 as compared to 2013.

The industrial sector represents the largest segment of electricity consumption in Korea. Demand from the industrial sector (including the agricultural sector) has increased largely due to the continued export-led growth of the Korean economy. Demand from the industrial sector increased by 2.7% to 272,552 gigawatt hours in 2014 as compared to 2013.

Demand from the commercial sector increased in recent years until 2013, largely due to increased commercial activities in Korea and the rapid expansion of the service sector of the Korean economy, which has resulted in increased office building construction, office automation and use of air conditioners. Demand from the commercial sector, however, decreased slightly by 1.4% to 100,761 gigawatt hours in 2014 as compared to 2013.

Demand from the residential sector is largely dependent on population growth and increased use of heaters, air conditioners and other electrical appliances. Demand from the residential sector decreased by 3.9% to 79,115 gigawatt hours in 2014 from 2013.

## Power Development

In July 2015, the Government announced the Seventh Basic Plan relating to the future supply and demand of electricity. The Seventh Basic Plan, which is effective for the period from 2015 to 2029, focuses on, among other things:

- ensuring a stable supply of electricity;
- increasing the portion of low carbon electricity supply sources;
- active consumer demand management;
- decommissioning of the Kori-1 nuclear power unit; and
- diversifying electricity supply sources by utilizing renewable energy sources.

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.

We cannot assure that the Seventh Basic Plan, the Second Basic National Energy Plan, or the respective plans subsequently adopted, will successfully achieve the intended goals, the foremost of which is to formulate a capacity expansion plan that will result in balanced overall electricity supply and demand in Korea at an affordable cost to end users. If there is a significant variance between the actual capacity expansions by us based on the projected electricity supply and demand and the actual supply and demand, this may result in inefficient use of our capital, mispricing of electricity and undue financing costs on the part of us, which may have a material adverse effect on our results of operations, financial condition and cash flows. See "Risk Factors — Risks Relating to Our Business — Our capacity expansion plans, which are based on projections on long-term supply and demand of electricity in Korea, may prove to be inadequate".

### Capital Investment Program

According to the Seventh Basic Plan, the total capacity of all generation facilities in Korea in 2029 is expected to be 136,684 megawatts, of which nuclear power plants are expected to contribute 24%, coal-fired plants 27%, LNG combined plants 21%, and hydroelectric and other plants 20%. In accordance with the objectives of the Seventh Basic Plan, we intend to add new installed capacity of 4,061 megawatts during the period from 2015 to 2019.

The table below sets forth information as to the currently estimated year of completion and installed capacity of new or expanded generation units to be completed by us in each year until 2019.

Expected Year of Completion	Description of Material Projects	Type of Units	Installed Capacity Addition (megawatts)	Total Installed Capacity (megawatts)
2016.....	Sangmyeong wind power plant	Wind power	21	8,465
2016.....	ShinBoryeong coal-fired power plant unit no. 1	Coal-fired	1,000	9,465
2017.....	Seoul combined-cycle power plant	LNG combined-cycle	800	10,265
2017.....	ShinBoryeong coal-fired power plant unit no. 2	Coal-fired	1,000	11,265
2018.....	Jeju LNG combined-cycle power plant	LNG combined-cycle	240	11,505
2019.....	ShinSeocheon coal-fired power plant	Coal-fired	1,000	12,505

In addition, we expect to complete the construction of a fuel cell unit in Pyongtaek by 2017, a combined-cycle unit in Tongyoung by 2018 and a biomass plant in Gunsan by 2019, all of which are projects undertaken together with independent power producers and are currently in development phases. Our Pyongtaek fuel cell unit project is being undertaken through a joint venture with SK Securities and Samchully, our combined-cycle unit in Tongyoung project is being undertaken through a joint venture with Hyundai and our biomass plant project in Gunsan is being undertaken through a joint venture with Hana Financial Investment and other financial investors. We are also participating in the development of community energy service projects that will supply heat and electricity to industrial complexes in Seoul, Incheon, Sejong and Wonju.

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.

In 2014, we invested ₩1,350 billion in our generation facilities, of which ₩999 billion was invested for capacity expansion, ₩151 billion was invested for maintenance of our generation facilities and ₩200 billion was invested for other purposes, including the development of renewable energy sources and compliance with environmental regulations.

The table below sets forth for the years from 2016 to 2018, the budgeted amounts of capital expenditures for the construction of generation facilities 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 the implementation of the Restructuring Plan, 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.

	2016	2017	2018
	(in billions of Won)		
Expansion .....	₩994	₩1,228	₩912
Maintenance .....	174	185	385
Others <sup>(1)</sup> .....	135	171	224
Total .....	<u>₩1,303</u>	<u>₩1,584</u>	<u>₩1,521</u>

*Note:*

- (1) Includes budgeted amount for development of renewable energy sources, which is ₩31 billion, ₩63 billion and ₩76 billion for 2015, 2016 and 2017, respectively.

### **Power Plant Remodeling and Recommissioning**

From time to time, we rehabilitate the existing equipment of our thermal units through remodeling or recommissioning. Recommissioning includes installation of anti-pollution devices, modification of control systems and overall rehabilitation of existing equipment. Since more than 56% of our generating equipment will consist of power plants that have been in operation for over 25 years by 2016, ensuring the reliability of our equipment is critical to our operations. In 2010, we recommissioned coal-fired units no. 1 and 2 at our Boryeong power plant complex, which resulted in the extension of the life cycle of each such unit by 10 years. We intend to continually remodel or recommission our other generating units as appropriate.

### **Environment**

The Environment Policy Basic Act (Law No. 4257, August 1, 1990), as amended from time to time, and other related legislation and regulations (the “Environment Acts”), which are principally administered by the Ministry of Environment, regulate atmospheric emissions, wastewater and other emissions from our thermal power units. We believe that the existing 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, sulphur dioxides, nitrogen oxides and dust. Such standards have become more stringent from January 2000 to reduce the amount of permitted emissions. Currently, Flue Gas Desulfurization systems are installed on 10 units at our power plant complexes in Boryeong and Seocheon to reduce sulfur dioxide emissions. We have installed Electrostatic Precipitation systems on 10 units at our power plant complexes in Boryeong and Seocheon to reduce the amount of dust emissions, and systems on eight units at our power plant complexes in Boryeong to minimize the unintended dispersion of powdered coal. We have also installed a Selective Catalytic Reduction system on 8 units and a Selective Non-Catalytic Reduction system on two units at our power plant complexes in Boryeong and Seocheon. In addition, we have installed Low

NO<sub>2</sub> Combustion systems such as the Low NO<sub>x</sub> Burner and Over Fired Air systems on 10 units at our power plant complexes in Boryeong and Seocheon to reduce the amount of NO<sub>x</sub> emission. 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 regulations are ₩23 billion, ₩23 billion and ₩22 billion for 2016, 2017 and 2018, 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 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.

In order 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 generating 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 are also taking steps to ensure compliance with the Kyoto Protocol, including planned constructions of biomass power, wind power, photovoltaic power, fuel cell, bio-dual fuel and carbon capture and storage system units.

### **Overseas Activities**

We are actively engaged in a number of overseas activities. We believe that such activities help us facilitate procurement of fuels, diversify our revenue streams and leverage our operational experience gathered from overseeing power plants and providing specialized engineering and maintenance services in Korea. Our overseas activities also operate as new growth engines by providing opportunities to establish strategic relationships with manufacturers and engineering and construction companies in emerging markets.

We are currently engaged in or developing overseas projects such as power plant construction, operation and maintenance, commissioning service and energy resource development. We currently operate overseas projects in Indonesia and Thailand, among others.

The table set below summarizes our overseas projects that are currently in operation.

Location	Project Period	Project Description	Invested Capital as of September 30, 2015 (including loans)
Tanjung Jati B Coal-fired Power Plant, Indonesia	Jan 2012 — Jan 2032	O&M <sup>(1)</sup> of units no 3&4 of the Tanjung Jati B coal-fired power plant with an aggregate installed capacity of 1,320 megawatts under an O&M agreement with PT.PLN.	US\$5,100,000 (including loans made by us)
Cirebon Coal-fired Power Plant, Indonesia	July 2012 — Oct 2041	BOO <sup>(2)</sup> of a 660-megawatt coal-fired power plant. We hold a 27.5% interest in this project.	US\$70,125,000 (including loans made by us)
Navanakon Combined-Cycle Power Plant, Thailand	Oct 2013 — Oct 2038	BOO <sup>(2)</sup> of a 110-megawatt coal-fired power plant. We hold a 29% interest in this project.	US\$15,320,000

*Notes:*

- (1) Represents “operation and maintenance” projects.  
(2) Represents “build, own, operate” projects.

The table set below summarizes our overseas projects that are currently under development.

Location	Project Period	Project Description
Wampu Hydro Power Plant, Indonesia	30 years after the date of commercial operation	BOO <sup>(1)</sup> of a 45-megawatt hydro power plant through a consortium with PT. Mega Mandri and POSCO Engineering. We hold a 46% interest in the power plant.
Semangka Hydro Power Plant, Indonesia	30 years after the date of commercial operation	BOO <sup>(1)</sup> of a 55.4-megawatt hydro power plant through a consortium with PT. BS energy, POSCO Engineering, Export-Import Bank of Korea and PT. Nusantara Hydro Alam. We hold a 60% interest in the power plant.
Boulder, Nevada, United States	2016-2036	BOO <sup>(1)</sup> of a 200-megawatt solar energy power plant with Sun Power. We hold a 20% interest in the power plant.

*Note:*

- (1) Represents “build, own, operate” projects.

While strategically important, we believe that our overseas activities, as currently being conducted, are not in the aggregate significant in terms of scope or amount compared to our domestic activities. In addition, a number of the overseas contracts currently being pursued are based on non-binding memoranda of understanding and the details of such projects may significantly change during the course of negotiating the definitive agreements.

## Competition

The electricity industry is in the process of liberalization and deregulation, beginning with the establishment of KEPCO's generation subsidiaries, including us, in April 2001, in accordance with the Restructuring Plan. We compete with KEPCO's other non-nuclear generation subsidiaries and, to a lesser extent, KHNP, as described below, for the sale of electricity in Korea. In addition, we also compete with independent power producers on a limited basis. The independent power generators accounted for 24% of total power sold in terms of sales in the first nine months of 2015 and 17% of total generation capacity as of September 30, 2015. As of September 30, 2015, there were 11 independent power generators in Korea.

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. Historically, demand for electricity has grown at a rate exceeding the growth of Korea's gross domestic product. However, the rate of growth in demand for electricity has slowed to a limited extent 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 generation companies in Korea ramp up their installed capacity in accordance with the Seventh Basic Plan.

Historically, a substantial portion of electricity demand in Korea was supplied by us and KEPCO's other generation subsidiaries. For the respective market shares of KEPCO's generation subsidiaries, including us, in terms of sales to KEPCO based on trading results on the KPX in 2013, 2014 and for the first three quarters of 2015, see "— Sales and Purchase of Power — Sales to KEPCO".

Among KEPCO's non-nuclear subsidiaries, we have the advantage of proximity to major metropolitan areas, in particular, Seoul. Our major power plant complexes, namely Boryeong, Seoul, Incheon, and Seocheon, are located near large cities and/or large industrial complexes, in particular, the Seoul metropolitan area. We believe that the addition of two bituminous coal-fired units each with generation capacity of 1,000 megawatts in ShinBoryeong in 2016 and 2017 and an LNG combined-cycle unit with generation capacity of 800 megawatts in Seoul in 2016 will enhance our generation capacity and further strengthen our competitiveness.

With respect to our competitive weakness, we believe that our weakness stems from our having higher proportion of aged units in comparison to KEPCO's other non-nuclear generation subsidiaries. Currently, the average age of our power plants is 12.4 years, which is higher than the industry average. In order to improve on this weakness, we completed the renovation to extend the use of two power plant units in Boryeong by an additional 10 years, and we have also conducted a survey on the remaining life of our Seoul power plant complex. We expect that the addition of the new power plants in ShinBoryeong and Seoul as described above will substantially reduce the average age of our power plants.

We believe that we and KEPCO's other non-nuclear generation subsidiaries do not compete directly with KHNP due to the inherent difference in costs structures between non-nuclear generation companies and nuclear generation companies. In general, nuclear generation companies' costs of generating power are lower than that of non-nuclear generation companies.

## 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 Law, the Government established the KOREC on April 27, 2001 to regulate the restructured Korean electricity industry and to ensure fair competition. All of KEPCO's 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 KEPCO's six generation subsidiaries, including us, is deemed to possess an electricity generation license (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 KEPCO’s other generation subsidiaries are principally carried out by the Korea Electric Power Research Institute (“KEPRI”), KEPCO’s research center in Daejeon, Korea. Similar to KEPCO’s other generation subsidiaries, we supervise and finance R&D activities being performed by KEPRI and KEPCO’s other generation subsidiaries.

In 2013, 2014 and the first nine months of 2015, we were involved in 80, 82 and 52 R&D projects, respectively. For 2016, we have undertaken or plan to undertake 70 R&D projects, which will involve improving technologies relating to power generation, among others.

We invested in R&D ₩19 billion, ₩18 billion and ₩12 billion, constituting 0.3%, 0.4% and 0.6% of our sales in 2013, 2014 and the first nine months of 2015, respectively. For 2016, we plan to invest approximately ₩18 billion in R&D.

### **Patents, Utility and Trademark**

As of September 30, 2015, we owned 166 patents, 40 utility model rights and two trademarks in Korea and had 35 patent applications and one utility model rights applications pending in Korea. As of September 30, 2015, we own three patents overseas and one patent application is pending overseas. Most of the patents relate to our generation processes, while utility model rights relate to generator maintenance tools. We believe that our patents and utility model rights are vital to our power generation and R&D activities.

The period of protection offered under current Korean legislation (i) with respect to patents begins on the date of registration and ends on the date falling 20 years after the application filing date, (ii) with respect to utility model rights begins on the date of registration and ends on the date falling 10 years after the application filing date, and (iii) with respect to trademarks is ten years from the date of registration with the option to renew for an additional ten years indefinitely.

### **Insurance**

We have obtained a general commercial insurance policy to insure against fire, natural disasters and mechanical accidents up to ₩13,268 billion. In addition, we have obtained construction insurance on our generation facilities at ShinBoryeong, Seoul, Boryeong, Sangmyeong and ShinSeocheon up to ₩1,990 billion, ₩654 billion, ₩43 billion, ₩47 billion and ₩1,000 billion as of September 30, 2015, respectively; construction insurance provides coverage in respect of a certain portion of assets being newly installed or constructed. We also have marine cargo insurance in respect of imported fuel and procurement with insurance coverage of ₩1,481 billion as of September 30, 2015, as well as general vehicle insurance.

We believe that, currently, KEPCO’s other non-nuclear generation subsidiaries, like us, have limited fire insurance coverage. In addition, KEPCO, prior to the corporate split on April 2, 2001, also had limited fire insurance coverage on its then non-nuclear generation units. At that time, pursuant to the Framework Act on the Management of Government-Invested Institutions and ordinance of the Ministry of Finance and Economy (currently, the MOSF), KEPCO was permitted to self-insure against risks of its business by setting aside a provision for possible losses. However, after the corporate split on April 2, 2001, KEPCO does not have any obligation to insure against risks of business of its generation subsidiaries and we are not permitted to self-insure, and accordingly have not self-insured, against risks of our uninsured assets or business.

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. Furthermore, we currently do not maintain directors’ and officers’ liability insurance or any

business interruptions insurance. We also do not carry insurance against terrorist attacks. 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.

## **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 September 30, 2015, the net book value of our property, plant and equipment was ₩6,608 billion and we had financial leases for assets amounting to ₩33 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 its 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 Boryeong in Choongchung Province in May 2015.

## **Legal and Regulatory Proceedings**

As of September 30, 2015, we were engaged in 12 lawsuits as a defendant with claims of ₩19.9 billion in the aggregate, ₩19.5 billion of which are claims in lawsuits where we and KEPCO’s other non-nuclear generation subsidiaries are named as co-defendants. The outcome of these lawsuits cannot presently be determined. However, management believes that the ultimate disposition of these cases will not have a materially adverse impact on our operations or financial position.

## **Management and Employees**

### *Directors and Senior Management*

In January 2011, the Public Enterprise Management Commission of the MOSF passed a resolution under which the six generation subsidiaries of KEPCO were designated as “market-oriented public enterprises.” We have revised our articles of incorporation to accommodate such designation according to the Public Enterprise Management Act.

Under our revised 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, including the President. The standing directors also presently constitute its executive officers. Previously, we had a statutory auditor, who was a full time employee responsible for monitoring our business affairs and accounts, was entitled to attend and to express opinions at the meeting of the board of directors, but was not entitled to vote. Under our revised articles of incorporation, an audit committee was established under the board of directors and replaced the statutory auditor when the statutory auditor’s term of office expired. 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 our revised articles of incorporation, the representative director, who acts as our President, 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 Public Enterprise Management Act, followed by the resolution of our shareholders at the general meeting, followed by the nomination by the Minister of MOTIE. The standing directors, other than the President, 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. We are in the process of appointing a new President.

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 Article 35-2(3) of our revised articles of incorporation must be re-executed, but the discussion of the officer recommendation committee required under Article 35-2(2) of our revised articles of incorporation is not required.

The names, titles, and outside occupations, if any, of the directors as of September 30, 2015, and the respective dates on which they took office are set forth below.

<u>Name</u>	<u>Age</u>	<u>Title</u>	<u>Outside Occupation</u>	<u>Position Held Since</u>
Jeong Nung Lee.....	58	Interim President and CEO, Planning & Administration Division Executive Vice President	None	March 2014
Ja-Hoon Koo.....	66	Executive Auditor	None	January 2014
Hyung Koo Park.....	59	Power Generation & Safety Division Executive Vice President	None	October 2013
Jong-Hak Kim .....	74	Non-Standing Director	None	February 2014
Jae-Myung Cha.....	66	Non-Standing Director	Standing auditor of Hana Institute of Finance	February 2014
Kyu-Ho Park.....	57	Non-Standing Director	Head of Korea Electric Vehicle Charging Service	February 2014
Jung-Sub Oh.....	57	Non-Standing Director	None	February 2014

The presence at board meetings of a majority of the board members constitutes a voting quorum and resolutions can be passed by a majority of the board members.

Jeong Nung Lee was appointed as interim President and Chief Executive Officer on June 25, 2015 and has been our Planning & Administration Division Executive Vice President since March 20, 2014. Mr. Lee received a bachelor's degree in public administration from Yonsei University. He also served as head of the Planning and Cooperation Office, thermal power plant in Seocheon and Office of Business Management of KOMIPO.

Ja-Hoon Koo has been our Executive Auditor since January 2, 2014. Mr. Koo received a master's degree in accounting from Kyungpook National University. Prior to joining us, he served as branch manager of Gyeongju branch and Kyungpook office of the Korea Electric Power Corporation.

Hyung Koo Park has been our Power Generation & Safety Division Executive Vice President since October 7, 2013. Mr. Park received a master's degree in business administration from Sungkyunkwan University. He also served as head of thermal power plant in Seoul and power plant division of KOMIPO.

Jong-Hak Kim has been our Non-Standing Director since February 14, 2014. Mr. Kim received a bachelor's degree in political science and international relations from Yonsei University. Prior to joining us, he served as head of Planning Committee at Global Korea Co., Ltd. and member of the 15th National Assembly of Korea.

Jae-Myung Cha has been our Non-Standing Director since February 14, 2014. Mr. Cha received a master's degree in public administration from Seoul National University. Prior to joining us, he served as standing auditor of Hana Futures Co., Ltd., non-standing auditor at Seoul National University of Science and Technology and chairman of the Board of Audit and Inspection of Korea. Currently, he is also serving as standing auditor of Hana Institute of Finance.

Kyu-Ho Park has been our Non-Standing Director since February 14, 2014. Mr. Park received a master's degree in business administration from Korea University. Prior to joining us, he served as Vice President and Director of the Planning Committee at Korea Electric Power Corporation. Currently, he is also serving as head of Korea Electric Vehicle Charging Service.

Jung-Sub Oh has been our Non-Standing Director since February 14, 2014. Mr. Oh received a bachelor's degree in German language and literature from Chungnam National University. Prior to joining us, he served as Gongju district's senior party member of the Saenuri Party and chairman of the Government Administration and Home Affairs Committee of the Daejeon Metropolitan Council.

The business address of our directors is 160, Boryeongbuk-ro, Boryeong-si, Chungcheongnam-do, 355-930, Korea.

### ***Compensation of Directors and Executive Officers***

In 2014, the aggregate amount of remuneration paid and accrued to the directors and executive officers as a group was ₩444 million. The aggregate amount we set aside or accrued during 2014 to provide retirement and severance benefits for directors and executive officers was ₩117 million.

### ***Board Practices***

Our articles of incorporation provide for the establishment of the audit committee, the officer recommendation committee and other committees as deemed necessary by the board of directors of the Company. Currently, other than the audit committee and the officer recommendation committee, we maintain a number of 'expert committees' whose members are non-standing directors tasked with advising on certain specialized matters regarding our management.

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. The amount for retirement and severance pay is calculated by multiplying (i) the annual base income received by the director during the past three months prior to retirement divided by three by (ii) the number of years of service.

### ***Employees***

As of September 30, 2015, we had approximately 2,326 regular employees (including part-time employees).

<b>Location</b>	<b>Number of Employees</b>
Head office in Boryeong.....	281
Boryeong Thermal Power Plant.....	799
Seoul Thermal Power Plant.....	194
Incheon Thermal Power Plant.....	201
Seocheon Thermal Power Plant.....	214
Jeju Thermal Power Plant.....	182
ShinBoryeong Thermal Power Plant.....	246
Sejong Thermal Power Plant.....	99
Human Resources Development Institute in Boryeong.....	24
Others.....	86
<b>Total .....</b>	<b><u>2,326</u></b>

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 Public Enterprise Management Act, we may increase labor cost up to 3.8% on a year-on-year basis for 2016. 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. For each employee, wages increased by an average of 3.8% in 2014 and 1.7% in 2013 in compliance 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 3.035% of each employee's salary. In addition, we provide other fringe benefits such as tuition assistance and housing and dormitory assistance.

As of September 30, 2015, approximately 48% of our employees were members of the Korea Midland Power Labor Union, which membership comprises entirely of our employees, and approximately 44% of our employees were members of the Korean Power Plant Industry Union, of which employees of other non-nuclear generation companies are also members. We negotiate a collective bargaining agreement every two years, except for wages, which are negotiated every year, with the labor union of which a substantial portion of our employees are members, which is currently Korea Midland Power Labor Union. The negotiation of a collective bargaining agreement with the Korea Midland Power Labor Union was completed in December 2014. Pursuant to applicable Korean law, an Employee-Employer Cooperation Committee, which is composed of three to ten representatives of management and three 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 KEPCO's 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, the prospect of privatizing KOSEP and KEPCO's other generation subsidiaries has raised concerns among some of our employees who may be concerned that we may also be privatized. On February 25, 2002, employees belonging to labor unions of KEPCO's five non-nuclear generation subsidiaries, including us, commenced a six-week strike to protest the Government's plans to privatize KEPCO's five non-nuclear generation subsidiaries. The Korean Confederation of Trade Unions ("KCTU"), the second-largest governing body of labor unions in Korea with over 600,000 members, negotiated with the Government on behalf of the labor unions. After prolonged negotiations with the Government, KCTU directed the labor unions of KEPCO's five 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 Restructuring Plan.

In addition, the National Assembly of Korea amended the Labor Union and Labor Relations Mediation Act, which, pursuant to the relevant amendments, prohibits a company from paying any wages to full-time labor union officers starting from July 1, 2010 unless otherwise provided in its collective bargaining agreement or consented to by the employer and permits multiple labor unions in a company starting from July 1, 2011. These changes may cause increased frictions between management and labor force, which could result in social unrest and could adversely affect our operations and the financial conditions of Korean companies in general. These developments could have a material adverse impact on our business and results of operation and could lead to a decline in the market value of the Notes.

## Share Ownership

The following table sets forth certain information relating to our shareholder as of September 30, 2015 and as of the date hereof:

Title of Class	Identity of Person or Group	Shares Owned	Percentage
Common stock.....	Korea Electric Power Corporation	27,467,967	100.0%

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

### **Related Party Transactions**

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

As of September 30, 2015, we had a 7% ownership of KPX, which represents our capital contribution to KPX in the amount of ₩9 billion. For transactions and related account balances with related parties, including KEPCO and its subsidiaries, see Note 35 to our audited financial statements as of and for the years ended December 31, 2013 and 2014 and Note 35 to our unaudited interim financial statements as of September 30, 2015 and for the nine months ended September 30, 2014 and 2015, both of which are included elsewhere in the Offering Circular.

For our other commitments and contingent liabilities, see Notes 37 and 38 to our audited financial statements as of and for the years ended December 31, 2013 and 2014 and Notes 37 and 38 to our unaudited interim financial statements as of September 30, 2015 and for the nine months ended September 30, 2014 and 2015, both of which are included elsewhere in the Offering Circular.

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

KOGAS, a related party, is a major supplier of LNG to us. In addition, we are parties to several supply contracts with Korea Coal Association and others with the quantity to be set by the Korean government.

We also provide housing and tuition loans to our employees, the aggregate amount of which was ₩1.6 billion as of September 30, 2015.

## TERMS AND CONDITIONS OF THE NOTES

*The following is a summary of the terms and conditions of the Notes to be issued by us under the Fiscal Agency Agreement (as defined below). The following statements do not purport to be a complete description of the Notes and the Fiscal Agency Agreement and are qualified in their entirety by reference to the provisions of the Notes and the Fiscal Agency Agreement.*

### 1. General

- (a) This Note is one of a duly authorized issue of Notes of the Company in the initial aggregate principal amount of US\$300,000,000 known as its “2.50% Senior Unsecured Notes due July 21, 2021” (the “Notes”) issued or to be issued pursuant to a Fiscal Agency Agreement, dated as of January 21, 2016 (as amended from time to time, the “Fiscal Agency Agreement”), among the Company, Deutsche Bank AG, Hong Kong Branch, as fiscal agent (such bank and its successors as such fiscal agent being hereinafter called the “Fiscal Agent”) and Deutsche Bank Luxembourg S.A., as registrar (such bank and its successors as such registrar being hereinafter called the “Registrar”), the terms of which are hereby incorporated by reference. Capitalized terms used but not defined herein are used as defined in the Fiscal Agency Agreement. Copies of the Fiscal Agency Agreement are on file and available for inspection upon prior written request of the Holders of Notes at the corporate trust office of the Fiscal Agent (the “Corporate Trust Office”), and reference thereto is made for a description of the rights and limitations of rights thereunder of the Holders of the Notes and the duties and immunities of the Fiscal Agent. In acting under the Fiscal Agency Agreement, the agents appointed by the Company thereunder are acting solely as agents for the Company and do not assume any obligation or relationship of agency or trust for or with the Holder of this Note except as specifically described below or in the Fiscal Agency Agreement with respect to the Fiscal Agent. The Holders of Notes will be entitled to the benefits of, and be bound by and deemed to have notice of, all of the provisions of the Fiscal Agency Agreement. As used herein, the term “Holder” means the person in whose name a Note is registered in the Note Register (as defined in Condition 7(h) below).
- (b) The Notes are issuable only as Notes in fully registered form without coupons in denominations of US\$200,000 and any integral multiple of US\$1,000 in excess thereof.
- (c) The Company covenants that until the earlier to occur of the date on which all of the Notes shall have been delivered to the Fiscal Agent for cancellation and the date on which all of the Notes have become due and payable and monies sufficient to pay the principal of and interest on all of the Notes shall have been made available for payment and either paid on the date that the payment is due or returned to the Company as provided herein, the Company will at all times maintain a Fiscal Agent (which in each case shall be a bank or trust company in good standing, legally qualified to act as Fiscal Agent and authorized under the laws of its place of incorporation to exercise corporate trust powers). Subject to the foregoing, the Company reserves the right at any time to vary or terminate the appointment of any of the Fiscal Agent and such additional agents as the Company may determine.

### 2. Payments

- (a) Payments of principal of and interest on this Note will be made in the legal currency of the United States of America.
- (b) Payment of the principal of this Note shall be made, upon presentation and surrender hereof, by transfer to the registered bank account of the Holder or by a United States Dollar check drawn on a bank that processes payments in United States Dollars, at the option of the person to whom interest is payable as provided below, either (i) at the Corporate Trust Office of the Fiscal Agent or (ii) subject to any laws or regulations applicable thereto and to the right of the Company to terminate the appointment of any such paying agency, at such other paying agencies as the Company may designate.

- (c) Payments of interest on this Note shall be made by transfer to the registered bank account of the Holder or by a United States Dollar check drawn on a bank that processes payments in United States Dollars mailed to the address of the person entitled thereto as such address shall appear on the Note Register. The interest so payable on any Interest Payment Date will be paid to the person in whose name this Note is registered at the close of business on the fifteenth day preceding such Interest Payment Date (each, a “Record Date”), whether or not a Business Day (as defined below), notwithstanding the cancellation, transfer or exchange of this Note subsequent to the Record Date and on or prior to such Interest Payment Date, and no interest otherwise so payable on any Interest Payment Date shall be paid on this Note if the name of its Holder was entered as such on the Note Register after the close of business on the Record Date next preceding such Interest Payment Date, except if and to the extent the Company shall default in the payment of the interest due on such Interest Payment Date, in which case such defaulted interest shall (unless paid together with principal of this Note in full other than on an Interest Payment Date) be paid to the person in whose name this Note is registered at the close of business on a subsequent record date (which shall be not less than five Business Days prior to the date of payment of such defaulted interest) established by notice given by mail by or on behalf of the Company to the Holders of Notes not less than 15 days preceding such subsequent record date. If interest is paid together with principal in full on a date that is not an Interest Payment Date, such interest shall be paid upon presentation and surrender of this Note to the Fiscal Agent or to a paying agent.
- (d) Notwithstanding paragraphs (b) and (c) of this Condition, the Holder of this Note if it is a Global Note shall receive, and any Holder of at least US\$10,000,000 in aggregate principal amount of Notes may by notice to the Fiscal Agent at least ten days prior to any Interest Payment Date elect to receive, payments of principal (upon presentation and surrender of this Note), and payments of interest due on and subsequent to such Interest Payment Date by wire transfer in immediately available funds to such bank account as such Holder may direct in writing.
- (e) In any case where the date for the payment of any principal of or interest on any Note is not a day on which banking institutions at any place of payment are open for business in New York and Hong Kong (a “Business Day”), then payment of such principal or interest need not be made on such date at such place of payment but may be made on the next succeeding day at such place of payment which is a Business Day with the same force and effect as if made on the date for such payment of principal or interest, and no interest shall accrue for the period after such date.
- (f) Any monies paid by the Company to the Fiscal Agent for the payment of the principal of or interest on any Notes and remaining unclaimed at the end of two years after such principal or interest shall have become due and payable and shall have been paid to the Fiscal Agent by the Company shall then be repaid to the Company, and upon such repayment, all liability of the Fiscal Agent with respect to such monies shall thereupon cease and the Holder of any Note representing a claim therefor shall thereafter look only to the Company for payment thereof.
- (g) For so long as any of the Notes are represented by the Global Note, each payment on the Notes will be made to, or to the order of, the person whose name is entered into on the Register at the close of business on the Clearing System Business Day immediately prior to the date for payment, where “Clearing System Business Day” means a day on which the relevant clearing system is operating and open for business.

### **3. Calculation of Interest**

Interest on the Notes will be calculated on the basis of a 360-day year consisting of twelve 30-day months.

### **4. Optional Redemption Due to Changes in Tax Treatment**

The Notes may be redeemed at the option of the Company, in whole, but not in part, upon not less than 30 nor more than 60 days’ notice (which notice shall be irrevocable), at any time at a redemption price equal to 100% of the principal amount thereof plus accrued interest to (but excluding) the date fixed for redemption if, as a result of (a) any change in or amendment to the tax laws or treaties of the Republic (or of any political

subdivision or taxing authority thereof or therein) or any regulations or rulings promulgated thereunder or (b) any change in official position regarding the application, administration or interpretation of such laws, treaties, regulations or rulings (including a holding, judgment or order by a court of competent jurisdiction), which change or amendment becomes effective on or after January 21, 2016, the Company is or would be obligated on the next due date for a payment with respect to the Notes to pay Additional Amounts (as described in Condition 6 below) with respect to the Notes, and such obligation cannot be avoided by the use of reasonable measures available to the Company; *provided, however*, that (i) no such notice of redemption may be given earlier than 60 days prior to the earliest date on which the Company would be obligated to pay such Additional Amounts, and (ii) at the time such notice of redemption is given, such obligation to pay such Additional Amounts remains in effect. Before giving any notice of such redemption, the Company shall deliver to the Fiscal Agent (i) a certificate of the Company stating that the Company is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of redemption have occurred, together with an opinion of counsel to the effect that such a change in, or amendment to, the laws or treaties of the Republic (or of any political subdivision or taxing authority thereof or therein) or any regulations or rulings promulgated thereunder or any change in official position regarding the application, administration or interpretation of such laws, treaties, regulations or rulings, has occurred and (ii) an opinion of independent legal advisers of recognized standing to the effect that the Company has or will become obligated to pay such Additional Amounts as a result of such change or amendment; provided that, the Fiscal Agent may accept such certificate or opinion without further investigation or enquiry.

#### **5. Purchase of Notes; Further Issues**

The Company may at any time purchase Notes by tender (available to all Holders alike) or in the open market at any price. Notes purchased or otherwise acquired by the Company may be held, resold or, at its discretion, surrendered to the Fiscal Agent for cancellation. If the Company shall acquire any Notes, such acquisition shall not operate as or be deemed for any purpose to be a satisfaction of the indebtedness represented by such Notes unless and until such Notes are delivered to the Fiscal Agent for cancellation and are cancelled and retired by the Fiscal Agent in accordance with the Conditions.

The Company may from time to time, without the consent of the existing Holders, create and issue additional notes under the Fiscal Agency Agreement having the same terms and conditions in all respects except for issue date and issue price. Additional notes issued will be consolidated with and form a single series with the outstanding Notes, *provided* that such additional notes constitute a qualified reopening for United States federal income tax purposes.

#### **6. Additional Amounts**

All payments of principal of, and interest on, the Notes by the Company shall be made without withholding or deduction for, or on account of, any present or future taxes, duties, levies, imposts, assessments or governmental charges of whatever nature imposed or levied by or on behalf of the Republic or by or within any political subdivision thereof or any authority therein having power to tax ("Korean Tax"), unless deduction or withholding of such Korean Tax is required by law. In the event that the deduction or withholding of Korean Tax is required by law, the Company will pay such additional amounts ("Additional Amounts") as will result in the payment to the Holders of the Notes of the amounts which would otherwise have been receivable in respect of principal and interest in the absence of such deduction or withholding, except that no such Additional Amount shall be payable in respect of any Note:

- (a) to or on behalf of a Holder or beneficial owner who is subject to such Korean Tax in respect of such Note by reason of such Holder or beneficial owner being or having been connected with the Republic (or any political subdivision thereof) otherwise than merely by holding such Note or receiving principal or interest in respect thereof; or
- (b) to or on behalf of a Holder or beneficial owner who would not be liable for or subject to such deduction or withholding by making a declaration of non-residence or other similar claim for exemption to the relevant tax authority if, after having been requested in writing by the Company to make such a declaration or claim, such Holder or beneficial owner fails to do so within 30 days; or

- (c) to or on behalf of a Holder or beneficial owner who presents a Note (where presentation is required) more than 30 days after the relevant date except to the extent that the Holder or beneficial owner thereof would have been entitled to such Additional Amounts on presenting a Note for payment on any date of such 30-day period; for this purpose the “relevant date” in relation to any payments of interest on, or principal of, any Note means: (i) the due date for payment thereof; or (ii) if the full amount of the monies payable on such date has not been received by the Fiscal Agent on or prior to such due date, the date on which the full amount of such monies has been so received and notice to that effect is duly given to the Holder in accordance with the Fiscal Agency Agreement; or
- (d) if withholding or deduction is imposed on a payment to or for the benefit of an individual and such payment is required to be made pursuant to Council Directive 2003/48/EC or any other Directive on the taxation of savings implementing the conclusion of the ECOFIN council meeting on November 26-27, 2000, or any law implementing or complying with, or introduced in order to conform to, such Directive; or
- (e) to or on behalf of a Holder or beneficial owner who would have been able to avoid the withholding or deduction by the presentation (where presentation is required) of the relevant Note to, or otherwise accepting payment from, another paying agent in a Member State of the European Union; or
- (f) any combination of (a), (b), (c), (d) or (e) above.

The obligation of the Company to pay such Additional Amounts in respect of taxes, duties, assessments and governmental charges shall not apply to (a) any estate, inheritance, gift, sales, transfer, personal property or any similar tax, assessment or other governmental charge or (b) any tax, assessment or other governmental charge which is payable otherwise than by deduction or withholding from payments on the Notes; *provided* that, except as otherwise set forth in the Notes and in the Fiscal Agency Agreement, the Company shall pay all stamp and other taxes and duties, if any, which may be imposed by the Republic, the United States, or any respective political subdivision thereof or any taxing authority of or in the foregoing with respect to the Fiscal Agency Agreement or as a consequence of the initial issuance of the Notes.

Furthermore, no Additional Amounts shall be payable with respect to any payment of the principal of, or any interest on, any Note to any Holder who is a fiduciary or partnership or other than the sole beneficial owner of such payment to the extent such beneficiary or settlor with respect to such fiduciary, member of such partnership or beneficial owner would not have been entitled to such Additional Amounts had it been the Holder of such Note.

All references to principal or interest in respect of the Notes shall be deemed also to refer to any Additional Amounts which may be payable as set forth in the Notes.

## **7. Transfer, Exchange and Replacement**

- (a) The transfer of this Note is registrable (upon the terms and subject to the conditions set forth in the Fiscal Agency Agreement and subject to the reasonable requirements of the Company, the Fiscal Agent and the Registrar) on the Note Register upon surrender of this Note for registration at the specified office of the Registrar at 2, Boulevard Konrad Adenauer, L-1115 Luxembourg, Luxembourg (or such other subsequent office which the Registrar may maintain, the “Registrar’s Office”), duly endorsed by, or accompanied by a written instrument of transfer in a form approved by the Company and the Registrar duly executed by, the Holder hereof or his attorney duly authorized in writing.
- (b) In the manner and subject to the limitations and upon payment of the charges (if any) provided in the Fiscal Agency Agreement, Notes may be exchanged for a like aggregate principal amount of Notes of other authorized denominations or for a beneficial interest in a Global Note.

- (c) No service charge shall be made for any exchange or registration of transfer provided for in Conditions 7(a) and 7(b) hereof, but the Company may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith.
- (d) No registrations of transfers or exchanges of Notes shall be made after notice of redemption of the Notes has been given.
- (e) All Notes issued upon any registration of transfer or exchange of Notes shall be the valid obligations of the Company, evidencing the same debt, and entitled to the same benefits, as the Notes surrendered upon such registration of transfer or exchange. Any new Note delivered pursuant to this Condition 7 shall be so dated that neither gain nor loss of interest shall result from such transfer or exchange.
- (f) If any Note shall at any time become mutilated or destroyed or stolen or lost, then, *provided* that such Note, or evidence of the destruction, theft or loss thereof (together with the indemnity hereinafter referred to and such other documents or proof as may be required in the premises) shall be delivered during business hours to the Registrar's Office, a replacement Note of like tenor and principal amount will be issued by the Company and, at its request, authenticated by the Registrar, in exchange for the Note so mutilated, or in lieu of the Note so destroyed or stolen or lost; *provided, further*, that, in the case of destroyed, stolen or lost Notes, (i) neither the Company nor the Fiscal Agent nor the Registrar shall have notice that such Notes have been acquired by a *bona fide* purchaser, and (ii) the Company and the Registrar shall have received evidence satisfactory to them that such Notes were destroyed, stolen or lost, and the Company and the Registrar shall have received an indemnity satisfactory to each of them. All expenses and reasonable charges associated with procuring such indemnity, and the cost of the preparation and issue of a replacement for any Note mutilated, destroyed, stolen or lost, shall be paid by the Holder of such Note. In case such mutilated, destroyed, stolen or lost Note has become or is about to become due and payable, the Company in its discretion may, instead of issuing a new Note, pay or cause to be paid such Note. Every new Note issued pursuant to this paragraph (f) in exchange for or in lieu of any mutilated, destroyed, stolen or lost Note, shall constitute an additional original contractual obligation of the Company, whether or not the mutilated, destroyed, stolen or lost Note shall be at any time enforceable by anyone. Any new Note delivered pursuant to this paragraph (f) shall be so dated that neither gain nor loss of interest shall result from such replacement. To the extent permitted by law, the provisions of this paragraph (f) are exclusive and shall preclude (to the extent lawful) all other rights and remedies with respect to the replacement or payment of mutilated, destroyed, stolen or lost Notes.
- (g) The Company, the Fiscal Agent and the Registrar may deem and treat the registered Holder hereof as the absolute owner hereof (notwithstanding any notice of ownership or other writing hereon) for the purposes of receiving payment hereon or on account hereof and for all other purposes, whether or not this Note shall be overdue.
- (h) The Company has appointed the Registrar as its agent for transfers, and for exchanges and replacements, of Notes and has agreed to cause to be kept at the Registrar's Office a register (the "Note Register") in which, subject to such reasonable regulations as it may prescribe, the Company shall provide for such registration and registration of transfers.
- (i) All Notes issued as a result of any transfer, exchange or replacement of Notes shall be delivered to the Holder by the Registrar (at the risk of the Holder) by mail to such address as is specified by the Holder in the request for transfer, exchange or replacement.

## 8. Covenants of the Company

- (a) **Limitation on Liens.** So long as any of the Notes are outstanding, the Company will not itself, and will not permit any Restricted Subsidiary to create, incur, issue or assume or guarantee any External Indebtedness secured by any Security Interest on any Principal Property owned by the Company or any Restricted Subsidiary or on any shares of stock or External Indebtedness of any Restricted Subsidiary (such shares of stock or External Indebtedness of any Restricted Subsidiary

being called “Restricted Securities”) without in any such case effectively providing that the Notes (together with, if the Company shall so determine, any other indebtedness of the Company or any Restricted Subsidiary then existing or thereafter created which is not subordinate to the Notes) shall be 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 of the Company and its Restricted Subsidiaries in respect of sale and leaseback transactions (as described in Condition 8(b) below) involving Principal Properties would not exceed 10% of Consolidated Net Tangible Assets; *provided* that nothing contained in this Condition 8(a) shall prevent, restrict or apply to, and there shall be excluded from secured External Indebtedness in any computation under this Condition 8(a), External Indebtedness secured by:

- (1) Security Interests existing as of the date of the Fiscal Agency Agreement;
- (2) Security Interests on any property, shares of stock or indebtedness of any corporation existing at the time such corporation becomes a Restricted Subsidiary or arising thereafter pursuant to contractual commitments entered into prior to and not in contemplation of such corporation becoming a Restricted Subsidiary;
- (3) Security Interests on any property, shares of stock or indebtedness existing at the time of acquisition thereof (including acquisition through merger or consolidation) or arising thereafter pursuant to contractual commitments entered into prior to and not in contemplation of the acquisition of such property, shares of stock or indebtedness;
- (4) Security Interests on any Principal Property or Restricted Securities securing the payment of all or any part of the purchase price or cost of construction or improvement of any Principal Property or securing any indebtedness incurred prior to, at the time of or within 12 months after the acquisition of such Principal Property or the completion of any such construction or improvement, whichever is later, for the purpose of financing all or any part of the purchase price or cost of construction or improvement thereof (*provided* that such Security Interests are limited to such Principal Property or Restricted Securities, improvements on such Principal Property and any other property or assets not constituting a Principal Property or Restricted Securities prior to such construction or improvement);
- (5) Security Interests which secure indebtedness owing to the Company or to a Restricted Subsidiary;
- (6) Security Interests securing External Indebtedness incurred with respect to the improvement of Principal Property after the date of the Fiscal Agency Agreement in connection with environmental law obligations; *provided* that such External Indebtedness does not exceed 3% of Consolidated Net Tangible Assets; and
- (7) any extension, renewal, alteration or replacement (or successive, extensions, renewals, alterations or replacements) in whole or in part, of any Security Interest referred to in the foregoing paragraphs (1) through (6) inclusive or any refinancing of External Indebtedness, or a portion thereof, secured by a Security Interest referred to in the foregoing paragraphs (1) through (6) inclusive, which External Indebtedness, or portion thereof, was paid, extinguished or satisfied not more than 90 days prior to the date of such refinancing; *provided* that the principal amount of External Indebtedness secured thereby shall not exceed the principal amount of External Indebtedness so secured at the time of such extension, renewal, alteration or replacement or the principal amount of External Indebtedness being refinanced, and that such extension, renewal, alteration, replacement or refinancing shall be limited to all or a part of the property (plus improvements on such property) which secured the Security Interest so extended, renewed, altered or replaced or relating to the External Indebtedness so refinanced.

