

KOREA WESTERN POWER CO., LTD.
AND SUBSIDIARIES

Consolidated Financial Statements

December 31, 2013

(With Independent Auditors' Report Thereon)

Draft

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Draft

Independent Auditors' Report

Based on a report originally issued in Korean

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

We have audited the accompanying consolidated statement of financial position of Korea Western Power Co., Ltd. and its subsidiaries (the "Group") as of December 31, 2013 and the related consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended. Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Korean International Financial Reporting Standards. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

The accompanying consolidated statement of financial position of the Group as of December 31, 2012, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, were audited by other auditors, whose report thereon dated March 29, 2013, expressed an unqualified opinion.

We conducted our audit in accordance with auditing standards generally accepted in the Republic of Korea. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

In our opinion, based on our audit and the reports of other auditors, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as of December 31, 2013 and 2012 and its financial performance and its cash flows for the years then ended in accordance with Korean International Financial Reporting Standards.

Without qualifying our opinion, we draw attention to the following:

The procedures and practices utilized in the Republic of Korea to audit such consolidated financial statements may differ from those generally accepted and applied in other countries. Accordingly, this report is for use by those knowledgeable about Korean auditing standards and their application in practice.

Seoul, Korea
March 18, 2014

This report is effective as of March 18, 2014, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying consolidated financial statements and notes thereto. Accordingly, the readers of the audit report should understand that the above audit report has not been updated to reflect the impact of such subsequent events or circumstances, if any.

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
 Consolidated Statements of Financial Position
 As of December 31, 2013 and 2012

In millions of won

	<u>Note</u>	<u>2013</u>	<u>2012</u>
Assets			
Cash and cash equivalents	5,6,37	₩ 502,996	408,729
Current financial assets	5,9,10,37	1,396	18,040
Trade and other receivables, net	5,7,37,38	481,335	478,348
Inventories	11	281,361	276,329
Income tax receivable	34	429	748
Current non-financial assets	12	75,227	97,154
Total current assets		₩ <u>1,342,744</u>	<u>1,279,348</u>
Non-current financial assets	5,8,9,10,37	₩ 54,908	54,258
Non-current trade and other receivables, net	5,7,37	6,214	5,948
Property, plant and equipment, net	15,40	5,482,089	4,372,984
Intangible assets, net	16	22,072	26,957
Investments in associates and joint ventures	14,38	236,638	76,954
Non-current non-financial assets	12	8,969	22,855
Deferred tax assets	34	303	333
Total non-current assets		<u>5,811,193</u>	<u>4,560,289</u>
Total assets		₩ <u>7,153,937</u>	<u>5,839,637</u>

See accompanying notes to the consolidated financial statement

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
 Consolidated Statements of Financial Position, Continued
 As of December 31, 2013 and 2012

In millions of won

	<u>Note</u>	<u>2013</u>	<u>2012</u>
Liabilities			
Trade and other payables	5,17,37,38	₩ 559,352	494,242
Current financial liabilities	5,9,18,19,37	80,415	224,130
Income tax liabilities	34	508	68,553
Current non-financial liabilities	22	44,010	9,771
Total current liabilities		<u>684,285</u>	<u>796,696</u>
Non-current trade and other payables	5,17,37	393	103
Non-current financial liabilities	5,9,18,19,37	3,087,004	1,603,715
Non-current non-financial liabilities	22	1,140	641
Employee benefits obligations, net	20,37	47,783	42,151
Deferred tax liabilities, net	34	192,777	174,392
Non-current provisions	21	-	199
Total non-current liabilities		<u>3,329,097</u>	<u>1,821,201</u>
Total liabilities		<u>4,013,382</u>	<u>2,617,897</u>
Equity			
Share capital	23	1,192,365	1,192,365
Retained earnings	20,24,25	1,863,516	1,828,700
Other components of equity	26	(35,599)	(37,356)
Hybrid securities	27	99,750	99,750
Equity attributable to owners of the Group		<u>3,120,032</u>	<u>3,083,459</u>
Non-controlling interests		<u>20,523</u>	<u>138,281</u>
Total equity		<u>3,140,555</u>	<u>3,221,740</u>
Total liabilities and equity		<u>₩ 7,153,937</u>	<u>5,839,637</u>

See accompanying notes to the consolidated financial statements.

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Consolidated Statements of Comprehensive Income
For the years ended December 31, 2013 and 2012

In millions of won, except earnings
per share information

	Note	2013	2012
Sales	4,28,38 ₩	5,760,877	5,967,432
Cost of sales	35,38	(5,576,362)	(5,716,784)
Gross profit		184,515	250,648
Selling and administrative expenses	29,35	(64,672)	(60,215)
Operating income		119,843	190,433
Other non-operating income	30	3,196	3,673
Other non-operating expenses	30	(1,355)	(1,111)
Other income, net	31	10,383	2,617
Finance income	5,9,32	34,956	74,807
Finance expenses	5,9,33	(93,677)	(114,230)
Income from associates and joint ventures	14	1,384	(4,934)
Profit before income tax		74,730	151,255
Income tax expense (benefit)	34	(20,030)	45,824
Profit for the year		94,760	105,431
Other comprehensive income (loss), net of tax:			
Items that will not be reclassified subsequently to profit or loss			
Defined benefit plan actuarial losses, net of tax	20	(826)	(4,163)
Items that will be reclassified subsequently to profit or loss			
Net change in the unrealized fair value of available-for-sale financial assets, net of tax		2,370	137
Net change in the unrealized fair value of derivatives using cash flow hedge accounting, net of tax	9	2,686	2,731
Share in other comprehensive loss of associates and joint ventures, net of tax		456	(2,391)
Foreign currency translation of foreign operations, net of tax		(3,607)	(412)
Total other comprehensive income (loss), net of tax		1,079	(4,098)
Total comprehensive income for the year	₩	95,839	101,333

See accompanying notes to the consolidated financial statements.