For the purposes of this Condition 8(a) and Condition 8(b), the giving of a guarantee which is secured by a Security Interest on a Principal Property or Restricted Securities, and the creation of a Security Interest on a Principal Property or Restricted Securities to secure External Indebtedness which existed prior to the creation of such Security Interest, shall be deemed to involve the creation of indebtedness in an amount equal to the principal amount guaranteed or secured by such Security Interest; but the amount of indebtedness secured by Security Interests on Principal Properties and Restricted Securities shall be computed without cumulating the underlying indebtedness with any guarantee thereof or Security Interest securing the same.

- (b) **Limitation on Sale and Leaseback Transactions.** So long as any of the Notes are outstanding, the Company will not itself, and will not permit any Restricted Subsidiary to, enter into any arrangement after the date of the Fiscal Agency Agreement with any Person (other than the Company or another Restricted Subsidiary) providing for the leasing by the Company or any Restricted Subsidiary of any Principal Property (except a lease for a temporary period not to exceed three years by the end of which it is intended that the use of such Principal Property by the lessee will be discontinued), which was or is owned by the Company or a Restricted Subsidiary and 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 or to any other Person to whom funds have been or are to be advanced by such Person on the security of such Principal Property (herein referred to as a “sale and leaseback transaction”) unless either:
- (1) the Attributable Debt of the Company and its Restricted Subsidiaries in respect of such sale and leaseback transaction and all other sale and leaseback transactions entered into after the date of the Fiscal Agency Agreement (other than such sale and leaseback transactions as are permitted by paragraph (2) below), plus the aggregate principal amount of External Indebtedness secured by Security Interests on Principal Properties and Restricted Securities then outstanding (excluding any such External Indebtedness secured by Security Interests described in paragraphs (1) through (7) of Condition 8(a)) without equally and ratably securing the Notes, would not exceed 10% of Consolidated Net Tangible Assets; or
  - (2) the Company, within 12 months after the sale or transfer, applies or causes a Restricted Subsidiary to apply an amount equal to the greater of (i) the net proceeds of such sale or transfer or (ii) the fair market value of the Principal Property so sold and leased back at the time of entering into such sale and leaseback transaction (in each case as determined in good faith by two directors or other executive officers who are authorized to represent the Company) to the retirement of External Indebtedness of the Company or a Restricted Subsidiary which is not subordinate to the Notes; *provided* that the amount to be so applied shall be reduced by (i) the principal amount of Notes delivered within 12 months after such sale or transfer to the Fiscal Agent for retirement and cancellation, and (ii) the principal amount of External Indebtedness of the Company or a Restricted Subsidiary, other than Notes, voluntarily retired by the Company or a Restricted Subsidiary within 12 months after such sale or transfer. Notwithstanding the foregoing, no retirement referred to in this paragraph (2) may be effected by payment at maturity or pursuant to any mandatory sinking fund payment or any mandatory prepayment provision.

Notwithstanding the foregoing, where the Company or any Subsidiary is the lessee in any sale and leaseback transaction, Attributable Debt shall not include any External Indebtedness resulting from the guarantee by the Company or any other Subsidiary of the lessee’s obligation thereunder.

- (c) **Certain Definitions.** The following terms (except as otherwise expressly provided or unless the context otherwise clearly requires) for all purposes of the Fiscal Agency Agreement and the Notes shall have the respective meanings specified in this Condition. All accounting terms used herein and not expressly defined shall have the meanings given to them in accordance with K-IFRS, and the term “K-IFRS” shall mean the International Financial Reporting Standards as adopted by the Republic at the date or time of any computation.

“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 compounded annually.

“Consolidated Net Tangible Assets” means the total amount of assets of the Company and its consolidated Subsidiaries, including investments in unconsolidated Subsidiaries, after deducting therefrom (i) all current liabilities (excluding any current liabilities constituting Long-term Debt by reason of their being renewable or extendible at the option of the Company) and (ii) all goodwill, industrial rights, usable and profitable donation assets and software and other like intangible assets, all as set forth on the most recent statement of financial position of the Company and its consolidated Subsidiaries and computed in accordance with K-IFRS.

“External Indebtedness” means any obligation for the payment or repayment of money borrowed which is denominated in a currency other than the currency of the Republic 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 indebtedness for money borrowed having a maturity of more than one year from the date such 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 of 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.

“Principal Property” means any generation facility located in the Republic, whether currently owned or hereafter 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 Board of Directors of the Company not to be of material importance to the total business conducted by the Company and its Subsidiaries as a whole.

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

“Security Interest” means any mortgage, pledge, lien, fixed or floating charge or other encumbrance.

“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 Company.

## 9. Merger and Consolidation

Nothing contained in the Fiscal Agency Agreement or in the Notes shall prevent any consolidation of the Company with, or merger of the Company into, any other corporation or corporations (whether or not affiliated with the Company), or successive consolidations or mergers to which the Company or its successor or successors shall be a party or parties, or shall prevent any sale, transfer, lease or conveyance of the property of the Company as an entirety or substantially as an entirety; *provided* that (a) in case the Company shall consolidate with or merge into another corporation, or sell, transfer, lease or convey its property as an entirety or substantially as an entirety to any corporation, the corporation formed by such consolidation or into which the Company is merged or the corporation which acquires by sale, transfer, lease or conveyance the property of the Company as an entirety or substantially as an entirety shall be a corporation organized under the laws of the Republic and shall expressly assume, by an agreement supplemental to the Fiscal Agency Agreement executed and delivered to, and in form reasonably satisfactory to, the Fiscal Agent, the due and punctual payment of the principal of and interest (including all Additional Amounts, if any, payable pursuant to Condition 6) on the Notes, and the due and punctual performance and observance of all of the covenants and conditions to the Fiscal Agency Agreement and the Notes on the part of the Company to be

performed or observed; (b) immediately after giving effect to such transaction and treating any indebtedness which becomes an obligation of the Company as a result of such transaction as having been incurred by the Company at the time of such transaction, no Event of Default (as defined below), 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 consolidation or merger or such sale, transfer, lease or conveyance, properties or assets of the Company or a Restricted Subsidiary would become subject to a Security Interest which would not be permitted by the Notes, the Company 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 Company shall so determine, any other indebtedness of the Company or such Restricted 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 Company has delivered to the Fiscal Agent a certificate signed by an authorized officer of the Company 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 Fiscal Agency Agreement and the Notes and that all conditions precedent herein provided for relating to such transaction have been complied with; and *provided further* that the provisions of (a) through (d) above shall not apply to any action taken by the Company or by any of its Subsidiaries in furtherance of the Plan of Restructuring.

For all purposes of the Fiscal Agency Agreement and the Notes (except as otherwise expressly provided or unless the context otherwise clearly requires), the term “Plan of Restructuring” means the Plan for Restructuring the Electricity Industry in Korea as issued on January 21, 1999 by the Ministry of Commerce, Industry and Energy 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 Corporations and (iii) the Seventh Basic Plan for Long-Term Electricity Supply and Demand issued on July 2015 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.

## 10. Events of Default

The term “Event of Default” means any of the following events (whatever the reason for such Event of Default and whether it shall be voluntary or involuntary or be effected by operation of law or pursuant to any judgment, decree or order of any court or any order, rule or regulation of any administrative or governmental body) which shall have occurred and be continuing:

- (a) default in the payment of any installment of interest upon any of the Notes when it becomes due, 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 (or premium, if any, on) any of the Notes as and when the same shall become due and payable, whether at maturity, upon redemption or otherwise; or
- (c) failure on the part of the Company duly to observe or perform any other of the covenants or agreements on the part of the Company contained in the Notes or the Fiscal Agency Agreement for a period of 60 days after the date on which written notice specifying such failure, stating that such notice is a “Notice of Default” hereunder and demanding that the Company remedy the same, shall have been given by registered or certified mail, return receipt requested, to the Company 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 Company in the aggregate outstanding principal amount of US\$15,000,000 or more either (i) becoming due and payable by reason of acceleration thereof following default by the Company 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

Company in respect of External Indebtedness of any other Person not being honored when, and remaining dishonored after becoming, due and called; *provided* that, in the case of (i) above, if any such default under any such External Indebtedness shall be cured or waived, then the default hereunder by reason thereof shall be deemed to have been cured and waived; or

- (e) a court or administrative or other governmental agency or body having jurisdiction in the premises shall enter a decree or order for relief in respect of the Company in an involuntary case under any applicable bankruptcy, insolvency, reorganization, compulsory composition or other similar law now or hereafter in effect, or appointing a receiver, liquidator, assignee, custodian, trustee, sequestrator (or similar official) of the Company or for any substantial part of its property or ordering the winding up, dissolution or liquidation of its affairs, or shall otherwise adjudicate or find the Company to be bankrupt or insolvent and such decree or order shall remain unstayed and in effect for a period of 60 consecutive days; or
- (f) the Company shall commence a voluntary case under any applicable bankruptcy, insolvency, reorganization, compulsory composition or other similar law now or hereafter in effect, or consent to the entry of an order for relief in an involuntary case under any such law, or consent to the appointment or taking possession by a receiver, liquidator, assignee, custodian, trustee, sequestrator or similar official of the Company or for any substantial part of its property, or cease to carry on the whole or substantially the whole of its business (other than in furtherance of the Plan of Restructuring) 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;

then, and in each and every such case, unless the principal of all of the Notes shall have already become due and payable, the Holders of not less than 25% in aggregate principal amount of the Notes then outstanding, by notice in writing to the Company and to the Fiscal Agent, may declare the aggregate principal amount of the Notes to be due and payable immediately, and upon any such declaration the same shall become immediately due and payable, unless prior to receipt of such notice by the Company, all such defaults shall have been cured.

The Holders of more than 50% in aggregate principal amount of the Notes at the time outstanding, by notice to the Fiscal Agent (and without notice to any other Holders) may rescind and annul an acceleration pursuant to this Condition 10 and its consequences if (i) the rescission or annulment would not conflict with any judgment or decree for the payment of monies due that has been obtained or entered as hereinafter provided, (ii) all existing Events of Default have been cured or waived except nonpayment of the sum of the unpaid principal amount of the Notes plus interest (if any) payable thereon to the date of payment that have become due solely as a result of such acceleration and (iii) all amounts due to the Fiscal Agent under the Fiscal Agency Agreement have been paid. No such rescission shall affect any subsequent Event of Default or impair any right consequent thereto.

The Fiscal Agent shall not be deemed to know or have notice of an Event of Default unless the Corporate Trust Office receives written notice of such Event of Default.

#### **11. Meetings of Holders; Modifications and Amendments**

- (a) The Company may at any time, and the Fiscal Agent shall at any time after the Notes shall have become immediately due and payable due to a default upon a request in writing made by Holders holding not less than 10% of the aggregate outstanding principal amount of the Notes, convene a meeting of Holders of the Notes. Any such request in writing by the Holders shall be delivered to the Fiscal Agent, and the Fiscal Agent shall notify such request to the Company. Further provisions concerning meetings of the Holders are set forth in the Fiscal Agency Agreement.
- (b) Modifications and amendments to the Fiscal Agency Agreement or the Notes requiring consent of Holders may be made, and future compliance therewith or past defaults by the Company may be waived, with the consent of the Company and the Holders of more than 50% in aggregate principal amount of the Notes at the time outstanding, or of such lesser percentage as may act at a meeting of the Holders held in accordance with the provisions of the Fiscal Agency Agreement; *provided* that no such modification, amendment or waiver of the Fiscal Agency Agreement or any

Note may, without the consent of each Holder affected thereby, (i) change the maturity of the principal of, or any date for the payment of interest or Additional Amounts payable on, any Note; (ii) reduce the principal amount of, or any interest or Additional Amounts payable on, any Note; (iii) change the manner of calculation of interest or principal with respect to any Note; (iv) change the place of payment, or currency of denomination or payment, of the principal of or any interest or Additional Amounts payable on any Note; (v) change the Company's obligation to pay Additional Amounts; (vi) impair the right to institute suit for the enforcement of any payment on or with respect to any Note; or (vii) reduce the percentage of the principal amount of the outstanding Notes, the consent of the Holders of which is required for any such supplemental agreement. Any modifications, amendments or waivers consented to or approved at a meeting will be conclusive and binding on all Holders whether or not they have given such consent or were present at such meeting, and on all future Holders whether or not notation of such modifications, amendments or waivers is made upon the Notes. Any instrument given by or on behalf of any Holder of a Note in connection with any consent to any such modification, amendment or waiver will be irrevocable once given and will be conclusive and binding on all subsequent Holders of such Note.

- (c) At a meeting of the Holders of the Notes called for any of the above purposes, persons entitled to vote more than 50% in aggregate principal amount of the Notes at the time outstanding shall constitute a quorum. In the absence of a quorum at any such meeting, the meeting may be adjourned for a period of not less than ten days; in the absence of a quorum at any such adjourned meeting, such adjourned meeting may be further adjourned for a period of not less than ten days; at the reconvening of any meeting further adjourned for lack of a quorum, the persons entitled to vote 25% in aggregate principal amount of the Notes at the time outstanding shall constitute a quorum for the taking of any action set forth in the notice of the original meeting. At a meeting or an adjourned meeting duly convened and at which a quorum is present as aforesaid, any resolution to modify or amend, or to waive compliance with, any of the covenants or conditions referred to above (other than those set forth in Clauses (i) through (vii) of Condition 11(b) hereof) shall be effectively passed if passed by the lesser of (i) more than 50% in aggregate principal amount of Notes then outstanding or (ii) 75% in aggregate principal amount of the Notes represented and voting at the meeting.
- (d) The Fiscal Agency Agreement and the terms and conditions of the Notes may be modified, supplemented or amended, without the consent of the Holders, for one or more of the following purposes: (i) to convey, transfer, assign, mortgage or pledge to the Fiscal Agent, acting as security agent following an appointment by the Company and acceptance by the Fiscal Agent of such appointment, as security for the Notes any property or assets; (ii) to evidence the succession of another corporation to the Company, or successive successions, and the assumption by the successor corporation of the covenants, agreements and obligations of the Company pursuant to Condition 9; (iii) to add to the covenants of the Company such further covenants, restrictions, conditions or provisions as the Company shall consider to be for the protection of the Holders of Notes, and to make the occurrence, or the occurrence and continuance, of a default in any such additional covenants, restrictions, conditions or provisions an Event of Default permitting the enforcement of all or any of the several remedies provided in this Note as herein set forth; *provided*, that in respect of any such additional covenant, restriction, condition or provision such supplemental agreement may provide for a particular period of grace after default (which period may be shorter or longer than that allowed in the case of other defaults) or may provide for an immediate enforcement upon such an Event of Default or may limit the remedies available to the Fiscal Agent or the Holders upon such an Event of Default or may limit the right of the Holders of more than 50% in aggregate principal amount of the Notes to waive such an Event of Default; and (iv) to cure any ambiguity or to correct or supplement any provision contained herein or in any supplemental agreement which may be defective or inconsistent with any other provision contained herein or in any supplemental agreement; or to make such other provisions in regard to matters or questions arising under this Note or the Fiscal Agency Agreement or under any supplemental agreement as the Company may deem necessary or desirable and which shall not adversely affect the interests of the Holders. In all other cases, amendment of the Fiscal Agency Agreement will require consent of the Holders pursuant to a resolution of the Holders of the Notes adopted pursuant to Section 14 of the Fiscal Agency Agreement and the Notes.

## 12. Notices to Holders

Except as otherwise expressly provided herein or the Fiscal Agency Agreement, whenever the Fiscal Agency Agreement or this Note provides for notice to Holders, such notice shall be sufficiently given if in writing and mailed at the expense of the Company, first-class postage prepaid, to each Holder entitled thereto, at his last address as it appears in the Note Register. In any case where notice to Holders is given by mail, neither the failure to mail such notice, nor any defect in any notice so mailed, to any particular Holder shall affect the sufficiency of such notice with respect to other Holders and any notice that is mailed in the manner herein provided shall be conclusively presumed to have been duly given. Where the Fiscal Agency Agreement or this Note provides for notice in any manner, such notice may be waived in writing by the Person entitled to receive such notice, either before or after the event, and such waiver shall be the equivalent of such notice. Waivers of notice by Holders shall be filed with the Fiscal Agent, but such filing shall not be a condition precedent to the validity of any action taken in reliance upon such waiver.

In case, by reason of the suspension of or irregularities in regular mail service, it shall be impracticable to mail notice to the Holders when such notice is required to be given pursuant to any provision of the Fiscal Agency Agreement or this Note, then any manner of giving such notice as shall be satisfactory to the Fiscal Agent shall be deemed to be a sufficient giving of such notice.

So long as the Notes are represented by a Global Note and such Global Note is held on behalf of Euroclear or Clearstream or any alternative clearing system, notices to Holders may be given by delivery of the relevant notice to Euroclear or Clearstream or such alternative clearing system, for communication by it to Holders in substitution for notification as required by this Condition.

## 13. Valid Obligations

The Company hereby certifies and declares that all acts, conditions and things required to be done and performed and to have happened precedent to the creation and issuance of this Note, and to constitute the same the valid and legally binding obligation of the Company enforceable in accordance with its terms, have been done and performed and have happened in due and strict compliance with the applicable laws of the State of New York.

## 14. Governing Law

This Note shall be governed by, and construed in accordance with, the laws of the State of New York. To the fullest extent permitted by applicable law, the Company irrevocably submits to the jurisdiction of any federal or state court in the Borough of Manhattan, City of New York, State of New York, United States of America, in any suit or proceeding based on or arising under the Fiscal Agency Agreement or the Notes, and irrevocably agrees that all claims in respect of such suit or proceeding may be determined in any such court. The Company irrevocably and fully waives any objection which it may now or hereafter have to the laying of the venue of any such suit or proceeding and any claim that any such proceeding brought in such a court has been brought in an inconvenient forum.

## FORM OF THE NOTES

*Capitalized terms used in this section and not otherwise defined shall have the meanings given to them in “Terms and Conditions of the Notes”.*

The Notes will initially be represented by a Global Note. The Global Note will be deposited with and registered in the name of DB Nominees (Hong Kong) Limited as nominee of Deutsche Bank AG, Hong Kong Branch as common depositary for Euroclear and Clearstream (the “Common Depositary”), and Euroclear and Clearstream will credit their respective account holders with the respective principal amounts of the individual interests represented by such Global Note. Such accounts will be designated initially by or on behalf of the representative of the Initial Purchasers. Ownership of beneficial interests in the Global Note will be limited to persons who have accounts with Euroclear or Clearstream or persons who hold interests through such account holders. Ownership of beneficial interests in the Global Note will be shown on, and the transfer of that ownership will be effected only through, the records maintained by Euroclear and Clearstream (with respect to interests of their respective account holders) and the records of such account holders (with respect to interests of persons other than such account holders).

Each Global Note (and any Notes issued in exchange thereof) will be subject to certain restrictions on transfer set forth therein and described under “Transfer Restrictions”. Except in the limited circumstances described below under “— Certificated Notes”, owners of beneficial interests in the Global Note will not be entitled to receive physical delivery of certificates representing their Notes. The laws of certain jurisdictions require that certain purchasers of the Notes take physical delivery of such Notes in certificated form. Accordingly, the ability of beneficial owners to own, transfer or pledge beneficial interests in the Global Note may be limited by such laws.

Payments in respect of the Notes represented by the Global Note will be made to the Common Depositary or its nominee as the registered owner thereof. Neither of us, the Fiscal Agent, the Common Depositary or any paying agent for such Notes will have any responsibility or liability for the accuracy of any of the records relating to, or payments made on account of, ownership interests in the Global Note or for any notice permitted or required to be given to persons with beneficial interests in the Global Note or any consent given or actions taken by such persons. The Company expects that the Common Depositary, upon receipt of any payment in respect of any Notes represented by the Global Note held by it or its nominee, will promptly credit the accounts of the participants of Euroclear and Clearstream with payments proportionate to their respective interests in the principal amount of the Notes represented by the Global Note as shown on its records.

Transfers of book-entry interests in the Notes will be effected through the records of Euroclear and Clearstream and their respective participants in accordance with the rules and procedures of Euroclear and Clearstream and their respective direct and indirect participants.

Although Euroclear and Clearstream have agreed to the foregoing procedures in order to facilitate transfers of interests in the Global Note among participants and account holders of Euroclear and Clearstream, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. Neither of us, the Fiscal Agent, the Common Depositary or any paying agent will have any responsibility for the performance by Euroclear, Clearstream or their respective participants, indirect participants or account holders, of their respective obligations under the rules and procedures governing their operations.

Euroclear and Clearstream each holds the Notes for participating organizations and facilitates the clearance and settlement of Note transactions between its respective participants through electronic book-entry changes in accounts of such participants. Euroclear and Clearstream provide to their respective participants, among other things, services for safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Participants of Euroclear and Clearstream are financial institutions throughout the world, including underwriters, securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. Indirect access to Euroclear and Clearstream is also available to others, such as banks, brokers, dealers and trust companies which clear through or maintain a custodial relationship with a participant of Euroclear or Clearstream, either directly or indirectly.

## **Certificated Notes**

We will execute and deliver to the Registrar, and the Registrar will authenticate, individual physical certificates representing the Notes (the “Certificated Notes”) in exchange for the Global Note, if:

- (i) the Common Depositary (or any successor) or Euroclear or Clearstream notifies us in writing that it is at any time unwilling or unable to discharge properly its responsibilities with respect to the Notes, or, with respect to Euroclear and Clearstream, ceases to be a “clearing agency” under applicable law, or if at any time it is no longer eligible to act as such and we do not appoint a qualified successor within 90 days of receiving notice or becoming aware of such ineligibility;
- (ii) either Euroclear or Clearstream or any alternative clearing system on behalf of which the Notes evidenced by the Global Note may be held is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or in fact does so; or
- (ii) an event of default under the Notes or the Fiscal Agency Agreement has occurred and is continuing and the Notes have become immediately due and payable.

Upon receipt of the relevant notice from Euroclear, Clearstream or the Registrar, as the case may be, we will use our best efforts to make arrangements for the exchange of interests in the relevant Global Note for Certificated Notes and cause the requested Certificated Notes to be executed and delivered to the Registrar in sufficient quantities and authenticated by the Registrar for delivery to holders or persons to whom such delivery is requested by holders. Persons exchanging interests in the Global Note for Certificated Notes will be required to provide to the Registrar, through the relevant clearing system, written instructions and other information required by us and the Registrar to complete, execute and deliver such Certificated Notes. Any Certificated Notes delivered in exchange for the Notes represented by the Global Note or beneficial interests therein will be registered in the names requested and issued in the principal amount of US\$200,000 and integral multiples of US\$1,000 in excess thereof.

## **The Clearing Systems**

### ***Euroclear***

Euroclear was created in 1968 to hold securities for its participants and to clear and settle transactions between its participants through simultaneous electronic book-entry delivery against payment, thereby eliminating the need for physical movement of certificates and any risk from lack of simultaneous transfers of securities and cash. Euroclear includes various other services, including securities lending and borrowing, and interfaces with domestic markets in several countries. Euroclear is operated by Euroclear Bank S.A./N.V. (the “Euroclear Operator”), under contract with Euroclear Clearance Systems, S.C., a Belgian cooperative corporation (the “Cooperative”). All operations are conducted by the Euroclear Operator, and all Euroclear securities clearance accounts and Euroclear cash accounts are accounts with the Euroclear Operator, not the Cooperative. The Cooperative establishes policy for Euroclear on behalf of Euroclear participants. Euroclear participants include banks (including central banks), securities brokers and dealers and other professional financial intermediaries and may include the representative of the initial purchasers. Indirect access to Euroclear is also available to others that clear through or maintain a custodial relationship with a Euroclear participant, either directly or indirectly.

The Euroclear Operator was granted a banking license by the Belgian Banking and Finance Commission in 2000, authorizing it to carry out banking activities on a global basis. It took over operation of Euroclear from the Brussels, Belgium office of Morgan Guaranty Trust Company of New York on December 31, 2000. Securities clearance accounts and cash accounts with the Euroclear Operator are governed by the Terms and Conditions Governing Use of Euroclear and the related Operating Procedures of the Euroclear System, and applicable Belgian law (collectively, the “Terms and Conditions”). The Terms and Conditions govern transfers of securities and cash within Euroclear, withdrawals of securities and cash from Euroclear, and receipts of payments with respect to securities in Euroclear. All securities in Euroclear are held on a fungible basis without attribution of specific certificates to specific securities clearance accounts.

The Euroclear Operator acts under the Terms and Conditions only on behalf of Euroclear participants and has no record of or relationship with persons holding through Euroclear participants. Distributions with respect to Notes held beneficially through Euroclear will be credited to the cash accounts of Euroclear participants in accordance with the Terms and Conditions, to the extent received by Euroclear.

### ***Clearstream***

Clearstream was incorporated under the laws of The Grand Duchy of Luxembourg as a professional depository. Clearstream holds securities for its participants and facilitates the clearance and settlement of securities transactions between its participants through electronic book-entry changes in accounts of its participants, thereby eliminating the need for physical movement of certificates. Clearstream provides to its participants, among other things, services for safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Clearstream interfaces with domestic markets in several countries. As a professional depository, Clearstream is subject to regulation by the Luxembourg Monetary Institute. Clearstream participants are financial institutions around the world, including securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations and may include the initial purchasers. Indirect access to Clearstream is also available to others that clear through or maintain a custodial relationship with a Clearstream participant either directly or indirectly.

Distributions with respect to Notes held beneficially through Clearstream will be credited to cash accounts of Clearstream participants in accordance with its rules and procedures, to the extent received by Clearstream.

### **Initial Settlement**

Initial settlement for the Notes will be made in immediately available funds. All Notes will be represented by a Global Note which will be deposited with the Common Depository, as custodian for Euroclear and Clearstream. Euroclear and Clearstream will hold such Notes on behalf of their participants, which are financial institutions. As a result, investors' interests in Notes held in book-entry form through Euroclear and Clearstream will be held through accounts at financial institutions acting on their behalf as direct and indirect participants in Euroclear and Clearstream.

Investors will follow the settlement procedures applicable to conventional Eurobonds in registered form. Notes will be credited to the securities custody accounts of Euroclear Holders and of Clearstream Holders on the business day following the settlement date against payment for value on the settlement date.

### **Secondary Market Trading**

Secondary market trading between Euroclear participants and/or Clearstream participants will occur in the ordinary way in accordance with the applicable rules and operating procedures of Clearstream and Euroclear and will be settled using the procedures applicable to conventional Eurobonds in same-day funds.

## KOREAN TAXATION

### Republic of Korea

The information provided below does not purport to be a complete summary of Korean tax law and practice currently applicable. This summary is based on laws, regulations, rulings and decision in effect as of the date of this Offering Circular. These laws, regulations, rulings and/or decisions may change; any such change could apply retroactively and could affect the continued validity of this summary. In addition, this summary does not describe all of the tax considerations that may be relevant to you or your situation, particularly if you are subject to special tax rules. Prospective investors who are in any doubt as to their tax position should consult with their own professional advisors.

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

### Tax on Interest

Interest paid to Non-Residents (excluding payments to their permanent establishment in Korea) on the Notes, being foreign currency denominated bonds issued outside Korea, is exempt from income tax and corporation tax (whether payable by withholding or otherwise) pursuant to the Special Tax Treatment Control Law of Korea (the “STTCL”).

If the tax exemption under the STTCL referred to above were to cease to be in effect, the rate of income tax or corporation tax applicable to interest on the Notes, for a Non-Resident without a permanent establishment in Korea, would be 14% of income. In addition, a tax surcharge called a local income tax would be imposed at the rate of 10% of the income tax or corporation tax (raising the total tax rate to 15.4%).

The tax is withheld by the payer or us.

The tax rates may be reduced by an applicable tax treaty, convention or agreement between Korea and the country of the recipient of the income. The relevant tax treaties are discussed below.

### Tax on Capital Gains

Korean tax laws currently exclude from Korean taxation gains made by a Non-Resident without a permanent establishment in Korea from the sale of the Notes to Non-Residents (other than to their permanent establishments in Korea). In addition, capital gains earned by Non-Residents with or without permanent establishments in Korea from the transfer taking place 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 under the STTCL.

If the exclusion or exemption from Korean taxation referred to above were to cease to be in effect, in the absence of an applicable treaty reducing or eliminating tax on capital gains, the applicable rate of tax would be the lower of 11% (including local income tax) of the gross realization proceeds and (subject to the production of satisfactory evidence of the acquisition cost and certain direct transaction costs of the relevant Note) 22% (including local income tax) of the realized gain (i.e., the excess of the gross realization proceeds over the acquisition cost and certain direct transaction costs) made. If such evidence shows that no gain (or a loss) was made on the sale, no Korean tax is payable. With respect to computing the above-mentioned 22% withholding taxes (including local income tax) on the realized gain, please note that there is no provision under relevant Korean law for offsetting gains and losses or otherwise aggregating transactions for the purpose of computing the net gain attributable to sales of Notes issued by Korean companies. The purchaser or any other designated withholding agent of Notes is obliged under Korean law to withhold the applicable amount of Korean tax and make payment thereof to the relevant Korean tax authority. Unless the seller can claim the benefit of an exemption from tax under an applicable tax treaty or on the failure of the seller to produce satisfactory evidence of his acquisition cost and certain direct transaction costs in relation to the

instruments 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 withholding agent must be paid to the competent Korean tax office. The purchaser or withholding agent must pay any withholding tax no later than the tenth day of the month following the month in which the payment for the purchase of the relevant instruments occurred. Failure to transmit the withheld tax to the Korean tax authorities in time subjects the purchaser or the withholding agent to penalties under Korean tax laws. The Korean tax authorities may attempt to collect such tax from a Non-Resident who is liable for payment of any Korean tax on gains, as a purchaser or withholding agent who is obliged to withhold such tax, through proceedings against payments due to the Non-Resident from its Korean investments and the assets or revenues of any of the Non-Resident's branch or representative offices in Korea.

### **Inheritance Tax and Gift Tax**

Korean inheritance tax is imposed upon (a) all assets (wherever located) of the deceased if at the time of his death he was domiciled in Korea or had resided in Korea continuously for at least one year 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 in similar circumstances to the above. The taxes are imposed if the value of the relevant property is above a certain limit and the rate varies according to the identity of the persons involved. At present, Korea has not entered into any tax treaties regarding its inheritance or gift taxes.

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

### **Stamp Duty and Securities Transaction Tax**

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

### **Tax Treaties**

At the date of this Offering Circular, Korea has tax treaties with, *inter alia*, Australia, Austria, Belgium, Brazil, Bulgaria, Canada, China, Czech Republic, Denmark, Egypt, Finland, France, Germany, India, Indonesia, Ireland, Italy, Japan, Luxembourg, Malaysia, Mexico, Mongolia, the Netherlands, New Zealand, Norway, Pakistan, Philippines, Poland, Republic of Fiji, Romania, Singapore, Spain, Sri Lanka, Sweden, Switzerland, Thailand, Tunisia, Turkey, the United Kingdom, the United States of America and Vietnam under which the rate of withholding tax on interest is reduced, generally to between 5 and 16.5% (including local income tax), and the tax on capital gains is often eliminated.

Each Holder should inquire whether he is entitled to the benefit of a tax treaty with respect to any transaction involving the Notes. It is the responsibility of the party claiming the benefits of a tax treaty in respect of interest payments to file with the payer or us a certificate as to his country of tax residence. In the absence of sufficient proof, the payer or we, as the case may be, must withhold taxes in accordance with the above discussion.

Further, in order for a non-resident to obtain the benefit of a tax exemption under an applicable tax treaty, Korean tax law requires such non-resident (or its agents) to submit to the payer of such Korean source income an application for tax exemption under a tax treaty along with a certificate of tax residency of such non-resident issued by a competent authority of the non-resident's country of residence, subject to certain exceptions. The payer of such Korean source income, in turn, is required to submit such exemption application to the relevant district tax office in Korea by the ninth day of the month following the date of the first payment of such income. However, this requirement does not apply to tax exemptions under Korean tax law such as the STTCL. Furthermore, in order to obtain a reduced rate of withholding tax on interest, a

Non-Resident as a beneficial owner of the interest, must submit to the payer of the interest, prior to the payment date, the Application for Entitlement to Reduced Tax Rate. If interest is paid to an overseas investment vehicle, the overseas investment vehicle must submit a Report of Overseas Investment Vehicle and a Schedule of Beneficial Owners, with certain exceptions.

### **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 payer or we are required by law to make any withholding or deduction for or on account of any Korean taxes (as more fully described in “Terms and Conditions of the Notes — Additional Amounts”) we have agreed to pay (subject to the customary exceptions as set out in “Terms and Conditions of the Notes — Additional Amounts”) such Additional Amounts as may be necessary in order that the net amounts received by the Holder of any Note after such withholding or deduction shall equal the respective amounts which would have been received by such Holder in the absence of such withholding or deduction.

## PLAN OF DISTRIBUTION

Under the terms and conditions contained in a purchase agreement dated January 13, 2016 (the “Purchase Agreement”), we have agreed to sell to Barclays Bank PLC, BNP Paribas and Morgan Stanley & Co. International plc, (together, the “Initial Purchasers”), the following principal amount of Notes.

<b>Initial Purchasers</b>	<b>Principal Amount of the Notes</b>
Barclays Bank PLC .....	US\$100,000,000
BNP Paribas .....	US\$100,000,000
Morgan Stanley & Co. International plc .....	US\$100,000,000
Total .....	<u>US\$300,000,000</u>

The Purchase Agreement provides that the Initial Purchasers are obligated to purchase all of the Notes, if any are purchased. The Purchase Agreement also provides that if an Initial Purchaser defaults, the purchase commitments of non-defaulting Initial Purchasers may be increased or the offering may be terminated. Each of the Initial Purchasers proposes to offer the Notes initially at the offering price on the cover page of this Offering Circular. After the initial offering, the offering price may be changed.

We have agreed to indemnify each of the Initial Purchasers against certain liabilities, including liabilities under the Securities Act, or to contribute to payments the Initial Purchasers may be required to make in respect of those liabilities.

The Initial Purchasers are offering the Notes, subject to prior sale, when, as and if issued to and accepted by them, subject to approval of legal matters by their counsel, including the validity of the Notes, and other conditions contained in the Purchase Agreement, such as the receipt by the Initial Purchasers of officer’s certificates and legal opinions. The Initial Purchasers reserve the right to withdraw, cancel or modify offers to investors and to reject orders in whole or in part.

### **Commissions and Discounts**

The purchase price for the Notes will be the offering price set forth on the cover page of this Offering Circular net of underwriting and management commissions. After the initial offering, the offering price or any other term of the offering may be changed.

### **New Issue of Notes**

The Notes are a new issue of securities with no established trading market. The Initial Purchasers have advised that they presently intend to make a market in the Notes after completion of the offering. However, they are under no obligation to do so and may discontinue any market-making activities at any time without any notice. We cannot assure the liquidity of the trading market for the Notes. If an active trading market for the Notes does not develop, the market price and liquidity of the Notes may be adversely affected. If the Notes are traded, they may trade at a discount from their initial offering price, depending on prevailing interest rates, the market for similar securities, our operating performance and financial condition, general economic conditions and other factors.

### **Settlement**

Delivery of the Notes is expected on or about January 21, 2016, which will be the fifth business day following the date of this Offering Circular (such settlement being referred to as “T+5”).

### **No Sales of Similar Securities**

For a period of thirty (30) days after the date hereof, we will not, without the prior written consent of the Initial Purchasers, (i) offer, sell, contract to sell, pledge or otherwise dispose of, directly or indirectly, any debt securities (other than those denominated in Korean Won) issued or guaranteed by us and having a

maturity of more than one year from the date of issue, (ii) enter into any swap or any other agreement or any transaction that transfers, in whole or in part, directly or indirectly, the economic consequence of ownership of the Notes, whether any such swap or transaction described in clause (i) or (ii) above is to be settled by delivery of Notes or such other securities, in cash or otherwise or (iii) publicly disclose the intention to make any transaction described in clause (i) or (ii) above. We will not at any time offer, sell, contract to sell, pledge or otherwise dispose of, directly or indirectly, any securities under circumstances where such offer, sale, pledge, contract or disposition would cause the exemption afforded by the safe harbor of Regulation S to cease to be applicable to the offer and sale of the Notes.

## **Short Positions**

In connection with the offering, the Initial Purchasers may purchase and sell the Notes in the open market. These transactions may include short sales and purchases on the open market to cover positions created by short sales. Short sales involve the sale by the Initial Purchasers of a greater principal amount of Notes than they are required to purchase in the offering. The Initial Purchasers must close out any short position by purchasing Notes in the open market. A short position is more likely to be created if the Initial Purchasers are concerned that there may be downward pressure on the price of the Notes in the open market after pricing that could adversely affect investors who purchase in the offering.

Similar to other purchase transactions, the Initial Purchasers' purchases to cover the syndicate short sales may have the effect of raising or maintaining the market price of the Notes or preventing or retarding a decline in the market price of the Notes. As a result, the price of the Notes may be higher than the price that might otherwise exist in the open market.

None of us and the Initial Purchasers make any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the Notes. In addition, none of us and the Initial Purchasers make any representation that the Initial Purchasers will engage in these transactions or that these transactions, once commenced, will not be discontinued without notice.

## **Selling Restrictions**

### ***General***

No action has been or will be taken in any jurisdiction that would permit a public offering of the Notes, or the possession, circulation or distribution of this Offering Circular or any amendment or supplement to this Offering Circular, in any country or jurisdiction where action for any such purposes is required. Accordingly, the Notes may not be offered or sold, directly or indirectly, and neither this Offering Circular nor any other offering material or advertisements in connection with the Notes may be distributed or published, in or from any country or jurisdiction except under circumstances that will result in compliance with applicable laws and regulations.

### ***United States***

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 in accordance with Regulation S or pursuant to any other transactions exempt from, or not subject to, the registration requirements of the Securities Act and applicable state securities laws. In addition, until 40 days after the commencement of this offering, an offer or sale of Notes within the United States by an Initial Purchaser (whether or not participating in this offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with an available exemption.

The Initial Purchasers, through their respective affiliates, acting as selling agents where applicable, propose to offer the Notes to certain non-U.S. persons in offshore transactions in reliance on Regulation S. Each of the Initial Purchasers has agreed that, except as permitted under the Purchase Agreement, it will not offer, sell or deliver the Notes within the United States or to U.S. persons.

Terms used in the immediately preceding two paragraphs have the meanings given to them by Regulation S. Transfer of the Notes will be restricted as described under "Transfer Restrictions".

## ***European Economic Area***

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a “Relevant Member State”), each of the Initial Purchasers has represented and agreed that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the “Relevant Implementation Date”), it has not made and will not make an offer of Notes which are the subject of the offering contemplated by the offering circular as completed by the final terms in relation thereto, to the public in that Relevant Member State, except that it may, with effect from and including the Relevant Implementation Date, make an offer of such Notes to the public in that Relevant 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 Relevant 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 Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant 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) at any time to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) as permitted under the Prospectus Directive, subject to obtaining the prior consent of the relevant Initial Purchaser or Initial Purchasers nominated by the Issuer for any such offer; or
- (d) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive;

*provided* that no such offer of Notes referred to in (b) to (d) above shall require the Issuer or any Initial Purchaser to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an “offer of Notes to the public” in relation to any Notes in any Relevant 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 for the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State, the expression “Prospectus Directive” means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in the Relevant Member State and the expression “2010 PD Amending Directive” means Directive 2010/73/EU.

## ***United Kingdom***

Each of the Initial Purchasers has severally represented and agreed that:

- (a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act of 2000 (the “FSMA”)) received by it in connection with the issue or sale of the Notes in circumstances in which Section 21(1) of the FSMA does not apply to us; and
- (b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

## ***Korea***

Each Initial Purchaser 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 (as defined in the Foreign Exchange Transactions Law of Korea and the regulations thereunder) except as otherwise permitted under applicable Korean laws and regulations.

In addition, each Initial Purchaser has confirmed that (i) during the first year after the issuance of the Notes, the Notes may not be transferred to any resident of Korea other than a “qualified institutional buyer” (a “Korean QIB”, as defined in the Regulation on Issuance, Public Disclosure, Etc. of Securities of Korea) who is registered with Korea Financial Investment Association (the “KOFIA”) for Korean QIB bond trading and (ii) the Notes acquired by all Korean QIBs at the time of issuance must be less than 20 per cent. of the aggregate principal amount of the Notes. Furthermore, any such Korean QIB must file monthly reports to the KOFIA concerning Korean QIB bondholdings.

Each Initial Purchaser has undertaken to use commercially reasonable best measures as an Initial Purchaser in the ordinary course of its business so that any securities Initial Purchaser to which it sells the Notes confirms that it is purchasing such Notes as principal and agrees with such Initial Purchaser that it will comply with the restrictions described above.

## ***Japan***

The Notes have not been and will not be registered under the Financial Instruments and Exchange Law of Japan. Each Initial Purchaser has severally and not jointly represented and agreed that it has not offered or sold, and it will not offer or sell, directly or indirectly, any Notes in Japan or to, or for the account or benefit of, any resident of Japan or to, or for the account or benefit of, any resident for reoffering or resale, directly or indirectly, in Japan or to, or for the account or benefit of, any resident of Japan, except (i) pursuant to an exemption from the registration requirements of, or otherwise in compliance with, the Financial Instruments and Exchange Law of Japan and (ii) in compliance with the other relevant laws and regulations of Japan.

## ***Hong Kong***

Each Initial Purchaser has represented and agreed that:

Each Initial Purchaser has represented and agreed and each further Initial Purchaser appointed under the Program will be required to represent and agree that:

- (a) it has not offered or sold, and will not offer or sell, in Hong Kong Special Administrative Region of the People’s Republic of China (“Hong Kong”), by means of any document, any Notes other than (i) to “professional investors” as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong 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 Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance; and
- (b) it has not issued, or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Notes which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made thereunder.(a)

## ***Singapore***

Each Initial Purchaser 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 Initial Purchaser represents, warrants and agrees that it has not offered or sold any Notes or caused the Notes to be made the subject of an invitation for subscription or purchase and will not offer or sell the Notes or cause the Notes to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Offering Circular 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) of the SFA, or any person pursuant to Section 275(1A) of the SFA, 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 of which 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 under Section 274 of the SFA or to a relevant person (as defined in Section 275(2) of the SFA), or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;
- (2) where no consideration is or will be given for the transfer;
- (3) where the transfer is by operation of law;
- (4) 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.

### **Other Relationships**

Some of the Initial Purchasers and their affiliates have engaged in, and may in the future engage in, investment banking and other commercial dealings in the ordinary course of business with us or our affiliates. They have received, or may in the future receive, customary fees and commissions for these transactions.

The Initial Purchasers or certain of their affiliates may purchase Notes and be allocated Notes for asset management and/or proprietary purposes but not with a view to distribution. The Initial Purchasers or their respective affiliates may purchase Notes for its or their own account and enter into transactions, including credit derivatives, such as asset swaps, repackaging and credit default swaps relating to Notes and/or our other securities at the same time as the offer and sale of Notes or in secondary market transactions. Such transactions would be carried out as bilateral trades with selected counterparties and separately from any existing sale or resale of Notes to which this Offering Circular relates (notwithstanding that such selected counterparties may also be purchasers of Notes). We have been advised by the Initial Purchasers that they may offer and sell Notes to or through any of their respective affiliates and any such affiliate may offer and sell Notes purchased by it to or through any Initial Purchaser.

In addition, in the ordinary course of their business activities, the Initial Purchasers 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. Such investments and securities activities may involve securities and/or instruments of ours and our affiliates. Certain of the Initial Purchasers or their affiliates that have a lending relationship with us routinely hedge their credit exposure to us consistent with their customary risk management policies. Typically, such Initial Purchasers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in our securities, including potentially the Notes. Any such short positions could adversely affect future trading prices of the Notes. The Initial Purchasers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

## TRANSFER RESTRICTIONS

*Because of the following restrictions, investors are advised to consult legal counsel prior to making any offer, resale, pledge or other transfer of the Notes offered pursuant to this Offering Circular.*

### **Transfer Restrictions Applicable to the Notes**

The Notes have not been and will not be registered under the Securities Act or the securities laws of any state of the United States or the securities laws of any other jurisdiction. The Notes may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons, except pursuant to an exemption from, or in a transaction not subject to the registration requirements of the Securities Act. Terms used in this section are defined in Regulation S.

Each purchaser of the Notes hereunder will be deemed to have represented and agreed as follows:

- (1) the purchaser has offered or sold the Notes, and will offer and sell the Notes, as part of the purchaser's distribution at any time, only to, or for the account or benefit of, persons who are not U.S. persons (as defined in Rule 902 of the Securities Act) in offshore transactions outside the United States in accordance with Regulation S under the Securities Act, and the purchaser, the purchaser's Affiliates (and any persons acting on behalf thereof) have complied, and will comply, with the offering restrictions requirements of Regulation S;
- (2) the purchaser agrees that neither the purchaser nor any of the purchaser's Affiliates (or any persons acting on behalf thereof) has engaged, or will engage, in any "directed selling efforts" within the meaning of Regulation S under the Securities Act in connection with the offering of the Notes;
- (3) the purchaser acknowledges that until 40 days after the commencement of the offering of the Notes, an offer or sale of the Notes within the United States or to any non-U.S. person by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act;
- (4) at or prior to the confirmation of sale of any Notes sold in reliance on Regulation S, the purchase will have sent to each distributor, dealer or other person receiving a selling concession, fee or other remuneration that purchases Notes from it during the restricted period a confirmation or notice to substantially the following effect:

THE NOTES COVERED HEREBY HAVE NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), AND MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS AS PART OF THEIR DISTRIBUTION AT ANY TIME, EXCEPT IN ACCORDANCE WITH REGULATION S. TERMS USED ABOVE HAVE THE MEANINGS GIVEN TO THEM BY REGULATION S;

- (5) Prior to or simultaneously with the confirmation of sale by the purchaser to any purchaser of any of the Notes purchased by the purchaser from the Company pursuant hereto, the purchaser shall have furnished to that purchaser a copy of the Offering Circular (and any amendment or supplement thereto that the Company shall have furnished to the purchaser prior to the date of such confirmation of sale); and
- (6) the Notes will bear legends to the following effect, unless we determine otherwise in compliance with applicable law, and such purchaser will observe the restrictions contained therein:

THIS NOTE (OR ITS PREDECESSOR) WAS ORIGINALLY ISSUED IN A TRANSACTION EXEMPT FROM REGISTRATION UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), AND MAY NOT BE TRANSFERRED IN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, ANY U.S. PERSON EXCEPT PURSUANT TO AN AVAILABLE EXEMPTION FROM THE

REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND ALL APPLICABLE STATE SECURITIES LAWS. TERMS USED ABOVE HAVE THE MEANINGS GIVEN TO THEM IN REGULATIONS UNDER THE SECURITIES ACT. THIS LEGEND SHALL CEASE TO APPLY UPON THE EXPIRY OF THE PERIOD OF 40 DAYS AFTER THE COMPLETION OF THE DISTRIBUTION OF ALL THE NOTES.

UNLESS THIS CERTIFICATE IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF EUROCLEAR AND CLEARSTREAM TO KOREA MIDLAND POWER CO., LTD (“THE COMPANY”) OR ITS AGENT FOR REGISTRATION OF TRANSFER, EXCHANGE OR PAYMENT, AND ANY CERTIFICATE ISSUED IS REGISTERED IN THE NAME OF DB NOMINEES (HONG KONG) LIMITED OR SUCH OTHER NAME AS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF EUROCLEAR AND CLEARSTREAM (AND ANY PAYMENT IS MADE TO DB NOMINEES (HONG KONG) LIMITED OR TO SUCH OTHER ENTITY AS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF EUROCLEAR AND CLEARSTREAM), ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL INASMUCH AS THE REGISTERED OWNER HEREOF, DB NOMINEES (HONG KONG) LIMITED, HAS AN INTEREST HEREIN.

### **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 AND WILL NOT BE REGISTERED UNDER THE FINANCIAL INVESTMENT SERVICES AND CAPITAL MARKETS ACT (THE “FSCMA”). AND UNDER THE CURRENT LAWS AND REGULATIONS OF KOREA, SUBJECT TO CERTAIN EXCEPTIONS, THE NOTES MAY NOT BE TRANSFERRED OR SOLD TO ANY RESIDENT OF KOREA WITHIN ONE YEAR FROM THE DATE OF THE ISSUANCE OF THE NOTES. 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 TRANSACTION LAW OF KOREA AND ITS ENFORCEMENT DECREE), EXCEPT AS OTHERWISE PERMITTED UNDER APPLICABLE KOREAN LAWS AND REGULATIONS.

IN ADDITION, WITHIN ONE YEAR FOLLOWING THE ISSUANCE OF THE NOTES, THE NOTES MAY NOT BE TRANSFERRED TO ANY RESIDENT OF KOREA OTHER THAN A QUALIFIED INSTITUTIONAL BUYER (OR A “QIB”, AS DEFINED IN THE REGULATION ON ISSUANCE, PUBLIC DISCLOSURE, ETC. OF SECURITIES OF KOREA) REGISTERED WITH THE KOREA FINANCIAL INVESTMENT ASSOCIATION (THE “KOFIA”) AS A QIB AND SUBJECT TO THE REQUIREMENT OF MONTHLY REPORTS WITH THE KOFIA OF ITS HOLDING OF QIB BONDS AS DEFINED IN THE REGULATION ON ISSUANCE, PUBLIC DISCLOSURE, ETC. OF SECURITIES OF KOREA, PROVIDED 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 QIBS IN THE PRIMARY MARKET IS LIMITED TO LESS THAN 20 PER CENT. OF THE AGGREGATE ISSUE AMOUNT OF THE NOTES, (C) THE NOTES ARE LISTED ON ONE OF THE MAJOR OVERSEAS SECURITIES MARKETS DESIGNATED BY THE FINANCIAL SUPERVISORY SERVICE OF KOREA, OR CERTAIN PROCEDURES, SUCH AS REGISTRATION OR REPORT WITH A FOREIGN FINANCIAL INVESTMENT REGULATOR, HAVE BEEN COMPLETED FOR OFFERING OF THE NOTES IN A MAJOR OVERSEAS SECURITIES MARKET, (D) THE ONE-YEAR RESTRICTION ON OFFERING, DELIVERING OR SELLING OF NOTES TO A KOREAN RESIDENT OTHER THAN A QIB IS EXPRESSLY STATED IN THE NOTES, THE RELEVANT UNDERWRITING AGREEMENT, SUBSCRIPTION AGREEMENT, AND THE OFFERING CIRCULAR AND (E) THE ISSUER AND THE INITIAL PURCHASERS SHALL INDIVIDUALLY OR COLLECTIVELY KEEP THE EVIDENCE OF FULFILLMENT OF CONDITIONS (A) THROUGH (D) ABOVE AFTER HAVING TAKEN NECESSARY ACTIONS THEREFOR.

## **Transfer Restrictions under Singapore Laws**

Where the Notes are initially subscribed or purchased by an institutional investor under Section 274 of the SFA, or a relevant person, or any other person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA, the Notes may only be sold or transferred: (a) at any time, to an institutional investor under Section 274 of the SFA; (b) at any time, to a relevant person as defined in Section 275(2) of the SFA or to any person pursuant to an offer referred to in Section 275(1A) of the SFA; (c) after six months from the date of the initial subscription or purchase, to any person in Singapore; or (d) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Further, 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 of which 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 under Section 274 of the SFA or to a relevant person (as defined in Section 275(2) of the SFA), or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA; (2) where no consideration is or will be given for the transfer; (3) where the transfer is by operation of law; (4) 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.

## **LEGAL MATTERS**

Simpson Thacher & Bartlett LLP, U.S. counsel to the Initial Purchasers, will pass upon certain legal matters as to United States law relating to the Notes. Kim & Chang, our Korean counsel, will pass upon certain matters as to Korean law. Simpson Thacher & Bartlett LLP may rely as to all matters of Korean law on Kim & Chang. Kim & Chang may rely on Simpson Thacher & Bartlett LLP as to all matters of New York law.

## **INDEPENDENT AUDITORS**

The Company's consolidated financial statements as of and for the years ended December 31, 2013 and 2014, which are included herein, have been audited by KPMG Samjong Accounting Corp. ("KPMG"), our independent auditor, as stated in their report appearing herein. KPMG's audit report for the years ended December 31, 2013 and 2014 contains an other matter paragraph that states the consolidated financial statements as of and for the year ended December 31, 2013 were audited in accordance with the previous auditing standards generally accepted in the Republic of Korea.

With respect to the unaudited condensed consolidated interim financial statements as of September 30, 2014 and 2015 and for the three-month and nine-month periods ended September 30, 2014 and 2015, included herein, KPMG has reported that it applied limited procedures in accordance with professional standards for a review of such information. However, KPMG's separate report included in this Offering Circular 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.

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## Independent Auditors' Review Report

The Board of Directors and Shareholder  
Korea Midland Power Co., Ltd.:

### **Reviewed financial statements**

We have reviewed the accompanying condensed consolidated interim financial statements of Korea Midland Power Co., Ltd. and its subsidiaries (the "Group"), which comprise the condensed consolidated statement of financial position as of September 30, 2015, the condensed consolidated statements of comprehensive income for the three-month and nine-month periods ended September 30, 2015 and 2014, the condensed consolidated statements of changes in equity and cash flows for the nine-month periods ended September 30, 2015 and 2014 and notes to the condensed interim financial statements.

### **Management's responsibility**

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 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 Korea 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, 2014, 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 17, 2015, expressed an unqualified opinion. The accompanying condensed consolidated statement of financial position of the Group as of December 31, 2014 presented for comparative purposes, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

*KPMG Samjong Accounting Corp.*

Seoul, Korea  
November 13, 2015

This report is effective as of November 13, 2015, 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 there to. 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.

KOREA MIDLAND POWER CO., LTD. AND SUBSIDIARIES  
Condensed Consolidated Interim Statements of Financial Position  
**As of September 30, 2015 and December 31, 2014**  
(Unaudited)

*In millions of won*

	<u>Note</u>	<u>September 30, 2015</u>	<u>December 31, 2014</u>
<b>Assets</b>			
Cash and cash equivalents	5,6,34	₩ 161,283	105,285
Current financial assets	5,7,9,34,35	46,190	2,822
Trade and other receivables	5,10,34,35	395,918	498,826
Inventories	11,37	271,277	286,211
Current tax assets	31	1,221	2,112
Current non-financial assets	12	35,825	51,365
<b>Current assets</b>		<u>911,714</u>	<u>946,621</u>
Non-current financial assets	5,7,8,9,34,35	122,363	118,102
Non-current trade and other receivables	5,10,34	91,013	64,145
Property, plant and equipment	13,17,37	6,607,641	5,866,209
Intangible assets	14,40	25,302	18,392
Investments in associates and joint ventures	15,35	199,263	186,008
Non-current non-financial assets	12	12,597	16,707
Deferred tax assets	31	2,579	2,616
<b>Non-current assets</b>		<u>7,060,758</u>	<u>6,272,179</u>
<b>Total assets</b>		<u>₩ 7,972,472</u>	<u>7,218,800</u>

*See accompanying notes to the condensed consolidated interim financial statements.*

KOREA MIDLAND POWER CO., LTD. AND SUBSIDIARIES  
Condensed Consolidated Interim Statements of Financial Position, Continued  
**As of September 30, 2015 and December 31, 2014**  
(Unaudited)

*In millions of won*

	<u>Note</u>	<u>September 30, 2015</u>	<u>December 31, 2014</u>
<b>Liabilities</b>			
Trade and other payables	5,16,17,34,35	₩ 320,734	516,058
Current financial liabilities	5,9,18,34	385,912	351,160
Current tax liabilities	31	25,840	23,998
Current non-financial liabilities	19	7,685	5,006
Current provisions	20,38	142,637	130,177
<b>Current liabilities</b>		<u>882,808</u>	<u>1,026,399</u>
Non-current trade and other payables	5,16,17,34,35	13,035	13,754
Non-current financial liabilities	5,13,18,34	3,512,760	2,811,168
Non-current non-financial liabilities	19	13,198	13,176
Employee benefits obligations	21,34	124,296	109,685
Deferred tax liabilities	31	232,441	217,596
<b>Non-current liabilities</b>		<u>3,895,730</u>	<u>3,165,379</u>
<b>Total liabilities</b>		<u>4,778,538</u>	<u>4,191,778</u>
<b>Equity</b>			
Contributed capital	22	1,190,450	1,190,450
Retained earnings	23	2,285,972	2,135,894
Other components of equity	9,24	(301,689)	(316,564)
<b>Equity attributable to owner of the Company</b>		<u>3,174,733</u>	<u>3,009,780</u>
<b>Non-controlling interests</b>		<u>19,201</u>	<u>17,242</u>
<b>Total equity</b>		<u>3,193,934</u>	<u>3,027,022</u>
<b>Total liabilities and equity</b>		<u>₩ 7,972,472</u>	<u>7,218,800</u>

See accompanying notes to the condensed consolidated interim financial statements.

KOREA MIDLAND POWER CO., LTD. AND SUBSIDIARIES  
Condensed Consolidated Interim Statements of Comprehensive Income  
**For the three and nine-month periods ended September 30, 2015 and 2014**  
(Unaudited)

*In millions of won, except earnings per share information*

	Note	September 30, 2015		September 30, 2014	
		Three-month period	Nine-month period	Three-month period	Nine-month period
Sales	25,35	₩ 1,056,455	3,026,270	1,194,723	3,874,916
Cost of sales	32,35	(928,096)	(2,745,907)	(1,107,073)	(3,646,618)
<b>Gross profit</b>		128,359	280,363	87,650	228,298
Selling and administrative expenses	26,32	(17,240)	(51,043)	(17,360)	(47,842)
<b>Operating profit</b>		111,119	229,320	70,290	180,456
Other non-operating income	27,35	1,216	3,901	1,014	3,001
Other non-operating expenses	27	(285)	(855)	(131)	(413)
Other profit (loss), net	5,28	516	12,811	(1,086)	(4,360)
Finance income	5,9,29	38,149	58,735	22,230	19,481
Finance costs	5,9,30	(52,747)	(97,346)	(36,581)	(67,966)
Income (loss) related to associates and joint ventures	15	4,836	14,026	(4,066)	6,839
Gains on disposal of subsidiaries	39	-	5,858	-	-
<b>Profit before income tax</b>		102,804	226,450	51,670	137,038
Income tax expense	31	(22,271)	(51,879)	(17,481)	(38,794)
<b>Profit for the period</b>		80,533	174,571	34,189	98,244
<b>Other comprehensive income</b>					
Items that will not be reclassified to profit or loss:					
Defined benefit plan actuarial losses, net of tax	21	(3,586)	(7,375)	(2,043)	(6,968)
Items that are or may be reclassified subsequently to profit or loss:					
Net change in the unrealized fair value of available-for-sale financial assets, net of tax	5	-	1,482	-	75
Net change in the unrealized fair value of derivatives using cash flow hedge accounting, net of tax	5,9	1,103	(26)	(2,799)	(6,820)
Share in other comprehensive income (loss) of associates and joint ventures, net of tax	5,15	(932)	(83)	1,022	1,834
Foreign currency translation of foreign operations, net of tax		10,519	14,036	4,912	(2,230)
<b>Other comprehensive income (loss) for the period, net of tax</b>		7,104	8,034	1,092	(14,109)
<b>Total comprehensive income for the period</b>		₩ 87,637	182,605	35,281	84,135
<b>Profit (loss) attributable to</b>					
Owner of the Company		80,878	174,033	35,771	98,162
Non-controlling interests		(345)	538	(1,582)	82
<b>Profit for the period</b>		₩ 80,533	174,571	34,189	98,244
<b>Total comprehensive income (loss) attributable to:</b>					
Owner of the Company		87,635	181,403	36,530	84,649
Non-controlling interests		2	1,202	(1,249)	(514)
<b>Total comprehensive income for the period</b>		₩ 87,637	182,605	35,281	84,135
<b>Earnings per share</b>					
Basic earnings per share (in won)	33	₩ 2,944	6,336	1,302	3,574

See accompanying notes to the condensed consolidated interim financial statements.

KOREA MIDLAND POWER CO., LTD. AND SUBSIDIARIES  
Condensed Consolidated Interim Statements of Changes in Equity  
**For the nine-month period ended September 30, 2014**  
(Unaudited)

*In millions of won*

	Equity attributable to owners of the Company					
	Contributed capital	Retained earnings	Other components of equity	Subtotal	Non-controlling interests	Total equity
	₩ 1,190,450	2,046,684	(314,661)	2,922,473	14,280	2,936,753
<b>Balance at January 1, 2014</b>						
<b>Total comprehensive income for the period:</b>						
Profit for the period	-	98,162	-	98,162	82	98,244
Items that will not be reclassified to profit or loss:						
Defined benefit plan actuarial losses, net of tax	-	(6,968)	-	(6,968)	-	(6,968)
Items that are or may be reclassified subsequently to profit or loss:						
Net change in the unrealized fair value of derivatives using cash flow hedge accounting, net of tax	-	-	(6,820)	(6,820)	-	(6,820)
Net changes in the unrealized fair value of available-for-sale financial assets, net of tax	-	-	75	75	-	75
Share in other comprehensive income of associates and joint ventures, net of tax	-	-	1,834	1,834	-	1,834
Foreign currency translation of foreign operations, net of tax	-	-	(1,634)	(1,634)	(596)	(2,230)
<b>Transactions with owner of the Company, recognized directly in equity:</b>						
Dividends paid	-	(12,244)	-	(12,244)	(1,429)	(13,673)
Acquisition of subsidiary	-	-	(123)	(123)	3,563	3,440
<b>Balance at September 30, 2014</b>	₩ 1,190,450	2,125,634	(321,329)	2,994,755	15,900	3,010,655

See accompanying notes to the condensed consolidated interim financial statements.

KOREA MIDLAND POWER CO., LTD. AND SUBSIDIARIES  
Condensed Consolidated Interim Statements of Changes in Equity, Continued  
**For the nine-month period ended September 30, 2015**  
(Unaudited)

*In millions of won*

	Equity attributable to owners of the Company					Total equity
	Contributed capital	Retained earnings	Other components of equity	Subtotal	Non-controlling interests	
<b>Balance at January 1, 2015</b>	₩ 1,190,450	2,135,894	(316,564)	3,009,780	17,242	3,027,022
<b>Total comprehensive income for the period:</b>						
Profit for the period	-	174,033	-	174,033	538	174,571
Items that will not be reclassified to profit or loss:						
Defined benefit plan actuarial losses, net of tax	-	(7,375)	-	(7,375)	-	(7,375)
Items that are or may be reclassified subsequently to profit or loss:						
Net change in the unrealized fair value of derivatives using cash flow hedge accounting, net of tax	-	-	1,482	1,482	-	1,482
Net changes in the unrealized fair value of available-for-sale financial assets, net of tax	-	-	(26)	(26)	-	(26)
Share in other comprehensive income of associates and joint ventures, net of tax	-	-	(83)	(83)	-	(83)
Foreign currency translation of foreign operations, net of tax	-	-	12,879	12,879	700	13,579
Gains on foreign currency translation of foreign operations by disposal of subsidiaries	-	-	457	457	-	457
Gains (losses) on foreign currency translation of foreign operations by fluctuations in the percentage of ownership on subsidiaries	-	-	35	35	(35)	-
<b>Transactions with owner of the Company, recognized directly in equity:</b>						
Dividends paid	-	(16,580)	-	(16,580)	(1,243)	(17,823)
Acquisition of interests in subsidiary	-	-	(856)	(856)	(1,369)	(2,225)
Issuance of share capital by subsidiaries	-	-	987	987	3,368	4,355
<b>Balance at September 30, 2015</b>	₩ 1,190,450	2,285,972	(301,689)	3,174,733	19,201	3,193,934

See accompanying notes to the condensed consolidated interim financial statement

KOREA MIDLAND POWER CO., LTD. AND SUBSIDIARIES  
Condensed Consolidated Interim Statements of Cash Flows  
For the nine-month periods ended September 30, 2015 and 2014

(Unaudited)

*In millions of won*

**Cash flows from operating activities**

	<b>2015</b>	<b>2014</b>
Profit for the period	₩ 174,571	98,244
Adjustments for:		
Employee benefit expense	11,345	11,252
Depreciation	297,925	301,003
Amortization	3,022	2,787
Welfare and benefit expense	117	(1,416)
Income tax expense	51,879	38,794
Other bad debt expenses	128	26
Losses on retirement of bonds	33	-
Other selling and administrative expenses	655	-
Losses on valuation of inventories	-	4
Losses on disposal of inventories	992	81
Losses on disposal of property, plant and equipment	1,484	1,594
Losses on foreign currency translation	48,565	1,653
Valuation losses on derivative instruments	-	7,292
Transaction losses on derivative instruments	276	4,509
Contribution to provisions of RPS, net	29,536	53,541
Interest expenses	49,018	56,111
Losses on disposal of available-for-sale financial assets	63	-
Losses on valuation of associates and joint ventures	2,341	1,848
Impairment losses on associates and joint ventures	-	1,558
Gains on sale of inventories	(47)	(133)
Gains on disposal of property, plant and equipment	(7,181)	(6)
Interest income	(6,942)	(8,055)
Gains on foreign currency translation	(1,107)	(7,714)
Valuation gains on derivative instruments	(47,509)	-
Transaction gains on derivative instruments	(3,363)	(2,571)
Gains on disposal of subsidiaries	(5,858)	-
Gains on valuation of associates and joint ventures	(16,367)	(9,825)
Gains on disposal of associates and joint ventures	-	(420)
Gains on plan changed to defined contribution	(420)	(361)
Others, net	570	112
	<u>409,155</u>	<u>451,664</u>
Changes in:		
Trade receivables	101,659	124,811
Other receivables	21,449	25,962
Accrued income	(8,842)	(31,797)
Prepayments	(7,946)	(1)
Prepaid expenses	(1,746)	(1,828)
Other current receivables	28,800	37,679
Inventories	13,988	33,584
Long-term prepayments	-	(82)
Long-term prepaid expenses	(7,615)	1,149
Other non-current assets	(21,783)	1,140
Trade payables	(107,006)	(231,164)
Other payables	(24,758)	(430)
Accrued expenses	(2,217)	2,038
Advance received	7	59
Deferred income	796	861
Withholdings	(2,386)	(2,191)
Other withholdings	3,856	(729)
Other current payables	4,291	1,688
Other non-current payables	10	(101)
Payments of employee benefit obligations	(2,472)	(1,495)
Plan assets	(3,593)	400
Outflow of cash due to plan changed to defined contribution	(2,104)	(13,971)
Provisions for wage litigation	(23,247)	-
Provisions for employee benefits	5,515	1,616
Other long-term employee benefit liabilities	(140)	(668)
Settlement of derivatives	378	-
	<u>₩ (35,106)</u>	<u>(53,470)</u>

KOREA MIDLAND POWER CO., LTD. AND SUBSIDIARIES  
Condensed Consolidated Interim Statements of Cash Flows, Continued  
For the nine-month periods ended September 30, 2015 and 2014  
(Unaudited)

In millions of won

	<u>2015</u>	<u>2014</u>
<b>Cash flows from operating activities</b>		
Interest received	₩ 6,730	7,693
Interest paid	(97,761)	(79,240)
Dividends received	9,740	10,939
Income taxes (paid) refund received	(32,997)	1,959
<b>Net cash provided by operating activities</b>	<u>434,332</u>	<u>437,789</u>
<b>Cash flows from investing activities</b>		
Collection of short-term loans	1,535	2,194
Collection of long-term loans	8,239	18,481
Proceeds from disposals of available-for-sale financial assets	69	-
Decrease in deposits	7,360	2,785
Proceeds from disposal of property, plant and equipment	30,296	1,253
Proceeds from disposal of intangible assets	-	-
Disposal of associates and joint ventures	-	3,118
Increase in short-term loans	(110)	-
Increase in long-term loans	(2,907)	(2,624)
Increase in short-term financial instruments	(60)	-
Acquisition of available-for-sale financial assets	(393)	-
Acquisition of associates and joint ventures	(3,345)	(4,031)
Increase in deposits	(1,895)	(3,400)
Acquisition of property, plant and equipment	(74,916)	(10,718)
Acquisition of construction-in-progress	(1,007,793)	(875,187)
Acquisition of intangible assets	(8,661)	(1,839)
Proceeds from disposal of subsidiaries, net of cash transferred	553	-
<b>Net cash used in investing activities</b>	<u>(1,052,028)</u>	<u>(869,968)</u>
<b>Cash flows from financing activities</b>		
Payment of finance lease liabilities	(857)	(994)
Proceeds from short-term borrowings	7,590	-
Repayment of short-term borrowings	-	(70,000)
Repayment of long-term borrowings	(1,771)	(983)
Proceeds from long-term borrowings	60,012	-
Repayment of bonds	(380,000)	(300,000)
Issuance of bonds	997,340	977,954
Issuance of share capital by subsidiaries	4,432	3,303
Payment of cash dividends	(17,823)	(13,639)
Settlement of derivatives	2,709	(1,938)
<b>Net cash provided by financing activities</b>	<u>671,632</u>	<u>593,703</u>
<b>Effect of exchange rate fluctuations on cash held</b>	<u>2,062</u>	<u>(1,346)</u>
<b>Net increase in cash and cash equivalents</b>	<u>55,998</u>	<u>160,178</u>
<b>Cash and cash equivalents at January 1</b>	<u>105,285</u>	<u>91,300</u>
<b>Cash and cash equivalents at September 30</b>	<u>₩ 161,283</u>	<u>251,478</u>

See accompanying notes to the condensed consolidated interim financial statements

KOREA MIDLAND POWER CO., LTD. AND SUBSIDIARIES  
Notes to the Condensed Consolidated Interim Financial Statements  
**September 30, 2015 and 2014**  
(Unaudited)

**1. Reporting Entity**

(1) Description of controlling company

Korea Midland Power Co., Ltd. ("KOMIPO") was incorporated on April 2, 2001 through the spin-off of the power generation division of Korea Electric Power Corporation ("KEPCO") in accordance with the restructuring plan, dated January 21, 1999, for the electricity industry in the Republic of Korea announced by the Ministry of Knowledge Economy and the Law on Promotion of Restructuring of the Electricity Industry published on December 23, 2000. KOMIPO (the "Company") and its subsidiaries (collectively, the "Group") are engaged in the generation of electricity and development of electric power resources and sell all generated electricity to KEPCO through the Korea Power Exchange ("KPX") in accordance with Article 31 of the Electricity Business Law. As of September 30, 2015, the Company operates five power plants with a generating capacity in the aggregate of 8,434MW.

The Company's head office is located in Boryeong-si, Chungcheongnam-do. As of September 30, 2015, the Company's issued and outstanding shares are wholly owned by KEPCO.

(2) Status of subsidiaries

(i) Subsidiaries as of September 30, 2015 and December 31, 2014 are as follows:

<b>Company</b>	<b>Key operating activities</b>	<b>Location</b>	<b>Percentage of ownership (%)</b>	
			<b>September 30, 2015</b>	<b>December 31, 2014</b>
KOMIPO Global Pte Ltd.	Construction and operation of utility plant	Singapore	100.0	100.0
KOMIPO Australia Pty Ltd.	Resources development	Australia	100.0	100.0
PT KPJB	Operation of utility plant	Indonesia	51.0	51.0
PT Cirebon Power Service(*1)	Operation of utility plant	Indonesia	27.5	27.5
PT Tanggamus Electric Power(*2)	Hydropower	Indonesia	52.5	61.8
KOMIPO America Inc.	Holding Company	USA	100.0	100.0
Boulder Solar Power LLC	Solar photovoltaic power generation	USA	-	82.1
Commerce and Industry Energy Co., Ltd.	RDF Power generation	Korea	59.0	59.0

(\*1) The Group is able to exercise majority voting rights of the Board of Directors according to the shareholders agreement, even though the Company's ownership interest is less than 50%. As such, the entity is included in the Company's scope of consolidation.

(\*2) Because of disproportionate paid-in capital increase, the percentage of ownership has decreased.

(ii) Changes in subsidiaries

There are no subsidiaries newly acquired during the nine-month period ended September 30, 2015.

As explained in Note 39, Boulder Solar Power LLC was disposed and excluded from consolidation during the nine-month period ended September 30, 2015.

KOREA MIDLAND POWER CO., LTD. AND SUBSIDIARIES  
Notes to the Condensed Consolidated Interim Financial Statements, Continued  
**September 30, 2015 and 2014**  
(Unaudited)

**1. Reporting Entity, Continued**

(2) Status of subsidiaries, continued

(iii) Summary financial information of subsidiaries and details of non-controlling interest (NCI) prior to intra-group eliminations as of and for the nine-month period ended September 30, 2015 are as follows:

*In millions of won*

Investees	September 30, 2015						
	KOMIPO Global Pte Ltd.	KOMIPO Australia Pty Ltd.	PT KPJB	PT Cirebon Power Service	PT Tanggamus Electric Power	KOMIPO America Inc.	Commerce and Industry Energy Co., Ltd.
Current assets	₩ 27,671	4,229	18,652	1,972	18,490	13,782	10,850
Non-current assets	156,434	14,398	243	694	74,363	-	89,658
Current liabilities	-	397	877	351	2,415	2,540	3,829
Non-current liabilities	-	138	4,516	696	73,537	-	81,704
Net assets	184,105	18,093	13,501	1,619	16,902	11,242	14,975
Book value of NCI	-	-	6,607	1,174	8,034	-	3,386
Sales	-	3,888	15,881	4,620	33,933	-	18,673
Profit (loss) for the period	11,303	593	8,248	267	(6,019)	238	(1,323)
Profit (loss) for the period attributable to NCI	-	-	2,823	193	(2,017)	-	(462)
Cash flows from operating activities	5,465	362	4,888	269	(38,775)	934	1,097
Cash flows from investing activities	4,977	(972)	(68)	-	(18,761)	-	(1,228)
Cash flows from financing activities, before dividends to NCI	-	-	(1,283)	-	65,399	-	(1,488)
Cash flows from financing activities - cash dividends to NCI	-	-	(1,243)	-	-	-	-
Effect of exchange rate fluctuations on cash held	1,989	(210)	(1,071)	64	570	61	-
Net increase (decrease) in cash and cash equivalents	12,431	(820)	1,223	333	8,434	995	(1,619)

KOREA MIDLAND POWER CO., LTD. AND SUBSIDIARIES  
Notes to the Condensed Consolidated Interim Financial Statements, Continued  
**September 30, 2015 and 2014**  
(Unaudited)

**1. Reporting Entity, Continued**

(2) Status of subsidiaries, continued

(iv) Summary financial information of subsidiaries and details of non-controlling interest (NCI) prior to intra-group eliminations as of and for the year ended December 31, 2014 are as follows:

*In millions of won*

Investees	December 31, 2014								
	KOMIPO Global Pte Ltd.	KOMIPO Australia Pty Ltd.	PT KPJB	PT Cirebon Power Service	PT Tanggamus Electric Power	KOMIPO America Inc.	Boulder Solar Power LLC	Commerce and Industry Energy Co., Ltd.	
Current assets	₩ 15,231	4,804	16,999	1,458	3,024	6	1,137	11,771	
Non-current assets	142,210	13,975	283	682	21,096	10,113	7,320	91,575	
Current liabilities	3,637	427	1,191	274	507	7	6	5,317	
Non-current liabilities	-	116	4,843	638	7,832	-	-	81,730	
Net assets	153,804	18,236	11,248	1,228	15,781	10,112	8,451	16,299	
Book value of NCI	-	-	5,508	891	6,034	-	1,369	3,440	
Sales	-	4,786	21,276	6,661	20,089	-	-	23,645	
Profit (loss) for the period	9,470	1,786	8,929	354	(3,125)	-	(712)	(881)	
Profit (loss) for the period attributable to NCI	-	-	3,936	125	(979)	-	(333)	(301)	
Cash flows from operating activities	6,261	1,530	8,675	25	(17,886)	-	(740)	3,273	
Cash flows from investing activities	1,880	(749)	(93)	-	103	(2,106)	(547)	(311)	
Cash flows from financing activities, before dividends to NCI	5,055	-	41	-	15,930	2,106	2,106	-	
Cash flows from financing activities - cash dividends to NCI	-	-	(2,717)	-	-	-	-	-	
Effect of exchange rate fluctuations on cash held	219	(153)	182	22	26	-	47	-	
Net increase (decrease) in cash and cash equivalents	13,415	627	3,308	46	(1,827)	-	867	2,962	

KOREA MIDLAND POWER CO., LTD. AND SUBSIDIARIES  
Notes to the Condensed Consolidated Interim Financial Statements, Continued  
**September 30, 2015 and 2014**  
(Unaudited)

**2. Basis of Preparation**

(1) Statement of compliance

The consolidated financial statements have been prepared in accordance with Korean International Financial Reporting Standards ("K-IFRS"), as prescribed in *the Act on External Audits of Corporations in the Republic of Korea*.

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.

(2) Functional and presentation currency

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

(3) Use of estimates and judgments

The preparation of the 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 that applied to the consolidated financial statements as of the year ended December 31, 2014.

(4) 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 significant valuation issues are reported to the Group's Audit Committee.

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.

If the inputs used to measure the fair value of an asset or a liability fall into different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

KOREA MIDLAND POWER CO., LTD. AND SUBSIDIARIES  
Notes to the Condensed Consolidated Interim Financial Statements, Continued  
**September 30, 2015 and 2014**  
(Unaudited)

**3. Significant Accounting Policies**

The significant accounting policies applied by the Group in preparation of its consolidated financial statements are included below. Except for the changes below, the accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements. The following changes in accounting policies are also expected to be reflected in the Group financial statements as of and for the year ending December 31, 2015.

**- Changes in accounting policies**

The Group has applied the following amendments to standards and interpretation, with a date of initial application of January 1, 2015.

The details of changes in accounting policies are as follows:

- K-IFRS No. 1019 'Employee Benefits' – Employee contributions

Amendments to K-IFRS No. 1019 introduced a practical expedient to accounting for defined benefit plan, when employees or third parties pay contributions if certain criteria are met. According to the amendments, the entity is permitted to recognize those contributions as a reduction of the service cost in the period in which the related service is rendered, instead of forecast future contributions from employees or third parties and attribute them to periods or service as negative benefits. The amendment is mandatorily effective for annual periods beginning after July 1, 2014.

The Group applied the amendment retrospectively and did not make any adjustments on prior years' financial statements since the management believe the impact of the amendments and the interpretation on the Group's consolidated statements is not significant.

**4. Segments Information**

Substantially all of the Group's revenue are derived from non-current assets 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, therefore it does not report segment information. All of the Group's electricity sales for the nine-month periods ended September 30, 2015 and 2014 amounted to ₩2,889,755 million and ₩3,857,060 million, and are made to Korea Electric Power Corporation, who owns 100 percent of the Company.

KOREA MIDLAND POWER CO., LTD. AND SUBSIDIARIES  
Notes to the Condensed Consolidated Interim Financial Statements, Continued  
**September 30, 2015 and 2014**  
(Unaudited)

**5. Classification of Financial Instruments**

(1) Classification of financial assets as of September 30, 2015 and December 31, 2014 are as follows:

*In millions of won*

		<b>September 30, 2015</b>			
		<b>Loans and receivables</b>	<b>Available-for-sale financial assets</b>	<b>Derivative assets (using hedge accounting)</b>	<b>Total</b>
<b>Current assets</b>					
Cash and cash equivalents	₩	161,283	-	-	161,283
Current financial assets		1,706	-	44,484	46,190
Trade and other receivables		395,918	-	-	395,918
		<u>558,907</u>	<u>-</u>	<u>44,484</u>	<u>603,391</u>
<b>Non-current assets</b>					
Non-current financial assets		56,441	33,304	32,618	122,363
Trade and other receivables		91,013	-	-	91,013
		<u>147,454</u>	<u>33,304</u>	<u>32,618</u>	<u>213,376</u>
	₩	<u>706,361</u>	<u>33,304</u>	<u>77,102</u>	<u>816,767</u>

*In millions of won*

		<b>December 31, 2014</b>			
		<b>Loans and receivables</b>	<b>Available-for-sale financial assets</b>	<b>Derivative assets (using hedge accounting)</b>	<b>Total</b>
<b>Current assets</b>					
Cash and cash equivalents	₩	105,285	-	-	105,285
Current financial assets		1,413	-	1,409	2,822
Trade and other receivables		498,826	-	-	498,826
		<u>605,524</u>	<u>-</u>	<u>1,409</u>	<u>606,933</u>
<b>Non-current assets</b>					
Non-current financial assets		59,486	29,628	28,988	118,102
Trade and other receivables		64,145	-	-	64,145
		<u>123,631</u>	<u>29,628</u>	<u>28,988</u>	<u>182,247</u>
	₩	<u>729,155</u>	<u>29,628</u>	<u>30,397</u>	<u>789,180</u>

KOREA MIDLAND POWER CO., LTD. AND SUBSIDIARIES  
Notes to the Condensed Consolidated Interim Financial Statements, Continued  
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**5. Classification of Financial Instruments, Continued**

(2) Classification of financial liabilities as of September 30, 2015 and December 31, 2014 are as follows:

*In millions of won*

		<b>September 30, 2015</b>		
		<b>Financial liabilities recognized at amortized cost</b>	<b>Derivative liabilities (using hedge accounting)</b>	<b>Total</b>
<b>Current liabilities</b>				
Trade and other payables	₩	320,734	-	320,734
Current financial liabilities		385,358	554	385,912
		<u>706,092</u>	<u>554</u>	<u>706,646</u>
<b>Non-current liabilities</b>				
Trade and other payables		13,035	-	13,035
Non-current financial liabilities		3,512,760	-	3,512,760
		<u>3,525,795</u>	<u>-</u>	<u>3,525,795</u>
	₩	<u>4,231,887</u>	<u>554</u>	<u>4,232,441</u>

*In millions of won*

		<b>December 31, 2014</b>		
		<b>Financial liabilities recognized at amortized cost</b>	<b>Derivative liabilities (using hedge accounting)</b>	<b>Total</b>
<b>Current liabilities</b>				
Trade and other payables	₩	516,058	-	516,058
Current financial liabilities		349,836	1,324	351,160
		<u>865,894</u>	<u>1,324</u>	<u>867,218</u>
<b>Non-current liabilities</b>				
Trade and other payables		13,754	-	13,754
Non-current financial liabilities		2,811,168	-	2,811,168
		<u>2,824,922</u>	<u>-</u>	<u>2,824,922</u>
	₩	<u>3,690,816</u>	<u>1,324</u>	<u>3,692,140</u>

KOREA MIDLAND POWER CO., LTD. AND SUBSIDIARIES  
Notes to the Condensed Consolidated Interim Financial Statements, Continued  
**September 30, 2015 and 2014**  
(Unaudited)

**5. Classification of Financial Instruments, Continued**

- (3) Classification of comprehensive income (loss) from financial instruments for the three and nine-month periods ended September 30, 2015 and 2014 are as follows:

<i>In millions of won</i>		2015		2014		
		Three-month period ended	Nine-month period ended	Three-month period ended	Nine-month period ended	
Loans and receivables	Gain on fluctuation of exchange rates from cash and cash equivalents	₩	140	659	121	17
	Interest income from cash and cash equivalents		793	2,505	1,463	3,724
	Interest income from loans		299	3,996	83	368
	Amortization of present value discount		226	441	1,645	3,963
	Gain on fluctuation of exchange rates from loans		180	243	-	-
	Reversal of allowance for doubtful accounts		182	-	-	-
	Other bad debt expenses		-	(128)	-	-
	Financial assets at fair value through profit or loss	Gain on transaction of derivatives		1	548	-
Derivative assets (using hedge accounting)	Gain (loss) on valuation of derivative (profit or loss)		35,101	47,509	7,208	(937)
	Gain (loss) on valuation of derivative (equity, before tax)		1,454	(35)	(1,295)	(3,957)
	Gain on transaction of derivatives		1,395	2,708	313	818
Available-for-sale financial assets	Gain on valuation of available-for-sale financial assets (equity, before tax)		-	1,955	-	99
	Loss on disposal of available-for-sale financial assets		-	(63)	-	-
Financial liabilities carried at amortized cost	Gain (loss) on fluctuation of exchange rates		(15,795)	(47,165)	(19,026)	6,132
	Interest expenses from borrowing and bonds		(17,131)	(48,501)	(18,056)	(55,030)
	Interest expenses from other liabilities		(147)	(517)	(465)	(1,081)
	Losses on retirement of bonds		(33)	(33)	-	-
Financial liabilities at fair value through profit or loss	Gain (loss) on transaction of derivatives		-	(170)	127	(2,756)
	Derivative liabilities (using hedge accounting)		-	-	10,798	(6,355)
	Loss on fluctuation of exchange rates (equity, before tax)		-	-	(2,397)	(5,040)

**6. Cash and Cash Equivalents**

- (1) Cash and cash equivalents as September 30, 2015 and December 31, 2014 are as follows:

<i>In millions of won</i>		September 30, 2015	December 31, 2014
Cash	₩	116,926	95,662
Cash equivalents		44,357	9,623
	₩	<u>161,283</u>	<u>105,285</u>

KOREA MIDLAND POWER CO., LTD. AND SUBSIDIARIES  
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**September 30, 2015 and 2014**  
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**6. Cash and Cash Equivalents, Continued**

(2) Restriction of deposit as of September 30, 2015 and December 31, 2014 is as follows:

<i>In millions of won</i>		<u>September 30, 2015</u>	<u>December 31, 2014</u>
cash and cash equivalents	₩	9,051(*1) 10,000(*2)	8,709 -

(\*1) As explained in Note 13, this amount is provided as collateral for the long-term borrowings of Commerce and Industry Energy Co., Ltd., a subsidiary of KOMIPO.

(\*2) Restriction on withdrawal related to 'win-win growth program' for small and medium enterprises.

**7. Financial Assets**

(1) Financial assets as of September 30, 2015 and December 31, 2014 are as follows:

<i>In millions of won</i>		<u>September 30, 2015</u>		<u>December 31, 2014</u>	
		<u>Current</u>	<u>Non-current</u>	<u>Current</u>	<u>Non-current</u>
Loans	₩	1,943	57,643	1,621	60,792
Present value discount		(297)	(1,202)	(209)	(1,306)
		<u>1,646</u>	<u>56,441</u>	<u>1,412</u>	<u>59,486</u>
Short-term financial instruments		60	-	-	-
Derivative assets		44,484	32,618	1,410	28,988
Available-for-sale financial assets		-	33,304	-	29,628
	₩	<u>46,190</u>	<u>122,363</u>	<u>2,822</u>	<u>118,102</u>

(2) Loans as of September 30, 2015 and December 31, 2014 are as follows:

<i>In millions of won</i>		<u>September 30, 2015</u>		<u>December 31, 2014</u>	
		<u>Current</u>	<u>Non-current</u>	<u>Current</u>	<u>Non-current</u>
Loans for tuition(*1)	₩	1,302	11,776	1,019	10,349
Present value discount		(297)	(1,202)	(209)	(1,306)
		<u>1,005</u>	<u>10,574</u>	<u>810</u>	<u>9,043</u>
Housing fund loans(*2)		641	5,102	602	5,307
Loans to affiliates(*3)		-	40,765	-	45,136
	₩	<u>1,646</u>	<u>56,441</u>	<u>1,412</u>	<u>59,486</u>

(\*1) The Group makes loans to employees interest free for the purpose of supporting school expenses of their children. Loans are collected quarterly in equal installment payment when the salary is paid.

(\*2) The Group makes loans to employee who do not own a house for the purpose of improving residential stability of employees. The interest rate is 95% of weighted average borrowing rate of the Group. Loan terms are 20 years with installment payments.

(\*3) The Group lends to PT Cirebon Electric Power at interest rates of 12~14% per annum. No bad debt expense is recognized related to this loan.

KOREA MIDLAND POWER CO., LTD. AND SUBSIDIARIES  
Notes to the Condensed Consolidated Interim Financial Statements, Continued  
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**8. Available-for-sale Financial Assets**

(1) Available-for-sale financial assets as of September 30, 2015 and December 31, 2014 are as follows:

<i>In millions of won</i>	<u>Ownership (%)</u>	<u>September 30, 2015</u>	<u>December 31, 2014</u>
<b>Equity securities</b>			
<b>Unlisted</b>			
Korea Power Exchange	7.14	₩ 14,097	12,142
Hanhwa power venture fund	-	-	132
KEPCO-Uhde Inc.	3.00	516	516
HeeMang Sunlight Power Co., Ltd.	8.33	393	-
Navanakorn Electric Co., Ltd.(*)	29.00	18,296	16,836
		<u>33,302</u>	<u>29,626</u>
<b>Debt securities</b>			
Housing bond		2	2
		<u>₩ 33,304</u>	<u>29,628</u>

(\* ) Navanakorn Electric Co., Ltd. is not accounted for as an associate since the Group does not hold any voting rights in board meeting and therefore the Group does not exercise significant influence on the investments, even though the Group owns over 20% of the equity shares of the entity.

(2) The book value of equity securities measured by cost method because there is no market price in an active market and the fair value cannot be reliably measured is as follows:

<i>In millions of won</i>		<u>September 30, 2015</u>	<u>December 31, 2014</u>
Amount	₩	19,205	17,484
Percentage of total unlisted equity securities		57.67%	59.02%

**9. Derivatives**

(1) Derivatives as of September 30, 2015 and December 31, 2014 are as follows:

<i>In millions of won</i>	<u>September 30, 2015</u>		<u>December 31, 2014</u>	
	<u>Current</u>	<u>Non-current</u>	<u>Current</u>	<u>Non-current</u>
<b>Derivative assets</b>				
Currency swap	₩ 44,484	32,618	1,409	28,988
<b>Derivative liabilities</b>				
Currency swap	554	-	1,324	-

KOREA MIDLAND POWER CO., LTD. AND SUBSIDIARIES  
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**9. Derivatives, Continued**

(2) Currency swap contracts which are designated as hedging instruments as of September 30, 2015 are as follows:

*In millions of won and thousands of U.S. dollar, except for contract exchange rate*

Counterparty	Terms of the contract	Contract amount		Contract interest rate(%)		Contract exchange rate
		Pay	Receive	Pay	Receive	
UBS AG	2006.03.14.~2016.03.14.	₩ 98,100	\$ 100,000	5.48	5.50	₩981.0
Credit Suisse	2006.03.14.~2016.03.14.	98,100	100,000	5.48	5.50	₩981.0
JP Morgan	2014.02.05.~2019.02.10.	107,190	100,000	3.25+	2.75	₩1,071.9
Morgan Stanley	2014.02.05.~2019.02.10.	107,190	100,000	floating rate	2.75	₩1,071.9
Deutsche Bank	2014.02.05.~2019.02.10.	107,190	100,000	floating rate	2.75	₩1,071.9

(3) Gain and loss on valuation and transactions of derivatives for the nine-month periods ended September 30, 2015 and 2014 are as follows:

*In millions of won*

	Net income effects of valuation gain (loss)		Net income effects of transaction gain (loss)		Accumulated other comprehensive loss (*1)	
	2015	2014	2015	2014	2015	2014
Currency option	₩ -	-	-	(1,289)	-	-
Currency swap	47,509	(7,292)	2,709	818	(35)	(8,996)
Currency forward	-	-	378	-	-	-
Other derivatives(*2)	-	-	-	(1,467)	-	-
	₩ 47,509	(7,292)	3,087	(1,938)	(35)	(8,996)

(\*1) Loss on valuation of derivatives recorded in accumulated other comprehensive loss in the amount ₩5,360 million and ₩5,335 million as of September 30, 2015 and December 31, 2014 are net of tax.