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
 Consolidated Statements of Comprehensive Income, Continued
 For the years ended December 31, 2013 and 2012

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

	<u>Note</u>	<u>2013</u>	<u>2012</u>
Profit (loss) attributable to:			
Owners of the Group	₩	97,670	107,792
Non-controlling interests		(2,910)	(2,361)
	₩	<u>94,760</u>	<u>105,431</u>
Total comprehensive Income (loss) attributable to:			
Owners of the Group	₩	98,749	103,693
Non-controlling interests		(2,910)	(2,360)
	₩	<u>95,839</u>	<u>101,333</u>
Earnings per share			
Basic and diluted earnings per share	36 ₩	3,072	3,391

See accompanying notes to the consolidated financial statement.

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
 Consolidated Statements of Changes in Equity
 For the year ended December 31, 2012

In millions of won

	Equity attributable to owners of the Group					Non-controlling interests	Total equity
	Share Capital	Retained earnings	Other components of equity	Hybrid securities	Subtotal		
Balance at January 1, 2012	₩ 1,192,365	1,757,289	(36,832)	-	2,912,822	39,029	2,951,851
Total comprehensive income for the year:							
Profit (loss) for the year	-	107,792	-	-	107,792	(2,361)	105,431
Defined benefit plan actuarial losses, net of tax	-	(4,163)	-	-	(4,163)	-	(4,163)
Net change in the unrealized fair value of available-for-sale financial assets, net of tax	-	-	137	-	137	-	137
Net change in the unrealized fair value of derivatives using cash flow hedge accounting, net of tax	-	-	2,731	-	2,731	-	2,731
Share in other comprehensive income of associates and joint ventures, net of tax	-	-	(2,391)	-	(2,391)	-	(2,391)
Foreign currency translation of foreign operations, net of tax	-	-	(412)	-	(412)	-	(412)
Transactions with owners recognized directly in equity:							
Issuance of share capital	-	-	(589)	-	(589)	101,613	101,024
Dividends paid	-	(31,386)	-	-	(31,386)	-	(31,386)
Issuance of hybrid securities	-	-	-	99,750	99,750	-	99,750
Interest payments on hybrid securities	-	(832)	-	-	(832)	-	(832)
Balance at December 31, 2012	₩ 1,192,365	1,828,700	(37,356)	99,750	3,083,459	138,281	3,221,740

See accompanying notes to the consolidated financial statements.

KOREA WESTERN 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 Group					Non-controlling interests	Total equity
	Share Capital	Retained earnings	Other components of equity	Hybrid securities	Subtotal		
Balance at January 1, 2013	₩ 1,192,365	1,828,700	(37,356)	99,750	3,083,459	138,281	3,221,740
Total comprehensive income for the year:							
Profit (loss) for the year	-	97,670	-	-	97,670	(2,910)	94,760
Defined benefit plan actuarial losses, net of tax	-	(826)	-	-	(826)	-	(826)
Net change in the unrealized fair value of available-for-sale financial assets, net of tax	-	-	2,370	-	2,370	-	2,370
Net change in the unrealized fair value of derivatives using cash flow hedge accounting, net of tax	-	-	2,686	-	2,686	-	2,686
Share in other comprehensive income of associates and joint ventures, net of tax	-	-	456	-	456	-	456
Foreign currency translation of foreign operations, net of tax	-	-	(3,607)	-	(3,607)	-	(3,607)
Transactions with owners recognized directly in equity:							
Interest payments on hybrid securities	-	(2,868)	-	-	(2,868)	-	(2,868)
Changes in scope of consolidation	-	-	(148)	-	(148)	(114,848)	(114,996)
Dividends paid	-	(59,160)	-	-	(59,160)	-	(59,160)
	<u>1,192,365</u>	<u>1,863,516</u>	<u>(35,599)</u>	<u>99,750</u>	<u>3,120,032</u>	<u>20,523</u>	<u>3,140,555</u>

See accompanying notes to the consolidated financial statements.

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Consolidated Statements of Cash Flows
For the years ended December 31, 2013 and 2012

In millions of won

	2013	2012
Cash flows from operating activities		
Profit for the year	₩ 94,760	105,431
Adjustments for:		
Income tax expense (benefit)	(20,030)	45,824
Depreciation	383,938	375,022
Amortization of intangible assets	5,144	5,421
Retirement benefit expenses	12,504	9,042
Interest expense	67,556	66,829
Interest income	(12,389)	(17,311)
Loss on disposals of property, plant and equipment and intangible assets, net	13,683	3,393
Gain on disposals of available-for-sale financial assets, net	(37)	-
Loss on valuation of derivative instruments, net	18,430	46,589
Gain on foreign currency translations, net	(13,367)	(46,981)
Income from associates and joint ventures	(1,384)	4,934
Provision for renewable portfolio standard	32,605	5,241
Others, net	452	(242)
	<u>487,105</u>	<u>497,761</u>
Changes in:		
Trade receivables	2,655	80,398
Other receivables	(16,725)	(17,102)
Inventories	(3,750)	(3,070)
Current non-financial assets	17,757	(38,611)
Non-current non-financial assets	2,182	(13,488)
Trade payables	(129,822)	(94,869)
Other payables	1,436	55,070
Current non-financial liabilities	2,183	3,561
Non-current other receivables	290	-
Non-current non-financial liabilities	499	532
Payments of retirement benefit obligations	(8,111)	(18,496)
Increase in plan assets	(2,903)	(3,930)
	<u>(134,309)</u>	<u>(50,005)</u>
Cash generated from operating activities		
Dividend received	1,831	-
Interest received	15,361	13,619
Interest paid	(59,395)	(62,249)
Income tax received (paid)	(30,329)	9,508
	<u>(30,329)</u>	<u>9,508</u>
Net cash provided by operating activities	₩ 375,024	514,065

See accompanying notes to the consolidated financial statements.