(\*2) Net income effects of transaction gain (loss) of other derivatives consist of gain (loss) from currency forward hedge transactions.

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**10. Trade and Other Receivables**

(1) Trade and other receivables as of September 30, 2015 and December 31, 2014 are as follows:

<i>In millions of won</i>	<u>September 30, 2015</u>	<u>December 31, 2014</u>
<b>Current assets</b>		
Trade receivables	₩ 302,929	404,413
Other receivables	92,989	94,413
	<u>395,918</u>	<u>498,826</u>
<b>Non-current assets</b>		
Other receivables	91,013	64,145
	<u>₩ 486,931</u>	<u>562,971</u>

(2) Other receivables as of September 30, 2015 and December 31, 2014 are as follows:

<i>In millions of won</i>	<u>September 30, 2015</u>	<u>December 31, 2014</u>
<b>Current assets</b>		
Non-trade receivables	₩ 24,261	33,072
Accrued income	68,662	59,819
Deposits	66	1,522
	<u>92,989</u>	<u>94,413</u>
<b>Non-current assets</b>		
Non-trade receivables	85,186	51,791
Deposits	5,827	12,354
	<u>91,013</u>	<u>64,145</u>
	<u>₩ 184,002</u>	<u>158,558</u>

(3) The Group has no trade receivables or other receivables which are impaired as of September 30, 2015 and December 31, 2014.

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**11. Inventories**

(1) Inventories as of September 30, 2015 and December 31, 2014 are as follows:

<i>In millions of won</i>	<u>September 30, 2015</u>	<u>December 31, 2014</u>
Raw materials	₩ 142,866	141,998
Supplies	81,508	87,235
Inventories in transit	46,903	56,978
	<u>₩ 271,277</u>	<u>286,211</u>

(2) Gain and loss on valuation of inventories for the nine-month periods ended September 30, 2015 and 2014 are as follows:

<i>In millions of won</i>	<u>2015</u>	<u>2014</u>
<b>Other loss</b>		
Losses on valuation of inventories	₩ -	4

**12. Non-Financial Assets**

Non-financial assets as of September 30, 2015 and December 31, 2014 are as follows:

<i>In millions of won</i>	<u>September 30, 2015</u>		<u>December 31, 2014</u>	
	<u>Current</u>	<u>Non-current</u>	<u>Current</u>	<u>Non-current</u>
Advance payment	₩ 8,453	71	601	77
Prepaid expenses	14,843	10,843	9,695	15,651
Others				
VAT receivables	-	-	32,482	-
Tax refundable	8,089	-	6,256	-
Other receivables	4,440	1,683	2,331	979
	<u>₩ 35,825</u>	<u>12,597</u>	<u>51,365</u>	<u>16,707</u>

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**13. Property, Plant and Equipment**

(1) Property, plant and equipment as of September 30, 2015 and December 31, 2014 are as follows:

*In millions of won*

		<b>September 30, 2015</b>				
		<b>Acquisition cost</b>	<b>Government grants</b>	<b>Accumulated depreciation</b>	<b>Accumulated impairment losses(*)</b>	<b>Book value</b>
Land	₩	725,174	-	-	-	725,174
Buildings		783,295	(22,545)	(299,333)	-	461,417
Structures		686,652	-	(260,780)	-	425,872
Machinery		4,105,475	(2,464)	(1,747,196)	(23)	2,355,792
Ships		36	-	(24)	-	12
Vehicles		10,684	-	(8,825)	-	1,859
Equipment		44,971	-	(34,880)	-	10,091
Tools		15,734	-	(13,757)	-	1,977
Construction-in-progress		2,592,298	(154)	-	-	2,592,144
Finance lease assets		58,406	-	(25,103)	-	33,303
Others		30	-	(30)	-	-
	₩	<u>9,022,755</u>	<u>(25,163)</u>	<u>(2,389,928)</u>	<u>(23)</u>	<u>6,607,641</u>

*In millions of won*

		<b>December 31, 2014</b>				
		<b>Acquisition cost</b>	<b>Government grants</b>	<b>Accumulated depreciation</b>	<b>Accumulated impairment losses(*)</b>	<b>Book value</b>
Land	₩	746,303	-	-	-	746,303
Buildings		779,729	(23,821)	(269,159)	-	486,749
Structures		679,479	-	(241,645)	-	437,834
Machinery		4,003,813	(2,603)	(1,505,507)	(23)	2,495,680
Ships		36	-	(21)	-	15
Vehicles		10,160	-	(8,511)	-	1,649
Equipment		43,122	-	(31,576)	-	11,546
Tools		15,710	-	(13,512)	-	2,198
Construction-in-progress		1,649,043	(154)	-	-	1,648,889
Finance lease assets		58,377	-	(23,036)	-	35,341
Others		46	-	(41)	-	5
	₩	<u>7,985,818</u>	<u>(26,578)</u>	<u>(2,093,008)</u>	<u>(23)</u>	<u>5,866,209</u>

KOREA MIDLAND POWER CO., LTD. AND SUBSIDIARIES  
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**13. Property, Plant and Equipment, Continued**

- (2) Changes in property, plant and equipment for the nine-month period ended September 30, 2015 and for the year ended December 31, 2014 are as follows:

*In millions of won*

		<b>2015</b>					
		<b>Beginning balance</b>	<b>Acquisition</b>	<b>Disposal</b>	<b>Depreciation</b>	<b>Others(*)</b>	<b>Ending balance</b>
Land	₩	746,303	-	(23,115)	-	1,986	725,174
Buildings		486,749	9	-	(28,712)	3,371	461,417
Structures		437,834	-	-	(19,033)	7,071	425,872
Machinery		2,495,680	73,822	(1,484)	(243,307)	31,081	2,355,792
Ships		15	-	-	(3)	-	12
Vehicles		1,649	68	-	(567)	709	1,859
Equipment		11,546	771	-	(3,489)	1,263	10,091
Tools		2,198	246	-	(743)	276	1,977
Construction-in- progress		1,648,889	943,349	-	-	(94)	2,592,144
Finance lease assets		35,341	-	-	(2,067)	29	33,303
Others		5	-	(1)	(4)	-	-
	₩	<u>5,866,209</u>	<u>1,018,265</u>	<u>(24,600)</u>	<u>(297,925)</u>	<u>45,692</u>	<u>6,607,641</u>

(\*) The amounts are composed of transfers from construction-in-progress to depreciable assets, borrowing costs capitalization, retirement benefit expenses capitalization, and effect of exchange rate fluctuations.

*In millions of won*

		<b>2014</b>					
		<b>Beginning balance</b>	<b>Acquisition</b>	<b>Disposal</b>	<b>Depreciation</b>	<b>Others(*)</b>	<b>Ending balance</b>
Land	₩	747,662	-	-	-	(1,359)	746,303
Buildings		493,519	27	(944)	(38,001)	32,148	486,749
Structures		458,250	144	-	(26,876)	6,316	437,834
Machinery		2,691,274	29,898	(1,237)	(337,356)	113,101	2,495,680
Ships		19	-	-	(4)	-	15
Vehicles		913	2	1	(558)	1,291	1,649
Equipment		8,375	1,586	(9)	(3,862)	5,456	11,546
Tools		2,439	53	-	(999)	705	2,198
Construction-in- progress		543,181	1,230,001	-	-	(124,293)	1,648,889
Finance lease assets		37,679	-	-	(3,462)	1,124	35,341
Others		4	-	-	-	1	5
	₩	<u>4,983,315</u>	<u>1,261,711</u>	<u>(2,189)</u>	<u>(411,118)</u>	<u>34,490</u>	<u>5,866,209</u>

(\*) The amounts are composed of transfers from construction-in-progress to depreciable assets, borrowing costs capitalization, retirement benefit expenses capitalization, and effect of exchange rate fluctuations.

KOREA MIDLAND POWER CO., LTD. AND SUBSIDIARIES  
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**13. Property, Plant and Equipment, Continued**

(3) Government grants as of September 30, 2015 and December 31, 2014 are as follows:

<i>In millions of won</i>		<u>September 30, 2015</u>	<u>December 31, 2014</u>
Buildings	₩	22,545	23,821
Machinery		2,464	2,603
Construction-in-progress		154	154
	₩	<u>25,163</u>	<u>26,578</u>

(4) Changes in government grants for nine-month period ended September 30, 2015 and for the year ended December 31, 2014 are as follows:

<i>In millions of won</i>		<b>2015</b>		
		<u>Beginning balance</u>	<u>Depreciation</u>	<u>Ending balance</u>
Buildings	₩	23,821	(1,276)	22,545
Machinery		2,603	(139)	2,464
Construction-in-progress		154	-	154
	₩	<u>26,578</u>	<u>(1,415)</u>	<u>25,163</u>

<i>In millions of won</i>		<b>2014</b>				
		<u>Beginning balance</u>	<u>Acquisition</u>	<u>Depreciation</u>	<u>Others(*)</u>	<u>Ending balance</u>
Buildings	₩	-	-	(1,702)	25,523	23,821
Machinery		123	-	(186)	2,666	2,603
Construction-in-progress		26,802	1,541	-	(28,189)	154
	₩	<u>26,925</u>	<u>1,541</u>	<u>(1,888)</u>	<u>-</u>	<u>26,578</u>

(\*) The amounts are the changes of government grants, caused by transfer from construction-in-progress to depreciable assets.

(5) Collateral assets of the Group as of September 30, 2015 are as follows:

<i>In millions of won</i>						
<u>Collateral assets</u>	<u>Book value</u>	<u>Established amount of collateral</u>	<u>Type of borrowing</u>	<u>Balance of borrowing (*2)</u>	<u>Bank that the borrowing is made</u>	
Land, buildings, structure, machinery(*1)	₩ 88,863	111,800	Long-term borrowings	83,513	Hana Bank and others	

(\*1) Property, plant and equipment of Commerce and Industry Energy Co., Ltd. is provided as collateral. Cash and cash equivalents and benefit of property insurance are also provided as collateral.

(\*2) Balance of borrowing is related to Commerce and Industry Energy Co., Ltd.'s long term borrowing, presented above at its face value.

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**14. Intangible Assets**

(1) Intangible assets as of September 30, 2015 and December 31, 2014 are as follows:

*In millions of won*

	<b>September 30, 2015</b>		
	<b>Acquisition cost</b>	<b>Accumulated amortization</b>	<b>Book value</b>
Software	₩ 16,624	(14,371)	2,253
Development expenditures	40,136	(28,216)	11,920
Mining rights	8,450	(1,115)	7,335
Others	1,915	(703)	1,212
Goodwill	2,582	-	2,582
	<b>₩ 69,707</b>	<b>(44,405)</b>	<b>25,302</b>

*In millions of won*

	<b>December 31, 2014</b>		
	<b>Acquisition cost</b>	<b>Accumulated amortization</b>	<b>Book value</b>
Software	₩ 16,179	(13,391)	2,788
Development expenditures	30,371	(26,322)	4,049
Mining rights	8,935	(1,073)	7,862
Others	1,770	(659)	1,111
Goodwill	2,582	-	2,582
	<b>₩ 59,837</b>	<b>(41,445)</b>	<b>18,392</b>

(2) Changes in intangible assets for the nine-month period ended September 30, 2015 and for the year ended December 31, 2014 are as follows:

*In millions of won*

	<b>2015</b>				
	<b>Beginning balance</b>	<b>Acquisition</b>	<b>Amortization</b>	<b>Others</b>	<b>Ending balance</b>
Software	₩ 2,788	380	(980)	65	2,253
Development expenditures	4,049	7,980	(1,877)	1,768	11,920
Mining rights	7,862	143	(120)	(550)	7,335
Others	1,111	158	(45)	(12)	1,212
Goodwill	2,582	-	-	-	2,582
	<b>₩ 18,392</b>	<b>8,661</b>	<b>(3,022)</b>	<b>1,271</b>	<b>25,302</b>

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**14. Intangible Assets, Continued**

- (2) Changes in intangible assets for the nine-month period ended September 30, 2015 and for the year ended December 31, 2014 are as follows, continued:

*In millions of won*

		<b>2014</b>				<b>Ending balance</b>
		<b>Beginning balance</b>	<b>Acquisition</b>	<b>Amortization</b>	<b>Others</b>	
Software	₩	3,241	224	(1,471)	794	2,788
Development expenditures		7,519	-	(1,919)	(1,551)	4,049
Mining rights		8,032	288	(98)	(360)	7,862
Others		1,175	-	(59)	(5)	1,111
Goodwill		2,582	-	-	-	2,582
	₩	<u>22,549</u>	<u>512</u>	<u>(3,547)</u>	<u>(1,122)</u>	<u>18,392</u>

- (3) Details of significant intangible assets as of September 30, 2015 and December 31, 2014 are as follows:

*In millions of won*

<b>September 30, 2015</b>				
<b>Type</b>	<b>Description</b>	<b>Currency</b>	<b>Amount</b>	<b>Remaining useful life</b>
Development expenditures	Development of maintenance system for utility plant	KRW	1,225	26 months

*In millions of won*

<b>December 31, 2014</b>				
<b>Type</b>	<b>Description</b>	<b>Currency</b>	<b>Amount</b>	<b>Remaining useful life</b>
Development expenditures	Development of maintenance system for utility plant	KRW	1,649	35 months

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**15. Investments in Associates and Joint Ventures**

(1) Investments in associates and joint ventures as of September 30, 2015 and December 31, 2014 are as follows:

<u>Investees</u>	<u>Key operation activities</u>	<u>Location</u>	<u>Percentage of ownership (%)</u>	
			<u>September 30, 2015</u>	<u>December 31, 2014</u>
<b>&lt;Associates&gt;</b>				
Gangwon Wind Power Co., Ltd.(*1)	Wind power	Korea	15.0	15.0
Hyundai Green Power Co., Ltd.	Byproduct gas power generation	Korea	29.0	29.0
Kepeco Lebanon S.A.R.L.	Combined cycle operation and maintenance	Lebanon	49.0	49.0
PT Cirebon Electric Power	Coal thermal power generation	Indonesia	27.5	27.5
PT Wampu Electric Power	Water power generation	Indonesia	46.0	46.0
Korea Offshore Wind Power Co., Ltd.(*1)	Wind power generation	Korea	12.5	12.5
Jungbu Bio Energy Co.,Ltd.(*1)	Bio energy power generation	Korea	18.9	-
<b>&lt;Joint ventures&gt;</b>				
Eco Biomass Energy Sdn. Bhd.(*2)	Power generation	Malaysia	61.5	61.5

(\*1) Although the Group owns less than 20% of the equity shares of the entity, the Group participates in the directors' meetings and exercises significant influence. As such, it is classified as investments in associates.

(\*2) The Group holds more than 50% of the equity shares of the entity. However, according to the shareholders agreement, all critical financial and operating decisions must be agreed upon by all shareholders. As a result, the entity is classified as joint venture.

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**15. Investments in Associates and Joint Ventures, Continued**

- (2) Changes in investments in associates and joint ventures for the nine-month period ended September 30, 2015 and for the year ended December 31, 2014 are as follows:

*In millions of won*

Investees	2015						
	Beginning balance	Acquisition	Dividends received	Share of income (loss)	Other comprehensive income	Others	Ending balance
<b>&lt;Associates&gt;</b>							
Gangwon Wind Power Co., Ltd.	₩ 12,385	-	(852)	927	16	-	12,476
Hyundai Green Power Co., Ltd.	113,033	-	(8,888)	6,675	-	-	110,820
Kepeco Lebanon S.A.R.L.	-	-	-	-	-	-	-
PT Cirebon Electric Power	43,335	-	-	8,765	(97)	4,281	56,284
PT Wampu Electric Power	16,071	2,345	-	(1,866)	-	1,424	17,974
Korea Offshore Wind Power Co., Ltd.	1,184	-	-	(406)	-	-	778
Jungbu Bio Energy Co., Ltd.	-	1,000	-	(69)	-	-	931
<b>&lt;Joint ventures&gt;</b>							
Eco Biomass Energy Sdn. Bhd.	-	-	-	-	-	-	-
	₩ 186,008	3,345	(9,740)	14,026	(81)	5,705	199,263

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**15. Investments in Associates and Joint Ventures, Continued**

- (2) Changes in investments in associates and joint ventures for the nine-month period ended September 30, 2015 and for the year ended December 31, 2014 are as follows, continued:

*In millions of won*

Investees	2014							
	Beginning balance	Acquisition	Dividends received	Share of income (loss)	Other comprehensive income	Disposal	Others	Ending balance
<b>&lt;Associates&gt;</b>								
Gangwon Wind Power Co., Ltd.	₩ 13,185	-	(1,988)	1,156	32	-	-	12,385
Hyundai Green Power Co., Ltd.	110,157	-	(8,889)	11,765	-	-	-	113,033
KEPCO Lebanon S.A.R.L.(*1)	-	-	-	-	-	-	-	-
PT Cirebon Electric Power	32,826	1,148	-	6,304	1,299	-	1,758	43,335
PT Wampu Electric Power	15,121	-	-	308	-	-	642	16,071
Gumi-ochang Photovoltaic Power Co., Ltd.	389	-	(14)	24	-	(399)	-	-
Cheonan Photovoltaic Power Co., Ltd.	148	-	-	(10)	-	(138)	-	-
Chungbuk Photovoltaic Power Co., Ltd.	185	-	-	7	-	(192)	-	-
Korea Offshore Wind Power Co., Ltd.	307	1,325	-	(429)	(19)	-	-	1,184
Golden Root 2nd Solar Power Co., Ltd.	99	-	-	(24)	-	(75)	-	-
Seokcheon Solar Power Co., Ltd.	1,046	-	(48)	48	-	(1,046)	-	-
D Solarenergy Co., Ltd.	364	-	-	54	-	(418)	-	-
Hyundai Asan Photovoltaic Power Co., Ltd.	462	-	-	(32)	-	(430)	-	-
<b>&lt;Joint ventures&gt;</b>								
Eco Biomass Energy Sdn. Bhd.(*2)	-	1,558	-	-	-	-	(1,558)	-
	₩ 174,289	4,031	(10,939)	19,171	1,312	(2,698)	842	186,008

(\*1)Equity method is no longer applied to Lebanon since its book value has been reduced to zero.

(\*2) The Group made payment to preferred shareholders, who are the co-owner of the joint venture, ECO Biomass Energy Sdn. Bhd., when the latter exercised its put option of the shares in the joint venture. The Group recorded the payment made as acquisition costs and wrote off the balance in 2014 as the amount is deemed to be not recoverable.

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**15. Investments in Associates and Joint Ventures, Continued**

(3) Summary of financial information of associates and joint ventures as of and for the nine-month period ended September 30, 2015 and for the year ended December 31, 2014 are as follows:

*In millions of won*

Investees	September 30, 2015							
	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Revenue	Profit (loss)	Other comprehensive income	Total comprehensive income (loss)
<b>&lt;Associates&gt;</b>								
Kepeco Lebanon S.A.R.L. ₩	-	-	-	-	-	-	-	-
Gangwon Wind Power Co., Ltd.	36,075	79,435	12,219	20,443	16,307	6,182	-	6,182
Hyundai Green Power Co., Ltd.	188,118	1,000,726	123,067	683,641	362,024	21,203	-	21,203
Korea Offshore Wind Power Co., Ltd.	5,678	2,129	1,541	39	-	(3,248)	-	(3,248)
PT Cirebon Electric Power	165,127	843,778	133,996	670,241	216,904	31,472	(328)	31,144
PT Wampu Electric Power	13,019	183,753	7,643	150,055	13,533	(5,437)	-	(5,437)
Jungbu Bio Energy Co.,Ltd.	4,680	253	-	-	-	(367)	-	(367)
<b>&lt;Joint ventures&gt;</b>								
Eco Biomass Energy Sdn. Bhd.	-	-	-	-	-	-	-	-

*In millions of won*

Investees	December 31, 2014							
	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Revenue	Profit (loss)	Other comprehensive income (loss)	Total comprehensive income (loss)
<b>&lt;Associates&gt;</b>								
KEPCO Lebanon S.A.R.L. ₩	-	-	-	-	-	-	-	-
Gangwon Wind Power Co., Ltd.	38,198	85,043	13,337	27,666	28,829	11,708	216	11,924
Hyundai Green Power Co., Ltd.	187,822	1,028,026	93,748	732,332	503,197	40,797	-	40,797
Korea Offshore Wind Power Co., Ltd.	9,999	1,763	2,267	20	-	(3,424)	-	(3,424)
PT Cirebon Electric Power	171,054	814,921	188,079	640,314	266,963	23,363	(99)	23,264
PT Wampu Electric Power	17,959	154,991	13,643	124,368	43,205	(5,121)	-	(5,121)
<b>&lt;Joint ventures&gt;</b>								
Eco Biomass Energy Sdn. Bhd.	-	-	-	-	-	-	-	-

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**16. Trade and Other Payables**

Trade and other payables as of September 30, 2015 and December 31, 2014 are as follows:

		September 30, 2015		December 31, 2014	
		Current	Non-current	Current	Non-current
Trade payables	₩	206,628	-	313,170	-
Non-trade payables		44,364	-	130,091	-
Accrued expenses		47,783	-	54,555	-
Leasehold deposits received		1	-	1	-
Other deposits received		20,822	-	16,966	-
Finance lease liabilities(*)		1,136	13,035	1,275	13,754
	₩	<u>320,734</u>	<u>13,035</u>	<u>516,058</u>	<u>13,754</u>

(\*) Refer to note 17 for the details of finance lease liabilities.

**17. Finance Lease Liabilities**

(1) The Group has entered into a finance lease agreement for its power transmission facility. Pursuant to the agreement, the lease term ranges from 8 to 30 years, no bargain purchase option exists at the end of the lease term, and the legal ownership of the leased assets (carrying amount: ₩33,303 million and ₩35,341 million as of September 30, 2015 and December 31, 2014, respectively) is retained by the lessor.

(2) Finance lease liabilities as of September 30, 2015 and December 31, 2014 are as follows:

		September 30, 2015		December 31, 2014	
		Minimum lease payments	Present value of minimum lease payments	Minimum lease payments	Present value of minimum lease payments
Less than 1 year	₩	1,711	1,136	1,800	1,275
1 ~ 5 years		7,598	5,416	7,945	5,523
More than 5 years		8,757	7,619	9,789	8,231
	₩	<u>18,066</u>	<u>14,171</u>	<u>19,534</u>	<u>15,029</u>

(3) The Group does not have any irrevocable operating lease contracts as of as September 30, 2015.

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**18. Financial Liabilities**

(1) Financial liabilities as of September 30, 2015 and December 31, 2014 are as follows:

<i>In millions of won</i>	<b>September 30, 2015</b>		<b>December 31, 2014</b>	
	<b>Current</b>	<b>Non-current</b>	<b>Current</b>	<b>Non-current</b>
Borrowings	₩ 26,799	152,219	19,960	88,512
Bonds	358,559	3,360,541	329,876	2,722,656
Derivative liabilities	554	-	1,324	-
	₩ <u>385,912</u>	<u>3,512,760</u>	<u>351,160</u>	<u>2,811,168</u>

(2) Borrowings and bonds issued as of September 30, 2015 and December 31, 2014 are as follows:

<i>In millions of won</i>	<b>September 30, 2015</b>	<b>December 31, 2014</b>
<b>Current liabilities</b>		
Short-term borrowings	₩ 7,827	-
Current portion of long-term borrowings	19,004	20,491
Less: current portion of discount on long-term borrowings	(32)	(531)
Current portion of bonds issued	358,900	330,000
Less: current portion of discount on bonds	(341)	(124)
	<u>385,358</u>	<u>349,836</u>
<b>Non-current liabilities</b>		
Long-term borrowings	152,876	89,169
Less: discount on long-term borrowings	(657)	(657)
Bonds issued	3,368,350	2,729,600
Less: discount on bonds	(7,809)	(6,944)
	<u>3,512,760</u>	<u>2,811,168</u>
	₩ <u>3,898,118</u>	<u>3,161,004</u>

(3) Short-term borrowings as of September 30, 2015 and December 31, 2014 are as follows:

<i>In millions of won and thousands of foreign currencies</i>					<b>September 30, 2015</b>		<b>December 31, 2014</b>	
<b>Type</b>	<b>Creditor</b>	<b>Interest rate (%)</b>			<b>Foreign Currency</b>	<b>Local currency</b>	<b>Foreign Currency</b>	<b>Local currency</b>
Foreign short-term borrowings	ING Bank N.V., Seoul Branch	Fixed rate	0.67	USD	6,552 ₩	7,827 USD	- ₩	-

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**18. Financial Liabilities, Continued**

(4) Long-term borrowings as of September 30, 2015 and December 31, 2014 are as follows:

*In millions of won and thousands of foreign currencies*

						<b>September 30, 2015</b>		
<b>Type</b>		<b>Interest rate (%)</b>		<b>Maturity</b>	<b>Foreign Currency</b>	<b>Local currency</b>		
Korea Resources Corporation	Resources development loan	Floating rate	3yr KTB(*1) rate -2.25	2023-03-15		₩	2,245	
	Resources development loan	Floating rate	3yr KTB(*1) rate -2.25	2023-06-15			87	
	Resources development loan	Floating rate	3yr KTB(*1) rate -2.25	2023-12-15			223	
	Resources development loan	Floating rate	3yr KTB(*1) rate -2.25	2024-06-15			103	
	Resources development loan	Floating rate	3yr KTB(*1) rate -2.25	2024-09-15			260	
Hana Bank	Facility	Floating rate	3M CD +1.7	2026-04-30			20,878	
	Facility	Fixed rate	4.80	2026-04-30			12,139	
Woori Bank	Facility	Floating rate	3M CD +1.7	2026-04-30			20,878	
	Facility	Fixed rate	4.80	2026-04-30			12,139	
Heungkuk Life Insurance	Facility	Fixed rate	4.80	2026-04-30			17,479	
Hana Power, Ltd. and others	Development	Fixed rate	9.00	2015-10-29			17,138	
PT PJB	Shareholder's loan	Fixed rate	7.75	2017-12-29	IDR(*2)	16,631,460	1,355	
POSCO	Shareholder's loan	Fixed rate	8.00	2034-09-26	USD	1,898	2,268	
PT BS Energy	Shareholder's loan	Fixed rate	8.00	2034-09-26	USD	989	1,181	
The Export-Import Bank of Korea	Shareholder's loan	Fixed rate	8.00	2034-09-26	USD	1,460	1,744	
The Export-Import Bank of Korea	Facility	Floating rate	LIBOR(6M) +2.5	2032-02-29	USD	24,043	28,719	
BNP Paribas, Seoul Branch	Facility	Floating rate	LIBOR(6M) +2.5	2032-02-29	USD	12,021	14,360	
ING Bank N.V., Singapore Branch	Facility	Floating rate	LIBOR(6M) +2.5	2032-02-29	USD	12,021	14,360	
BNP Paribas, Singapore Branch	Facility	Floating rate	LIBOR(6M) +2.5	2032-02-29	USD	1,810	2,162	
ING Bank N.V., Singapore Branch	Facility	Floating rate	LIBOR(6M) +2.5	2032-02-29	USD	1,810	2,162	
							<u>171,880</u>	
Less: discount on long-term borrowings							(689)	
Less: current portion of long-term borrowings							(18,972)	
							<u>₩ 152,219</u>	

(\*1) Korea Treasury Bond

(\*2) Indonesia Rupiah

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**18. Financial Liabilities, Continued**

(4) Long-term borrowings as of September 30, 2015 and December 31, 2014 are as follows, continued:

*In millions of won and thousands of foreign currencies*

						<b>December 31, 2014</b>	
<b>Type</b>		<b>Interest rate (%)</b>		<b>Maturity</b>	<b>Foreign currency</b>	<b>Local currency</b>	
Korea Resources Corporation	Resources development loan	Floating rate	3yr KTB(*1) rate – 2.25	2023-03-15	₩	2,470	
	Resources development loan	Floating rate	3yr KTB(*1) rate – 2.25	2023-06-15		95	
	Resources development loan	Floating rate	3yr KTB(*1) rate – 2.25	2023-12-15		244	
	Resources development loan	Floating rate	3yr KTB(*1) rate – 2.25	2024-06-15		112	
	Resources development loan	Floating rate	3yr KTB(*1) rate – 2.25	2024-09-15		282	
Hana Bank	Facility	Floating rate	3M CD + 1.7	2026-04-30		20,625	
	Facility	Fixed rate	4.80	2026-04-30		11,991	
	Facility	Floating rate	3M CD + 1.7	2026-04-30		988	
Woori Bank	Facility	Floating rate	3M CD + 1.7	2023-07-31		988	
	Facility	Floating rate	3M CD + 1.7	2026-04-30		20,625	
	Facility	Fixed rate	4.80	2026-04-30		11,991	
Heungkuk Life Insurance	Facility	Floating rate	3M CD + 1.7	2026-04-30		523	
	Facility	Fixed rate	4.80	2026-04-30		17,267	
Hana Power, Ltd. and others	Development	Fixed rate	9.00	2015-10-29		17,138	
PT PJB	Shareholder's loan	Fixed rate	12.75	2017-12-29	IDR(*2)	22,307,699	
POSCO	Shareholder's loan	Fixed rate	8.00	2034-09-26	USD	1,663	
PT BS Energy	Shareholder's loan	Fixed rate	8.00	2034-09-26	USD	475	
						109,660	
Less: discount on long-term borrowings						(1,188)	
Less: current portion of long-term borrowings						(19,960)	
						₩ 88,512	

(\*1) Korea Treasury Bond

(\*2) Indonesia Rupiah

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**18. Financial Liabilities, Continued**

(5) Local bonds as of September 30, 2015 and December 31, 2014 are as follows:

*In millions of won*

<u>Type</u>	<u>Issue date</u>	<u>Maturity</u>	<u>Interest rate (%)</u>		<u>September 30, 2015</u>	<u>December 31, 2014</u>
Debenture	2011-04-22	2015-04-22	Fixed rate	4.24 ₩	-	150,000
	2011-07-07	2015-07-07	Fixed rate	4.16	-	80,000
	2011-07-07	2016-07-07	Fixed rate	4.25	120,000	120,000
	2012-08-02	2015-08-02	Fixed rate	4.28	-	100,000
	2012-02-28	2017-02-28	Fixed rate	3.85	150,000	150,000
	2012-02-28	2019-02-28	Fixed rate	3.89	50,000	50,000
	2012-06-28	2017-06-28	Fixed rate	3.57	100,000	100,000
	2013-06-28	2022-06-28	Fixed rate	3.77	200,000	200,000
	2013-02-22	2020-02-22	Fixed rate	3.01	100,000	100,000
	2013-02-22	2023-02-22	Fixed rate	3.13	100,000	100,000
	2013-04-05	2020-04-05	Fixed rate	2.79	100,000	100,000
	2013-04-05	2023-04-05	Fixed rate	2.91	100,000	100,000
	2013-10-15	2018-10-15	Fixed rate	3.44	200,000	200,000
	2013-11-13	2018-11-13	Fixed rate	3.52	100,000	100,000
	2014-04-18	2021-04-18	Fixed rate	3.49	110,000	110,000
	2014-04-18	2024-04-18	Fixed rate	3.67	190,000	190,000
	2014-07-09	2021-07-09	Fixed rate	3.08	80,000	80,000
	2014-07-09	2024-07-09	Fixed rate	3.26	180,000	180,000
	2014-08-29	2029-08-29	Fixed rate	4.13	-(*)	50,000
	2014-08-29	2029-08-29	Fixed rate	4.11	50,000	50,000
	2014-11-12	2017-11-12	Fixed rate	2.2	150,000	150,000
	2014-11-12	2021-11-12	Fixed rate	2.58	50,000	50,000
	2015-03-23	2020-03-23	Fixed rate	1.93	70,000	-
	2015-03-23	2025-03-23	Fixed rate	2.26	130,000	-
	2015-04-29	2020-04-29	Fixed rate	2.07	60,000	-
	2015-04-29	2022-04-29	Fixed rate	2.24	80,000	-
	2015-04-29	2025-04-29	Fixed rate	2.46	160,000	-
	2015-06-16	2018-06-16	Fixed rate	1.92	130,000	-
	2015-06-16	2020-06-16	Fixed rate	2.27	70,000	-
	2015-06-16	2025-06-16	Fixed rate	2.73	100,000	-
	2015-07-30	2022-07-30	Fixed rate	2.32	70,000	-
	2015-07-30	2030-07-30	Fixed rate	2.67	130,000	-
					3,130,000	2,510,000
Less: discount on local bonds					(6,412)	(4,740)
Less: current portion of local bonds					(120,000)	(330,000)
Add: current portion of discount on local bonds					58	124
				₩	3,003,646	2,175,384

(\*) The Group made an early repayment for this bond since market interest rates declined.

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**18. Financial Liabilities, Continued**

(6) Foreign bonds as of September 30, 2015 and December 31, 2014 are as follows:

*In millions of won and thousands of foreign currencies*

Issue date	Maturity	Interest rate (%)	September 30, 2015		December 31, 2014	
			Foreign currency	Local currency	Foreign currency	Local currency
2006-03-14	2016-03-14	Fixed rate 5.50	USD 200,000	₩ 238,900	USD 200,000	₩ 219,840
2014-02-11	2019-02-11	Fixed rate 2.75	USD 300,000	358,350	USD 300,000	329,760
				597,250		549,600
		Less: discount on foreign bonds		(1,738)		(2,328)
		Less: current portion of foreign bonds		(238,900)		-
		Add: current portion of discount on foreign bonds		283		-
				₩ 356,895		₩ 547,272

**19. Non-Financial Liabilities**

Non-financial liabilities as of September 30, 2015 and December 31, 2014 are as follows:

*In millions of won*

	September 30, 2015		December 31, 2014	
	Current	Non-current	Current	Non-current
Advance received	₩ 133	-	132	-
Unearned revenue	966	-	193	-
Withholdings	555	-	2,941	-
Others(*)	6,031	13,198	1,740	13,176
	₩ 7,685	13,198	5,006	13,176

(\*) This amounts consist of the government grant, which may need to be repaid to government under certain conditions.

**20. Provisions**

Provisions as of September 30, 2015 and December 31, 2014 are as follows:

*In millions of won*

	September 30, 2015		December 31, 2014	
	Current		Current	
Provisions for wage litigation(*)	₩	15,811		38,402
Provisions for employee benefits		40,169		34,654
Provisions for RPS		86,657		57,121
	₩	142,637		130,177

(\*) 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 September 30, 2015, the Group recognized litigation provisions for such amount expected to be paid to employees in relation to the on-going litigation over the Ordinary Wage.

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**20. Provisions, Continued**

Changes in provisions for the nine-month period ended September 30, 2015 and for the year ended December 31, 2014 are as follows:

*In millions of won*

		<b>2015</b>			
		<b>Beginning balance</b>	<b>Increase in provision</b>	<b>Payments</b>	<b>Ending balance</b>
Provisions for wage litigation	₩	38,402	655	(23,246)	15,811
Provisions for employee benefits		34,654	22,074	(16,559)	40,169
Provisions for RPS		57,121	29,536	-	86,657
	₩	<u>130,177</u>	<u>52,265</u>	<u>(39,805)</u>	<u>142,637</u>

*In millions of won*

		<b>2014</b>				
		<b>Beginning balance</b>	<b>Increase in provision</b>	<b>Payments</b>	<b>Reversal</b>	<b>Ending balance</b>
Provisions for wage litigation	₩	-	38,402	-	-	38,402
Provisions for employee benefits		36,007	30,424	(16,805)	(14,972)	34,654
Provisions for RPS		33,421	40,444	(11,274)	(5,470)	57,121
	₩	<u>69,428</u>	<u>109,270</u>	<u>(28,079)</u>	<u>(20,442)</u>	<u>130,177</u>

**21. Employment Benefits Obligations**

(1) Employment benefits obligations as of September 30, 2015 and December 31, 2014 are as follows:

*In millions of won*

		<b>September 30, 2015</b>	<b>December 31, 2014</b>
Net employee benefits liabilities	₩	123,602	108,968
Other long-term employee benefits liabilities		694	717
	₩	<u>124,296</u>	<u>109,685</u>

(2) Defined contribution plan

The Group operates a defined contribution plan which is subject to the employees' choice. A defined contribution fund is separately managed by the plan's administrator. When employees terminate their employment before the benefits have vested, the Group's obligation to make contributions to the plan decreases on a pro rata basis. The Group contributed ₩2,929 million and ₩2,554 million for the nine-month periods ended September 30, 2015 and 2014, respectively.

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**21. Employment Benefits Obligations, Continued**

(3) Defined benefit plan

(i) Principal assumptions on actuarial valuation as of September 30, 2015 and December 31, 2014 are as follows:

	<u>September 30, 2015</u>	<u>December 31, 2014</u>
Discount rate	2.39%	2.86%
Expected salary increasing rate	4.10% ~ 8.12%	4.10% ~ 8.12%

(ii) Details of expense relating to defined benefit plans for the nine-month periods ended September 30, 2015 and 2014 are as follows:

<i>In millions of won</i>		<u>2015</u>	<u>2014</u>
Current service cost	₩	11,111	10,316
Interest cost		2,655	3,195
Expected return on plan assets		(321)	(420)
Gain on change from defined benefit plan to defined contribution plan		(420)	(361)
	₩	<u>13,025</u>	<u>12,730</u>

The expense is recognized as retirement benefit expense in the accompanying consolidated statements of comprehensive income. Among the total of ₩13,025 million for the nine-month period ended September 30, 2015, ₩10,083 million is included in cost of goods sold, ₩842 million in selling and administrative expense, and ₩2,100 million in construction in progress. For the nine-month period ended September 30, 2014, ₩10,533 million, ₩357 million and ₩1,840 million are recognized in cost of goods sold, selling and administrative expense and construction in progress, respectively.

(iii) Employee benefit liabilities as of September 30, 2015 and December 31, 2014 are as follows:

<i>In millions of won</i>		<u>September 30, 2015</u>	<u>December 31, 2014</u>
Present value of defined benefit obligations	₩	141,881	123,408
Fair value of plan assets		(18,279)	(14,440)
Net employee benefits liabilities from defined benefit plans	₩	<u>123,602</u>	<u>108,968</u>

(iv) Changes in employee benefit obligations for the nine-month period ended September 30, 2015 and for the year ended December 31, 2014 are as follows:

<i>In millions of won</i>		<u>2015</u>	<u>2014</u>
Beginning balance	₩	123,408	113,345
Current service cost		11,111	13,949
Interest cost		2,655	4,161
Actual payments		(2,446)	(1,787)
Remeasurement gains		9,654	17,100
Decrease in past service cost resulting from a curtailment		-	(8,208)
Outflow of cash due to change of plan to defined contribution plan		(2,104)	(13,906)
Gains on change from defined benefit plan to defined contribution plan		(420)	(1,271)
Others		23	25
Ending balance	₩	<u>141,881</u>	<u>123,408</u>

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**21. Employment Benefits obligations, Continued**

(3) Defined benefit plan, continued

(v) Changes in the present value of plan assets for the nine-month period ended September 30, 2015 and for the year ended December 31, 2014 are as follows:

<i>In millions of won</i>	<u>2015</u>	<u>2014</u>
Beginning balance	₩ 14,440	14,466
Expected return on plan assets	321	559
Contributions by the employers	4,081	2,522
Actual payments	(488)	(2,999)
Actuarial losses	(75)	(108)
Ending balance	₩ <u>18,279</u>	<u>14,440</u>

(vi) The fair value of plan assets as of September 30, 2015 are as follows:

<i>In millions of won</i>	<u>September 30, 2015</u>
Debt instruments	₩ 1,516
Others	16,763
	₩ <u>18,279</u>

(vii) Actuarial gains or losses recognized as other comprehensive income/loss are as follows:

<i>In millions of won</i>	<u>2015</u>	<u>2014</u>
Actuarial losses by financial assumptions	₩ (5,583)	(9,549)
Experience adjustments	(4,071)	(7,551)
Income from plan assets	(75)	(108)
	₩ <u>(9,729)</u>	<u>(17,208)</u>

(4) Other long-term employee benefit liabilities as of September 30, 2015 and December 31, 2014 are as follows:

<i>In millions of won</i>	<u>September 30, 2015</u>	<u>December 31, 2014</u>
Other payables of long-term employee vacation obligations	₩ 694	717

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**22. Contributed Capital**

(1) Details of contributed capital as of September 30, 2015 and December 31, 2014 are as follows:

<i>In millions of won</i>	<b>September 30, 2015</b>	<b>December 31, 2014</b>
Share capital	₩ 137,340	137,340
Share premium	1,053,110	1,053,110
	₩ <u>1,190,450</u>	<u>1,190,450</u>

(2) Details of shares issued as of September 30, 2015 and December 31, 2014 are as follows:

	<b>September 30, 2015</b>	<b>December 31, 2014</b>
Number of shares authorized	100,000,000	100,000,000
Number of shares issued	27,467,967	27,467,967
Par value per share (in won)	₩ 5,000	5,000
Common shares (in millions of won)	137,340	137,340

There are no changes in number of outstanding capital stock for the nine-month period ended September 30, 2015 and for the year ended December 31, 2014.

(3) Share Premium

As of January 1, 2011, the Group spun off its pumped storage power plant which was subsequently merged into a related party, resulting in an decrease in shares issued (capital) of ₩15,610 million and share premium (additional paid-in-capital) of ₩119,697 million. In addition, loss on reduction of capital in the amount of ₩279,193 million was incurred.

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**23. Retained Earnings and Dividends Paid**

(1) Details of retained earnings as of September 30, 2015 and December 31, 2014 are as follows:

<i>In millions of won</i>		<b>September 30, 2015</b>	<b>December 31, 2014</b>
Legal reserve (*)	₩	77,550	77,550
Voluntary reserves		1,344,640	1,250,686
Unappropriated retained earnings		863,782	807,658
Retained earnings	₩	<u>2,285,972</u>	<u>2,135,894</u>

(\*) The Commercial Code requires the Company to appropriate a legal reserve equal to at least 10 percent of dividends for each accounting period until the reserve equals 50 percent of the Company's common stock. The legal reserve is not available for cash dividends; however, this reserve may be credited to paid-in capital or offset against accumulated deficit upon the resolution of the shareholders.

(2) Details of voluntary reserves as of September 30, 2015 and December 31, 2014 are as follows:

<i>In millions of won</i>		<b>September 30, 2015</b>	<b>December 31, 2014</b>
Reserve for business stabilization(*1)	₩	120	120
Reserve for research and human development(*2)		17,500	17,500
Reserve for investment on social overhead capital		70,184	70,184
Others		1,256,836	1,162,882
	₩	<u>1,344,640</u>	<u>1,250,686</u>

(\*1) Prior to 2002, the Company 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, the Group continues to maintain such reserve on a voluntary basis.