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
Consolidated Statements of Cash Flows, Continued
For the years ended December 31, 2013 and 2012

In millions of won

	<u>2013</u>	<u>2012</u>
Cash flows from investing activities		
Decrease (increase) in loans, net	14,371	(14,665)
Decrease in guarantee deposits, net	84	4,920
Decrease in short-term financial instruments	2,000	2,000
Proceeds from disposals of available-for-sale financial assets	325	-
Acquisition of investments in subsidiaries, investments in associates and joint ventures	(10,133)	(59,632)
Proceeds from disposals of investments in subsidiaries, investments in associates and joint ventures	1,221	-
Acquisition of property, plant and equipment	(1,605,606)	(791,432)
Proceeds from disposals of property, plant and equipment	286	903
Acquisition of intangible assets	(330)	(215)
Proceeds from disposals of other non-current assets	-	181
Government grants received	20,369	6,535
Increase in other investments	(9,317)	-
Net cash used in investing activities	<u>(1,586,730)</u>	<u>(851,405)</u>
Cash flows from financing activities		
Repayment of finance lease liabilities	-	(70,170)
Proceeds from borrowings	469,922	303,168
Repayment of borrowings	(570,153)	(585,176)
Proceeds from debentures	1,564,110	765,421
Repayment of debentures	(121,536)	(120,000)
Issuance of share capital	30,367	101,024
Dividends paid	(59,160)	(31,386)
Settlement of derivative instruments	-	(621)
Issuance of hybrid securities	-	99,750
Interest payments on hybrid securities	(2,868)	(832)
Net cash provided by financing activities	<u>1,310,682</u>	<u>461,168</u>
Net increase in cash and cash equivalents before effect of exchange rate fluctuations	96,534	123,828
Conversion effect of foreign financial statements	2,863	(122)
Effect of exchange rate fluctuations on cash held	<u>(5,130)</u>	<u>-</u>
Net increase in cash and cash equivalents	94,267	123,706
Cash and cash equivalents at January 1	408,729	285,023
Cash and cash equivalents at December 31	<u>₩ 502,996</u>	<u>408,729</u>

See accompanying notes to the consolidated financial statements.

KOREA WESTERN POWER CO., LTD. and Subsidiaries
Notes to the Consolidated Financial Statements
For the years ended December 31, 2013 and 2012

1. Reporting Entity

In accordance with a restructuring plan dated January 21, 1999 for the electricity industry in the Republic of Korea, announced by the Ministry of Commerce, Industry and Energy and the Act on Promotion of Restructuring the Electric Power Industry published on December 23, 2000, Korea Western Power Co., Ltd. (the "KOWEPO") was incorporated on April 2, 2001 through the spin-off of the power generation division of Korea Electric Power Corporation (the "KEPCO"). KOWEPO and its subsidiaries (the "Group") engage in the generation of electricity and development of electric power resources. The Group sells all generated electricity to KEPCO through the Korea Power Exchange ("KPX") in accordance with Article 31 of the Electricity Business Law. As of December 31, 2013, KEPCO holds all of KOWEPO's outstanding shares and the KOWEPO owns and operates five power plants with a total capacity of 8,909MW.

The Group's head office is located in Gangnam-gu, Seoul, Korea. The share capital of the Group as of December 31, 2013 amounts to ₩158,946 million and the Group's sole shareholder is the KEPCO (100%).

In accordance with Korea International Financial Reporting Standards ("K-IFRS") No.1110 'Consolidated Financial Statements', the Group's consolidated financial statements includes the financial results of KOWEPO, the parent company, Garolim Tidal power Co., Ltd. and five other subsidiaries ("consolidated entity") Cheongna Energy Co., Ltd. and 11 other investments are accounted for as the equity method investments.

2. Basis of Preparation and Changes in accounting policies

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

(1) Basis of measurement

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

- ✓ Derivative financial instruments are measured at fair value
- ✓ Available-for-sale financial assets are measured at fair value
- ✓ Liabilities for defined benefit plans are recognized at the net of the total present value of defined benefit obligations less the fair value of plan assets

(2) Functional and presentation currency

These consolidated financial statements are presented in Korean won, which is the Group's functional currency and the currency of the primary economic environment in which the Group operates.

KOREA WESTERN POWER CO., LTD. and Subsidiaries
Notes to the Consolidated Financial Statements
For the years ended December 31, 2013 and 2012

2. Basis of Preparation and Changes in accounting policies, Continued

(3) Use of estimates and judgments

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

a. The judgment of management

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements is included in the following note.

- ✓ Note 13 : Scope of consolidation - whether the Group has de facto control over an investee

b. The uncertainty of assumptions and estimates

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

- ✓ Note 20: Measurement of defined benefit obligations - key actuarial assumptions
- ✓ Note 21 and 41: Recognition and measurement of provisions and contingencies - key assumptions about the likelihood and magnitude of an outflow of resources

c. Fair Value Measurement

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

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

Significant valuation issues are reported to the Group Audit Committee.

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

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

KOREA WESTERN POWER CO., LTD. and Subsidiaries
Notes to the Consolidated Financial Statements
For the years ended December 31, 2013 and 2012

2. Basis of Preparation and Changes in accounting policies, Continued

(3) Use of estimates and judgments, Continued

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised 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 recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

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

- ✓ Note 37: Risk management

(4) Changes in accounting policies

Except for the changes below, the Group has consistently applied the accounting policies set out in Note 3 to all periods presented in these financial statements. The Group has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 January 2013.

- ✓ K-IFRS No.1111 *Joint Arrangements*
- ✓ K-IFRS No.1112 *Disclosure of Interests in Other Entities*
- ✓ K-IFRS No.1113 *Fair Value Measurement*
- ✓ K-IFRS No.1019 *Employee Benefits*
- ✓ Presentation of Items of Other Comprehensive Income (Amendments to K-IFRS No.1001)

The nature and effects of the changes are explained below.

(i) K-IFRS No.1111 *Joint Arrangements*

As a result of K-IFRS No.1111, the Group has changed its accounting policy for its interests in joint arrangements. Under K-IFRS No.1111, the Group has classified its interests in joint arrangements as either joint operations (if the Group has rights to the assets, and obligations for the liabilities, relating to an arrangement) or joint ventures (if the Group has rights only to the net assets of an arrangement). When making this assessment, the Group considered the structure of the arrangements, the legal form of any separate vehicles, the contractual terms of the arrangements and other facts and circumstances. Previously, the structure of the arrangement was the sole focus of classification.

The Group has re-evaluated its involvement in its only joint arrangement and has reclassified the investment from a jointly controlled entity to a joint venture. Notwithstanding the reclassification, the investment continues to be recognised by applying the equity method and there has been no impact on the recognised assets, liabilities and comprehensive income of the Group.

(ii) K-IFRS No.1112 *Disclosure of Interests in Other Entities*

As a result of K-IFRS No.1112, the Group has expanded its disclosures about its interests in subsidiaries (see Notes 13 and 14) and equity-accounted investees

2. Basis of Preparation and Changes in accounting policies, Continued

(4) Changes in accounting policies, Continued

(iii) K-IFRS No.1113 *Fair Value Measurement*

K-IFRS No.1113 establishes a single framework for measuring fair value and making disclosures about fair value measurements when such measurements are required or permitted by other K-IFRSs. It unifies the definition of fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It replaces and expands the disclosure requirements about fair value measurements in other K-IFRSs, including K-IFRS No.1107. As a result, the Group has included additional disclosures in this regard.

In accordance with the transitional provisions of K-IFRS No.1113, the Group has applied the new fair value measurement guidance prospectively and has not provided any comparative information for new disclosures. Notwithstanding the above, the change had no significant impact on the measurements of the Group's assets and liabilities.

(iv) K-IFRS No.1019 *Employee Benefits*

As a result of K-IFRS No.1019, the Group has changed its accounting policy with respect to the basis for determining the income or expense related to its post-employment defined benefit plans.

Under K-IFRS No.1019, the Group determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments. Consequently, the net interest on the net defined benefit liability (asset) now comprises: interest cost on the defined benefit obligation, interest income on plan assets, and interest on the effect on the asset ceiling. Previously, the Group determined interest income on plan assets based on their long-term rate of expected return.

(v) K-IFRS No.1001 *Presentation of items of OCI*

As a result of the amendments to K-IFRS No.1001, the Group has modified the presentation of items of OCI in its statement of profit or loss and OCI, to present separately items that would be reclassified to profit or loss from those that would never be. Comparative information has been re-presented accordingly.

KOREA WESTERN POWER CO., LTD. and Subsidiaries
Notes to the Consolidated Financial Statements
For the years ended December 31, 2013 and 2012

3. Significant Accounting Policies

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

Presentation and classification of part of the prior year's other comprehensive income is revised to apply the new accounting policy of other comprehensive income.

(1) Consolidation

(i) Business combination

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

The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities. The costs to issue debt or equity securities are recognized in accordance with K-IFRS No.1032, *'Financial Instruments: Presentation'* and K-IFRS No.1039, *'Financial Instruments: Recognition and Measurement'*.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

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

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

(ii) Non-controlling interests

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

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

KOREA WESTERN POWER CO., LTD. and Subsidiaries
Notes to the Consolidated Financial Statements
For the years ended December 31, 2013 and 2012

3. Significant Accounting Policies, Continued

(1) Consolidation, Continued

(iii) Subsidiaries

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

(iv) Loss of control

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

(v) Interests in equity-accounted investees

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

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

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

(vi) Transactions eliminated on consolidation

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

(vii) Business combination under common control

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

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3. Significant Accounting Policies, Continued

(2) Cash and cash equivalents

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

(3) Inventories

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

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

(4) Non-derivative financial assets

The Group recognizes and measures non-derivative financial assets by the following four categories: financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables and available-for-sale financial assets. The Group recognizes financial assets in the consolidated statement of financial position when the Group becomes a party to the contractual provisions of the instrument.

Upon initial recognition, non-derivative financial assets are measured at their fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the asset's acquisition or issuance.

(i) Financial assets at fair value through profit or loss

A financial asset is classified as financial assets are classified 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.