(\*2) The reserve for research and human development is appropriated by the Company 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 for the nine-month period ended September 30, 2015 and for the year ended December 31, 2014 are as follows:

<i>In millions of won</i>		<b>2015</b>	<b>2014</b>
Beginning balance	₩	2,135,894	2,046,684
Net income for the period attributed to owner of the Company		174,033	114,498
Dividends paid		(16,580)	(12,244)
Actuarial losses		(7,375)	(13,044)
Ending balance	₩	<u>2,285,972</u>	<u>2,135,894</u>

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**23. Retained Earnings and Dividends Paid, Continued**

- (4) Dividends paid for the nine-month period ended September 30, 2015 and for the year ended December 31, 2014 are as follows:

<b>2015</b>			
<b>Number of shares issued</b>	<b>Number of shares eligible for dividends</b>	<b>Dividends paid per share (in won)</b>	<b>Dividends paid (in millions of won)</b>
Common shares	27,467,967	27,467,967	603.61
			16,580
<b>2014</b>			
<b>Number of shares issued</b>	<b>Number of shares eligible for dividends</b>	<b>Dividends paid per share (in won)</b>	<b>Dividends paid (in millions of won)</b>
Common shares	27,467,967	27,467,967	445.77
			12,244

- (5) Changes in actuarial gains (losses) on employee benefit obligations for the nine-month period ended September 30, 2015 and for the year ended December 31, 2014 are as follows:

<i>In millions of won</i>	<b>2015</b>	<b>2014</b>
Beginning balance	₩ (22,703)	(9,659)
Changes	(9,729)	(17,208)
Income tax effect	2,355	4,164
Ending balance	₩ (30,077)	(22,703)

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**24. Other Components of Equity**

(1) Other components of equity of the parent as of September 30, 2015 and December 31, 2014 are as follows:

<i>In millions of won</i>		<u>September 30, 2015</u>	<u>December 31, 2014</u>
Accumulated other comprehensive loss	₩	(11,620)	(26,364)
Other equity		(290,069)	(290,200)
	₩	<u>(301,689)</u>	<u>(316,565)</u>

(2) Changes in accumulated other comprehensive income (loss) for the nine-month period ended September 30, 2015 and for the year ended December 31, 2014 are as follows:

<i>In millions of won</i>		<u>2015</u>			
		<u>Available-for-sale financial asset valuation reserve</u>	<u>Reserve for gains (loss) on valuation of derivatives</u>	<u>Share in other comprehensive loss of associates and joint ventures</u>	<u>Reserve for gain (loss) on translation of overseas operations</u>
Beginning balance	₩	2,282	(5,334)	(11,474)	(11,838)
Changes in the unrealized fairvalue of available-for- sale financial assets		1,955	-	-	-
Net change in the unrealized fair value of derivatives using cash flow hedge accounting		-	(35)	-	-
Share in other comprehensive income of associates and joint ventures		-	-	(81)	-
Foreign currency translation of foreign operations		-	-	-	13,372
Tax effect		(473)	9	(3)	-
Ending balance	₩	<u>3,764</u>	<u>(5,360)</u>	<u>(11,558)</u>	<u>1,534</u>

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**24. Other Components of Equity, Continued**

- (2) Changes in accumulated other comprehensive income (loss) for the nine-month period ended September 30, 2015 and for the year ended December 31, 2014 are as follows, continued:

*In millions of won*

	<b>2014</b>			
	<b>Available-for-sale financial asset valuation reserve</b>	<b>Reserve for gains (loss) on valuation of derivatives</b>	<b>Share in other comprehensive income (loss) of associates and joint ventures</b>	<b>Reserve for gain (loss) on translation of overseas operations</b>
Beginning balance	₩ 2,166	2,801	(12,781)	(16,912)
Changes in the unrealized fairvalue of available-for- sale financial assets	154	-	-	-
Net change in the unrealized fair value of derivatives using cash flow hedge accounting	-	(10,733)	-	-
Share in other comprehensive income of associates and joint ventures	-	-	1,312	-
Foreign currency translation of foreign operations	-	-	-	5,074
Tax effect	(38)	2,598	(5)	-
Ending balance	₩ 2,282	(5,334)	(11,474)	(11,838)

- (3) Details of other equity as of September 30, 2015 and December 31, 2014 are as follows:

*In millions of won*

	<b>September 30, 2015</b>	<b>December 31, 2014</b>
Loss on capital reduction	₩ (279,192)	(279,192)
Other capital adjustment	(10,877)	(11,008)
	₩ (290,069)	(290,200)

**25. Sales**

Details of sales for the three and nine-month periods ended September 30, 2015 and 2014 are as follows:

*In millions of won*

	<b>2015</b>		<b>2014</b>	
	<b>Three-month period</b>	<b>Nine-month period</b>	<b>Three-month period</b>	<b>Nine-month period</b>
<b>Sales of goods</b>				
Domestic	₩ 1,038,923	2,965,192	1,187,596	3,848,063
Overseas	1,369	3,887	753	3,358
	1,040,292	2,969,079	1,188,349	3,851,421
<b>Sales of service</b>				
Domestic	-	-	-	-
Overseas	16,163	57,191	6,374	23,495
	16,163	57,191	6,374	23,495
	₩ 1,056,455	3,026,270	1,194,723	3,874,916

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**26. Selling and Administrative Expenses**

Selling and administrative expenses for the three and nine-month periods ended September 30, 2015 and 2014 are as follows:

*In millions of won*

	2015		2014	
	Three-month period	Nine-month period	Three-month period	Nine-month period
Salaries	₩ 4,175	11,369	3,325	10,140
Employee benefit expense	227	1,162	248	880
Welfare and benefit expense	729	1,876	328	2,111
Insurance expense	58	124	37	39
Depreciation	618	1,788	179	904
Amortization	921	2,698	12	845
Reversal of allowance for doubtful accounts	(182)	-	-	-
Commission	4,141	14,201	4,075	14,724
Advertising expense	170	478	161	456
Training expense	89	166	53	154
Vehicle maintenance expense	36	77	26	81
Publishing expense	38	146	66	193
Business promotion expense	6	188	42	149
Rent expense	127	1,575	663	1,589
Telecommunication expense	64	96	8	273
Transportation expense	1	3	-	-
Taxes and dues	143	3,032	5,474	8,095
Expendable supplies expense	91	255	25	114
Water, light and heating expense	122	268	5	15
Repairs and maintenance expense	472	830	5	19
Ordinary development expense	4,089	7,757	1,767	4,611
Travel expense	381	577	112	343
Clothing expense	2	2	3	3
Survey and analysis expense	4	18	11	33
Sales facilitation expense	7	14	7	8
Others	711	2,343	728	2,063
	₩ <u>17,240</u>	<u>51,043</u>	<u>17,360</u>	<u>47,842</u>

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**27. Other Non-operating Income and Other Non-operating Expenses**

(1) Other non-operating income for the three and nine-month periods ended September 30, 2015 and 2014 are as follows:

*In millions of won*

	2015		2014	
	Three-month period	Nine-month period	Three-month period	Nine-month period
Compensation and other revenue	₩ 294	1,498	141	420
Rental income	922	2,403	873	2,581
	₩ <u>1,216</u>	<u>3,901</u>	<u>1,014</u>	<u>3,001</u>

(2) Other non-operating expenses for the three and nine-month periods ended September 30, 2015 and 2014 are as follows:

*In millions of won*

	2015		2014	
	Three-month period	Nine-month period	Three-month period	Nine-month period
Donations	₩ 179	424	131	387
Other bad debt expenses	-	128	-	26
Others	106	303	-	-
	₩ <u>285</u>	<u>855</u>	<u>131</u>	<u>413</u>

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**28. Other Profit (Loss)**

Details of other profit (loss) for the three and nine-month periods ended September 30, 2015 and 2014 are as follows:

*In millions of won*

	2015		2014	
	Three-month period	Nine-month period	Three-month period	Nine-month period
Gains (losses) on disposal of property, plant and equipment	₩ (1,472)	5,697	(43)	(1,588)
Gains (losses) on foreign currency translations(*)	152	(372)	(991)	(1,237)
Gains (losses) on foreign currency transactions(*)	(50)	1,144	(448)	(1,415)
Insurance refunds	-	870	-	-
Prior year adjustment	-	3,104	-	-
Others	1,886	2,368	396	(120)
	₩ <u>516</u>	<u>12,811</u>	<u>(1,086)</u>	<u>(4,360)</u>

(\*) This amount represents gains (losses) on foreign currency translations and transactions arising from operating activities.

**29. Finance Income**

Finance income for the three and nine-month periods ended September 30, 2015 and 2014 are as follows:

*In millions of won*

	2015		2014	
	Three-month period	Nine-month period	Three-month period	Nine-month period
Interest income	₩ 1,318	6,942	3,191	8,055
Valuation gains on derivative instruments	35,101	47,509	18,006	-
Transaction gains on derivative instruments	1,395	3,363	598	2,571
Gains on foreign currency translations(*)	239	800	-	7,347
Gains on foreign currency transactions(*)	96	121	435	1,508
	₩ <u>38,149</u>	<u>58,735</u>	<u>22,230</u>	<u>19,481</u>

(\*) This amount represents gains on foreign currency translations and transactions arising from financing activities.

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**30. Finance Costs**

(1) Finance costs for the three and nine-month periods ended September 30, 2015 and 2014 are as follows:

<i>In millions of won</i>	<b>2015</b>		<b>2014</b>	
	<b>Three-month period</b>	<b>Nine-month period</b>	<b>Three-month period</b>	<b>Nine-month period</b>
Interest expense	₩ 17,278	49,018	18,522	56,111
Losses on disposal available-for-sale financial assets	-	63	-	-
Valuation losses on derivative instruments	-	-	-	7,292
Transaction losses on derivative instruments	-	276	157	4,509
Losses on retirement of bonds	33	33	-	-
Losses on foreign currency translations (*)	35,436	47,886	17,897	49
Losses on foreign currency transactions (*)	-	70	5	5
	₩ <u>52,747</u>	<u>97,346</u>	<u>36,581</u>	<u>67,966</u>

(\*) This amount represents losses on foreign currency translations and transactions arising from financing activities.

(2) Interest expense included in finance costs for the three and nine-month periods ended September 30, 2015 and 2014 are as follows:

<i>In millions of won</i>	<b>2015</b>		<b>2014</b>	
	<b>Three-month period</b>	<b>Nine-month period</b>	<b>Three-month period</b>	<b>Nine-month period</b>
Trade and other payables	₩ 147	517	465	1,080
Short-term borrowings	290	1,335	24	1,754
Long-term borrowings	1,786	4,176	939	2,975
Bonds	32,088	89,942	27,990	75,148
	<u>34,311</u>	<u>95,970</u>	<u>29,418</u>	<u>80,957</u>
Less: capitalized borrowing costs	(17,033)	(46,952)	(10,896)	(24,846)
	₩ <u>17,278</u>	<u>49,018</u>	<u>18,522</u>	<u>56,111</u>

Capitalization rates for the nine-month periods ended September 30, 2015 and 2014 are 3.49% and 3.69%, respectively.

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**31. Income Tax Expense**

(1) Income tax expense for the nine-month periods ended September 30, 2015 and 2014 are as follows:

<i>In millions of won</i>	<u>2015</u>	<u>2014</u>
<b>Current income tax expense</b>		
Current tax expense	₩ 35,572	35,492
Adjustment recognized in the period for current tax of prior period	(461)	(1,387)
Current income tax directly recognized in equity	1,887	4,378
	<u>36,998</u>	<u>38,483</u>
<b>Deferred income tax expense</b>		
Generation and realization of temporary differences	16,804	(5,370)
The effect of tax credit carry forward	(255)	-
Adjustment of temporary differences recognized in prior period	(1,668)	5,681
	<u>14,881</u>	<u>311</u>
Income tax expense	₩ <u>51,879</u>	<u>38,794</u>

(2) Reconciliation between income tax expense and accounting income for the nine-month periods ended September 30, 2015 and 2014 are as follows:

<i>In millions of won</i>	<u>2015</u>	<u>2014</u>
Profit before income tax	₩ 226,450	137,038
Income tax expense computed at applicable statutory tax rate	54,801	33,163
Adjustments:		
Effect of applying gradual tax rate	(347)	(347)
Adjustment recognized in the period for current tax of prior period	(461)	(1,387)
Effect of non-taxable revenue	(671)	(729)
Effect of non-deductible expenses	626	284
Effect of tax credits and deduction	(1,072)	(2,000)
Adjustment of temporary differences recognized in prior period	(1,668)	5,681
Investment in subsidiaries and associates	671	3,751
Others	-	378
	<u>(2,922)</u>	<u>5,631</u>
Income tax expense	₩ <u>51,879</u>	<u>38,794</u>
Average effective tax rate	22.91%	28.31%

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**32. Expenses by Nature**

(1) Expenses by nature for the nine-month period ended September 30, 2015 are as follows:

*In millions of won*

	<b>2015</b>		
	<b>Selling and administrative expenses</b>	<b>Cost of sales</b>	<b>Total</b>
Raw materials used	₩ -	2,066,393	2,066,393
Salaries	11,369	101,636	113,005
Employee benefit expense	1,162	12,095	13,257
Welfare and benefit expense	1,876	11,447	13,323
Insurance expense	124	7,420	7,544
Depreciation	1,788	296,137	297,925
Amortization	2,698	324	3,022
Commission	14,201	15,637	29,838
Advertising expense	478	280	758
Training expense	166	276	442
Vehicle maintenance expense	77	138	215
Publishing expense	146	81	227
Business promotion expense	188	116	304
Rent expense	1,575	10,569	12,144
Telecommunication expense	96	902	998
Transportation expense	3	3	6
Taxes and dues	3,032	17,679	20,711
Expendable supplies expense	255	261	516
Water, light and heating expense	268	584	852
Compensation expense	-	44,967	44,967
Repairs and maintenance expense	830	76,885	77,715
Ordinary development expense	7,757	4,059	11,816
Travel expense	577	283	860
Clothing expense	2	174	176
Survey and analysis expense	18	176	194
Accrual of RPS provisions, net	-	29,536	29,536
Other expense related to RPS	-	10,089	10,089
Sales promotion expense	14	-	14
Others	2,343	37,760	40,103
	₩ <u>51,043</u>	<u>2,745,907</u>	<u>2,796,950</u>

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**32. Expenses by Nature, Continued**

(2) Expenses by nature for the nine-month period ended September 30, 2014 are as follows:

*In millions of won*

		<b>2014</b>		
		<b>Selling and administrative expenses</b>	<b>Cost of sales</b>	<b>Total</b>
Raw materials used	W	-	3,065,998	3,065,998
Salaries		10,140	92,016	102,156
Employee benefit expense		880	12,140	13,020
Welfare and benefit expense		2,111	12,019	14,130
Insurance expense		39	7,630	7,669
Depreciation		904	300,099	301,003
Amortization		845	1,942	2,787
Commission		14,724	13,681	28,405
Advertising expense		456	394	850
Training expense		154	233	387
Vehicle maintenance expense		81	137	218
Publishing expense		193	68	261
Business promotion expense		149	122	271
Rent expense		1,589	10,366	11,955
Telecommunication expense		273	617	890
Transportation expense		-	15	15
Taxes and dues		8,095	10,746	18,841
Expendable supplies expense		114	266	380
Water, light and heating expense		15	565	580
Compensation expense		-	12	12
Repairs and maintenance expense		19	75,719	75,738
Ordinary development expense		4,611	6,880	11,491
Travel expense		343	270	613
Clothing expense		3	82	85
Survey and analysis expense		33	194	227
Accrual of RPS provisions, net		-	53,541	53,541
Other expense (income) related to RPS		-	(24,169)	(24,169)
Sales facilitation expense		8	-	8
Others		2,063	5,035	7,098
	W	<u>47,842</u>	<u>3,646,618</u>	<u>3,694,460</u>

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**33. Earnings Per Share**

(1) Basic earnings per share for the three and nine-month periods ended September 30, 2015 and 2014 are as follows:

<i>In won</i>	<b>2015</b>		<b>2014</b>		
	<b>Three-month period</b>	<b>Nine-month period</b>	<b>Three-month period</b>	<b>Nine-month period</b>	
Basic earnings per share	₩	2,944	6,336	1,302	3,574

(2) Basic earnings per share

Profit for the period and weighted average number of common shares used in the calculation of basic earnings per share for three and the nine-month periods ended September 30, 2015 and 2014 are as follows:

<i>In millions of won, except for share data</i>	<b>2015</b>		<b>2014</b>		
	<b>Three-month period</b>	<b>Nine-month period</b>	<b>Three-month period</b>	<b>Nine-month period</b>	
Earnings used in the calculation of total basic earnings per share	₩	80,878	174,033	35,771	98,162
Weighted average number of common Shares		27,467,967	27,467,967	27,467,967	27,467,967

(3) Diluted earnings per share

The Group has no potential dilutive instruments as of September 30, 2015 and 2014.

**33. Risk Management**

(1) Capital risk management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder's value. The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment, capital return to shareholders or issue new shares.

The Group manages capital based on a gearing ratio which is net debt divided by total equity. The Group calculates net debt as interest bearing loans, borrowings and bonds payable, less cash and cash equivalents.

Details of the Group's capital management accounts as of September 30, 2015 and December 31, 2014 are as follows:

<i>In millions of won</i>	<b>September 30, 2015</b>	<b>December 31, 2014</b>	
Total borrowings and bonds	₩	3,898,117	3,161,004
Cash and cash equivalents		(161,283)	(105,285)
Net borrowings and bonds		3,736,834	3,055,719
Total equity		3,193,934	3,027,022
Net debt to equity ratio		117.00%	100.95%

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**34. Risk Management, Continued**

(2) Financial risk management

The Group's board of directors is responsible to establish and monitor its risk management structure. The risk management policy of the Group has been established to identify and analyze encountered risks of the Group, set up the adequate risk limit and control the risk below the pre-established limit. The risk management policy and system are periodically monitored to reflect the Group's change of activities. The Group's goal is to build strict and organizational control environment in which all employees can understand their roles and obligations through training on control standards and procedures.

The Group's internal auditor monitors senior management on whether the risk management policy and procedures have been complied with and reviews the Group's risk management controls and procedures.

The Group's overall financial risk management strategy remains consistent from that of the prior year.

(i) Credit risk

Credit risk is the risk of finance loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises primarily from the Group's debt securities and derivative instruments. In addition, credit risk exposure may exist within financial guarantees and unused line of credits. As these financial institutions the Group makes transactions with are reputable financial institutions, the credit risk from them are considered limited. The Group decides credit transaction limits based on evaluation of client's credit, through information obtained from the credit bureau and disclosed financial position at committing contracts.

a) Credit risk management

The Group uses publicly available information and its own internal data related to accounts receivables, to rate its major customers and to measure the credit risk that a counter party will default on a contractual obligation. As the majority of the Group's accounts receivables are due from governmental entities, the Group does not have significant credit risk exposure. Regarding its debt securities, the Group continuously reviews credit ratings issued by credit agencies, and the Group's working capital (i.e. cash) is deposits at a financial institution with a high credit rating.

b) Accounting policies over impairment & allowance accounts

In accordance with the Group policies, individual material financial assets are assessed on a regular basis, trade receivables that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Value of the acquired collateral (including the confirmation of feasibility) and estimated collectable amounts are included in this assessment.

Allowance for bad debts assessed on a collective basis are recognized for (i) the group of assets which individually are not material and (ii) incurred but not recognized losses that are assessed using statistical methods, judgment and historical experience.

Book values of the financial assets represent the maximum exposed amounts of the credit risk. Details of the Group's level of maximum exposure to credit risk as of September 30, 2015 and December 31, 2014 are as follows:

*In millions of won*

		<u>September 30, 2015</u>	<u>December 31, 2014</u>
Loans and receivables(*)	₩	706,361	729,155
Available-for-sale financial assets		2	2
Derivative assets (using hedge accounting)		77,102	30,397

(\*) This Loans and receivables are the amount of 'loans and receivables' category from note5.

There are no financial assets or non-financial assets acquired by exercising a lien or other credit enhancement as of September 30, 2015.

(ii) 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.

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**34. Risk Management, Continued**

(2) Financial risk management, continued

(iii) Sensitivity analysis

- Significant assets and liabilities with uncertainties in underlying assumptions

① Defined benefit obligations

The following is a sensitivity analysis of defined benefit obligations assuming a 1% increase and decrease in the actuarial valuation assumptions as of September 30, 2015 and December 31, 2014:

<i>In millions of won</i>		<b>September 30, 2015</b>		<b>December 31, 2014</b>	
<b>Type</b>	<b>Accounts</b>	<b>1% Increase</b>	<b>1% Decrease</b>	<b>1% Increase</b>	<b>1% Decrease</b>
Future salary increases	Defined benefit obligation	₩ 13,270	(11,749)	10,112	(9,023)
Discount rate	Defined benefit obligation	(11,443)	13,248	(9,549)	10,999

Management judgment is affected by uncertainties in underlying assumptions.

② Foreign currency risk

The Group is exposed to currency risk, because the transaction is denominated in foreign currencies. The details of monetary liabilities denominated in foreign currencies as of September 30, 2015 and December 31, 2014 are as follows.

<i>In thousands of foreign currency</i>	<b>Assets</b>		<b>Liabilities</b>	
	<b>September 30, 2015</b>	<b>December 31, 2014</b>	<b>September 30, 2015</b>	<b>December 31, 2014</b>
USD	45,843	44,167	570,714	548,597
CHF	-	-	-	12

Applied exchange rates are as follows:

<i>In won</i>	<b>Average rate</b>		<b>Reporting date spot rate</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
USD	1,122.42	1,053.22	1,194.50	1,099.20
CHF	1,178.01	1,151.45	1,229.54	1,111.43

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**34. Risk Management, Continued**

(2) Financial risk management, continued

A sensitivity analysis on the Group's profit for the periods assuming a 10% increase and decrease in currency exchange rates with all other variables held constant as September 30, 2015 and December 31, 2014 is as follows:

<i>In millions of won</i>	<b>September 30, 2015</b>		<b>December 31, 2014</b>	
	<b>10% Increase</b>	<b>10% Decrease</b>	<b>10% Increase</b>	<b>10% Decrease</b>
Increase (decrease) of profit before income tax	₩ (62,696)	62,696	(55,448)	55,448
Increase (decrease) of shareholder's equity(*)	(62,696)	62,696	(55,448)	55,448

(\*) The effect of income tax 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 September 30, 2015 and December 31, 2014.

To manage its foreign currency risk related to foreign currency denominated in long-term borrowings and bonds, the Group has a policy to enter into currency forward agreements. In addition, to manage its foreign currency risk related to foreign currency denominated purchase transactions, the Group enters into cross-currency swap agreements.

③ 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 bonds with floating interest rates as of September 30, 2015 and December 31, 2014 are as follows:

<i>In millions of won</i>	<b>September 30, 2015</b>	<b>December 31, 2014</b>
Long-term borrowings	₩ 106,437	46,953

A sensitivity analysis on the Group's long-term borrowings and bonds assuming a 1% increase and decrease in interest rates with all other variables held constant as of September 30, 2015 and December 31, 2014 is as follows:

<i>In millions of won</i>	<b>September 30, 2015</b>		<b>December 31, 2014</b>	
	<b>1% Increase</b>	<b>1% Decrease</b>	<b>1% Increase</b>	<b>1% Decrease</b>
Increase (decrease) of profit before income tax	₩ (1,064)	1,064	(470)	470
Increase (decrease) of shareholder's equity(*)	(1,064)	1,064	(470)	470

(\*) The effect of income tax is not considered.

To manage its interest rate risks, the Group enters into certain interest swap agreements or maintains an appropriate mix of fixed and floating rate borrowings. Sensitivity analysis above is conducted without consideration of hedge effect of related derivatives.

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**34. 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 make long-term borrowings so as to minimize liquidity risk.

The following table shows the details of maturities of non-derivative financial liabilities based on contractual undiscounted payments:

*In millions of won*

Type	September 30, 2015				
	Less than 1 year	1~2 years	2~5 years	More than 5 years	Total
Borrowings and bonds (cash flows of principal)	₩ 385,730	256,928	1,409,848	1,854,450	3,906,956
Borrowings and bonds (cash flows of interest)	115,326	101,777	221,084	186,419	624,606
	<u>501,056</u>	<u>358,705</u>	<u>1,630,932</u>	<u>2,040,869</u>	<u>4,531,562</u>
Trade and other payables	320,734	1,136	3,274	8,625	333,769
	₩ <u>821,790</u>	<u>359,841</u>	<u>1,634,206</u>	<u>2,049,494</u>	<u>4,865,331</u>

*In millions of won*

Type	December 31, 2014				
	Less than 1 year	1~2 years	2~5 years	More than 5 years	Total
Borrowings and bonds (cash flows of principal)	₩ 350,491	347,941	1,101,492	1,369,336	3,169,260
Borrowings and bonds (cash flows of interest)	106,525	85,974	186,957	153,250	532,706
	<u>457,016</u>	<u>433,915</u>	<u>1,288,449</u>	<u>1,522,586</u>	<u>3,701,966</u>
Trade and other payables	516,058	1,141	4,382	8,231	529,812
	₩ <u>973,074</u>	<u>435,056</u>	<u>1,292,831</u>	<u>1,530,817</u>	<u>4,231,778</u>

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**34. Risk Management, Continued**

(2) Financial risk management, continued

The expected maturities for non-derivative financial assets as of September 30, 2015 and December 31, 2014 in detail are as follows:

<i>In millions of won</i>		<b>September 30, 2015</b>				<b>Total</b>
		<b>Less than 1 year</b>	<b>1~5 years</b>	<b>More than 5 years</b>	<b>Others</b>	
<b>Type</b>						
Cash and cash equivalents	₩	161,283	-	-	-	161,283
Available-for-sale financial assets		-	-	-	33,304	33,304
Loans		1,943	44,996	7,278	5,368	59,585
Short-term financial instruments		60	-	-	-	60
Trade and other receivables		395,918	60,187	-	30,825	486,930
	₩	<u>559,204</u>	<u>105,183</u>	<u>7,278</u>	<u>69,497</u>	<u>741,162</u>

The expected maturities for non-derivative financial assets as of September 30, 2015 and December 31, 2014 in detail are as follows, continued:

<i>In millions of won</i>		<b>December 31, 2014</b>				<b>Total</b>
		<b>Less than 1 year</b>	<b>1~5 years</b>	<b>More than 5 years</b>	<b>Others</b>	
<b>Type</b>						
Cash and cash equivalents	₩	105,285	-	-	-	105,285
Available-for-sale financial assets		-	-	-	29,628	29,628
Loans		1,621	48,089	8,268	4,435	62,413
Trade and other receivables		498,826	33,320	-	30,825	562,971
	₩	<u>605,732</u>	<u>81,409</u>	<u>8,268</u>	<u>64,888</u>	<u>760,297</u>

Derivative liabilities classified by maturity periods from reporting date to maturity date of contract as of September 30, 2015 are as follows:

<i>In millions of won</i>		<b>September 30, 2015</b>				<b>Total</b>
		<b>Less than 1 year</b>	<b>1~2 years</b>	<b>2~5 years</b>	<b>More than 5 years</b>	
<b>Type</b>						
Gross settlement						
- Hedging(after discount)	₩	554	-	-	-	554
- Hedging(before discount)		598	-	-	-	598

<i>In millions of won</i>		<b>December 31, 2014</b>				<b>Total</b>
		<b>Less than 1 year</b>	<b>1~2 years</b>	<b>2~5 years</b>	<b>More than 5 years</b>	
<b>Type</b>						
Gross settlement						
- Hedging(after discount)	₩	1,324	-	-	-	1,324
- Hedging(before discount)		1,383	-	-	-	1,383

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**34. Risk Management, Continued**

(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 trade payables, the Group considers the carrying value, net of impairment, as approximation of fair value. While for disclosure purposes, the fair value of debt securities is estimated by discounting a financial instrument with similar contractual cash flows using the effective interest method.

(i) Fair value and book value of financial assets and liabilities as of September 30, 2015 and December 31, 2014 are as follows:

<i>In millions of won</i>	<b>Type</b>	<b>September 30, 2015</b>		<b>December 31, 2014</b>	
		<b>Book value</b>	<b>Fair value</b>	<b>Book value</b>	<b>Fair value</b>
	<b>Assets recognized at fair value</b>				
	Available-for-sale financial assets	₩ 14,099	14,099	12,144	12,144
	Derivative assets (using hedge accounting)	77,102	77,102	30,397	30,397
		₩ <u>91,201</u>	<u>91,201</u>	<u>42,541</u>	<u>42,541</u>
	<b>Assets carried at amortized cost</b>				
	Cash and cash equivalents	₩ 161,283	161,283	105,285	105,285
	Loans and receivables	58,087	58,087	60,898	60,898
	Short-term financial instruments	60	60	-	-
	Trade and other receivables	486,931	486,931	562,971	562,971
		₩ <u>706,361</u>	<u>706,361</u>	<u>729,154</u>	<u>729,154</u>
	<b>Liabilities recognized at fair value</b>				
	Derivative liabilities (using hedge accounting)	₩ 554	554	1,324	1,324
	<b>Liabilities carried at amortized cost</b>				
	Trade and other payables	₩ 333,769	333,769	529,812	529,812
	Unsecured borrowings (*)	179,018	179,018	108,472	108,472
	Unsecured bond	3,719,100	3,812,280	3,052,532	3,189,358
		₩ <u>4,231,887</u>	<u>4,325,067</u>	<u>3,690,816</u>	<u>3,827,642</u>

(\*) Commerce and Industry Energy Co., Ltd.'s shares that the Group own are provided as collateral for the borrowings of ₩83,513 million (December 31, 2014: ₩85,000 million).

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**34. Risk Management, Continued**

(3) Fair value risk, continued

(ii) Interest rates used for determining fair value

The interest rates used to discount estimated cash flows, when applicable, are based on the government yield curve at the reporting date plus an adequate credit spread.

The discount rate used for calculating fair value as of September 30, 2015 and December 31, 2014 are as follows:

<u>Type</u>	<u>September 30, 2015(%)</u>	<u>December 31, 2014(%)</u>
Derivatives	0.42 ~ 1.30	0.16 ~ 2.06
Borrowings and bonds	1.67 ~ 3.17	0.16 ~ 2.84
Finance lease	4.09	4.36

(iii) Fair value hierarchy

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, classified as Level 1, 2, or 3, based on the degree to which the fair value is observable.

Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2: Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and

Level 3: Inputs that are not based on observable market data.

Fair values of financial instruments by hierarchy level as of September 30, 2015 and December 31, 2014 are as follows:

<i>In millions of won</i>		<b>September 30, 2015</b>			
<u>Type</u>		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b>Financial assets at fair value</b>					
Available-for-sale financial assets(*) ₩	-	2	14,097	-	14,099
Derivative assets	-	77,102	-	-	77,102
	₩	<u>-</u>	<u>77,104</u>	<u>14,097</u>	<u>91,201</u>
<b>Financial liabilities at fair value</b>					
Derivative liabilities ₩	-	554	-	-	554

(\*) Available-for-sale financial assets measured at cost amount ₩19,205 million as of September 30, 2015 are excluded from the above disclosure since their fair value cannot be reliably measured.

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**34. Risk Management, Continued**

(3) Fair value risk, continued

*In millions of won*

Type	December 31, 2014			
	Level 1	Level 2	Level 3	Total
<b>Financial assets at fair value</b>				
Available-for-sale financial assets(*) ₩	-	2	12,142	12,144
Derivative assets	-	30,397	-	30,397
	₩	30,399	12,142	42,541
<b>Financial liabilities at fair value</b>				
Derivative liabilities ₩	-	1,324	-	1,324

(\*) Available-for-sale financial assets measured at cost amount ₩17,484 million as of December 31, 2014 are excluded from the above disclosure since their fair value cannot be reliably measured.

There is no change between level 1 and level 2 for the nine-month period ended September 30, 2015 and for the year ended December 31, 2014.

Changes of financial assets and liabilities which are classified as level 3 for the nine-month period ended September 30, 2015 are as follows:

*In millions of won*

Type	2015			
	Beginning balance	Disposal	Valuation	Ending balance
<b>Financial assets at fair value</b>				
Available-for-sale financial assets ₩	12,142	-	1,955	14,097

KOREA MIDLAND POWER CO., LTD. AND SUBSIDIARIES  
Notes to the Condensed Consolidated Interim Financial Statements, Continued  
**September 30, 2015 and 2014**  
(Unaudited)

**35. Related Parties**

(1) Related parties of the Group as of September 30, 2015 are as follows:

<b>Type</b>	<b>Related party</b>
Parent	KEPCO
Associates	KEPCO Lebanon S.A.R.L. Gangwon Wind Power Co., Ltd. Hyundai Green Power Co., Ltd. Korea Offshore Wind Power Co., Ltd. PT Cirebon Electric Power PT Wampu Electric Power Jungbu Bio Energy Co., Ltd.
Joint ventures	Eco Biomass Energy Sdn. Bhd.
Others	Korea Hydro & Nuclear Power Co., Ltd. Korea South-East Power Co., Ltd. Korea East-West Power Co., Ltd. Korea Western Power Co., Ltd. Korea Southern Power Co., Ltd. KEPCO Engineering & Construction Company INC. KEPCO Plant Service & Engineering Co., Ltd. KEPCO KDN Co., Ltd. Korea Gas Corporation Korea Electronic Power Industrial Development Co., Ltd. Korea Power Exchange Korea Development Bank and Others

KOREA MIDLAND POWER CO., LTD. AND SUBSIDIARIES  
Notes to the Condensed Consolidated Interim Financial Statements, Continued  
**September 30, 2015 and 2014**  
(Unaudited)

**35. Related Parties, Continued**

(2) Related party transactions for the nine-month periods ended September 30, 2015 and 2014 are as follows:

<i>In millions of won</i>		<b>Sales and others</b>		<b>Purchase and others</b>	
<b>Company name</b>	<b>Transaction type</b>	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
Korea Electric Power Corporation	Electricity trading and others	₩ 2,891,256	3,858,282	33,931	43,412
Korea Hydro & Nuclear Power Co., Ltd.	Commission expenses	38	-	-	43
Korea South-East Power Co., Ltd.	Rental and services	69	-	-	24
Korea East-West Power Co., Ltd.	Rental and services	4,468	41	-	44
Korea Southern Power Co., Ltd.	Rental and services	26	19	28	-
Korea Western Power Co., Ltd.	Rental and services	16	105	-	-
KEPCO Engineering & Construction Company INC.	Rental and services	-	-	13,683	10,409
KEPCO Plant Service & Engineering Co., Ltd.	Rental and services	310	313	67,944	58,318
KEPCO KDN Co., Ltd.	Rental and services	5	-	7,099	5,311
Korea Gas Corporation	Rental and services	313	626	572,578	1,768,271
Industrial Development Co., Ltd.	Rental and services	56	67	22,864	-
Chungbuk Photovoltaic Power Co., Ltd.	REC purchase	-	-	-	327
Cheonan Photovoltaic Power Co., Ltd.	REC purchase	-	-	-	262
Gumi-ochang Photovoltaic Power Co., Ltd.	REC purchase	-	-	-	1,148
Golden Root 2nd Solar Power Co., Ltd.	REC purchase	-	-	-	319
Seokchun solar power Co., Ltd.	REC purchase	-	-	-	644
Gangwon Wind Power Co., Ltd.	Dividend income	852	1,988	5	6
Hyundai Green Power Co., Ltd.	Rental and services	10,716	10,289	-	-
Korea Power Exchange	Rental and services	-	-	2,884	3,663

KOREA MIDLAND POWER CO., LTD. AND SUBSIDIARIES  
Notes to the Condensed Consolidated Interim Financial Statements, Continued  
**September 30, 2015 and 2014**  
(Unaudited)

**35. Related Parties, Continued**

(3) Receivables and payables arising from related party transactions as of September 30, 2015 and December 31, 2014 are as follows:

*In millions of won*

Company name	Transaction type	Receivables		Payables	
		2015	2014	2015	2014
KEPCO	Trade receivables	₩ 286,485	449,664	-	-
	Other payables	-	-	17,448	19,244
Korea Hydro & Nuclear Power Co., Ltd.	Other payables	2	-	-	22
Korea South-East Power Co., Ltd	Other payables	-	-	-	18
Korea East-West Power Co., Ltd.	Other payables	259	-	-	-
KEPCO KDN Co., Ltd.	Other payables	-	-	1,085	1,172
KEPCO Plant Service & Engineering Co., Ltd.	Other payables	2	-	120	11,070
KEPCO Engineering & Construction Company INC.	Other payables	-	-	-	4,652
Korea Gas Corporation	Trade payables	-	-	75,414	235,585
Korea Electronic Power Industrial Development Co., Ltd.	Other payables	-	-	518	4,234
Korea Power Exchange	Other receivables	-	611	-	-
PT Cirebon Electric Power	Loans	40,766	45,136	-	-
Hyundai Green Power Co., Ltd.	Trade receivables	227	171	-	-

KOREA MIDLAND POWER CO., LTD. AND SUBSIDIARIES  
Notes to the Condensed Consolidated Interim Financial Statements, Continued  
**September 30, 2015 and 2014**  
(Unaudited)

**35. Related Parties, Continued**

(4) Borrowings arising from related party transactions as of September 30, 2015 and December 31, 2014 are as follows:

*In millions of won*

<u>Type</u>	<u>Company name</u>	<u>September 30, 2015</u>	<u>December 31, 2014</u>
Associates	PT Cirebon Electric Power ₩	40,766	45,136

(5) Payment guarantees provided to an associates or joint ventures as of December 31, 2014 are as follows:

*In thousands of USD*

<u>Primary guarantor</u>	<u>Secondary guarantor</u>	<u>Type of guarantees</u>	<u>Credit limit</u>
Korea Midland Power Co., Ltd.	PT Cirebon Electric Power	Payment guarantee for debt	USD 9,653
Korea Midland Power Co., Ltd.	PT Wampu Electric Power	Guarantee for business expense payment	USD 8,000
		Performance guarantee for business	USD 520

(6) Payment collaterals provided to an associates or joint ventures as of September 30, 2015 are as follows:

*In millions of won*

<u>Primary guarantor</u>	<u>Secondary guarantor</u>	<u>Type of guarantees</u>	<u>Book value</u>
Korea Midland Power Co., Ltd.	Gangwon Wind Power Co., Ltd.	Collateralized money invested ₩	7,410
Korea Midland Power Co., Ltd.	Hyundai Green Power Co., Ltd.	Collateralized money invested	87,003

(7) Other Commitments

(i) Hyundai Green Power Co., Ltd.

As of September 30, 2015, Hyundai Green Power Co., Ltd., an associate of the Group, which engages in the by-product gas power generating industry, carries long-term borrowings for project financing amounting to ₩919 billion from Korea Development Bank and others. In connection with these borrowings, the Group pledged its investment securities in Hyundai Green Power Co. Ltd. In addition, the Group provided a payment guarantee in relation to the repayment of the principal and interest in arrears of unsubordinated borrowings.

On the other hand, the Group has the right to request the financial investors to sell their equity and the obligation to buy their equities upon their request during a specified future period.

In addition, if the specific condition in the shareholder agreement is satisfied, the Group will have the right to request HYUNDAI STEEL COMPANY (operating investor) and a third party designated by HYUNDAI STEEL COMPANY to buy its equity and have the obligation to sell its equity to HYUNDAI STEEL COMPANY at its request.

(ii) Commerce and Industry Energy Co., Ltd.

As of September 30, 2015, Commerce & Industry Energy Co., Ltd. carries long-term borrowings for project financing amounting to ₩85 billion from Hana Bank and others. In connection with these borrowings, the Group pledged its investment securities in Commerce & Industry Energy Co., Ltd.

According to the shareholders agreement, the Group guarantees for a fixed return on investment to Hana Power Ltd. and one other company, which own 39.3%, 2,260,000 shares of Commerce and Industry Energy Co., Ltd.'s shares. The investors can request the Group to acquire its investment securities 58 months after the investment date.

KOREA MIDLAND POWER CO., LTD. AND SUBSIDIARIES  
Notes to the Condensed Consolidated Interim Financial Statements, Continued  
**September 30, 2015 and 2014**  
(Unaudited)

**35. Related Parties, Continued**

- (8) Salaries and other compensations to the key members of management of the Group for the nine-month periods ended September 30, 2015 and 2014 are as follows:

*In millions of won*

Type	2015	2014
Salaries	₩ 389	412
Employee benefits	21	12
	₩ 410	424

- (9) Housing and tuition loans to employees as of September 30, 2015 and December 31, 2014 are as follows:

*In millions of won*

Type	September 30, 2015	December 31, 2014
Short-term loans	₩ 1,646	1,412
Long-term loans	15,676	14,350
	₩ 17,322	15,762

**36. Non-Cash Transactions**

Significant non-cash investment and finance transactions excluded from statements of cash flows for the nine-month periods ended September 30, 2015 and 2014 are as follows:

*In millions of won*

Transactions	2015	2014
Transfer from construction-in-progress to depreciable assets	₩ 47,872	65,273
Transfer of long-term borrowings and bonds from non-current to current	238,901	330,085

**37. Commitments for Expenditure**

- (1) The agreements for acquisition of property, plant and equipment as of September 30, 2015 and December 31, 2014 are as follows:

*In millions of won*

Contracts	September 30, 2015		December 31, 2014	
	Amounts	Balance	Amounts	Balance
Construction of Wonju units	₩ 55,139	14,250	52,489	18,524
Construction of Jeju units	2,284	1,092	2,284	1,298
Construction of Sejong city cogeneration units	354,413	-	322,490	46,007
Construction of Seoul units	616,744	524,170	610,341	560,634
Construction of New Boryoung units	2,061,225	363,627	2,052,399	985,001
Other	2,712	-	2,463	270

KOREA MIDLAND POWER CO., LTD. AND SUBSIDIARIES  
Notes to the Condensed Consolidated Interim Financial Statements, Continued  
**September 30, 2015 and 2014**  
(Unaudited)

**37. Commitments for Expenditure, Continued**

(2) Long-term marine transportation commitments

The long-term marine transportation commitments for bituminous coal as of September 30, 2015 and the details are as follows:

<b>Company name</b>	<b>Vessel</b>	<b>Contract periods</b>
STX Pan Ocean Co., Ltd.	New Joy	1998.08. ~ 2016.07.
	Unsettled	2016.07. ~ 2034.06.
H-LINE Shipping Co., Ltd.	Hanjin Port Kembla	2008.10. ~ 2018.09.
	Goodwill	2010.08. ~ 2025.07.
	Hanjin Tacoma	2010.06. ~ 2025.05.
	Unsettled	2017.07. ~ 2035.06.
SW Shipping	Seafuture	2008.10. ~ 2018.09.
	Unsettled	2017.01. ~ 2031.12.
	Unsettled	2018.01. ~ 2032.12.
Samsun Logix	SamsunBoryeong	2008.04. ~ 2018.04.
	Xin Run	2008.05. ~ 2018.05.
	Unsettled	2015.10. ~ 2030.09.
NYK Bulkship Korea	Key Boundary	2008.05. ~ 2018.05.
	Twinkle Salute	2009.12. ~ 2020.11.
Daebo Shipping	JK Boryeong	2010.03. ~ 2016.03.
Five Ocean	Ricsea	2010.08. ~ 2025.08.
SK Shipping	K. Phoenix	2011.09. ~ 2021.08.
Hyundai Merchant	HD Atlas	2011.10. ~ 2023.06.
	Unsettled	2017.01. ~ 2031.12.
	Unsettled	2018.01. ~ 2032.12.
DOOYANG LIMITED	Unsettled	2018.07. ~ 2033.06.

(3) Contracts for raw materials purchase

Details of contracts for raw materials purchase as of September 30, 2015 are as follows:

*In thousands of tons, except for kiloliter*

<b>Company name</b>	<b>Contract periods</b>	<b>Amount</b>
Coal:		
Australia(Moolarben)	2009.07. ~ End of mining production	625
Australia(Sonoma and others)	2012.01. ~ 2017.12.	5,540
Russia	2012.12. ~ 2015.11.	1,330
Indonesia	2009.07. ~ 2018.06.	4,050
U.S.	2010.07. ~ 2018.06.	1,060

KOREA MIDLAND POWER CO., LTD. AND SUBSIDIARIES  
Notes to the Condensed Consolidated Interim Financial Statements, Continued  
**September 30, 2015 and 2014**  
(Unaudited)

**37. Commitments for Expenditure, Continued**

(4) Contracts for raw materials purchase, continued

Details of contracts for raw materials purchase as of September 30, 2015 are as follows, continued:

*In thousands of tons, except for kiloliter*

<u>Company name</u>	<u>Contract periods</u>	<u>Amount</u>
Anthracite:		
Korea Coal Association	2015.01. ~ 2016.12.	Government assign
Daeshin Co., Ltd.	2015.06. ~ 2015.07.	30
Oil:		
GS Caltex	2015.04. ~ 2015.09.	132,748 kℓ
LNG:		
Korea Gas Corporation	2007.01. ~ 2026.12.	Renegotiated annually
Vitol S.A.	2011.12. ~ 2024.12.	380

KOREA MIDLAND POWER CO., LTD. AND SUBSIDIARIES  
Notes to the Condensed Consolidated Interim Financial Statements, Continued  
**September 30, 2015 and 2014**  
(Unaudited)

**38. Contingencies and Commitments**

- (1) Ongoing litigations related with contingent liabilities and assets as of September 30, 2015 and December 31, 2014 are as follows:

*In millions of won, except for number of cases*

	<b>September 30, 2015</b>		<b>December 31, 2014</b>	
	<b>Number of cases</b>	<b>Claim amount(*)</b>	<b>Number of cases</b>	<b>Claim amount</b>
Litigations	12	₩ 19,946	12	₩ 19,933

(\*) The claim amount includes a case in which the Group and four other related parties are co-defendants with claim amounts of ₩19,566 million as of September 30, 2015. In addition, the provision for wage litigations is ₩15,811 million as disclosed in note 20. Except for the lawsuits that resulted in litigation provisions, the outcome of the other litigations cannot be determined. However, management of the Group believes that the ultimate outcomes will not have a significant impact on the Group's results of operations and financial position.