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3. Significant Accounting Policies, Continued

(4) Non-derivative financial assets, Continued

(iv) Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified as financial assets at fair value through profit or loss, held-to-maturity investments or loans and receivables. Subsequent to initial recognition, they are measured at fair value, which changes in fair value, net of any tax effect, recorded in other comprehensive income in equity. Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments are measured at cost. When a financial asset is derecognized or impairment losses are recognized, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss. Dividends on an available-for-sale equity instrument are recognized in profit or loss when the Group's right to receive payment is established.

(v) De-recognition of financial assets

The Group derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognized as a separate asset or liability.

If the Group retains substantially all the risks and rewards of ownership of the transferred financial assets, the Group continues to recognize the transferred financial assets and recognizes financial liabilities for the consideration received.

(vi) Offsetting between financial assets and financial liabilities

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

(5) Derivative financial instruments, including hedge accounting

Derivatives are initially recognized at fair value. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are either recognized in profit or loss or, when the derivatives are designated in a hedging relationship and the hedge is determined to be an effective hedge, other comprehensive income.

(i) Hedge accounting

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

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

3. Significant Accounting Policies, Continued

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

The Group makes an assessment, both at the inception of the hedge relationship as well as on a quarterly basis, whether the hedging instruments are expected to be “highly effective” in offsetting the changes in the fair value or cash flows of the respective hedged items during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80%-125%. For a cash flow hedge of a forecasted transaction, the transaction should be highly probable to occur and should present an exposure to variations in cash flows that could ultimately affect reported net income.

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) 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.

3. Significant Accounting Policies, Continued

(6) Impairment of financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably. However, losses expected as a result of future events, regardless of likelihood, are not recognized.

In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

If financial assets have objective evidence that they are impaired, impairment losses should be measured and recognized.

(i) Financial assets measured at amortized cost

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of its estimated future cash flows discounted at the asset's original effective interest rate. If it is not practicable to obtain the instrument's estimated future cash flows, impairment losses would be measured by using prices from any observable current market transactions. The Group can recognize impairment losses directly or establish a provision to cover impairment losses. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss shall be reversed either directly or by adjusting an allowance account.

(ii) Financial assets carried at cost

If there is objective evidence that an impairment loss has occurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses shall not be reversed.

(iii) Available-for-sale financial assets

When a decline in the fair value of an available-for-sale financial asset has been recognized in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss that had been recognized in other comprehensive income shall be reclassified from equity to profit or loss as a reclassification adjustment even though the financial asset has not been derecognized. Impairment losses recognized in profit or loss for an investment in an equity instrument classified as available-for-sale shall not be reversed through profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss shall be reversed, with the amount of the reversal recognized in profit or loss.

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3. Significant Accounting Policies, Continued

(7) Property, plant and equipment

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

Subsequent to initial recognition, an item of property, plant and equipment shall be carried at its cost less any accumulated depreciation and any accumulated impairment losses.

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

Property, plant and equipment, except for land, are depreciated on a straight-line basis over estimated useful lives that appropriately reflect the pattern in which the asset's future economic benefits are expected to be consumed. A component that is significant compared to the total cost of property, plant and equipment is depreciated over its separate useful life.

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

The estimated useful lives of the Group's assets are as follows:

	<u>Useful lives (years)</u>
Buildings	8 ~ 30
Structures	8 ~ 30
Machinery	6 ~ 24
Vehicles	4
Finance lease	6~ 30
Other property, plant and equipment ("the other PP&E")	4

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

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3. Significant Accounting Policies, Continued

(8) Intangible assets

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

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

	<u>Useful lives (years)</u>
Computer software	5
Development costs	5
Rights of use for the loading docks	20
Usage rights of industrial water facilities	10
Others	5~10

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

(i) Research and development

Expenditures on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognized in profit or loss as incurred. Development expenditures are capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Group intends to and has sufficient resources to complete development and to use or sell the asset. Other development expenditures are recognized in profit or loss as incurred.

(ii) Service concession arrangements

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

(iii) 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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3. Significant Accounting Policies, Continued

(9) Borrowing costs

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

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

(10) Government grants

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

Government grants whose primary condition is that the Group purchase, construct or otherwise acquire long-term assets are deducted in calculating the carrying amount of the asset. The grant is recognized in profit or loss over the life of a depreciable asset as a reduction to depreciation expense.

Government grants which are intended to compensate the Group for expenses incurred shall be recognized as other income in profit or loss over the periods in which the Group recognizes the related costs as expenses.

(11) Impairment of non-financial assets

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

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3. Significant Accounting Policies, Continued

(11) Impairment of non-financial assets, Continued

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

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

Goodwill acquired in a business combination is allocated to each CGU that is expected to benefit from the synergies arising from the goodwill acquired. Any impairment identified at the CGU level will first reduce the carrying value of goodwill and then be used to reduce the carrying amount of the other assets in the CGU on a pro rata basis. Except for impairment losses in respect of goodwill which are never reversed, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(12) Leases

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

(i) Finance leases

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

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

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

3. Significant Accounting Policies, Continued

(12) Leases, Continued

(ii) Operating leases

Leases where the lessor retains a significant portion of the risks and rewards of ownership are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are recognized in profit or loss on a straight-line basis over the period of the lease.

(iii) Determining whether an arrangement contains a lease

Determining whether an arrangement is, or contains, a lease shall be based on the substance of the arrangement and requires an assessment of whether fulfillment of the arrangement is dependent on the use of a specific asset or assets (the asset) and the arrangement conveys a right to use the asset.

At inception or reassessment of the arrangement, the Group separates payments and other consideration required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Group concludes for a financial lease that it is impracticable to separate the payments reliably, the Group recognizes an asset and a liability at an amount equal to the fair value of the underlying asset that was identified as the subject of the lease. Subsequently, the liability shall be reduced as payments are made and an imputed finance charge on the liability recognized using the purchaser's incremental borrowing rate of interest.

(13) Non-current assets held for sale

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

The Group recognizes an impairment loss for any initial or subsequent write-down of an asset (or disposal group) to fair value less costs to sell, and a gain for any subsequent increase in fair value less costs to sell, up to the cumulative impairment loss previously recognized in accordance with K-IFRS No. 1036 *Impairment of Assets*.

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

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3. Significant Accounting Policies, Continued

(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).

(15) Employee benefits

(i) Short-term employee benefits

Short-term employee benefits are employee benefits that are due to be settled within 12 months after the end of the period in which the employees render the related service. When an employee has rendered service to the Group during an accounting period, the Group recognizes the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service.

(ii) Retirement benefits: defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group's net obligation in respect of defined benefit plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. The fair value of plan assets is deducted. The calculation is performed annually by an independent actuary using the projected unit credit method.

The discount rate is the yield at the reporting date on corporate bonds that have maturity dates approximating the terms of the Group's obligations and that are denominated in the same currency in which the benefits are expected to be paid. The Group recognizes all actuarial gains and losses arising from actuarial assumption changes and experiential adjustments in other comprehensive income when incurred.

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3. Significant Accounting Policies, Continued

(15) Employee benefits, Continued

When the fair value of plan assets exceeds the present value of the defined benefit obligation, the Group recognizes an asset, to the extent of the total of cumulative unrecognized past service cost and the present value of any economic benefits available in the form of refunds from the plan or reduction in the future contributions to the plan.

Past service costs which are the change in the present value of the defined benefits obligation for employee service in prior periods, resulting in the current period from the introduction of, or change to post-employment benefits, is recognized as an expense on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits are already vested immediately following the introduction of, or changes to, a defined benefit plan, the Group recognizes the past service cost immediately.

(16) Provisions

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

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

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

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

(17) Foreign currencies

(i) Foreign currency transactions

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

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

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3. Significant Accounting Policies, Continued

(17) Foreign currencies, Continued

(ii) Foreign operations

If the presentation currency of the Group is different from a foreign operation's functional currency, the financial statements of the foreign operation are translated into the presentation currency using the following methods:

The assets and liabilities of foreign operations, whose functional currency is not the currency of a hyperinflationary economy, are translated to presentation currency at exchange rates at the reporting date. The income and expenses of foreign operations are translated to functional currency at exchange rates at the dates of the transactions. Foreign currency differences are recognized in other comprehensive income.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of that foreign operation is treated as assets and liabilities of the foreign operation. Thus they are expressed in the functional currency of the foreign operation and translated at the closing rate.

When a foreign operation is disposed of, the relevant amount in the translation is transferred to profit or loss as part of the profit or loss on disposal. On the partial disposal of a subsidiary that includes a foreign operation, the relevant proportion of such cumulative amount is reattributed to non-controlling interest. In any other partial disposal of a foreign operation, the relevant proportion is reclassified to profit or loss.

(iii) Translation of net investments on foreign operations

Foreign exchange gains or losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely to occur in the foreseeable future and which in substance is considered to form part of the net investment in the foreign operation, are recognized in other comprehensive income in the translation reserve.

(18) Equity capital

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

Preference share capital is classified as equity if it is non-redeemable, or redeemable only at the Group's option, and any dividends are discretionary. Dividends thereon are recognized as distributions within equity upon approval by the Group's shareholders.

Preference share capital is classified as a liability if it is redeemable on a specific date or at the option of the shareholders, or if dividend payments are not discretionary. Dividends thereon are recognized as interest expense in profit or loss as accrued.

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

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3. Significant Accounting Policies, Continued

(19) Revenue

Revenue from the sale of goods, rendering of services or use of the Group assets is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates, and are recognized as a reduction of revenue.

(i) Goods sold

Revenue from the sale of goods in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue is recognized when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably.

The timing of the transfers of risks and rewards varies depending on the individual terms of the contract of sale.

When two or more revenue generating activities or deliverables are sold under a single arrangement, each deliverable that is considered to be a separate unit of account is accounted for separately. The allocation of consideration from a revenue arrangement to its separate units of account is based on the relative fair values of each unit.

(ii) Services

Revenue from services rendered is recognized in profit or loss in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed by reference to surveys of work performed.

(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.

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3. Significant Accounting Policies, Continued

(21) Income taxes

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

(i) Current tax

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

(ii) Deferred tax

Deferred tax is recognized, using the asset-liability method, in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. A deferred tax liability is recognized for all taxable temporary differences. A deferred tax asset is recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which they can be utilized. However, deferred tax is not recognized for the following temporary differences: taxable temporary differences arising on the initial recognition of goodwill, or the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting profit or loss nor taxable income.

The measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax assets or deferred tax liabilities on investment properties measured at fair value, unless any contrary evidence exists, are measured using the assumption that the carrying amount of the property will be recovered entirely through sale.

The Group recognizes a deferred tax liability for all taxable temporary differences associated with investments in subsidiaries, associates, and interests in joint ventures, except to the extent that the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. The Group recognizes a deferred tax asset for all deductible temporary differences arising from investments in subsidiaries and associates, to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilized.

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3. Significant Accounting Policies, Continued

(21) Income taxes, Continued

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

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

(22) Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Group by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for own shares held, for the effects of all dilutive potential ordinary shares.