- (2) Credit lines provided by financial institutions as of September 30, 2015 are as follows:

*In millions of won and thousands of foreign currencies*

<b>Commitments</b>	<b>Financial institutions</b>	<b>Currency</b>	<b>Amount</b>
Commitments on Bank-overdraft	Nonghyup Bank	KRW	150,000
Limit amount available for CP	Korea Exchange Bank and others	KRW	100,000
Certification of payment on L/C	Korea Exchange Bank and others	USD	244,000
Loan limit	Korea Exchange Bank and others	USD	275,059

- (3) Money replenishment contract

In order to secure its status as a shareholder of Navanacom Electric Co., Ltd., the Group has signed a fund supplement contract. According to the contract, in case Navanacom Electric Co., Ltd. does not have sufficient funds for its operation or repayment of borrowings, the Group bears a payment obligation in proportion to its ownership.

KOREA MIDLAND POWER CO., LTD. AND SUBSIDIARIES  
Notes to the Condensed Consolidated Interim Financial Statements, Continued  
**September 30, 2015 and 2014**  
(Unaudited)

**39. Disposal of Subsidiaries**

The Group lost control over Boulder Solar Power LLC during the nine-month period ended September 30, 2015 upon sale of all its ownership interests.

(1) The fair value of sales price as of September 30, 2015 is as follows:

<i>In millions of won</i>	<b>Amount</b>
Consideration received in cash	₩ 553
Trade and other receivables	11,823
	<b>₩ 12,376</b>

(2) At the disposal date, the carrying amounts of assets and liabilities of the subsidiary are as follows:

<i>In millions of won</i>	<b>Amount</b>
<b>Non-current assets</b>	
Long-term trade and other receivables	₩ 1,077
Property, plant and equipment	2,460
Others	2,893
<b>Current liabilities</b>	
Current non-financial liabilities	6
<b>Book value of disposed net assets</b>	<b>₩ 6,424</b>

(3) Gain on disposal of subsidiary during the nine-month period ended September 30, 2015 is as follows:

<i>In millions of won</i>	<b>Amount</b>
Fair value of consideration	₩ 12,376
Book value of net assets disposed	(6,424)
Other comprehensive loss	(94)
Gain on disposal of investments in subsidiary	<b>₩ 5,858</b>

(4) Net cash flow on disposal of subsidiary is as follows:

<i>In millions of won</i>	<b>Amount</b>
Consideration received in cash and cash equivalents	₩ 553
Less: disposal of cash and cash equivalents	-
Net cash flow	<b>₩ 553</b>



## Independent Auditors' Report

The Board of Directors and Shareholder  
Korea Midland Power Co., Ltd.:

We have audited the accompanying consolidated financial statements of Korea Midland Power Co., Ltd. and its subsidiaries (the "Group"), which comprise the consolidated statements of financial position as of December 31, 2014 and 2013, 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, 2014 and 2013 and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with Korean International Financial Reporting Standards.



**Other matters**

The accompanying consolidated statement of financial position of the Group as of December 31, 2013, and the related consolidated statements comprehensive income, changes in equity and cash flows for the year then ended, were audited by us in accordance with the previous auditing standards generally accepted in the Republic of Korea.

The procedures and practices utilized in the Republic of Korea to audit such consolidated financial statements may differ from those generally accepted and applied in other countries.

*KPMG Samjong Accounting Corp.*

Seoul, Korea  
March 17, 2015

This report is effective as of March 17, 2015, 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 MIDLAND POWER CO., LTD. AND SUBSIDIARIES  
 Consolidated Statements of Financial Position  
 As of December 31, 2014 and 2013

*In millions of won*

	<u>Note</u>		<u>December 31, 2014</u>	<u>December 31, 2013</u>
<b><u>Assets</u></b>				
Cash and cash equivalents	5,6,34	₩	105,285	91,300
Current financial assets	5,7,9,34		2,822	2,849
Trade and other receivables	5,10,34,35		498,826	512,540
Inventories	11,37		286,211	266,109
Current tax assets	31		2,112	5,837
Current non-financial assets	12		51,365	64,708
<b>Current assets</b>			<u>946,621</u>	<u>943,343</u>
Non-current financial assets	5,7,8,9,34,35		118,102	120,822
Non-current trade and other receivables	5,10,34		64,145	42,934
Property, plant and equipment	13,17,37		5,866,209	4,983,315
Intangible assets	14,39		18,392	22,549
Investments in associates and joint ventures	15,35		186,008	174,289
Non-current non-financial assets	12		16,707	19,336
Deferred tax assets	31		2,616	3,291
<b>Non-current assets</b>			<u>6,272,179</u>	<u>5,366,536</u>
<b>Total assets</b>		₩	<u>7,218,800</u>	<u>6,309,879</u>

*See accompanying notes to the consolidated financial statements.*

KOREA MIDLAND POWER CO., LTD. AND SUBSIDIARIES  
Consolidated Statements of Financial Position, Continued  
As of December 31, 2014 and 2013

*In millions of won*

	<u>Note</u>	<u>December 31, 2014</u>	<u>December 31, 2013</u>
<b>Liabilities</b>			
Trade and other payables	5,16,17,34,35	₩ 516,058	632,594
Current financial liabilities	5,9,18,34	351,160	370,225
Current tax liabilities		23,998	1,061
Current non-financial liabilities	19	5,006	5,754
Current provisions	20,38	130,177	69,428
<b>Current liabilities</b>		<u>1,026,399</u>	<u>1,079,062</u>
Non-current trade and other payables	5,16,17,34,35	13,754	15,051
Non-current financial liabilities	5,13,18,34	2,811,168	1,962,423
Non-current non-financial liabilities	19	13,176	13,123
Employee benefits obligations	21,34	109,685	101,940
Deferred tax liabilities	31	217,596	201,526
<b>Non-current liabilities</b>		<u>3,165,379</u>	<u>2,294,063</u>
<b>Total liabilities</b>		<u>4,191,778</u>	<u>3,373,125</u>
<b>Equity</b>			
Contributed capital	22	1,190,450	1,190,450
Retained earnings	23	2,135,894	2,046,685
Other components of equity	9,22,24	(316,564)	(314,661)
<b>Equity attributable to owner of the Company</b>		<u>3,009,780</u>	<u>2,922,474</u>
<b>Non-controlling interests</b>		<u>17,242</u>	<u>14,280</u>
<b>Total equity</b>		<u>3,027,022</u>	<u>2,936,754</u>
<b>Total liabilities and equity</b>		<u>₩ 7,218,800</u>	<u>6,309,879</u>

See accompanying notes to the consolidated financial statements.

KOREA MIDLAND POWER CO., LTD. AND SUBSIDIARIES  
Consolidated Statements of Comprehensive Income  
For the years ended December 31, 2014 and 2013

<i>In millions of won, except earnings per share information</i>	<b>Note</b>	<b>2014</b>	<b>2013</b>
Sales	25,35	₩ 5,112,015	5,702,267
Cost of sales	32,35	(4,857,026)	(5,538,074)
<b>Gross profit</b>		<b>254,989</b>	<b>164,193</b>
Selling and administrative expenses	26,32,35	(88,678)	(64,501)
<b>Operating profit</b>		<b>166,311</b>	<b>99,692</b>
Other non-operating income	27,35	37,300	29,839
Other non-operating expenses	27	(603)	(2,883)
Other profit (loss), net	5,28	(1,595)	(2,821)
Finance income	5,9,29	37,664	38,558
Finance costs	5,9,30	(95,201)	(116,038)
Equity method income related to associates and joint ventures	15	18,033	15,702
<b>Profit before income tax</b>		<b>161,909</b>	<b>62,049</b>
Income tax expense	31	(44,964)	(5,632)
<b>Profit for the year</b>		<b>116,945</b>	<b>56,417</b>
<b>Other comprehensive income</b>			
Items that will never be reclassified to profit or loss:			
Defined benefit plan actuarial gains (losses), net of tax	21	(13,044)	10,987
Items that are or may be reclassified subsequently to profit or loss:			
Net change in the unrealized fair value of derivatives using cash flow hedge accounting, net of tax	5,9	(8,135)	(3,299)
Net change in the unrealized fair value of available-for-sale financial assets, net of tax	5	116	2,370
Share in other comprehensive income of associates and joint ventures, net of tax	15	1,307	5,114
Foreign currency translation of foreign operations, net of tax		5,020	(8,243)
<b>Other comprehensive income (loss) for the period, net of tax</b>		<b>(14,736)</b>	<b>6,929</b>
<b>Total comprehensive income for the year</b>		<b>₩ 102,209</b>	<b>63,346</b>
<b>Profit (loss) attributable to</b>			
Owner of the Company		114,497	56,940
Non-controlling interests		2,448	(523)
<b>Profit for the year</b>		<b>₩ 116,945</b>	<b>56,417</b>
<b>Total comprehensive income (loss) attributable to:</b>			
Owner of the Company		99,816	65,441
Non-controlling interests		2,393	(2,095)
<b>Total comprehensive income for the year</b>		<b>₩ 102,209</b>	<b>63,346</b>
<b>Earnings per share</b>			
Basic earnings per share (in won)	33	₩ 4,168	2,073

See accompanying notes to the consolidated financial statements.

KOREA MIDLAND POWER CO., LTD. AND SUBSIDIARIES  
Consolidated Statements of Changes in Equity  
For the year ended December 31, 2014

*In millions of won*

	Equity attributable to owners of the Company				Non- controlling Interests	Total Equity
	Contributed capital	Retained earnings	Other components of equity	Subtotal		
₩	1,190,450	2,046,685	(314,661)	2,922,474	14,280	2,936,754
<b>Balance at January 1, 2014</b>						
<b>Total comprehensive income for the year:</b>						
Profit for the year	-	114,497	-	114,497	2,448	116,945
Items that will not be reclassified subsequently to profit or loss:						
Defined benefit plan actuarial gains, net of tax	-	(13,044)	-	(13,044)	-	(13,044)
Items that may be reclassified subsequently to profit or loss:						
Net change in the unrealized fair value of derivatives using cash flow hedge accounting, net of tax	-	-	(8,135)	(8,135)	-	(8,135)
Net changes in the unrealized fair value of available-for-sale financial assets, net of tax	-	-	116	116	-	116
Share in other comprehensive income of associates and joint ventures, net of tax	-	-	1,307	1,307	-	1,307
Foreign currency translation of foreign operations, net of tax	-	-	5,075	5,075	(55)	5,020
<b>Transactions with owner of the Company, recognized directly in equity:</b>						
Dividends paid	-	(12,244)	-	(12,244)	(2,716)	(14,960)
Issuance of share capital by subsidiaries	-	-	(123)	(123)	3,563	3,440
Acquisition of subsidiary	-	-	(143)	(143)	(278)	(421)
₩	1,190,450	2,135,894	(316,564)	3,009,780	17,242	3,027,022

**Balance at December 31, 2014**

*See accompanying notes to the consolidated financial statements.*

**KOREA MIDLAND POWER CO., LTD. AND SUBSIDIARIES**  
**Consolidated Statements of Changes in Equity, Continued**  
**For the year ended December 31, 2013**

*In millions of won*

	Equity attributable to owners of the Company					Non- controlling interests	Total equity
	Contributed capital	Retained earnings	Other components of equity	Subtotal	Total equity		
<b>Balance at January 1, 2013</b>	₩ 1,190,450	2,044,911	(301,433)	2,933,928	13,092	2,947,020	
<b>Total comprehensive income for the year:</b>							
Profit (loss) for the year	-	56,940	-	56,940	(523)	56,417	
Items that will not be reclassified subsequently to profit or loss:							
Defined benefit plan actuarial losses, net of tax	-	10,986	-	10,986	-	10,986	
Items that may be reclassified subsequently to profit or loss:							
Net change in the unrealized fair value of derivatives using cash flow hedge accounting, net of tax	-	-	(3,299)	(3,299)	-	(3,299)	
Net changes in the unrealized fair value of available-for-sale financial assets, net of tax	-	-	2,370	2,370	-	2,370	
Share in other comprehensive loss of associates and joint ventures, net of tax	-	-	5,114	5,114	-	5,114	
Foreign currency translation of foreign operations, net of tax	-	-	(6,670)	(6,670)	(1,573)	(8,243)	
<b>Transactions with owner of the Company, recognized directly in equity:</b>							
Issuance of share capital by subsidiaries	-	(66,152)	-	(66,152)	(1,598)	(67,750)	
Dividends paid	-	-	(10,743)	(10,743)	4,882	(5,861)	
<b>Balance at December 31, 2013</b>	₩ 1,190,450	2,046,685	(314,661)	2,922,474	14,280	2,936,754	

See accompanying notes to the consolidated financial statements.

KOREA MIDLAND POWER CO., LTD. AND SUBSIDIARIES  
Consolidated Statements of Cash Flows  
For the years ended December 31, 2014 and 2013

In millions of won

	<u>2014</u>	<u>2013</u>
<b>Cash flows from operating activities</b>		
Profit for the year	₩ 116,945	56,417
Adjustments for:		
Employee benefit expense	7,971	17,535
Depreciation	411,118	371,679
Amortization	3,547	4,047
Increase in provisions of RPS, net	34,974	31,199
Losses on valuation of inventories	5	13
Losses on disposal of inventories	86	713
Losses on disposal of property, plant and equipment	1,640	3,936
Interest expense	73,055	62,869
Losses on foreign currency translation	17,597	3,741
Valuation losses on derivative instruments	-	3,143
Transaction losses on derivative instruments	4,835	44,130
Impairment losses on associates and joint ventures	1,558	2,492
Losses on valuation of associates and joint ventures	494	2,392
Losses on disposal of associates and joint ventures	-	1,022
Income tax expense	44,964	5,632
Other bad debt expenses	26	1,993
Other selling and administrative expenses	38,402	-
Gains on sale of inventories	(150)	(121)
Gains on sale of property, plant and equipment	(3,869)	(5,216)
Interest income	(15,302)	(12,668)
Gains on foreign currency translation	(432)	(3,487)
Valuation gains on derivative instruments	(16,902)	-
Transaction gains on derivative instruments	(3,850)	(19,516)
Gains on valuation of associates and joint ventures	(19,664)	(21,608)
Others, net	(3,743)	395
	<u>576,360</u>	<u>494,315</u>
Changes in:		
Trade receivables	69,542	(46,493)
Other receivables	(5,176)	19,277
Accrued income	(48,671)	(2,650)
Prepayments	21	232
Prepaid expenses	2,200	(4,497)
Inventories	(20,042)	(22,376)
Non-current prepaid expenses	672	(3,925)
Trade payables	(171,101)	47,824
Other payables	22,813	(10,835)
Accrued expenses	5,160	(1,390)
Advance received	(70)	92
Deferred income	164	22
Withholdings	(1,592)	(1,434)
Deposit received for guarantee	10,728	3,537
Non-current other payables	-	(281)
Non-current accrued expenses	(711)	396
Provisions for employee	(1,352)	5,479
Payments of employee benefit obligations	(1,787)	(3,344)
Plan assets	477	(3,044)
Others, net	(30,059)	(21,634)
	<u>₩ (168,784)</u>	<u>(45,044)</u>

See accompanying notes to the consolidated financial statements.

KOREA MIDLAND POWER CO., LTD. AND SUBSIDIARIES  
Consolidated Statements of Cash Flows, Continued  
For the years ended December 31, 2014 and 2013

*In millions of won*

	<b>2014</b>	<b>2013</b>
<b>Cash generated from operating activities</b>	₩ 524,521	505,688
Interest received	14,865	11,793
Interest paid	(101,585)	(89,137)
Dividends received	10,939	10,094
Income taxes (paid) refund received	4,783	(22,587)
<b>Net cash provided by operating activities</b>	<b>453,523</b>	<b>415,851</b>
<b>Cash flows from investing activities</b>		
Decrease in short-term financial instruments	-	1,115
Collection of short-term loans	3,860	3,466
Collection of long-term loans	22,579	1,883
Collection of long-term deposits	3,595	3,966
Proceeds from disposals of available-for-sale financial assets	1,011	48
Proceeds from disposals of property, plant and equipment	4,418	337
Decrease in construction-in-progress	-	842
Proceeds from disposals of non-current assets held for sale	-	7,950
Receipts of government grants	1,541	26,678
Proceeds from disposals of associates and joint ventures	3,118	-
Increase in short-term financial instruments	-	(565)
Increase in short-term loans	-	(207)
Increase in long-term loans	(13,196)	(6,870)
Acquisition of available-for-sale financial assets	-	(2,459)
Acquisition of associates and joint ventures	(4,031)	(1,923)
Increase in long-term deposits	(3,819)	(5,363)
Acquisition of property, plant and equipment	(31,710)	(35,110)
Acquisition of construction-in-progress	(1,221,017)	(809,128)
Acquisition of intangible assets	(511)	(1,030)
Business acquisition, net of cash acquired	-	7,290
<b>Net cash used in investing activities</b>	<b>(1,234,162)</b>	<b>(809,080)</b>
<b>Cash flows from financing activities</b>		
Payment of finance lease liabilities	(1,325)	(2,095)
Proceeds from bond and borrowings	1,179,537	849,296
Repayment of bond and borrowings	(370,351)	(500,366)
Settlement of derivative instruments, net	(985)	4,204
Dividends paid	(14,960)	(67,750)
Acquisition of investments in subsidiaries	(434)	-
Issuance of share capital	3,303	-
<b>Net cash provided by financing activities</b>	<b>794,785</b>	<b>283,289</b>
<b>Effect of exchange rate fluctuations on cash held</b>	<b>(161)</b>	<b>(3,303)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>13,985</b>	<b>(113,243)</b>
<b>Cash and cash equivalents at January 1</b>	<b>91,300</b>	<b>204,543</b>
<b>Cash and cash equivalents at December 31</b>	<b>₩ 105,285</b>	<b>91,300</b>

*See accompanying notes to the consolidated financial statements.*

KOREA MIDLAND POWER CO., LTD. AND SUBSIDIARIES  
Notes to the Consolidated Financial Statements  
December 31, 2014 and 2013

1. Reporting Entity

(1) Description of controlling company

Korea Midland Power Co., Ltd. ("KOMIPO") was incorporated on April 2, 2001 through the spin-off of the power generation division of Korea Electric Power Corporation ("KEPCO") in accordance with the restructuring plan, dated January 21, 1999, for the electricity industry in the Republic of Korea announced by the Ministry of Knowledge Economy and the Law on Promotion of Restructuring of the Electricity Industry published on December 23, 2000. KOMIPO (the "Company") and its subsidiaries (together referred to as the "Group" and individually as "Group entities") are engaged in the generation of electricity and development of electric power resources and sell 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, 2014, the Company operates five power plants with a generating capacity in the aggregate of 8,434MW.

The Company's head office is located in Gang-nam Gu, Seoul. As of December 31, 2014, the Company's issued and outstanding shares are wholly owned by KEPCO.

(2) Status of subsidiaries

(i) Subsidiaries as of December 31, 2014 and 2013 are as follows:

Company	Key operating activities	Location	Percentage of ownership (%)	
			2014	2013
KOMIPO Global Pte Ltd.	Construction and operation of utility plant	Singapore	100.0	100.0
KOMIPO Australia Pty Ltd.	Resources development	Australia	100.0	100.0
PT KPJB	Operation of utility plant	Indonesia	51.0	51.0
PT Cirebon Power Service(*)	Operation of utility plant	Indonesia	27.5	27.5
PT Tanggamus Electric Power	Hydropower	Indonesia	61.8	60.0
KOMIPO America Inc.	Holding Company	USA	100.0	100.0
Boulder Solar Power LLC	Solar photovoltaic power generation	USA	82.1	75.0
Commerce and Industry Energy Co., Ltd.	RDF Power generation	Korea	59.0	59.0

(\*) The Group is able to exercise majority voting rights of the Board of Directors according to the shareholders agreement, even though the Company's ownership interest is less than 50%. As such, the entity is included in the Company's scope of consolidation.

(ii) Changes in subsidiaries

There are no subsidiaries included and excluded from consolidation during the year ended December 31, 2014.

KOREA MIDLAND POWER CO., LTD. AND SUBSIDIARIES  
Notes to the Consolidated Financial Statements  
December 31, 2014 and 2013

1. Reporting Entity, Continued

(2) Status of subsidiaries, Continued

(iii) Summary financial information of subsidiaries and details of non-controlling interest (NCI) prior to intra-group elimination as of and for the year ended December 31, 2014 are as follows:

*In millions of won*

Investees	December 31, 2014								
	KOMIPO Global Pte Ltd.	KOMIPO Australia Pty Ltd.	PT KPJB	PT Cirebon Power Service	PT Tanggamus Electric Power	KOMIPO America Inc.	Boulder Solar Power LLC	Commerce and Industry Energy Co., Ltd.	
Current assets	₩ 15,231	4,804	16,999	1,458	3,024	6	1,137	11,771	
Non-current assets	142,210	13,975	283	682	21,096	10,113	7,320	91,575	
Current liabilities	3,637	427	1,191	274	507	7	6	5,317	
Non-current liabilities	-	116	4,843	638	7,832	-	-	81,730	
Net assets	153,804	18,236	11,248	1,228	15,781	10,112	8,451	16,299	
Book value of NCI	-	-	5,508	891	6,034	-	1,369	3,440	
Sales	-	4,786	21,276	6,661	20,089	-	-	23,645	
Profit (loss) for the year	9,470	1,786	8,929	354	(3,125)	-	(712)	(881)	
Profit (loss) for the year attributable to NCI	-	-	3,936	125	(979)	-	(333)	(301)	
Cash flows from operating activities	6,261	1,530	8,675	25	(17,886)	-	(740)	3,273	
Cash flows from investing activities	1,880	(749)	(93)	-	103	(2,106)	(547)	(311)	
Cash flows from financing activities, before dividends to NCI	5,055	-	41	-	15,930	2,106	2,106	-	
Cash flows from financing activities - cash dividends to NCI	-	-	(2,716)	-	-	-	-	-	
Effect of exchange rate fluctuations on cash held	219	(153)	182	22	26	-	47	-	
Net increase (decrease) in cash and cash equivalents	13,415	627	3,308	46	(1,827)	-	867	2,962	

KOREA MIDLAND POWER CO., LTD. AND SUBSIDIARIES  
Notes to the Consolidated Financial Statements  
December 31, 2014 and 2013

1. Reporting Entity, Continued

(2) Status of subsidiaries, Continued

(iv) Summary financial information of subsidiaries and details of non-controlling interest (NCI) prior to intra-group elimination as of and for the year ended December 31, 2013 are as follows:

Investees	December 31, 2013								
	KOMIPO Global Pte Ltd.	KOMIPO Australia Pty Ltd.	PT KPJB	PT Cirebon Power Service	PT Tanggamus Electric Power	KOMIPO America Inc.	Boulder Solar Power LLC	Commerce and Industry Energy Co., Ltd.	
Current assets	₩ 2,709	4,088	14,479	1,541	5,853	6	270	8,733	
Non-current assets	129,166	14,387	405	347	3,932	7,598	7,369	96,005	
Current liabilities	30	823	881	273	626	6	6	2,407	
Non-current liabilities	-	-	4,667	610	-	-	-	85,221	
Net assets	131,845	17,652	9,336	1,005	9,159	7,598	7,633	17,110	
Book value of NCI	-	-	4,571	728	3,663	-	1,648	3,669	
Sales	-	4,728	20,437	7,143	-	-	-	13,450	
Profit (loss) for the year	14,423	1,574	6,143	406	(3,640)	-	(2,131)	(2,959)	
Profit (loss) for the year attributable to NCI	-	-	2,239	84	(1,187)	-	(518)	(1,141)	
Cash flows from operating activities	3,148	348	1,636	358	(4,616)	6	(2,131)	(820)	
Cash flows from investing activities	(6,110)	203	(318)	-	(1,999)	(1,355)	760	(3,882)	
Cash flows from financing activities, before dividends to NCI	3,107	-	(2,468)	-	-	1,355	1,355	3,248	
Cash flows from financing activities - cash dividends to NCI	-	-	(1,598)	-	-	-	-	-	
Effect of exchange rate fluctuations on cash held	(30)	(444)	(2,828)	(15)	106	-	(44)	-	
Net increase (decrease) in cash and cash equivalents	115	107	(5,576)	343	(6,509)	6	(60)	(1,454)	

KOREA MIDLAND POWER CO., LTD. AND SUBSIDIARIES  
Notes to the Consolidated Financial Statements  
December 31, 2014 and 2013

**2. Basis of Preparation**

(1) Statement of compliance

The consolidated financial statements have been prepared in accordance with Korean International Financial Reporting Standards ("K-IFRS"), as prescribed in the Act on *External Audits of Corporations in the Republic of Korea*.

(2) Basis of measurement

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

- ✓ Derivative financial instruments are measured at fair value
- ✓ Financial instruments at fair value through profit or loss are measured at fair value
- ✓ 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

(3) Functional and presentation currency

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

(4) 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 prospectively.

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 15: Investments in Associates and Joint Ventures

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

- ✓ Note 20: Provisions
- ✓ Note 21: Employee Benefits Obligations
- ✓ Note 38: Contingencies and Commitments

(5) 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 significant valuation issues are reported to the Group's Audit Committee.

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.

KOREA MIDLAND POWER CO., LTD. AND SUBSIDIARIES  
Notes to the Consolidated Financial Statements  
December 31, 2014 and 2013

**2. Basis of Preparation, Continued**

(5) Measurement of fair values, Continued

If the inputs used to measure the fair value of an asset or a liability fall into different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

**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 consolidated financial statements.

The Group has adopted the following amendments to standards and new interpretation with a date of initial application of January 1, 2014.

- ✓ Offsetting Financial Assets and Financial Liabilities (Amendments to K-IFRS 1032 'Financial Instruments: Presentation'.)
- ✓ Recoverable Amount Disclosures for Non-Financial Assets (Amendments to K-IFRS 1036 'Impairment of Assets')
- ✓ K-IFRS 2121 'Levies'

The nature of the changes are explained below.

(i) Offsetting Financial Assets and Financial Liabilities (Amendments to K-IFRS 1032)

The Group has adopted amendments to K-IFRS 1032 'Financial Instruments: Presentation' since January 1, 2014. The amendments clarify the meaning of 'currently has a legally enforceable right of set-off'. According to the amendments, the right to set off should not be contingent on a future event, and legally enforceable in the normal course of business, in the event of default, and in the event of insolvency or bankruptcy of the entity and all of the counterparties. The amendments also state that some gross settlement systems would be considered equivalent to net settlement if they eliminate or result in insignificant credit and liquidity risk and process receivables and payables in a single settlement process or cycle.

(ii) Recoverable Amount Disclosures for Non-Financial Assets (Amendments to K-IFRS 1036)

The Group has adopted amendments to K-IFRS 1036 'Impairment of Assets' since January 1, 2014. The amendments require the disclosure of information about the recoverable amount of impaired assets, if that amount is based on fair value less costs of disposal. They also require the disclosure of additional information about that fair value measurement. In addition, if the recoverable amount of impaired assets based on fair value less costs of disposal was measured using a present value technique, the amendments also require the disclosure of the discount rates that have been used in the current and previous measurements.

(iii) K-IFRS 2121 'Levies'

The Group has adopted K-IFRS 2121 'Levies' since January 1, 2014. K-IFRS 2121 is an Interpretation of K-IFRS 1037 'Provisions, Contingent Liabilities and Contingent Assets', on the accounting for levies imposed by governments. K-IFRS 1037 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (or 'obligating event'). K-IFRS 2121 clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy.

The interpretation does not provide guidance on the accounting for the costs arising from recognizing the liability to pay a levy. Other K-IFRSs should be applied to determine whether the recognition of a liability to pay a levy gives rise to an asset or an expense.

The Group applied the amendment retrospectively and did not make any adjustments on prior years' financial statements since the management believe the impact of the amendments and the interpretation on the Group's consolidated statements is not significant.

KOREA MIDLAND POWER CO., LTD. AND SUBSIDIARIES  
Notes to the Consolidated Financial Statements  
December 31, 2014 and 2013

**4. Significant accounting policies**

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

(1) Operating segment

Substantially all of the Group's revenue and non-current assets are generated or located in Korea. The Group's chief operating decision maker ("CODM") does not receive and does not review discrete financial information for any component of the Group, therefore it does not report segment information. The Group's electricity sales for the years ended December 31, 2014 and 2013 amounted to ₩ 4,927,292 million and ₩ 5,637,010 million, and are all made to KEPCO, who owns 100 percent of the Company.

(2) 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 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 is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not re-measured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognized in profit or loss.

(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.

(iii) Subsidiaries

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

(iv) Loss of control

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

KOREA MIDLAND POWER CO., LTD. AND SUBSIDIARIES  
Notes to the Consolidated Financial Statements  
December 31, 2014 and 2013

**4. Significant accounting policies, Continued**

(2) Consolidation, Continued

(v) Interests in equity-accounted investees

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

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

Interests in associates and the joint venture are accounted for using the equity method. They are initially recognized 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.

(3) 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. Equity investments are excluded from cash equivalents unless they are, in substance, cash equivalents, for example in the case of preferred shares when it has a short maturity with a specified redemption date.

(4) Inventories

The cost of inventories is based on the weighted average principle (Supplies: moving average principle, Inventory-in-transit: specific identification 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. 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.

(5) 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.

KOREA MIDLAND POWER CO., LTD. AND SUBSIDIARIES  
Notes to the Consolidated Financial Statements  
December 31, 2014 and 2013

**4. Significant accounting policies, Continued**

(5) Non-derivative financial assets, Continued

(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.

(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.

(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.

(6) Derivative financial instruments, including hedge accounting

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

(i) Hedge accounting

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

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

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**4. Significant accounting policies, Continued**

(6) Derivative financial instruments, including hedge accounting, Continued

*Fair value hedge*

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

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

*Cash flow hedge*

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

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) Separable embedded derivatives

Embedded derivatives are separated from the host contract and accounted for separately only if the following criteria have been met:

- (a) the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract;
- (b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
- (c) the hybrid instrument is not measured at fair value with changes in fair value recognized in profit or loss.

Changes in the fair value of separable embedded derivatives are recognized immediately in profit or loss.

(iii) Other derivative financial instruments

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

(7) 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 there is objective evidence that financial instruments are impaired, impairment losses are measured and recognized.

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**4. Significant accounting policies, Continued**

(7) Impairment of financial assets, Continued

(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. Losses are recognized in profit or loss and reflected in an allowance account. When the Group considers that there are no realistic prospects of recovery of the asset, the relevant amounts are written off. If the amount of impairment loss subsequently decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, then the previously recognized impairment loss is reversed through profit or loss 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.

(8) 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 over estimated useful lives that appropriately reflect the pattern in which the asset's future economic benefits are expected to be consumed on a straight-line basis.

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.

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**4. Significant accounting policies, Continued**

(8) Property, plant and equipment, Continued

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

	<u>Useful lives (years)</u>	<u>Depreciation method</u>
Buildings	8 ~ 30	
Structures	8 ~ 30	
Machinery	2 ~ 24	
Vehicles	4	Straight-line method
Vessels	9	
Finance lease	8~ 30	
Other property, plant and equipment ("Other PP&Es")	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.

(9) 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	4
Development costs	5
Other intangible assets	20

Useful lives 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, are 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.

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**4. Significant accounting policies, Continued**

(10) Borrowing costs

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

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

(11) 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.

(12) 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 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.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets ("CGUs"). 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 in profit or loss if the carrying amount of an asset or a CGU exceeds its recoverable amount.

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.

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**4. Significant accounting policies, Continued**

(13) 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.

(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).

(14) Employee benefits

(i) Short-term employee benefits

Short-term employee benefits are employee benefits that are expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related services. 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 expected to be settled beyond 12 months after the end of the annual reporting period in which the employees render the related service. The Group's net obligation in respect of long-term employee benefits is 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. Remeasurements are recognized in profit or loss in the period in which they arise.

(iii) Retirement benefits: defined contribution plans

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

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**4. Significant accounting policies, Continued**

(14) Employee benefits, Continued

(iv) Retirement benefits: defined benefit plans

The Group's net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of any plan assets.

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

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

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

(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 is recognized when, and only when, it is virtually certain that reimbursement will be received if the entity settles the obligation. The reimbursement is presented 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

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.

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**4. Significant accounting policies, Continued**

(17) Foreign currencies, Continued

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.

(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.

(19) Revenue

Revenue from sale of goods, rendering of services or use of the Group assets is measured at the fair value of the consideration received or receivable, trade discounts and volume rebates, 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) Services

Revenue from services rendered is recognized in profit or loss in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed by reference to surveys of work performed.

(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.

(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.

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**4. Significant accounting policies, Continued**

(21) Income taxes, Continued

(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 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.

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.

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

Deferred tax assets and liabilities are offset only if there is a legally enforceable right to offset the related current tax liabilities and assets, and they relate to income taxes levied by the same tax authority and they intend to settle current tax liabilities and assets on a net basis.

(22) Earnings per share

The Group presents basic earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held.

(23) New standards and interpretations not yet adopted

The following new standards, interpretations and amendments to existing standards have been published and are mandatory for the Group for annual periods beginning after January 1, 2014, and the Group has not early adopted them.

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

· K-IFRS 1019 'Employee Benefits' – Employee contributions

Amendments to K-IFRS 1019 introduced a practical expedient to accounting for defined benefit plan, when employees or third parties pay contributions if certain criteria are met. According to the amendments, the entity is permitted to recognize those contributions as a reduction of the service cost in the period in which the related service is rendered, instead of forecast future contributions from employees or third parties and attribute them to periods or service as negative benefits.

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5. Classification of Financial Instruments

(1) Classification of financial assets as of December 31, 2014 and 2013 are as follows:

*In millions of won*

		<b>December 31, 2014</b>			
		<b>Loans and receivables</b>	<b>Available-for-sale financial assets</b>	<b>Derivative assets (using hedge accounting)</b>	<b>Total</b>
<b>Current Assets</b>					
Cash and cash equivalents	₩	105,285	-	-	105,285
Current financial assets		1,413	-	1,409	2,822
Trade and other receivables		498,826	-	-	498,826
		<u>605,524</u>	<u>-</u>	<u>1,409</u>	<u>606,933</u>
<b>Non-current Assets</b>					
Non-current financial assets		59,486	29,628	28,988	118,102
Trade and other receivables		64,145	-	-	64,145
		<u>123,631</u>	<u>29,628</u>	<u>28,988</u>	<u>182,247</u>
	₩	<u>729,155</u>	<u>29,628</u>	<u>30,397</u>	<u>789,180</u>

*In millions of won*

		<b>December 31, 2013</b>			
		<b>Loans and receivables</b>	<b>Available-for-sale financial assets</b>	<b>Derivative assets (using hedge accounting)</b>	<b>Total</b>
<b>Current Assets</b>					
Cash and cash equivalents	₩	91,300	-	-	91,300
Current financial assets		2,849	-	-	2,849
Trade and other receivables		512,540	-	-	512,540
		<u>606,689</u>	<u>-</u>	<u>-</u>	<u>606,689</u>
<b>Non-current Assets</b>					
Non-current financial assets		68,178	29,739	22,905	120,822
Trade and other receivables		42,934	-	-	42,934
		<u>111,112</u>	<u>29,739</u>	<u>22,905</u>	<u>163,756</u>
	₩	<u>717,801</u>	<u>29,739</u>	<u>22,905</u>	<u>770,445</u>

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5. Classification of Financial Instruments, Continued

(2) Classification of financial liabilities as of December 31, 2014 and 2013 are as follows:

*In millions of won*

	December 31, 2014			December 31, 2013
	Financial liabilities recognized at amortized cost	Derivative liabilities (using hedge accounting)	Total	Financial liabilities recognized at amortized cost
<b>Current Liabilities</b>				
Trade and other payables	₩ 516,058	-	516,058	632,594
Current financial Liabilities	349,836	1,324	351,160	370,225
	<u>865,894</u>	<u>1,324</u>	<u>867,218</u>	<u>1,002,819</u>
<b>Non-current Liabilities</b>				
Trade and other payables	13,754	-	13,754	15,051
Non-current financial Liabilities	2,811,168	-	2,811,168	1,962,423
	<u>2,824,922</u>	<u>-</u>	<u>2,824,922</u>	<u>1,977,474</u>
	<u>₩ 3,690,816</u>	<u>1,324</u>	<u>3,692,140</u>	<u>2,980,293</u>

(3) Classification of comprehensive income (loss) from financial instruments for the years ended December 31, 2014 and 2013 are as follows:

*In millions of won*

		2014	2013
Loans and receivables	Loss on fluctuation of exchange rates	₩ (195)	(5)
	Interest income from cash and cash equivalents	5,309	6,007
	Interest income from trade and other receivables	9,333	6,193
	Amortization of present value discount	660	468
Derivative assets (using hedge accounting)	Gain (loss) on valuation of derivatives (profit or loss)	11,142	(3,143)
	Loss on valuation of derivatives (equity, before tax)	(3,649)	(4,351)
	Gain on transaction of derivatives	818	14,712
Available-for-sale financial assets	Gain on valuation of available-for-sale financial assets (equity, before tax)	154	3,126
	Gain on sale of available-for-sale financial assets	34	24
Financial liabilities recognized at amortized cost	Loss on fluctuation of exchange rates	(17,091)	(8,222)
	Interest expenses of borrowing and bonds	72,288	61,580
	Interest expenses of other liabilities	767	1,289
Derivative liabilities (trading)	Loss on valuation of derivatives (profit or loss)	-	(4,806)
	Loss on transaction of derivatives	(1,803)	(39,326)
Derivative liabilities (using hedge accounting)	Gain on valuation of derivatives (profit or loss)	5,760	-
	Loss on valuation of derivatives (equity, before tax)	(7,084)	-

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6. Cash and Cash Equivalents

(1) Cash and cash equivalents as of December 31, 2014 and 2013 are as follows:

<i>In millions of won</i>		<u>December 31, 2014</u>	<u>December 31, 2013</u>
Cash	₩	95,662	23,615
Cash equivalents		9,623	67,685
	₩	<u>105,285</u>	<u>91,300</u>

(2) Restricted usage of cash and cash equivalent as of December 31, 2014 and 2013 are as follows:

<i>In millions of won</i>		<u>December 31, 2014</u>	<u>December 31, 2013</u>
Cash and cash equivalents(*)	₩	8,709	5,170

(\*) As explained in Note 13, this amount is provided as collateral for the long-term borrowings of Commerce and Industry Energy Co., Ltd., a subsidiary of KOMIPO.

7. Financial assets

(1) Financial assets as of December 31, 2014 and 2013 are as follows:

<i>In millions of won</i>		<u>December 31, 2014</u>		<u>December 31, 2013</u>	
		<u>Current</u>	<u>Non-current</u>	<u>Current</u>	<u>Non-current</u>
Loans	₩	1,621	60,792	3,060	69,649
Present value discount		(209)	(1,306)	(211)	(1,471)
		<u>1,412</u>	<u>59,486</u>	<u>2,849</u>	<u>68,178</u>
Derivative assets		1,410	28,988	-	22,905
Available-for-sale financial assets		-	29,628	-	29,739
	₩	<u>2,822</u>	<u>118,102</u>	<u>2,849</u>	<u>120,822</u>

(2) Loans as of December 31, 2014 and 2013 are as follows:

<i>In millions of won</i>		<u>December 31, 2014</u>		<u>December 31, 2013</u>	
		<u>Current</u>	<u>Non-current</u>	<u>Current</u>	<u>Non-current</u>
Loans for tuition(*1)	₩	1,019	10,349	1,657	9,297
Present value discount		(209)	(1,306)	(211)	(1,471)
		<u>810</u>	<u>9,043</u>	<u>1,446</u>	<u>7,826</u>
Housing fund loans(*2)		602	5,307	513	5,501
Loans to affiliates(*3)		-	45,136	890	54,851
	₩	<u>1,412</u>	<u>59,486</u>	<u>2,849</u>	<u>68,178</u>

(\*1) The Group makes loans to employees interest free for the purpose of supporting school expenses of their children. Loans are collected quarterly in equal installment payment when salary is paid.

(\*2) The Group loans to employees who do not own a house for the purpose of improving residential stability of employees. The interest rate is 95% of weighted average borrowing rate of the Group. Loan terms are 20 years with maturity at installment payments.

(\*3) The Group loans to PT. Cirebon Electric Power at interest rates of 12~14% per annum. No bad debt expenses is recognized related to this loan.

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**8. Available-for-sale Financial Assets**

(1) Available-for-sale financial assets as of December 31, 2014 and 2013 are as follows:

<i>In millions of won</i>	<u>Ownership (%)</u>	<u>December 31, 2014</u>	<u>December 31, 2013</u>
<b>Equity Securities</b>			
<b>Unlisted</b>			
Korea Power Exchange	7.14	₩ 12,142	11,988
Hanhwa power venture fund	1.20	132	132
KEPCO-Uhde Inc.	3.00	516	516
Navanakorn Electric Co., Ltd. (*)	29.00	16,836	16,163
Siam Solar Power Co., Ltd.	-	-	934
		<u>29,626</u>	<u>29,733</u>
<b>Debt securities</b>			
Housing bond		2	6
		₩ <u>29,628</u>	<u>29,739</u>

(\*) Navanakorn Electric Co.,Ltd. is not accounted for as an associate since the Group does not hold the voting rights in board meeting and therefore the Group does not exercise significant influence on the investments, even though the Group owns over 20% of the equity shares of the entity.

(2) The book value of equity securities measured by cost method because the market price in an active market doesn't exist and the fair value cannot be reliably measured are as follows:

<i>In millions of won</i>	<u>December 31, 2014</u>	<u>December 31, 2013</u>
Amount	₩ 17,484	17,745
Ratio	59.02%	59.68%

**9. Derivatives**

(1) Derivatives as of December 31, 2014 and 2013 are as follows:

<i>In millions of won</i>	<u>December 31, 2014</u>		<u>December 31, 2013</u>	
	<u>Current</u>	<u>Non-current</u>	<u>Current</u>	<u>Non-current</u>
<b>Derivative assets</b>				
Currency swap	₩ 1,410	28,988	-	22,905
<b>Derivative liabilities</b>				
Currency swap	1,324	-	-	-

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9. Derivatives, Continued

(2) Currency swap contracts which are designated as hedging instruments as of December 31, 2014 are as follows:

*In millions of won and thousands of U.S. dollar, except for contract exchange rate*

Counterparty	Terms of the contract	Contract amount		Contract interest rate (%)		Contract exchange rate
		Pay	Receive	Pay	Receive	
UBS AG	2006.03.14 ~ 2016.03.14	₩ 98,100	\$ 100,000	5.48	5.50	₩ 981.0
Credit Suisse	2006.03.14 ~ 2016.03.14	98,100	100,000	5.48	5.50	₩ 981.0
JP Morgan	2014.02.05 ~ 2019.02.10	107,190	100,000	3.25+ floating rate	2.75	₩ 1,071.9
Morgan Stanley	2014.02.05 ~ 2019.02.10	107,190	100,000	3.25+ floating rate	2.75	₩ 1,071.9
Deutsche Bank	2014.02.05 ~ 2019.02.10	107,190	100,000	3.25+ floating rate	2.75	₩ 1,071.9

(3) Gain and loss on valuation and transactions of derivatives for the years ended December 31, 2014 and 2013 are as follows:

*In millions of won*

	Net income effects of valuation gain (loss)		Net income effects of transaction gain (loss)		Accumulated other comprehensive loss (*1)	
	2014	2013	2014	2013	2014	2013
Currency swap	₩ 16,902	(3,143)	818	5,221	(10,733)	(4,351)
Currency option	-	-	(1,094)	9,491	-	-
Other derivatives(*2)	-	-	(709)	(39,326)	-	-
	₩ 16,902	(3,143)	(985)	(24,614)	(10,733)	(4,351)

(\*1) Loss on valuation of derivatives recorded in accumulated other comprehensive loss in the amount ₩ 5,335 million as of December 31, 2014 and gain on valuation of derivatives recorded in accumulated other comprehensive income in the amount ₩ 2,801 million as of December 31, 2013 are net of tax.

(\*2) Net income effects of transaction gain (loss) of other derivatives consist of gain (loss) from currency forward hedge transactions etc.

KOREA MIDLAND POWER CO., LTD. AND SUBSIDIARIES  
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**10. Trade and Other Receivables**

(1) Trade and other receivables as of December 31, 2014 and 2013 are as follows:

<i>In millions of won</i>	<b>December 31, 2014</b>	<b>December 31, 2013</b>
<b>Current assets</b>		
Trade receivables	₩ 404,413	472,700
Other receivables	94,413	39,840
	<u>498,826</u>	<u>512,540</u>
<b>Non-current assets</b>		
Other receivables	64,145	42,934
	<u>₩ 562,971</u>	<u>555,474</u>

(2) Other receivables as of December 31, 2014 and 2013 are as follows:

<i>In millions of won</i>	<b>December 31, 2014</b>	<b>December 31, 2013</b>
<b>Current assets</b>		
Non-trade receivables	₩ 33,072	25,854
Accrued income	59,819	13,939
Deposits	1,522	47
	<u>94,413</u>	<u>39,840</u>
<b>Non-current assets</b>		
Non-trade receivables	51,791	30,825
Deposits	12,354	12,109
	<u>64,145</u>	<u>42,934</u>
	<u>₩ 158,558</u>	<u>82,774</u>

(3) The Group has no trade and other receivables which are impaired as of December 31, 2014 and 2013.