(23) 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, 2013, 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.

- (i) Amendments to K-IFRS No. 1032, *Financial instruments: Presentation*

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For the years ended December 31, 2013 and 2012

4. Operating segment

(1) The Group has decided to report the whole Group as a single department in consideration of the characteristics of the assets to provide services and the nature of goods and services that create operating revenue.

1) Sales, operating income and profit for the year of a single reporting department

In millions of won

Reporting department	Classification		2013	2012
Group	Sales	₩	5,760,877	5,967,432
	Operating income		119,843	190,433
	Profit for the year		94,760	105,431

2) Total assets and total liabilities of a single reporting department

In millions of won

Reporting department	Classification		2013	2012
Group	Total assets	₩	7,153,937	5,839,637
	Total liabilities		4,013,382	2,617,897

(2) Sales of the Group from major goods and services for the years ended December 31, 2013 and 2012 are as follows:

In millions of won

Reporting department	Classification		2013	2012
Group	Sales of goods	₩	5,746,450	5,957,945
	Services		14,427	9,487
		₩	<u>5,760,877</u>	<u>5,967,432</u>

(3) Information about area

The electricity sales, our main business activities, are made by the Group's headquarters in the Republic of Korea.

(4) Information about major customer

The KEPCO, the main customer, occupies 99.78% and 98.94% of sales in 2013 and 2012.

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
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5. Categories of Financial Instruments

(1) Financial assets

Categories of financial assets as of December 31, 2013 and 2012 are as follows:

(i) As of December 31, 2013

In millions of won

	Financial assets at fair value through profit or loss	Loans and receivables	Available -for-sale financial assets	Derivatives using hedge accounting	Total
Current financial assets:					
Cash and cash equivalents	₩ -	502,996	-	-	502,996
Current financial assets					
Derivative assets	46	-	-	-	46
Loans and receivables	-	1,350	-	-	1,350
Trade and other receivables, net	-	481,335	-	-	481,335
	<u>46</u>	<u>985,681</u>	<u>-</u>	<u>-</u>	<u>985,727</u>
Non-current financial assets:					
Non-current financial assets					
Available-for-sale financial assets	-	-	14,153	-	14,153
Derivative assets	-	-	-	27,463	27,463
Loans and receivables	-	13,292	-	-	13,292
Non-current trade and other receivables, net	-	6,214	-	-	6,214
	<u>-</u>	<u>19,506</u>	<u>14,153</u>	<u>27,463</u>	<u>61,122</u>
	₩ 46	1,005,187	14,153	27,463	1,046,849

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
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5. Categories of Financial Instruments, Continued

(ii) As of December 31, 2012

In millions of won

	<u>Loans and receivables</u>	<u>Available-for- sale financial assets</u>	<u>Derivatives using hedge accounting</u>	<u>Total</u>
Current financial assets:				
Cash and cash equivalents	₩ 408,729	-	-	408,729
Current financial assets				
Loans and receivables	16,040	-	-	16,040
Other financial instruments	2,000	-	-	2,000
Trade and other receivables, net	<u>478,348</u>	<u>-</u>	<u>-</u>	<u>478,348</u>
	<u>905,117</u>	<u>-</u>	<u>-</u>	<u>905,117</u>
Non-current financial assets:				
Non-current financial assets				
Available-for-sale financial assets	-	11,462	-	11,462
Derivative assets	-	-	29,892	29,892
Loans and receivables	12,904	-	-	12,904
Non-current trade and other receivables, net	<u>5,948</u>	<u>-</u>	<u>-</u>	<u>5,948</u>
	<u>18,852</u>	<u>11,462</u>	<u>29,892</u>	<u>60,206</u>
₩	<u>923,969</u>	<u>11,462</u>	<u>29,892</u>	<u>965,323</u>

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
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5. Categories of Financial Instruments, Continued

(2) Financial liabilities

Categories of financial liabilities as of December 31, 2013 and 2012 are as follows:

(i) As of December 31, 2013

In millions of won

	Financial liabilities at fair value through profit or loss	Financial liabilities measured at amortized cost	Derivatives using hedge accounting	Total
Current financial liabilities:				
Borrowings	₩ -	347	-	347
Debentures	-	79,964	-	79,964
Derivative liabilities	104	-	-	104
Trade and other payables	-	559,352	-	559,352
	<u>104</u>	<u>639,663</u>	<u>-</u>	<u>639,767</u>
Non-current financial liabilities:				
Borrowings	-	3,177	-	3,177
Debentures	-	3,037,155	-	3,037,155
Derivative liabilities	-	-	46,672	46,672
Non-current trade and other payables	-	393	-	393
	<u>-</u>	<u>3,040,725</u>	<u>46,672</u>	<u>3,087,397</u>
	₩ <u>104</u>	<u>3,680,388</u>	<u>46,672</u>	<u>3,727,164</u>

(ii) As of December 31, 2012

In millions of won

	Financial liabilities at fair value through profit or loss	Financial liabilities measured at amortized cost	Derivatives using hedge accounting	Total
Current financial liabilities:				
Borrowings	₩ -	100,230	-	100,230
Debentures	-	119,896	-	119,896
Derivative liabilities	-	-	4,004	4,004
Trade and other payables	-	494,242	-	494,242
	<u>-</u>	<u>714,368</u>	<u>4,004</u>	<u>718,372</u>
Non-current financial liabilities:				
Borrowings	-	3,524	-	3,524
Debentures	-	1,569,921	-	1,569,921
Derivative liabilities	-	-	30,270	30,270
Non-current trade and other payables	-	103	-	103
	<u>-</u>	<u>1,573,548</u>	<u>30,270</u>	<u>1,603,818</u>
	₩ <u>-</u>	<u>2,287,916</u>	<u>34,274</u>	<u>2,322,190</u>