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**11. Inventories**

(1) Inventories as of December 31, 2014 and 2013 are as follows:

<i>In millions of won</i>	<u>December 31, 2014</u>	<u>December 31, 2013</u>
Raw materials	₩ 141,988	106,335
Supplies	87,235	62,981
Inventories in transit	56,978	96,701
Other inventories	-	92
	<u>₩ 286,211</u>	<u>266,109</u>

(2) Gain and loss on valuation of inventories for the years ended December 31, 2014 and 2013 are as follows:

<i>In millions of won</i>	<u>2014</u>	<u>2013</u>
Other loss:		
Losses on valuation of inventories	₩ 5	13

**12. Non-Financial Assets**

Non-financial assets as of December 31, 2014 and 2013 are as follows:

<i>In millions of won</i>	<u>December 31, 2014</u>		<u>December 31, 2013</u>	
	<u>Current</u>	<u>Non-current</u>	<u>Current</u>	<u>Non-current</u>
Advance payment	₩ 601	77	1,580	69
Prepaid expenses	9,695	15,651	11,294	18,278
Others				
VAT receivables	32,482	-	35,257	-
Other receivables	8,587	979	16,577	990
	<u>₩ 51,365</u>	<u>16,707</u>	<u>64,708</u>	<u>19,337</u>

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13. Property, Plant and Equipment

(1) Property, plant and equipment as of December 31, 2014 and 2013 are as follows:

*In millions of won*

		<b>December 31, 2014</b>				
		<b>Acquisition cost</b>	<b>Government grants</b>	<b>Accumulated depreciation</b>	<b>Accumulated impairment losses</b>	<b>Book value</b>
Land	₩	746,303	-	-	-	746,303
Buildings		779,729	(23,821)	(269,159)	-	486,749
Structures		679,479	-	(241,645)	-	437,834
Machinery		4,003,813	(2,603)	(1,505,507)	(23)	2,495,680
Ships		36	-	(21)	-	15
Vehicles		10,160	-	(8,511)	-	1,649
Equipment		43,122	-	(31,576)	-	11,546
Tools		15,710	-	(13,512)	-	2,198
Construction-in-progress		1,649,043	(154)	-	-	1,648,889
Finance lease assets		58,377	-	(23,036)	-	35,341
Others		46	-	(41)	-	5
	₩	<u>7,985,818</u>	<u>(26,578)</u>	<u>(2,093,008)</u>	<u>(23)</u>	<u>5,866,209</u>

*In millions of won*

		<b>December 31, 2013</b>				
		<b>Acquisition cost</b>	<b>Government grants</b>	<b>Accumulated depreciation</b>	<b>Accumulated impairment losses</b>	<b>Book value</b>
Land	₩	747,662	-	-	-	747,662
Buildings		722,718	-	(229,199)	-	493,519
Structures		672,892	-	(214,642)	-	458,250
Machinery		3,882,102	(123)	(1,190,680)	(25)	2,691,274
Ships		36	-	(17)	-	19
Vehicles		8,899	-	(7,986)	-	913
Equipment		35,332	-	(26,957)	-	8,375
Tools		16,626	-	(14,187)	-	2,439
Construction-in-progress		569,983	(26,802)	-	-	543,181
Finance lease assets		57,253	-	(19,574)	-	37,679
Others		4	-	-	-	4
	₩	<u>6,713,507</u>	<u>(26,925)</u>	<u>(1,703,242)</u>	<u>(25)</u>	<u>4,983,315</u>

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13. Property, Plant and Equipment, Continued

(2) Changes in property, plant and equipment for the years ended December 31, 2014 and 2013 are as follows:

*In millions of won*

		2014					
		Beginning balance	Acquisition	Disposal	Depreciation	Others(*)	Ending balance
Land	₩	747,662	-	-	-	(1,359)	746,303
Buildings		493,519	27	(944)	(38,001)	32,148	486,749
Structures		458,250	144	-	(26,876)	6,316	437,834
Machinery		2,691,274	29,898	(1,237)	(337,356)	113,101	2,495,680
Ships		19	-	-	(4)	-	15
Vehicles		913	2	1	(558)	1,291	1,649
Equipment		8,375	1,586	(9)	(3,862)	5,456	11,546
Tools		2,439	53	-	(999)	705	2,198
Construction-in-progress		543,181	1,230,001	-	-	(124,293)	1,648,889
Finance lease assets		37,679	-	-	(3,462)	1,124	35,341
Others		4	-	-	-	1	5
	₩	<u>4,983,315</u>	<u>1,261,711</u>	<u>(2,189)</u>	<u>(411,118)</u>	<u>34,490</u>	<u>5,866,209</u>

(\*) This amounts are consist of transfers from construction-in-progress to depreciable assets, borrowing costs capitalization, retirement benefit expenses capitalization, and effect of exchange rate fluctuations.

*In millions of won*

		2013						
		Beginning balance	Acquisition	Disposal	Depreciation	Changes in consolidation scope (*)	Others	Ending balance
Land	₩	679,402	-	-	-	812	67,448	747,662
Buildings		400,292	124	(55)	(36,829)	2,854	127,133	493,519
Structures		401,835	2,145	-	(28,185)	5,746	76,709	458,250
Machinery		2,091,653	29,590	(3,146)	(297,989)	72,337	798,829	2,691,274
Ships		23	-	-	(4)	-	-	19
Vehicles		1,173	32	-	(656)	44	320	913
Equipment		7,178	2,690	(43)	(3,719)	76	2,193	8,375
Tools		1,561	502	-	(1,076)	3	1,449	2,439
Construction-in-progress		790,320	835,448	(1,515)	-	859	(1,081,931)	543,181
Finance lease assets		31,280	-	-	(3,210)	-	9,609	37,679
Others		10	27	(9)	(11)	-	(13)	4
	₩	<u>4,404,727</u>	<u>870,558</u>	<u>(4,768)</u>	<u>(371,679)</u>	<u>82,731</u>	<u>1,746</u>	<u>4,983,315</u>

(\*) The amounts are related with the acquisition of Commerce and Industry Energy Co., Ltd.

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13. Property, Plant and Equipment, Continued

(3) Government grants as of December 31, 2014 and 2013 are as follows:

<i>In millions of won</i>		<u>December 31, 2014</u>	<u>December 31, 2013</u>
Buildings	₩	23,821	-
Machinery		2,603	123
Construction-in-progress		154	26,802
	₩	<u>26,578</u>	<u>26,925</u>

(4) Changes in government grants for the years ended December 31, 2014 and 2013 are as follows:

<i>In millions of won</i>		<b>2014</b>				
		<u>Beginning balance</u>	<u>Acquisition</u>	<u>Depreciation</u>	<u>Others(*)</u>	<u>Ending balance</u>
Buildings	₩	-	-	(1,702)	25,523	23,821
Machinery		123	-	(186)	2,666	2,603
Construction-in-progress		26,802	1,541	-	(28,189)	154
	₩	<u>26,925</u>	<u>1,541</u>	<u>(1,888)</u>	<u>-</u>	<u>26,578</u>

(\*) This amounts are the changes of government grants, caused by transfer from construction-in-progress to depreciable assets.

<i>In millions of won</i>		<b>2013</b>				
		<u>Beginning balance</u>	<u>Acquisition</u>	<u>Depreciation</u>	<u>Others</u>	<u>Ending balance</u>
Machinery	₩	130	-	(7)	-	123
Construction-in-progress		124	26,678	-	-	26,802
	₩	<u>254</u>	<u>26,678</u>	<u>(7)</u>	<u>-</u>	<u>26,925</u>

(5) Collateral assets of the Group for the year ended December 31, 2014 are as follows:

<i>In millions of won</i>						
<u>Collateral assets</u>		<u>Book value</u>	<u>Established amount of collateral</u>	<u>Type of borrowing</u>	<u>Balance of borrowing (*2)</u>	<u>Bank that the borrowing is made</u>
Land, buildings, structures, machinery(*1)	₩	91,034	111,800	Long-term borrowings	85,000	Hana Bank and others

(\*1) Property, plant and equipment of Commerce and Industry Energy Co., Ltd. is pledged as collateral. Cash and cash equivalent and benefit of property insurance are also pledged as collateral.

(\*2) Balance of borrowing is related to Commerce and Industry Energy Co., Ltd.'s long term borrowing, presented above at its face value.

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14. Intangible Assets

(1) Intangible assets as of December 31, 2014 and 2013 are as follows:

*In millions of won*

	<b>December 31, 2014</b>		
	<b>Acquisition cost</b>	<b>Accumulated amortization</b>	<b>Book value</b>
Software	₩ 16,179	(13,391)	2,788
Development expenditures	30,371	(26,322)	4,049
Mining rights	8,935	(1,073)	7,862
Goodwill	2,582	-	2,582
Others	1,770	(659)	1,111
	<b>₩ 59,837</b>	<b>(41,445)</b>	<b>18,392</b>

*In millions of won*

	<b>December 31, 2013</b>		
	<b>Acquisition cost</b>	<b>Accumulated amortization</b>	<b>Book Value</b>
Software	₩ 15,155	(11,914)	3,241
Development expenditures	31,912	(24,393)	7,519
Mining rights	9,162	(1,130)	8,032
Goodwill	2,582	-	2,582
Others	1,777	(602)	1,175
	<b>₩ 60,588</b>	<b>(38,039)</b>	<b>22,549</b>

(2) Changes in intangible assets for the years ended December 31, 2014 and 2013 are as follows:

*In millions of won*

	<b>2014</b>				
	<b>Beginning balance</b>	<b>Acquisition</b>	<b>Amortization</b>	<b>Others (*)</b>	<b>Ending balance</b>
Software	₩ 3,241	224	(1,471)	794	2,788
Development expenditures	7,519	-	(1,919)	(1,551)	4,049
Mining rights	8,032	288	(98)	(360)	7,862
Goodwill	2,582	-	-	-	2,582
Others	1,175	-	(59)	(5)	1,111
	<b>₩ 22,549</b>	<b>512</b>	<b>(3,547)</b>	<b>(1,122)</b>	<b>18,392</b>

(\*) This amounts consist of transfers from construction-in-progress and effect of exchange rate fluctuations.

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14. Intangible Assets, Continued

(2) Changes in intangible assets for the years ended December 31, 2014 and 2013 are as follows, Continued:

*In millions of won*

	<b>2013</b>					
	<b>Beginning balance</b>	<b>Acquisition</b>	<b>Amortization</b>	<b>Changes in consolidation scope</b>	<b>Others</b>	<b>Ending balance</b>
Software	₩ 3,585	430	(1,742)	3	965	3,241
Development expenditures	7,800	600	(1,870)	-	989	7,519
Mining rights	9,921	-	(339)	-	(1,550)	8,032
Goodwill	-	-	-	2,582	-	2,582
Others	1,262	-	(96)	-	9	1,175
	<u>₩ 22,568</u>	<u>1,030</u>	<u>(4,047)</u>	<u>2,585</u>	<u>413</u>	<u>22,549</u>

(3) Details of significant intangible assets as of December 31, 2014 and 2013 are as follows:

*In millions of won*

<b>December 31, 2014</b>				
<b>Type</b>	<b>Description</b>	<b>Currency</b>	<b>Amount</b>	<b>Remaining useful life</b>
Development expenditures	Development of maintenance system for utility plant	KRW	1,649	35 months

*In millions of won*

<b>December 31, 2013</b>				
<b>Type</b>	<b>Description</b>	<b>Currency</b>	<b>Amount</b>	<b>Remaining useful life</b>
Development expenditures	Development of maintenance system for utility plant	KRW	2,212	47 months

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15. Investments in Associates and Joint Ventures

(1) Investments in associates and joint ventures as of December 31, 2014 and 2013 are as follows:

Investees	Key operation activities	Location	Percentage of ownership (%)	
			December 31, 2014	December 31, 2013
<b>&lt;Associates&gt;</b>				
Gangwon Wind Power Co., Ltd.(*1)	Wind power	Korea	15.0	15.0
Hyundai Green Power Co., Ltd.	Byproduct gas power generation	Korea	29.0	29.0
KEPCO Lebanon S.A.R.L	Combined cycle operation and maintenance	Lebanon	49.0	49.0
PT Cirebon Electric Power	Coal thermal power generation	Indonesia	27.5	27.5
PT Wampu Electric Power	Water power generation	Indonesia	46.0	46.0
Gumi-ochang Photovoltaic Power Co., Ltd.(*3)	Solar power generation	Korea	-	10.0
Cheonan Photovoltaic Power Co., Ltd.(*3)	Solar power generation	Korea	-	10.0
Chungbuk Photovoltaic Power Co., Ltd.(*3)	Solar power generation	Korea	-	10.0
Korea Offshore Wind Power Co., Ltd.(*1)	Wind power generation	Korea	12.5	12.5
Golden Root 2nd Solar Power Co., Ltd.(*3)	Solar power generation	Korea	-	10.0
Seokcheon Solar Power Co., Ltd.(*3)	Solar power generation	Korea	-	9.7
D Solarenergy Co., Ltd.(*3)	Solar power generation	Korea	-	10.0
Hyundai Asan Photovoltaic Power Co.,Ltd. (*3)	Solar power generation	Korea	-	10.0
<b>&lt;Joint ventures&gt;</b>				
Eco Biomass Energy Sdn. Bhd. (*2)	Power generation	Malaysia	61.5	61.5

(\*1) Although the Group owns less than 20% of the equity shares of the entity, the Group participates in the directors' meetings and exercises significant influence. As such, it is classified as investments in associates.

(\*2) The Group holds more than 50% of the equity shares of the entity. However, according to the shareholder agreement, all critical financial and operating decisions must be agreed upon by all ownership parties. For these reasons, the entity is classified as joint venture.

(\*3) This investment in associate was disposed of during the year ended December 31, 2014.

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15. Investments in Associates and Joint Ventures, Continued

(2) Changes in investments in associates and joint ventures for the years ended December 31, 2014 and 2013 are as follows:

In millions of won

Investees	December 31, 2014							
	Beginning balance	Acquisition	Dividends received	Share of income (loss)	Other comprehensive income	Disposal	Others	Ending balance
<b>&lt;Associates&gt;</b>								
Gangwon Wind Power Co., Ltd.	₩ 13,185	-	(1,988)	1,156	32	-	-	12,385
Hyundai Green Power Co., Ltd.	110,157	-	(8,889)	11,765	-	-	-	113,033
KEPCO Lebanon S.A.R.L.	-	-	-	-	-	-	-	-
PT Cirebon Electric Power	32,826	1,148	-	6,304	1,299	-	1,758	43,335
PT Wampu Electric Power	15,121	-	-	308	-	-	642	16,071
Gumi-ochang Photovoltaic Power Co., Ltd.	389	-	(14)	24	-	(399)	-	-
Cheonan Photovoltaic Power Co., Ltd.	148	-	-	(10)	-	(138)	-	-
Chungbuk Photovoltaic Power Co., Ltd.	185	-	-	7	-	(192)	-	-
Korea Offshore Wind Power Co., Ltd.	307	1,325	-	(429)	(19)	-	-	1,184
Golden Root 2nd Solar Power Co., Ltd.	99	-	-	(24)	-	(75)	-	-
Seokcheon Solar Power Co., Ltd.	1,046	-	(48)	48	-	(1,046)	-	-
D Solarenergy Co., Ltd.	364	-	-	54	-	(418)	-	-
Hyundai Asan Photovoltaic Power Co., Ltd.	462	-	-	(32)	-	(430)	-	-
	<u>174,289</u>	<u>2,473</u>	<u>(10,939)</u>	<u>19,171</u>	<u>1,312</u>	<u>(2,698)</u>	<u>2,400</u>	<u>186,008</u>
<b>&lt;Joint ventures&gt;</b>								
Eco Biomass Energy Sdn. Bhd. (*)	-	1,558	-	-	-	-	(1,558)	-
	<u>₩ 174,289</u>	<u>4,031</u>	<u>(10,939)</u>	<u>19,171</u>	<u>1,312</u>	<u>(2,698)</u>	<u>842</u>	<u>186,008</u>

(\*) The Group made payment to preferred shareholders, who are the co-owner of the joint venture, ECO Biomass Energy Sdn. Bhd., in accordance with the agreements to purchase preferred shareholders' shares when requested. The Group recorded the payment made as acquisition costs and wrote off the balance in 2014 as the amount is deemed to be uncollectible.

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15. Investments in Associates and Joint Ventures, Continued

- (2) Changes in investments in associates and joint ventures for the years ended December 31, 2014 and 2013 are as follows, Continued:

In millions of won

Investees	December 31, 2013						
	Beginning balance	Acquisition	Dividends received	Share of income (loss)	Other comprehensive income	Others	Ending balance
<b>&lt;Associates&gt;</b>							
Gangwon Wind Power Co., Ltd.	₩ 12,113	-	(1,988)	3,005	55	-	13,185
Hyundai Green Power Co., Ltd.	110,226	-	(8,107)	8,038	-	-	110,157
Commerce and Industry Energy Co., Ltd.	7,066	-	-	(1,237)	-	(5,829)	-
KEPCO Lebanon S.A.R.L.(*1)	-	-	-	(503)	-	503	-
PT Cirebon Electric Power	17,022	-	-	10,300	5,133	371	32,826
PT Wampu Electric Power	15,644	-	-	(303)	-	(220)	15,121
Gumi-ochang Photovoltaic Power Co., Ltd.	282	-	-	107	-	-	389
Cheonan Photovoltaic Power Co., Ltd.	110	-	-	38	-	-	148
Chungbuk Photovoltaic Power Co., Ltd.	158	-	-	27	-	-	185
Korea Offshore Wind Power Co., Ltd.	611	-	-	(304)	-	-	307
Golden Root 2nd Solar Power Co., Ltd.	-	82	-	17	-	-	99
Seokcheon Solar Power Co., Ltd.	-	970	-	76	-	-	1,046
D Solarenergy Co., Ltd.	-	400	-	(36)	-	-	364
Hyundai Asan Photovoltaic Power Co., Ltd.	-	471	-	(9)	-	-	462
	<u>163,232</u>	<u>1,923</u>	<u>(10,095)</u>	<u>19,216</u>	<u>5,188</u>	<u>(5,175)</u>	<u>174,289</u>
<b>&lt;Joint ventures&gt;</b>							
Eco Biomass Energy Sdn. Bhd.(*2)	-	2,492	-	-	-	(2,492)	-
	<u>₩ 163,232</u>	<u>4,415</u>	<u>(10,095)</u>	<u>19,216</u>	<u>5,188</u>	<u>(7,667)</u>	<u>174,289</u>

(\*1) As the equity method is no longer applied to Lebanon since its book value is below 0, loans to Lebanon is reduced at the amount of equity loss occurred during the year ended December 31, 2013.

(\*2) The Group made payment to preferred shareholders, who are the co-owner of the joint venture, ECO Biomass Energy Sdn. Bhd., in accordance with the agreements to purchase preferred shareholders' shares when requested. The Group recorded the payment made as acquisition costs and wrote off the balance in 2013 as the amount is deemed to be uncollectible.

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15. Investments in Associates and Joint Ventures, Continued

- (3) Summary of financial information of associates and joint ventures as of and for the years ended December 31, 2014 and 2013 are as follows:

*In millions of won*

Investees	December 31, 2014							
	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Revenue	Profit (loss)	Other comprehensive income	Total comprehensive income (loss)
<b>&lt;Associates&gt;</b>								
KEPCO Lebanon S.A.R.L. ₩	-	-	-	-	-	-	-	-
Gangwon Wind Power Co., Ltd.	38,198	85,043	13,337	27,666	28,829	11,708	216	11,924
Hyundai Green Power Co., Ltd.	187,822	1,028,026	93,748	732,332	503,197	40,797	-	40,797
Korea Offshore Wind Power Co., Ltd.	9,999	1,763	2,267	20	-	(3,424)	-	(3,424)
PT Cirebon Electric Power	171,054	814,921	188,079	640,314	266,963	23,363	(99)	23,264
PT Wampu Electric Power	17,959	154,991	13,643	124,368	43,205	(5,121)	-	(5,121)
<b>&lt;Joint ventures&gt;</b>								
Eco Biomass Energy Sdn. Bhd.	-	-	-	-	-	-	-	-

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15. Investments in Associates and Joint Ventures, Continued

(3) Summary of financial information of associates and joint ventures as of and for the years ended December 31, 2014 and 2013 are as follows, Continued:

In millions of won

Investees	December 31, 2013								
	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Revenue	Profit (loss)	Other comprehensive income	Total comprehensive income (loss)	
<b>&lt;Associates&gt;</b>									
Gangwon Wind Power Co., Ltd.	₩ 46,626	94,947	13,036	40,964	38,973	20,035	364	20,399	
Hyundai Green Power Co., Ltd.	156,974	1,060,219	115,443	721,897	339,567	29,580	-	29,580	
KEPCO Lebanon S.A.R.L.	6,814	3	9,138	-	-	(896)	-	(896)	
PT Cirebon Electric Power	213,772	791,119	81,314	804,209	299,913	37,454	23,130	60,584	
PT Wampu Electric Power	25,530	97,202	4,956	84,906	27,048	(659)	-	(659)	
Gumi-ochang Photovoltaic Power Co., Ltd.	2,357	17,734	98	16,099	3,885	1,068	-	1,068	
Cheonan Photovoltaic Power Co., Ltd.	684	5,348	161	4,393	1,024	228	-	228	
Chungbuk Photovoltaic Power Co., Ltd.	666	6,887	301	5,408	1,133	20	-	20	
Korea Offshore Wind Power Co., Ltd.	3,255	797	1,598	-	-	(2,436)	-	(2,436)	
Golden Root 2nd Solar Power Co., Ltd.	1,066	4,558	180	4,457	711	171	-	171	
Seokcheon Solar Power Co., Ltd.	1,527	13,075	69	3,778	1,873	786	-	786	
D Solarenergy Co., Ltd.	3,139	26,398	3,819	22,090	29	(361)	-	(361)	
Hyundai Asan Photovoltaic Power Co., Ltd.	4,033	22,265	2,914	19,255	-	(90)	-	(90)	
<b>&lt;Joint ventures&gt;</b>									
Eco Biomass Energy Sdn. Bhd.	-	-	-	-	-	-	-	-	

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**16. Trade and Other Payables**

Trade and other payables as of December 31, 2014 and 2013 are as follows:

*In millions of won*

	<b>December 31, 2014</b>		<b>December 31, 2013</b>	
	<b>Current</b>	<b>Non-current</b>	<b>Current</b>	<b>Non-current</b>
Trade payables	₩ 313,170	-	484,032	-
Non-trade payables	130,091	-	97,945	-
Accrued expenses	54,555	-	43,075	-
Other deposits received	16,966	-	6,238	-
Finance lease liabilities(*)	1,275	13,754	1,303	15,051
Leasehold deposits received	1	-	1	-
	<u>₩ 516,058</u>	<u>13,754</u>	<u>632,594</u>	<u>15,051</u>

(\*) Refer to note 17 for the details of finance lease liabilities.

**17. Finance Lease Liabilities**

(1) The Company has entered into a financing lease agreement for its power transmission facility. Pursuant to the agreement, the lease term ranges from 8 to 30 years, no bargain purchase option exists at the end of the lease term, and the legal ownership of the leased assets (carrying amount: ₩35,341 million and ₩37,679 million as of December 31, 2014 and 2013, respectively) is retained by the lessor.

(2) Finance lease liabilities as of December 31, 2014 and 2013 are as follows:

*In millions of won*

	<b>December 31, 2014</b>		<b>December 31, 2013</b>	
	<b>Minimum lease payments</b>	<b>Present value of minimum lease payments</b>	<b>Minimum lease payments</b>	<b>Present value of minimum lease payments</b>
Less than 1 year	₩ 1,800	1,275	1,943	1,303
1 ~ 5 years	7,945	5,523	6,945	5,637
More than 5 years	9,789	8,231	13,066	9,414
	<u>₩ 19,534</u>	<u>15,029</u>	<u>21,954</u>	<u>16,354</u>

(3) The Group does not have any irrevocable operating lease contract as of December 31, 2014 and 2013.

KOREA MIDLAND POWER CO., LTD. AND SUBSIDIARIES  
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18. Financial Liabilities

(1) Financial liabilities as of December 31, 2014 and 2013 are as follows:

		December 31, 2014		December 31, 2013	
		Current	Non-current	Current	Non-current
Borrowings	₩	19,960	88,512	70,351	106,106
Bonds		329,876	2,722,656	299,874	1,856,317
Derivative liabilities(*)		1,324	-	-	-
	₩	<u>351,160</u>	<u>2,811,168</u>	<u>370,225</u>	<u>1,962,423</u>

(\*) Refer to note 9 for the details of derivative liabilities.

(2) Borrowings and bonds issued as of December 31, 2014 and 2013 are as follows:

		December 31, 2014	December 31, 2013
<b>Current liabilities</b>			
Short-term borrowings	₩	-	70,000
Current portion of long-term borrowings		20,491	351
Less: Current portion of discount on long-term borrowings		(531)	-
Current portion of bonds issued		330,000	300,000
Less: Current portion of discount on bonds		(124)	(126)
		<u>349,836</u>	<u>370,225</u>
<b>Non-current liabilities</b>			
Long-term borrowings		89,169	107,280
Less: Discount on long-term borrowings		(657)	(1,174)
Bonds issued		2,729,600	1,861,060
Less : Discount on bonds		(6,944)	(4,743)
		<u>2,811,168</u>	<u>1,962,423</u>
	₩	<u>3,161,004</u>	<u>2,332,648</u>

(3) Short-term borrowings as of December 31, 2014 and 2013 are as follows:

Type	Creditor	Interest rate (%)			December 31, 2014	December 31, 2013
Domestic short-term borrowings	Shinhan bank	Fixed rate	2.78	₩	-	50,000
	Samsung Securities Co., Ltd.	Fixed rate	2.78		-	20,000
				₩	<u>-</u>	<u>70,000</u>

KOREA MIDLAND POWER CO., LTD. AND SUBSIDIARIES  
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18. Financial Liabilities, Continued

(4) Long-term borrowings as of December 31, 2014 and 2013 are as follows:

*In millions of won and thousands of foreign currencies*

						<b>December 31, 2014</b>	
<b>Type</b>		<b>Interest rate (%)</b>		<b>Maturity</b>	<b>Foreign currency</b>	<b>Local currency</b>	
Korea Resources Corporation	Resources Development loan	Floating rate	3yr KTB(*1) rate – 2.25	2023-03-15		₩ 2,470	
	Resources Development loan	Floating rate	3yr KTB(*1) rate – 2.25	2023-06-15		95	
	Resources Development loan	Floating rate	3yr KTB(*1) rate – 2.25	2023-12-15		244	
	Resources Development loan	Floating rate	3yr KTB(*1) rate – 2.25	2024-06-15		112	
	Resources Development loan	Floating rate	3yr KTB(*1) rate – 2.25	2024-09-15		282	
Hana Bank	Facility	Floating rate	3M CD + 1.7	2026-04-30		21,613	
	Facility	Fixed rate	4.80	2026-04-30		11,991	
Woori Bank	Facility	Floating rate	3M CD + 1.7	2023-07-31		988	
	Facility	Floating rate	3M CD + 1.7	2026-04-30		20,625	
	Facility	Fixed rate	4.80	2026-04-30		11,991	
Heungkuk Life Insurance	Facility	Floating rate	3M CD + 1.7	2026-04-30		17,267	
Hana Power, Ltd. and others	Development	Fixed rate	9.00	2015-10-29		17,138	
PT PJB	Shareholder's loan	Fixed rate	12.75	2017-12-29	IDR(*2)	22,307,699	
POSCO	Shareholder's loan	Fixed rate	8.00	2034-09-26	USD	1,663	
PT BS Energy	Shareholder's loan	Fixed rate	8.00	2034-09-26	USD	475	
						<u>109,660</u>	
	Less : Discount on long-term borrowings					(1,188)	
	Less : Current portion of long-term borrowings					(19,960)	
						<u>₩ 88,512</u>	

(\*1) Korea Treasury Bond

(\*2) Indonesia Rupiah

KOREA MIDLAND POWER CO., LTD. AND SUBSIDIARIES  
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18. Financial Liabilities, Continued

(4) Long-term borrowings as of December 31, 2014 and 2013 are as follows, Continued:

*In millions of won and thousands of foreign currencies*

						<b>December 31, 2013</b>	
<b>Type</b>		<b>Interest rate (%)</b>		<b>Maturity</b>	<b>Foreign currency</b>	<b>Local currency</b>	
Korea Resources Corporation	Resources Development loan	Floating rate	3yr KTB(*1) rate – 2.25	2023-03-15		₩ 2,769	
	Resources Development loan	Floating rate	3yr KTB(*1) rate – 2.25	2023-06-15		106	
	Resources Development loan	Floating rate	3yr KTB(*1) rate – 2.25	2023-12-15		271	
	Resources Development loan	Floating rate	3yr KTB(*1) rate – 2.25	2024-06-15		118	
	Resources Development loan	Floating rate	3yr KTB(*1) rate – 2.25	2024-09-15		289	
Hana Bank	Facility	Floating rate	3M CD + 1.7	2026-04-30		21,613	
	Facility	Fixed rate	4.80	2026-04-30		11,991	
Woori Bank	Facility	Floating rate	3M CD + 1.7	2026-04-30		21,613	
	Facility	Fixed rate	4.80	2026-04-30		11,991	
Heungkuk Life Insurance	Facility	Floating rate	3M CD + 1.7	2026-04-30		523	
	Facility	Fixed rate	4.80	2026-04-30		17,267	
Hana Power, Ltd. and others	Development	Fixed rate	9.00	2015-10-29		17,138	
PT PJB	Shareholder's loan	Fixed rate	12.75	2017-12-29	IDR(*2) 22,329,300	1,942	
						<u>107,631</u>	
Less : Discount on long-term borrowings						(1,174)	
Less : Current portion of long-term borrowings						(351)	
						<u>₩ 106,106</u>	

(\*1) Korea Treasury Bond

(\*2) Indonesia Rupiah

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18. Financial Liabilities, Continued

(5) Local bonds as of December 31, 2014 and 2013 are as follows:

*In millions of won*

Type	Issue date	Maturity	Interest rate (%)		December 31, 2014	December 31, 2013	
Debenture	2009-09-02	2014-09-02	Fixed rate	5.42	₩	-	150,000
	2011-04-22	2015-04-22	Fixed rate	4.24		150,000	150,000
	2011-05-09	2014-05-09	Fixed rate	4.07		-	150,000
	2011-07-07	2015-07-07	Fixed rate	4.16		80,000	80,000
	2011-07-07	2016-07-07	Fixed rate	4.25		120,000	120,000
	2011-08-02	2015-08-02	Fixed rate	4.28		100,000	100,000
	2013-02-28	2017-02-28	Fixed rate	3.85		150,000	150,000
	2013-02-28	2019-02-28	Fixed rate	3.89		50,000	50,000
	2013-06-28	2017-06-28	Fixed rate	3.57		100,000	100,000
	2013-06-28	2022-06-28	Fixed rate	3.77		200,000	200,000
	2013-02-22	2020-02-22	Fixed rate	3.01		100,000	100,000
	2013-02-22	2023-02-22	Fixed rate	3.13		100,000	100,000
	2013-04-05	2020-04-05	Fixed rate	2.79		100,000	100,000
	2013-04-05	2023-04-05	Fixed rate	2.91		100,000	100,000
	2013-10-15	2018-10-15	Fixed rate	3.44		200,000	200,000
	2013-11-13	2018-11-13	Fixed rate	3.52		100,000	100,000
	2014-04-18	2021-04-18	Fixed rate	3.49		110,000	-
	2014-04-18	2024-04-18	Fixed rate	3.67		190,000	-
	2014-07-09	2021-07-09	Fixed rate	3.08		80,000	-
	2014-07-09	2024-07-09	Fixed rate	3.26		180,000	-
	2014-08-29	2029-08-29	Fixed rate	4.13		50,000	-
	2014-08-29	2029-08-29	Fixed rate	4.11		50,000	-
	2014-11-12	2017-11-12	Fixed rate	2.20		150,000	-
2014-11-12	2021-11-12	Fixed rate	2.58		50,000	-	
					2,510,000	1,950,000	
Less : Discount on local bonds					(4,740)	(3,711)	
Less : Current portion of local bonds					(330,000)	(300,000)	
Less : Current portion of local bonds reconciliation					124	126	
				₩	2,175,384	1,646,415	

(6) Foreign bonds as of December 31, 2014 and 2013 are as follows:

*In millions of won and thousands of foreign currencies*

Issue date	Maturity	Interest rate (%)		December 31, 2014		December 31, 2013					
				Foreign currency	Local currency	Foreign currency	Local currency				
2006-03-14	2016-03-14	Fixed rate	5.50	USD	200,000	₩	219,840	USD	200,000	₩	211,060
2014-02-11	2019-02-11	Fixed rate	2.75	USD	300,000		329,760		-		-
							549,600				211,060
Less : Discount on foreign bonds							(2,328)				(1,158)
					₩	547,272		₩	209,902		

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**19. Non-Financial Liabilities**

Non-financial liabilities as of December 31, 2014 and 2013 are as follows:

*In millions of won*

	December 31, 2014		December 31, 2013	
	Current	Non-current	Current	Non-current
Advance received	₩ 132	-	162	-
Unearned revenue	193	-	62	-
Withholdings	2,941	-	4,533	-
Others (*)	1,740	13,176	997	13,123
	₩ 5,006	13,176	5,754	13,123

(\*) This amounts consist of the government grant, which has the duty of redemption, and others.

**20. Provisions**

(1) Provisions as of December 31, 2014 and 2013 are as follows:

*In millions of won*

	December 31, 2014		December 31, 2013	
	Current	Non-current	Current	Non-current
Provisions for wage litigation (*)	₩ 38,402	-	-	-
Provisions for RPS	57,121	-	33,421	-
Provisions for employee benefits	34,654	-	36,007	-
	₩ 130,177	-	69,428	-

(\*) 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, 2014, the Group recognized 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 for the years ended December 31, 2014 and 2013 are as follows:

*In millions of won*

	2014				
	Beginning balance	Increase in provision	Payments	Reversal	Ending balance
Provisions for wage litigation	₩ -	38,402	-	-	38,402
Provisions for RPS	33,421	40,444	(11,274)	(5,470)	57,121
Provisions for employee benefits	36,007	30,424	(16,805)	(14,972)	34,654
	₩ 69,428	109,270	(28,079)	(20,442)	130,177

*In millions of won*

	2013			
	Beginning balance	Increase in provision	Payments	Ending balance
Provisions for tax	₩ 2,644	-	(2,644)	-
Provisions for RPS	6,861	31,385	(4,825)	33,421
Provisions for employee benefits	30,528	30,641	(25,162)	36,007
	₩ 40,033	62,026	(32,631)	69,428

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**21. Employee Benefits Obligations**

(1) Employee benefits obligations as of December 31, 2014 and 2013 are as follows:

<i>In millions of won</i>	<u>December 31, 2014</u>	<u>December 31, 2013</u>
Net employee benefits liabilities from defined benefit plans	₩ 108,968	98,879
Other long-term employee benefit obligations	717	3,061
	<u>₩ 109,685</u>	<u>101,940</u>

(2) Defined contribution plan

The Group operates a defined contribution plan which is subject to the employees' choice. A defined contribution fund is separately managed by the plan's administrator. When employees terminate their employment before the benefits have vested, the Group's obligation to make contributions to the plan decreases on a pro rata basis. The Group contributed ₩ 3,715 million and ₩ 3,138 million for the years ended December 31, 2014 and 2013, respectively.

(3) Defined benefit plan

(i) Principal assumptions on actuarial valuation as of December 31, 2014 and 2013 are as follows:

	<u>December 31, 2014</u>	<u>December 31, 2013</u>
Discount rate	2.86%	3.86%
Expected salary increasing rate	4.10% ~ 8.12%	4.10% ~ 8.12%

(ii) Details of expense relating to defined benefit plans for the years ended December 31, 2014 and 2013 are as follows:

<i>In millions of won</i>	<u>2014</u>	<u>2013</u>
Current service cost	₩ 13,949	16,709
Interest cost	4,161	4,200
Expected return on plan assets	(559)	(441)
Decrease for prior service cost	(8,208)	-
Gain on change from defined benefit plan to defined contribution plan	(1,271)	-
	<u>₩ 8,072</u>	<u>20,468</u>

The above expense is recognized as retirement benefit expense in the accompanying consolidated statements of comprehensive income. Among the total of ₩ 8,072 million of 2014, ₩ 6,280 million is included in cost of goods sold, ₩ 419 million in selling and administrative expense, and ₩ 1,373 million in construction in progress. For the year ended December 31, 2013, ₩ 16,101 million, ₩ 1,434 million and ₩ 2,933 million are recognized in cost of goods sold, selling and administrative expense and construction in progress, respectively.

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21. Employee Benefits Obligations, Continued

(3) Defined benefit plan, Continued

(iii) Employee benefit liabilities as of December 31, 2014 and 2013 are as follows:

<i>In millions of won</i>		<u>December 31, 2014</u>	<u>December 31, 2013</u>
Present value of defined benefit obligations from funded plans	₩	123,408	113,345
Fair value of plan assets		<u>(14,440)</u>	<u>(14,466)</u>
Net employee benefits liabilities from defined benefit plans	₩	<u>108,968</u>	<u>98,879</u>

(iv) Changes in employee benefit obligations for the years ended December 31, 2014 and, 2013 are as follows:

<i>In millions of won</i>		<u>2014</u>	<u>2013</u>
Beginning balance	₩	113,345	110,170
Current service cost		13,949	16,709
Interest cost		4,161	4,200
Actual payments		(1,787)	(3,344)
Actuarial losses (gains)		17,100	(14,497)
Decrease in past service cost resulting from a curtailment		(8,208)	-
Outflow of cash due to change of plan to defined contribution plan		(13,906)	-
Gains on change from defined benefit plan to defined contribution plan		(1,271)	107
Others		25	-
Ending balance	₩	<u>123,408</u>	<u>113,345</u>

(v) Changes in the present value of plan assets for the years ended December 31, 2014 and 2013 are as follows:

<i>In millions of won</i>		<u>2014</u>	<u>2013</u>
Beginning balance	₩	14,466	10,982
Expected return on plan assets		559	441
Actuarial gains (losses)		(108)	(3)
Contributions by the employers		2,522	6,773
Actual payments		(2,999)	(3,729)
Others		-	2
Ending balance	₩	<u>14,440</u>	<u>14,466</u>

Accumulated actuarial losses on plan assets recorded as other comprehensive income amounts to ₩ 9,659 million and ₩ 20,645 million, respectively, as of December 31, 2014 and 2013.

(vi) The fair value of plan assets as of December 2014 are as follows:

<i>In millions of won</i>		<u>2014</u>
Equity instrument	₩	4,923
Cash and cash equivalent		2
Others		9,515
	₩	<u>14,440</u>

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**21. Employee Benefits Obligations, Continued**

(3) Defined benefit plan, Continued

(vii) Actuarial gains or losses recognized as other comprehensive income/loss is as follows:

<i>In millions of won</i>	<u>2014</u>	<u>2013</u>
Actuarial gains or losses by demographic assumptions	₩ -	442
Actuarial gains or losses by financial assumptions	(9,549)	13,352
Experience adjustments	(7,551)	703
Income from plan assets	(108)	(3)
	<u>₩ (17,208)</u>	<u>14,494</u>

(4) Other long-term employee benefit obligations as of December 31, 2014 2013 are as follows:

<i>In millions of won</i>	<u>December 31, 2014</u>	<u>December 31, 2013</u>
Other payables of long-term employee benefit obligations	₩ -	2,764
Other payables of long-term employee vacation obligations	717	297
Other long-term employee benefit obligations	<u>₩ 717</u>	<u>3,061</u>

**22. Contributed Capital**

(1) Details of contributed capital as of December 31, 2014 and 2013 are as follows:

<i>In millions of won</i>	<u>December 31, 2014</u>	<u>December 31, 2013</u>
Share capital	₩ 137,340	137,340
Share premium	1,053,110	1,053,110
	<u>₩ 1,190,450</u>	<u>1,190,450</u>

(2) Details of shares issued as of December 31, 2014 and 2013 are as follows:

	<u>December 31, 2014</u>	<u>December 31, 2013</u>
Shares authorized	100,000,000	100,000,000
Number of shares issued	27,467,967	27,467,967
Value per share (in won)	₩ 5,000	5,000
Common shares (in millions of won)	₩ 137,340	137,340

There are no changes in number of outstanding capital stock for the years ended December 31, 2014 and 2013.

(3) Share Premium

As of January 1, 2011, the Company spun off its pumped storage power plant which was subsequently merged into a related party, resulting in an decrease in shares issued (capital) of ₩15,610 million won and share premium (additional paid-in-capital) of ₩119,697 million. In addition, loss on reduction of capital in the amount of ₩279,192 million was incurred.

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**23. Retained Earnings and Dividends Paid**

(1) Details of retained earnings as of December 31, 2014 and 2013 are as follows:

<i>In millions of won</i>	<b>December 31, 2014</b>	<b>December 31, 2013</b>
Legal reserve (*)	₩ 77,550	77,550
Voluntary reserves	1,250,686	1,222,116
Unappropriated retained earnings	807,658	747,019
Retained earnings	₩ <u>2,135,894</u>	<u>2,046,685</u>

(\*) The Commercial Code requires the Company to appropriate a legal reserve equal to at least 10 percent of dividend for each accounting period until the reserve equals 50 percent of the Company's common stock. The legal reserve is not available for cash dividends; however, this reserve may be credited to paid-in capital or offset against accumulated deficit by the resolution of the shareholders.

(2) Details of voluntary reserves as of December 31, 2014 and 2013 are as follows:

<i>In millions of won</i>	<b>December 31, 2014</b>	<b>December 31, 2013</b>
Reserve for business stabilization(*1)	₩ 120	120
Reserve for research and human development(*2)	17,500	17,500
Reserve for investment on social overhead capital	70,184	70,184
Others	1,162,882	1,134,312
	₩ <u>1,250,686</u>	<u>1,222,116</u>

(\*1) Prior to 2002, the Company 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, the Company continues to maintain such reserve on a voluntary basis.

(\*2) The reserve for research and human development is appropriated by the Company 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.

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**23. Retained Earnings and Dividends Paid, Continued**

(3) Changes in retained earnings for the years ended December 31, 2014 and 2013 are as follows:

<i>In millions of won</i>		<u>2014</u>	<u>2013</u>
Beginning balance	₩	2,046,685	2,044,911
Net income for the period attributed to owner of the Company		114,497	56,940
Dividends paid		(12,244)	(66,152)
Actuarial gains (losses)		(13,044)	10,986
Ending balance	₩	<u>2,135,894</u>	<u>2,046,685</u>

(4) Dividends paid for the years ended December 31, 2014 and 2013 are as follows:

	<u>2014</u>			
	<u>Number of shares issued</u>	<u>Number of shares eligible for dividends</u>	<u>Dividends paid per share (in won)</u>	<u>Dividends paid (in millions of won)</u>
Common shares	27,467,967	27,467,967	445.77	12,244
	<u>2013</u>			
	<u>Number of shares issued</u>	<u>Number of shares eligible for dividends</u>	<u>Dividends paid per share (in won)</u>	<u>Dividends Paid (in millions of won)</u>
Common shares	27,467,967	27,467,967	2,408.37	66,152

(5) Changes in actuarial gains (losses) on employee benefit obligations for the years ended December 31, 2014 and 2013

<i>In millions of won</i>		<u>December 31, 2014</u>	<u>December 31, 2013</u>
Beginning balance	₩	(9,659)	(20,645)
Changes		(17,208)	14,494
Income tax effect		4,164	(3,508)
Ending balance	₩	<u>(22,703)</u>	<u>(9,659)</u>

**24. Other Components of Equity**

(1) Other components of equity of the parent as of December 31, 2014 and 2013 are as follows:

<i>In millions of won</i>		<u>December 31, 2014</u>	<u>December 31, 2013</u>
Accumulated other comprehensive loss	₩	(26,363)	(24,726)
Other equity		(290,201)	(289,935)
	₩	<u>(316,564)</u>	<u>(314,661)</u>

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24. Other Components of Equity, Continued

- (2) Changes in accumulated other comprehensive income (loss) for the years ended December 31, 2014 and 2013 are as follows:

*In millions of won*

	2014			
	Available-for-sale financial asset valuation reserve	Reserve for gains (loss) on valuation of derivatives	Share in other comprehensive loss of investments in associates and joint ventures	Reserve for overseas operations translation
Beginning balance	₩ 2,166	2,801	(12,781)	(16,912)
Changes in the unrealized fairvalue of available-for- sale financial assets	154	-	-	-
Net change in the unrealized fair value of derivatives using cash flow hedge accounting	-	(10,733)	-	-
Share in other comprehensive income of associates and joint ventures	-	-	1,312	-
Foreign currency translation of foreign operations	-	-	-	5,075
Tax effect	(38)	2,598	(5)	-
Ending balance	₩ 2,282	(5,334)	(11,474)	(11,837)

*In millions of won*

	2013			
	Available-for-sale financial asset valuation reserve	Reserve for gains (loss) on valuation of derivatives	Share in other comprehensive loss of investments in associates and joint ventures	Reserve for overseas operations translation
Beginning balance	₩ (204)	6,100	(17,895)	(10,242)
Changes in the unrealized fairvalue of available-for- sale financial assets	3,126	-	-	-
Net change in the unrealized fair value of derivatives using cash flow hedge accounting	-	(4,351)	-	-
Share in other comprehensive loss of associates and joint ventures	-	-	5,188	-
Foreign currency translation of foreign operations	-	-	-	(6,697)
Tax effect	(756)	1,052	(74)	27
Ending balance	₩ 2,166	2,801	(12,781)	(16,912)

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**24. Other Components of Equity, Continued**

(3) Details of other equity as of December 31, 2014 and 2013 are as follows:

<i>In millions of won</i>	<u>December 31, 2014</u>	<u>December 31, 2013</u>
Loss on capital reduction	₩ (279,192)	(279,192)
Other capital adjustment	(11,009)	(10,743)
	<u>₩ (290,201)</u>	<u>(289,935)</u>

**25. Sales**

Details of sales for the years ended December 31, 2014 and 2013 are as follows:

<i>In millions of won</i>	<u>2014</u>	<u>2013</u>
Sales of goods		
Domestic	₩ 5,056,703	5,667,762
Overseas	4,786	4,728
	<u>5,061,489</u>	<u>5,672,490</u>
Sales of service		
Domestic	-	-
Overseas	50,526	29,777
	<u>50,526</u>	<u>29,777</u>
	<u>₩ 5,112,015</u>	<u>5,702,267</u>

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**26. Selling and Administrative Expenses**

Selling and administrative expenses for the years ended December 31, 2014 and 2013 are as follows:

<i>In millions of won</i>	<b>2014</b>	<b>2013</b>
Salaries	₩ 13,648	14,205
Retirement benefit expense	850	1,434
Welfare and benefit expense	3,337	6,182
Insurance expense	40	33
Depreciation	1,212	2,522
Amortization of intangible assets	1,085	3,396
Commission	9,204	15,713
Advertising expense	623	791
Training expense	199	246
Vehicle maintenance expense	101	64
Publishing expense	235	245
Business promotion expense	222	238
Rent expense	2,171	2,461
Telecommunication expense	39	1,167
Taxes and dues	5,705	2,281
Expendable supplies expense	163	147
Water, light and heating expense	19	17
Repairs and maintenance expense	29	137
Ordinary development expense	8,192	8,514
Travel expense	474	408
Clothing expense	26	2
Survey and analysis expense	47	48
Sales facilitation expense	8	5
Increase of provision for wage litigation	38,402	-
Others	2,647	4,245
	₩ <u>88,678</u>	<u>64,501</u>

**27. Other non-operating Income and Other non-operating Expenses**

(1) Other non-operating income for the years ended December 31, 2014 and 2013 are as follows:

<i>In millions of won</i>	<b>2014</b>	<b>2013</b>
Compensation and other revenue	₩ 33,650	26,330
Rental income	3,650	3,509
	₩ <u>37,300</u>	<u>29,839</u>

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**27. Other non-operating Income and Other non-operating Expenses, Continued**

(2) Other non-operating expenses for the years ended December 31, 2014 and 2013 are as follows:

<i>In millions of won</i>	<u>2014</u>	<u>2013</u>
Other bad debt expenses	₩ 26	1,993
Donations	577	890
	<u>₩ 603</u>	<u>2,883</u>

**28. Other Profit (Loss)**

Details of other profit (loss) for the years ended December 31, 2014 and 2013 are as follows:

<i>In millions of won</i>	<u>2014</u>	<u>2013</u>
Other profit		
Gains on disposal of property plant, and equipment(*1)	₩ 3,869	5,216
Gains on foreign currency translations(*2)	364	327
Gains on foreign currency transactions(*2)	3,184	4,800
Others	2,942	7,282
Other loss		
Losses on disposal of property plant, and equipment	(1,640)	(3,936)
Losses on foreign currency translations(*2)	(427)	(3,719)
Losses on foreign currency transactions(*2)	(4,672)	(10,089)
Others	(5,215)	(2,702)
	<u>₩ (1,595)</u>	<u>(2,821)</u>

(\*1) Gains on disposal of assets held-for-sale are included in 2013.

(\*2) This amount represents gains (losses) on foreign currency translations and transactions arising from operating activities.

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**29. Finance Income**

(1) Finance income for the years ended December 31, 2014 and 2013 are as follows:

<i>In millions of won</i>	<u>2014</u>	<u>2013</u>
Interest income	₩ 15,302	12,668
Gains on transactions of available-for-sale securities	34	24
Gains on derivative valuations	16,902	-
Gains on derivative transactions	3,850	19,516
Gains on foreign currency translations(*)	68	3,160
Gains on foreign currency transactions(*)	1,508	3,190
	<u>₩ 37,664</u>	<u>38,558</u>

(\*) This amount represents gains on foreign currency translations and transactions arising from financing activities.

(2) Interest income included in finance income for the years ended December 31, 2014 and 2013 are as follows:

<i>In millions of won</i>	<u>2014</u>	<u>2013</u>
Cash and cash equivalents	₩ 5,309	6,007
Loans and receivables	9,993	6,661
	<u>₩ 15,302</u>	<u>12,668</u>

**30. Finance Costs**

(1) Finance costs for the years ended December 31, 2014 and 2013 are as follows:

<i>In millions of won</i>	<u>2014</u>	<u>2013</u>
Interest expense	₩ 73,055	62,869
Losses on valuation of derivatives	-	3,143
Losses on derivative transactions	4,835	44,130
Losses on foreign currency translations(*)	17,170	22
Losses on foreign currency transactions(*)	141	5,874
	<u>₩ 95,201</u>	<u>116,038</u>

(\*) This amount represents losses on foreign currency translations and transactions arising from financing activities.

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**30. Finance Costs, Continued**

(2) Interest expense included in finance costs for the years ended December 31, 2014 and 2013 are as follows:

<i>In millions of won</i>	<u>2014</u>	<u>2013</u>
Trade and other payables	₩ 767	1,289
Short-term borrowings	1,753	1,871
Long-term borrowings	5,113	2,642
Bonds	102,499	81,456
	<u>110,132</u>	<u>87,258</u>
Less: Capitalized borrowing costs	(37,077)	(24,389)
	<u>₩ 73,055</u>	<u>62,869</u>

Capitalization rates for the years 2014 and 2013 are 3.5% and 3.8%, respectively.

**31. Income Tax Expense**

(1) Income tax expense for the years ended December 31, 2014 and 2013 are as follows:

<i>In millions of won</i>	<u>2014</u>	<u>2013</u>
<b>Current income tax expense</b>		
Current tax expense	₩ 25,736	2,483
Adjustment recognized in the period for current tax of prior period	(4,237)	(2,956)
Current income tax directly recognized in equity	6,719	(3,100)
	<u>28,218</u>	<u>(3,573)</u>
<b>Deferred income tax expense</b>		
Generation and realization of temporary differences	9,799	12,399
Reclassification to expense from other comprehensive loss	-	(65)
Recognition of unrecognized tax losses in the past, tax credit and temporary differences of prior period	6,947	(3,129)
	<u>16,746</u>	<u>9,205</u>
Income tax expense	<u>₩ 44,964</u>	<u>5,632</u>

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**31. Income Tax Expense, Continued**

- (2) Reconciliation between income tax expense and accounting income for the years ended December 31, 2014 and 2013 are as follows:

<i>In millions of won</i>	<u>2014</u>	<u>2013</u>
Profit before income tax	₩ 161,909	62,049
Income tax expense computed at applicable statutory tax rate	39,182	15,016
Adjustments:		
Effect of applying gradual tax rate	(462)	(249)
Adjustment recognized in the period for current tax of prior period	(4,237)	(2,956)
Effect of non-taxable income	(808)	(633)
Effect of non-deductible expenses	863	663
Effect of tax credits and deduction	(4,203)	(864)
Recognition of unrecognized tax losses in the past, tax credit, and temporary differences of prior period	6,947	(3,129)
Investment in subsidiaries and associates	7,304	(2,280)
Others	378	64
	<u>5,782</u>	<u>(9,384)</u>
Income tax expense	₩ <u>44,964</u>	<u>5,632</u>
Average effective tax rate	27.77%	9.08%

- (3) Income tax recognized in other comprehensive income for the years ended December 31, 2014 and 2013 are as follows:

<i>In millions of won</i>	<u>2014</u>	<u>2013</u>
Income tax recognized as accumulated other comprehensive income		
Gain on valuation of available-for-sale financial assets, net	₩ (38)	(756)
Gain on valuation of derivative instruments, net	2,598	1,052
Change in equity using equity method	(5)	74
Defined benefit plan actuarial losses, net	4,164	(3,508)
Conversion effect of foreign financial statements	-	(27)
Income tax expense	₩ <u>6,719</u>	<u>(3,165)</u>

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31. Income Tax Expense, Continued

- (4) Recognized in the statement of financial position of deferred income tax assets(liabilities) for the years ended December 31, 2014 and 2013 are as follows:

		December 31, 2014			
<i>In millions of won</i>		Beginning balance	Amounts recognized in profit or loss	Amounts recognized in other comprehensive income	Ending balance
<b>Deferred tax on temporary differences</b>					
Long-term employee benefits	₩	15,767	(4,678)	-	11,089
Cash flow hedges		(3,217)	(4,091)	2,598	(4,710)
Investments in subsidiaries and associates		(7,048)	(6,078)	(5)	(13,131)
Property, plant and equipment		(226,838)	(25,749)	-	(252,587)
Available-for-sale financial assets		(691)	-	(38)	(729)
Provisions		26,872	17,254	4,164	48,290
Foreign currency translation		6,351	3,267	-	9,618
Allowance for doubtful accounts		(1,346)	6	-	(1,340)
Others		(8,085)	(3,395)	-	(11,480)
	₩	<u>(198,235)</u>	<u>(23,464)</u>	<u>6,719</u>	<u>(214,980)</u>

		December 31, 2013					
<i>In millions of won</i>		Beginning balance	Amounts recognized in profit or loss	Amounts recognized in other comprehensive income	Reclassifica- tion to the profit or loss from capital	Increase due to business combinati- ons	Ending balance
<b>Deferred tax on temporary differences</b>							
Long-term employee benefits	₩	11,039	4,728		-	-	15,767
Cash flow hedges		(14,330)	10,061	1,117	(65)	-	(3,217)
Investments in subsidiaries and associates		(6,003)	(1,092)	47	-	-	(7,048)
Property, plant and equipment		(212,281)	(17,160)	-	-	2,603	(226,838)
Intangible assets		(2)	2	-	-	-	-
Available-for-sale financial assets		65	-	(756)	-	-	(691)
Provisions		24,025	6,355	(3,508)	-	-	26,872
Foreign currency translation		14,818	(8,467)	-	-	-	6,351
Allowance for doubtful accounts		(1,346)	-	-	-	-	(1,346)
Others		(7,553)	(532)	-	-	-	(8,085)
	₩	<u>(191,568)</u>	<u>(6,105)</u>	<u>(3,100)</u>	<u>(65)</u>	<u>2,603</u>	<u>(198,235)</u>

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**32. Expenses by Nature**

(1) Expenses by nature for the years ended December 31, 2014 are as follows:

*In millions of won*

	<b>2014</b>		
	<b>Selling and administrative expenses</b>	<b>Cost of sales</b>	<b>Total</b>
Raw materials used	₩ -	4,025,755	4,025,755
Salaries	13,648	131,536	145,184
Employee benefit expense	850	8,571	9,421
Welfare and benefit expense	3,337	17,074	20,411
Insurance expense	40	9,994	10,034
Depreciation	1,212	409,906	411,118
Amortization of intangible assets	1,085	2,462	3,547
Commission	9,204	20,982	30,186
Advertising expense	623	636	1,259
Training expense	199	389	588
Vehicle maintenance expense	101	181	282
Publishing expense	235	112	347
Business promotion expense	222	189	411
Rent expense	2,171	12,895	15,066
Telecommunication expense	39	1,172	1,211
Transportation expense	-	23	23
Taxes and dues	5,705	12,104	17,809
Expendable supplies expense	163	503	666
Water, light and heating expense	19	754	773
Compensation expense	-	12	12
Repairs and maintenance expense	29	124,761	124,790
Ordinary development expense	8,192	9,834	18,026
Travel expense	474	385	859
Clothing expense	26	430	456
Survey and analysis expense	47	285	332
Accrual of RPS provisions, net	-	34,974	34,974
Other income related to RPS	-	(25,462)	(25,462)
Sales facilitation expense	8	-	8
Others	41,049	56,569	97,618
	₩ <u>88,678</u>	<u>4,857,026</u>	<u>4,945,704</u>

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**32. Expenses by Nature, Continued**

(2) Expenses by nature for the years ended December 31, 2013 are as follows:

*In millions of won*

	<b>2013</b>		
	<b>Selling and administrative expenses</b>	<b>Cost of sales</b>	<b>Total</b>
Raw materials used	₩ -	4,740,223	4,740,223
Salaries	14,205	140,368	154,573
Employee benefit expense	1,434	18,544	19,978
Welfare and benefit expense	6,182	19,331	25,513
Insurance expense	33	9,524	9,557
Depreciation	2,522	369,157	371,679
Amortization of intangible assets	3,396	651	4,047
Commission	15,713	9,143	24,856
Advertising expense	791	591	1,382
Training expense	246	325	571
Vehicle maintenance expense	64	151	215
Publishing expense	245	100	345
Business promotion expense	238	192	430
Rent expense	2,461	15,165	17,626
Telecommunication expense	1,167	149	1,316
Transportation expense	-	25	25
Taxes and dues	2,281	4,592	6,873
Expendable supplies expense	147	418	565
Water, light and heating expense	17	607	624
Compensation expense	-	5	5
Repairs and maintenance expense	137	119,455	119,592
Ordinary development expense	8,514	10,616	19,130
Travel expense	408	394	802
Clothing expense	2	263	265
Survey and analysis expense	48	263	311
Accrual of RPS provisions, net	-	31,199	31,199
Other expense related to RPS	-	11,988	11,988
Sales facilitation expense	5	-	5
Others	4,245	34,635	38,880
	₩ <u>64,501</u>	<u>5,538,074</u>	<u>5,602,575</u>

**33. Earnings Per Share**

(1) Basic earnings per share for the years ended December 31, 2014 and 2013 are as follows:

*In won*

	<b>2014</b>	<b>2013</b>
Basic earnings per share	₩ 4,168	2,073

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**33. Earnings Per Share, Continued**

(2) Basic earnings per share

Profit for the year and weighted average number of common shares used in the calculation of basic earnings per share for the years ended December 31, 2014 and 2013 are as follows:

<i>In won, except for share data</i>		<u>2014</u>	<u>2013</u>
Earning used in the calculation of total basic earnings per share	₩	114,497,553,856	56,939,604,337
Weighted average number of common shares		27,467,967	27,467,967

(3) Diluted earnings per share

The Company has no potential dilutive instruments as of December 31, 2014 and 2013.

**34. Risk Management**

(1) Capital risk management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder's value. The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment, capital return to shareholders or issue new shares.

The Group manages capital based on a gearing ratio which is net debt divided by total equity. The Group calculates net debt as interest bearing loans, borrowings and bonds payable, less cash and cash equivalents.

Details of the Group's capital management accounts as of December 31, 2014 and 2013 are as follows:

<i>In millions of won</i>		<u>December 31, 2014</u>	<u>December 31, 2013</u>
Total borrowings and bonds	₩	3,161,004	2,332,648
Cash and cash equivalents		105,285	(91,300)
Net borrowings and bonds		3,055,719	2,241,348
Total equity		3,027,022	2,936,754
Net debt to equity ratio		100.95%	76.32%

(2) Financial risk management

The Group's board of directors is responsible for establishing and monitoring its risk management structure. The risk management policy of the Group has been established to identify and analyze encountered risks of the Group, set up the adequate risk limit and control the risk below the pre-established limit. The risk management policy and system are periodically monitored to reflect the Group's change of activities. The Group's goal is to build strict and organizational control environment in which all employees can understand their roles and obligations through training on control standards and procedures.

The Group's internal auditor monitors senior management on whether the risk management policy and procedures have been complied with and reviews on the Group's risk management controls and procedures.

The Group's overall financial risk management strategy remains consistent from that of the prior year.

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**34. Risk Management, Continued**

(2) Financial risk management, Continued

(i) Credit risk

Credit risk is the risk of finance loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises primarily from the Group's debt securities and derivative instruments. In addition, credit risk exposure may exist within financial guarantees and unused line of credits. As these financial institutions the Group makes transactions with are reputable financial institutions, the credit risk from them are considered limited. The Group decides credit transaction limits based on evaluation of client's credit, through information obtained from the credit bureau and disclosed financial position at committing contracts.

a) Credit risk management

The Group uses publicly available information and its own internal data related to accounts receivables, to rate its major customers and to measure the credit risk that a counter party will default on a contractual obligation. As the majority of the Group's accounts receivables are due from governmental entities, the Group does not have significant credit risk exposure. Regarding its debt securities, the Group continuously reviews credit ratings issued by credit agencies, and the Group's working capital (i.e. cash) is deposits at a financial institution with a high credit rating.

b) Accounting policies over Impairment & Allowance accounts

In accordance with the Group policies, individual material financial assets are assessed on a regular basis, trade receivables that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Value of the acquired collateral (including the Confirmation of feasibility) and estimated collectable amounts are included in this assessment.

Allowance for bad debts assessed on a collective basis are recognized for (i) the group of assets which individually are not material and (ii) incurred but not recognized losses that are assessed using statistical methods, judgment and historical experience.

Book values of the financial assets represent the maximum exposed amounts of the credit risk. Details of the Group's level of maximum exposure to credit risk as of December 31, 2014 and 2013 are as follows:

<i>In millions of won</i>	<u>December 31, 2014</u>	<u>December 31, 2013</u>
Loans and receivables(*)	₩ 729,155	717,801
Available-for-sale financial assets	2	6
Derivative assets (using hedge accounting)	30,397	22,905

(\*) This Loans and receivables are the amount of 'loans and receivables' category from note 5.

There is no financial asset or non-financial asset acquired by exercising a lien or other credit enhancement as of December 31, 2014.

(ii) 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.

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**34. Risk Management, Continued**

(2) Financial risk management, Continued

(iii) Sensitivity analysis

- Significant assets and liabilities with uncertainties in underlying assumptions.

① Defined benefit obligations

The following is a sensitivity analysis of defined benefit obligations assuming a 1% increase and decrease in the actuarial valuation assumptions as of December 31, 2014 and 2013:

<i>In millions of won</i>		<b>December 31, 2014</b>		<b>December 31, 2013</b>	
<b>Type</b>	<b>Accounts</b>	<b>1% Increase</b>	<b>1% Decrease</b>	<b>1% Increase</b>	<b>1% Decrease</b>
Future salary increases	Defined benefit obligation	₩ 10,112	(9,023)	8,669	(7,754)
Discount rate	Defined benefit obligation	(9,549)	10,999	(8,192)	9,363

- Management judgment is affected by uncertainties in underlying assumptions.

② Foreign currency risk

The Group does not carry monetary assets denominated in foreign currencies and the details of monetary liabilities denominated in foreign currencies as of December 31, 2014 and 2013 are as follows.

	<b>Assets</b>		<b>Liabilities</b>	
	<b>December 31, 2014</b>	<b>December 31, 2013</b>	<b>December 31, 2014</b>	<b>December 31, 2013</b>
USD	44,167	4,019	548,597	285,478
CHF		-	12	12

Applied exchange rates are as follows:

<i>In Won</i>	<b>Average rate</b>		<b>Reporting date spot rate</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
USD	1,053.22	1,095.04	1,099.20	1,055.30
CHF	1,151.45	1,181.04	1,111.43	1,188.67

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34. Risk Management, Continued

(2) Financial risk management, Continued

A sensitivity analysis on the Group's profit for the years assuming a 10% increase and decrease in currency exchange rates with all other variables held constant as of December 31, 2014 and 2013 is as follows:

<i>In millions of won</i>	<b>December 31, 2014</b>		<b>December 31, 2013</b>	
	<b>10% Increase</b>	<b>10% Decrease</b>	<b>10% Increase</b>	<b>10% Decrease</b>
Increase (decrease) of profit before income tax	₩ (55,448)	55,448	(29,704)	29,704
Increase (decrease) of shareholder's equity(*)	(55,448)	55,448	(29,704)	29,704

(\*) The effect of income tax 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, 2014 and 2013.

To manage its foreign currency risk related to foreign currency denominated in long-term borrowings and bonds, the Group has a policy to enter into currency forward agreements. In addition, to manage its foreign currency risk related to foreign currency denominated purchase transactions, the Group enters into cross-currency swap agreements.

③ 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 bonds with floating interest rates as of December 31, 2014 and 2013 are as follows:

<i>In millions of won</i>	<b>December 31, 2014</b>	<b>December 31, 2013</b>
Long-term borrowings	₩ 46,953	47,302

A sensitivity analysis on the Group's long-term borrowings and bonds assuming a 1% increase and decrease in interest rates with all other variables held constant as of December 31, 2014 and 2013 are as follows:

<i>In millions of won</i>	<b>December 31, 2014</b>		<b>December 31, 2013</b>	
	<b>1% Increase</b>	<b>1% Decrease</b>	<b>1% Increase</b>	<b>1% Decrease</b>
Increase (decrease) of profit before income tax	₩ (470)	470	(473)	473
Increase (decrease) of shareholder's equity(*)	(470)	470	(473)	473

(\*) The effect of income tax is not considered.

To manage its interest rate risks, the Group enters into certain interest swap agreements or maintains an appropriate mix of fixed and floating rate borrowings. Sensitivity analysis above is conducted without consideration of hedge effect of related 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.

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34. Risk Management, Continued

(2) Financial risk management, 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 so as to minimize liquidity risk.

The following table shows the details of maturities of non-derivative financial liabilities based on contractual undiscounted payments:

*In millions of won*

Type	December 31, 2014				
	Less than 1 year	1~2 Years	2~5 Years	More than 5 years	Total
Borrowings and bonds (cash flows of principal)	₩ 350,491	347,941	1,101,492	1,369,336	3,169,260
Borrowings and bonds (cash flows of interest)	106,525	85,974	186,957	153,250	532,706
	<u>457,016</u>	<u>433,915</u>	<u>1,288,449</u>	<u>1,522,586</u>	<u>3,701,966</u>
Trade and other payables	516,058	1,141	4,382	8,231	529,812
	₩ <u>973,074</u>	<u>435,056</u>	<u>1,292,831</u>	<u>1,530,817</u>	<u>4,231,778</u>

*In millions of won*

Type	December 31, 2013				
	Less than 1 year	1~2 Years	2~5 Years	More than 5 years	Total
Borrowings and bonds (cash flows of principal)	₩ 370,351	347,516	882,961	736,689	2,337,517
Borrowings and bonds (cash flows of interest)	12,227	11,473	29,189	24,321	77,210
	<u>382,578</u>	<u>358,989</u>	<u>912,150</u>	<u>761,010</u>	<u>2,414,727</u>
Trade and other payables	634,537	1,736	5,209	13,066	654,548
	₩ <u>1,017,115</u>	<u>360,725</u>	<u>917,359</u>	<u>774,076</u>	<u>3,069,275</u>

The expected maturities for non-derivative financial assets as of December 31, 2014 and 2013 in detail are as follows:

*In millions of won*

Type	December 31, 2014				
	Less than 1 year	1~5 Years	More than 5 years	Others	Total
Cash and cash equivalents	₩ 105,285	-	-	-	105,285
Available-for-sale financial assets	-	-	-	29,628	29,628
Loans	1,621	48,089	8,268	4,435	62,413
Trade and other receivables	498,826	33,320	-	30,825	562,971
	₩ <u>605,732</u>	<u>81,409</u>	<u>8,268</u>	<u>64,888</u>	<u>760,297</u>

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**34. Risk Management, Continued**

(2) Financial risk management, Continued

The expected maturities for non-derivative financial assets as of December 31, 2014 and 2013 in detail are as follows, Continued:

*In millions of won*

Type	December 31, 2013				
	Less than 1 year	1~5 Years	More than 5 years	Others	Total
Cash and cash equivalents	₩ 91,300	-	-	-	91,300
Available-for-sale financial assets	-	-	-	29,739	29,739
Loans	3,060	50,599	19,050	-	72,709
Trade and other receivables	512,540	12,108	-	30,826	555,474
	₩ <u>606,900</u>	<u>62,707</u>	<u>19,050</u>	<u>60,565</u>	<u>749,222</u>

Derivative liabilities classified by maturity periods from reporting date to maturity date of contract as of December 31, 2014 are as follows:

*In millions of won*

Type	December 31, 2014			
	Less than 1 year	1~2 Years	2~5 Years	Total
Gross settlement				
- Hedge (after discounted)	₩ 1,324	-	-	1,324
- Hedge (before discounted)	1,383	-	-	1,383

There is no derivative liabilities as of December 31, 2013.

(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.

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34. Risk Management, Continued

(3) Fair value risk, Continued

(i) Fair value and book value of financial assets and liabilities as of December 31, 2014 and 2013 are as follows:

*In millions of won*

Type	December 31, 2014		December 31, 2013	
	Book value	Fair value	Book value	Fair value
<b>Assets recognized at fair value</b>				
Available-for-sale financial assets	₩ 12,144	12,144	11,994	11,994
Derivative assets (using hedge accounting)	30,397	30,397	22,905	22,905
	₩ 42,541	42,541	34,899	34,899
<b>Assets carried at amortized cost</b>				
Cash and cash equivalents	₩ 105,285	105,285	91,300	91,300
Loans and receivables	60,898	60,898	71,027	71,027
Trade and other receivables	562,972	562,972	555,474	555,474
	₩ 729,155	729,155	717,801	717,801
<b>Liabilities recognized at fair value</b>				
Derivative liabilities (trading)	₩ 1,324	1,324	-	-
<b>Liabilities carried at amortized cost</b>				
Trade and other payables	₩ 529,812	529,812	647,645	647,645
Unsecured borrowings (*)	108,472	108,472	176,457	176,457
Unsecured bond	3,052,532	3,189,358	2,156,191	2,175,206
	₩ 3,690,816	3,827,642	2,980,293	2,999,308

(\*) Commerce and Industry Energy Co., Ltd.'s shares that the Group own is provided as collateral for the borrowings of ₩ 84,344 million ( December 31, 2013 : ₩ 85,000 million ).

(ii) Interest rates used for determining fair value

The interest rates used to discount estimated cash flows, when applicable, are based on the government yield curve at the reporting date plus an adequate credit spread.

The discount rate used for calculating fair value as of December 31, 2014 and 2013 are as follows:

Type	December 31, 2014 (%)	December 31, 2013 (%)
Derivatives	0.16 ~ 2.06	0.35 ~ 1.95
Borrowings and bonds	0.16 ~ 2.84	2.25 ~ 3.86
Finance lease	4.36	4.65

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34. Risk Management, Continued

(3) Fair value risk, Continued

(iii) Fair value hierarchy

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, classified as Level 1, 2, or 3, based on the degree to which the fair value is observable.

Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2: Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and

Level 3: Inputs that are not based on observable market data.

Fair values of financial instruments by hierarchy level as of December 31, 2014 and 2013 are as follows:

*In millions of won*

Type	December 31, 2014			
	Level 1	Level 2	Level 3	Total
<b>Financial assets at fair value</b>				
Available-for-sale financial assets(*) ₩	-	2	12,142	12,144
Derivative assets	-	30,397	-	30,397
	₩	30,399	12,142	42,541
<b>Financial liabilities at fair value</b>				
Derivative liabilities ₩	-	1,324	-	1,324

(\*) Available-for-sale financial assets measured at cost amount ₩ 17,484 million as of December 31, 2014 are excluded from the above disclosure since their fair value cannot be reliably measured.

*In millions of won*

Type	December 31, 2013			
	Level 1	Level 2	Level 3	Total
<b>Financial assets at fair value</b>				
Available-for-sale financial assets(*) ₩	-	6	11,988	11,994
Derivative assets	-	22,905	-	22,905
	₩	22,911	11,988	34,899

(\*) Available-for-sale financial assets measured at cost amount ₩ 17,739 million as of December 31, 2013 are excluded from the above disclosure since their fair value cannot be reliably measured.

There is no change between Level 1 and 2 for the years ended December 31, 2014 and 2013.

Changes of financial assets and liabilities which are classified as level 3 for the year ended December 31, 2014 are as follows:

*In millions of won*

Type	December 31, 2014			
	Beginning balance	Disposal	Valuation	Ending balance
<b>Financial assets at fair value:</b>				
Available-for-sale financial assets ₩	11,988	-	154	12,142

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**35. Related Parties**

(1) Related parties of the Group as of December, 2014 are as follows:

<b>Type</b>	<b>Related party</b>
Parent	KEPCO
Associates	KEPCO Lebanon S.A.R.L. Gangwon Wind Power Co., Ltd. Hyundai Green Power Co., Ltd. Korea Offshore Wind Power Co., Ltd. PT Cirebon Electric Power PT Wampu Electric Power
Joint Ventures	Eco Biomass Energy Sdn. Bhd.
Others	Korea Hydro & Nuclear Power Co., Ltd. Korea South-East Power Co., Ltd. Korea East-West Power Co., Ltd. Korea Western Power Co., Ltd. Korea Southern Power Co., Ltd. KEPCO Engineering & Construction Company INC. KEPCO Plant Service & Engineering Co., Ltd. KEPCO KDN Co., Ltd. Korea Gas Corporation Korea Electronic Power Industrial Development Co., Ltd. Korea Power Exchange and Others

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35. Related Parties, Continued

(2) Related party transactions for the years ended December 31, 2014 and 2013 are as follows:

*In millions of won*

Company name	Transaction type	Sales and others		Purchase and others	
		2014	2013	2014	2013
Korea Electric Power Corporation	Electricity trading and others	₩ 5,037,996	5,667,567	53,390	104,851
Korea Hydro & Nuclear Power Co., Ltd.	Commission expenses	-	-	80	95
Korea South-East Power Co., Ltd.	Rental and services	-	-	45	66
Korea East-West Power Co., Ltd.	Rental and services	41	27	44	121
Korea Southern Power Co., Ltd.	Rental and services	-	18	-	115
Korea Western Power Co., Ltd.	Rental and services	105	-	-	-
KEPCO Engineering & Construction Company INC.	Rental and services	-	-	23,110	29,016
KEPCO Plant Service & Engineering Co., Ltd.	Rental and services	402	429	86,643	89,165
KEPCO KDN Co., Ltd.	Rental and services	-	-	7,992	6,862
Korea Offshore Wind Power Co., Ltd.	Rental and services	-	249	-	-
Korea Gas Corporation	LNG purchase	627	668	2,280,175	2,925,151
Industrial Development Co., Ltd.	Rental and services	69	83	30,165	28,351
Chungbuk Photovoltaic Power Co., Ltd.	REC purchase	-	-	327	798
Cheonan Photovoltaic Power Co., Ltd.	REC purchase	-	-	262	718
Gumi-ochang Photovoltaic Power Co., Ltd.	REC purchase	-	-	1,148	2,622
Golden Root 2nd Solar Power Co., Ltd.	REC purchase	-	-	229	631
Seokchun solar power Co., Ltd.	REC purchase	-	-	644	1,158
D Solarenergy Co., Ltd.	REC purchase	-	-	608	-
Hyundai Asan Photovoltaic Power Co., Ltd.	REC purchase	-	-	800	-
Commerce & Industry Energy Co., Ltd (*)	REC purchase	-	5	-	923
Gangwon Wind Power Co., Ltd.	Dividend income	1,988	1,988	6	7
Hyundai Green Power Co., Ltd.	Rental and services	10,754	10,005	-	-
Korea Power Exchange	Rental and services	-	-	4,741	4,368

(\*) This amount represents the transactions before business combination.

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35. Related Parties, Continued

(3) Receivables and payables arising from related party transactions as of December 31, 2014 and 2013 are as follows:

*In millions of won*

Company name	Transaction type	Receivables		Payables	
		2014	2013	2014	2013
KEPCO	Trade receivables	₩ 449,664	477,685	-	-
	Other payables	-	-	19,244	19,930
Korea Hydro & Nuclear Power Co., Ltd.	Other payables	-	-	22	-
Korea Western Power Co., Ltd.	Other receivables	-	-	18	-
Korea East-West Power Co., Ltd.	Other payables	-	-	-	13,550
Korea Southern Power Co., Ltd.	Other payables	-	-	-	1
KEPCO KDN Co., Ltd.	Other receivables	-	75	-	-
	Other payables	-	-	1,172	1,673
KEPCO Plant Service & Engineering Co., Ltd.	Other payables	-	-	11,070	21,711
KEPCO Engineering & Construction Company INC.	Other payables	-	-	4,652	15,094
Korea Offshore Wind Power Co., Ltd	Other receivables	-	239	-	-
Korea Gas Corporation	Trade payables	-	-	235,585	350,791
Korea Electronic Power Industrial Development Co., Ltd.	Other payables	-	-	4,234	5,155
Korea Power Exchange	Other receivables	611	622	-	-
	Other payables	-	-	-	7
PT Cirebon Electric Power	Loans	45,136	55,741	-	-
Golden Root 2nd Solar Power Co., Ltd.	Other payables	-	-	-	48
Seokchun solar power Co., Ltd.	Other payables	-	-	-	142
Chungbuk Photovoltaic Power Co., Ltd	Other payables	-	-	-	54
Hyundai Green Power Co., Ltd.	Trade receivables	171	173	-	-

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**35. Related Parties, Continued**

(4) Loans arising from related party transactions as of December 31, 2014 and 2013 are as follows:

*In millions of won*

<u>Type</u>	<u>Company name</u>	<u>December 31, 2014</u>	<u>December 31, 2013</u>
Subsidiary	PT Cirebon Electric Power ₩	45,136	55,741

(5) Payment guarantees provided to an associates or joint ventures as of December 31, 2014 are as follows:

*In thousands of USD*

<u>Primary guarantor</u>	<u>Secondary guarantor</u>	<u>Type of guarantees</u>	<u>Credit limit</u>
Korea Midland Power Co., Ltd.	PT Cirebon Electric Power	Payment guarantee for debt	USD 12,000
Korea Midland Power Co., Ltd.	PT Wampu Electric Power	Performance guarantee for business	USD 793

(6) Payment collaterals provided to an associates or joint ventures as of December 31, 2014 are as follows:

*In millions of won*

<u>Primary guarantor</u>	<u>Secondary guarantor</u>	<u>Type of guarantees</u>	<u>Book value</u>
Korea Midland Power Co., Ltd.	Gangwon Wind Power Co., Ltd.	Collateralized money invested ₩	12,385
Korea Midland Power Co., Ltd.	Hyundai Green Power Co., Ltd.	Collateralized money invested	113,033

(7) Other Commitments

(i) Hyundai Green Power Co., Ltd.

As of December 31, 2014, Hyundai Green Power Co., Ltd., an associate of the Group, which engages in the by-product gas power generating industry, carries long-term borrowings for project financing amounting to ₩919 billion from Korea Development Bank and others. In connection with these borrowings, the Group pledged its investment securities in Hyundai Green Power Co. Ltd.. In addition, the Group provided a payment guarantee in relation to the repayment of the principal and interest in arrears of unsubordinated borrowings.

On the other hand, the Group has the right to request the financial investors to sell their equity and the obligation to buy their equities for their request during a future specific period.

In addition, if the specific condition in the shareholder agreement is satisfied, the Group will have the right to request HYUNDAI STEEL COMPANY (operating investor) and a third party designated by HYUNDAI STEEL COMPANY to buy its equity and have the obligation to sell its equity to HYUNDAI STEEL COMPANY at its request.

(ii) Commerce and Industry Energy Co., Ltd.

As of December 31, 2014, Commerce & Industry Energy Co., Ltd. carries long-term borrowings for project financing amounting to ₩86 billion from Hana Bank and others. In connection with these borrowings, the Group pledged its investment securities in Commerce & Industry Energy Co., Ltd..

According to the shareholder agreement, the Group guarantees for a fixed return on investment to Hana Power Ltd. and one other company, which owns 39.3%, 2,260,000 shares of Commerce and Industry Energy Co., Ltd.'s shares. The investors can request the Group to acquire its investment securities 58 months after the investment date (2011).

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**35. Related Parties, Continued**

- (8) Salaries and other compensations to the key members of management of the Company for the years ended December 31, 2014 and 2013 are as follows:

*In millions of won*

Type	2014	2013
Salaries	₩ 544	770
Employee benefits	17	48
	₩ 561	818

- (9) Housing and tuition loans to employees as of December 31, 2014 and 2013 are as follows:

*In millions of won*

Type	December 31, 2014	December 31, 2013
Short-term loans	₩ 1,412	1,959
Long-term loans	14,350	13,327
	₩ 15,762	15,286

**36. Non-Cash Transactions**

Significant non-cash investment and finance transactions excluded from statements of cash flows for the years ended December 31, 2014 and 2013 are as follows:

*In millions of won*

Transactions	2014	2013
Transfer from construction-in-progress to depreciable assets	₩ 188,592	1,081,931
Transfer of long-term borrowings and bonds from non-current to current	349,836	300,225

**37. Commitments for Expenditure**

- (1) The agreements for acquisition of property, plant and equipment as of December 31, 2014 and 2013 are as follows:

*In millions of won*

Contracts	December 31, 2014		December 31, 2013	
	Amounts	Balance	Amounts	Balance
Construction of Wonju units	₩ 52,489	18,524	52,489	49,632
Construction of Jeju units	2,284	1,298	9,313	2,043
Construction of Sejong city cogeneration units	322,490	46,007	485,718	64,796
Construction of Incheon units	-	-	191,873	-
Construction of Seoul units	610,341	560,634	610,337	568,804
Construction of New Boryoung units	2,052,399	985,001	2,100,406	1,875,263
Other	2,463	270	30,411	26,546

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37. Commitments for Expenditure, Continued

(2) Long-term marine transportation commitments

The long-term marine transportation commitments for bituminous coal as of December 31, 2014 and the details are as follows:

Company name	Vessel	Contract periods
STX Pan Ocean Co., Ltd.	New Joy	1998.08 ~ 2016.07
	Unsettled	2016.07 ~ 2034.06
Samsun Logix	SamsunBoryeong	2008.04 ~ 2018.04
	Xin Shun	2008.05 ~ 2018.05
	Unsettled	2015.10 ~ 2030.09
Hanjin Shipping Co., Ltd.	Hanjin Port Kembla	2008.10 ~ 2018.09
	Goodwill	2010.08 ~ 2025.07
	Hanjin Tacoma	2010.06 ~ 2025.05
	Unsettled	2017.07 ~ 2035.06
NYK Bulkship Korea	Cupid Feather	2008.05 ~ 2018.05
	Twinkle Salute	2009.12 ~ 2020.11
Hyundai Merchant	HD Atlas	2011.10 ~ 2023.06
	Unsettled	2017.01 ~ 2031.12
	Unsettled	2018.01 ~ 2032.12
SK Shipping	K. Pride	2011.09 ~ 2021.08
SW Shipping	Sea Trader	2008.10 ~ 2018.09
	Unsettled	2017.01 ~ 2031.12
	Unsettled	2018.01 ~ 2032.12
Five Ocean	Ricsea	2010.08 ~ 2025.08
Daebo Shipping	JK Boryeong	2010.03 ~ 2016.03
Dooyang Limited	Unsettled	2018.07 ~ 2033.06

(3) Contracts for raw materials purchase

Details of contracts for raw materials purchase as of December 31, 2014 are as follows:

*In thousands of tons, In thousands of kiloliter*

Company name	Contract periods	Quantity
Coal:		
Australia(Ensham)	2014.01 ~ 2016.12	390
Australia(Energy Coal)	2013.04 ~ 2015.03	500
Australia(Sojitz)	2013.04 ~ 2017.03	500
Australia(Moolarben)	2009.07 ~ End of mining production	625
Australia(Sonoma)	2014.01 ~ 2015.12	700
Australia(Flame)	2011.10 ~ 2015.12	520
Australia(Centennial)	2014.01 ~ 2016.06	260
Australia(Peabody)	2013.07 ~ 2015.12	520
Australia(Gunvor)	2013.01 ~ 2015.12	520

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**37. Commitments for Expenditure, Continued**

(3) Contracts for raw materials purchase, Continued

Details of contracts for raw materials purchase as of December 31, 2014 are as follows, Continued:

*In thousands of tons, In thousands of kiloliter*

<b>Company name</b>	<b>Contract periods</b>	<b>Quantity</b>
Australia(Whitehaven)	2014.01 ~ 2015.06	520
Russia(Glencore)	2013.12 ~ 2015.11	280
Russia(SUEK)	2013.01 ~ 2015.12	490
Russia(Carbo One)	2014.10 ~ 2017.09	280
Indonesia(Berau)	2014.01 ~ 2016.12	840
Indonesia(MSJ)	2010.07 ~ 2016.06	160
Indonesia(LG Int')	2011.08 ~ 2015.07	500
Indonesia(ENERGY MAN)	2013.01 ~ 2016.03	560
Indonesia(Samtan)	2009.07 ~ 2015.06	500
Indonesia(Noble)	2010.07 ~ 2015.06	250
Indonesia(Trafigura)	2011.08 ~ 2015.07	280
U.S.(Cloud Peak)	2013.01 ~ 2015.12	560
U.S.(Cloud Peak)	2010.07 ~ 2015.06	250
Anthracite:		
Korea Coal Corporation	2013.01 ~ 2014.12	Government allocation
Korea Coal Association	2013.01 ~ 2014.12	Government allocation
Oil:		
Dukeun Interline Refinery Co., Ltd.	2014.07 ~ 2014.12	2,000 kl/6 months
SK Energy Co., Ltd.	2014.07 ~ 2014.12	110,000 kl/ 6 months
GS Caltex Co., Ltd.	2014.10 ~ 2015.03	33,000 kl/ 6 months
SK Chemical Co., Ltd.	2014.09 ~ 2014.12	43,000 kl/ 3 months
LNG:		
Korea Gas Corporation	2007.01 ~ 2026.12	Renegotiated annually

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**38. Contingencies and Commitments**

(1) Ongoing litigations where the Company is a defendant as of December 31, 2014 and 2013 are as follows:

*In millions of won, except for number of cases*

	December 31, 2014		December 31, 2013	
	Number of cases	Claim amount	Number of cases	Claim amount
Litigations	12	₩ 19,933	14	₩ 22,617

The claim amount includes a case that the Group and four other related parties are co-defendants with claim amounts of ₩19,566 million as of December 31, 2014. And, the provision for wage litigations is ₩ 38,403 million as shown in note 20. Except for the lawsuits that resulted in litigation provisions, the outcome of the other litigations cannot be determined. However, management of the Group 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, 2014 are as follows:

*In millions of won and thousands of foreign currencies*

Commitments	Financial institutions	Currency	Amount
Commitments on Bank-overdraft	Nonghyup Bank	KRW	150,000
Limit amount available for CP	Shinhan Bank	KRW	100,000
Certification of payment on L/C	Korea Exchange Bank and others	USD	304,000
Loan limit	Korea Exchange Bank and others	USD	155,059

(3) Money replenishment contract

In order to secure its status as a shareholder of Navanacom Electric Co., Ltd., the Company has signed a fund supplement contract. According to the contract, in case Navanacom Electric Co., Ltd. does not have sufficient funds for its operation or repayment of borrowings, the Company bears a payment obligation in proportion to its ownership.

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**39. Business Combination**

On April 29, 2013, the Group obtained control of Commerce and Industry Energy Co., Ltd. by acquiring an additional 29.5% of its equity shares, which is engaged in the integrated commerce and industry energy business. As a result, the Group's ownership for Commerce and Industry Energy Co., Ltd. increased from 29.5% to 59.0%. The goodwill recognized in connection with this business combination is as follows:

*In millions of won*

	<u>Amount</u>
<b>I. Fair Value of Consideration Transferred</b>	
Carrying value of the equity method investees owned before	₩ 5,829
Fair value adjustment(*1)	(1,022)
Cash and cash equivalents paid	2
The fair value of accompanying agreements(*2)	4,806
	<u>9,615</u>
<b>II. Non-controlling interest (*3)</b>	4,882
	<u>14,497</u>
<b>III. Recognized amounts of identifiable assets acquired and liabilities assumed</b>	
<Assets>	
Cash and cash equivalents	7,292
Trade and other receivables	1,631
Inventories	515
Tangible assets	82,733
Intangible assets	3
Other assets	3,457
<Liabilities>	
Trade and other payables	(1,777)
Borrowings	(81,752)
Other liabilities	(187)
Fair value of net assets	<u>11,915</u>
<b>IV. Goodwill</b>	₩ <u>2,582</u>

(\*1) Prior to business combination, 29.5% of the Group's equity shares were re-measured to fair value. As a result, the differences incurred from the re-measurement amounting to ₩ 1,022 million is recognized as a loss on the disposal of its interest in associates and joint ventures in 2013.

(\*2) The Group guarantees a certain rate of return on investment to Hana Power Co., Ltd. and one other investor, the financial investors of Commerce and Industry Energy Co., Ltd., holding 39.3% of the 2,260,000 shares of equity in Commerce and Industry Energy Co., Ltd.. The investors may request the Group to purchase their investment shares after 58 months have elapsed from the date of investment. The Group has the fair value valuation of the purchase commitment in consideration transferred.

(\*3) Non-controlling interest is measured by proportionate share of non-controlling of the identifiable net assets.

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