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
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5. Categories of Financial Instruments, Continued

(3) Finance income and expenses

Finance income and expenses on each category of financial instruments for the years ended December 31, 2013 and 2012 are as follows:

In millions of won

Type	Description	2013	2012
Cash and cash equivalents	Interest income	₩ 10,981	16,624
	Loss on foreign currency transactions and translations, net	(5,130)	-
Available-for-sale financial assets	Gain on valuation of available-for-sale financial assets, net (equity, before tax)	3,126	181
Loans and receivables	Interest income	966	14
	Amortization of present value discount	442	673
Financial liabilities recorded at amortized cost	Gain on foreign currency transactions and translations, net	19,969	56,684
	Interest expense of borrowings and debentures	67,555	63,325
	Other interest expense	1	3,504
Derivatives (trading)	Loss on valuation of derivative instruments, net	(59)	-
	Gain on transactions of derivative instruments, net	-	191
Derivatives (hedge accounting)	Loss on valuation of derivative instruments, net (profit or loss)	(18,371)	(46,780)
	Gain on valuation of derivative instruments, net (equity, before tax)	3,544	3,602

6. Cash and Cash Equivalents

Cash and cash equivalents as of December 31, 2013 and 2012 are as follows:

In millions of won

	2013	2012
Cash	₩ 1	2,648
Cash equivalents(*)	502,995	406,081
	₩ 502,996	408,729

(*) There are no financial instruments restricted to use as of December 31, 2013.

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
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7. Trade and Other Receivables

(1) Trade and other receivables as of December 31, 2013 and 2012 are as follows:

(i) As of December 31, 2013

In millions of won

		Gross receivables	Present value discount and other	Book value
Current assets:				
Trade receivables	₩	447,546	-	447,546
Other receivables		33,930	(141)	33,789
		<u>481,476</u>	<u>(141)</u>	<u>481,335</u>
Non-current assets:				
Other receivables		6,400	(186)	6,214
	₩	<u>487,876</u>	<u>(327)</u>	<u>487,549</u>

(*) There are no trade and other receivables which are overdue or impaired as of December 31, 2013.

(ii) As of December 31, 2012

In millions of won

		Gross receivables	Present value discount and other	Book value
Current assets:				
Trade receivables	₩	450,201	-	450,201
Other receivables		28,303	(156)	28,147
		<u>478,504</u>	<u>(156)</u>	<u>478,348</u>
Non-current assets:				
Other receivables		6,063	(115)	5,948
	₩	<u>484,567</u>	<u>(271)</u>	<u>484,296</u>

(2) Details of other receivables as of December 31, 2013 and 2012 are as follows:

(i) As of December 31, 2013

In millions of won

		Gross receivables	Present value discount and other	Book value
Current assets:				
Non-trade receivables	₩	5,565	-	5,565
Accrued income		20,866	-	20,866
Guarantee		7,499	(141)	7,358
		<u>33,930</u>	<u>(141)</u>	<u>33,789</u>
Non-current assets:				
Guarantee		5,127	(186)	4,941
Others		1,273	-	1,273
		<u>6,400</u>	<u>(186)</u>	<u>6,214</u>
	₩	<u>40,330</u>	<u>(327)</u>	<u>40,003</u>

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
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7. Trade and Other Receivables, Continued

(ii) As of December 31, 2012

In millions of won

		Gross receivables	Present value discount and other	Book value
Current assets:				
Non-trade receivables	₩	5,680	-	5,680
Accrued income		12,987	-	12,987
Guarantee		9,636	(156)	9,480
		<u>28,303</u>	<u>(156)</u>	<u>28,147</u>
Non-current assets:				
Guarantee		5,105	(115)	4,990
Others		958	-	958
		<u>6,063</u>	<u>(115)</u>	<u>5,948</u>
	₩	<u>34,366</u>	<u>(271)</u>	<u>34,095</u>

8. Available-for-sale Financial Assets

Available-for-sale financial assets as of December 31, 2013 and 2012 are as follows:

In millions of won

	Ownership	2013	2012
		Non-current	Non-current
Equity securities			
Unlisted:			
Korea Power Exchange	7.14% ₩	11,988	8,862
Postech power venture fund	1.05%	-	240
Hanhwa power venture fund	1.20%	132	180
Kepeco UHDE	3.00%	516	516
3i Powergen Inc.	15.00%	1,486	1,631
Kanan Hydroelectric Power Corp.	19.58%	17	19
Green & Sustainable Energy Investment Corp.	19.58%	14	14
	₩	<u>14,153</u>	<u>11,462</u>

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
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9. Derivatives

(1) Derivatives as of December 31, 2013 and 2012 are as follows:

In millions of won

		2013		2012	
		Current	Non-current	Current	Non-current
Derivative Assets:					
Currency forward	₩	46	-	-	-
Currency swap		-	27,463	-	29,892
		46	27,463	-	29,892
Derivative Liabilities:					
Currency forward		104	-	4,004	-
Currency swap		-	46,672	-	30,270
	₩	104	46,672	4,004	30,270

(2) Currency swap contracts as of December 31, 2013 are as follows:

In millions of won, In thousands of USD, CHF

Type	Counterparty	Period	Contract amounts		Contract interest rate		Contract currency
			Pay (KRW)	Receive	Pay (%)	Receive (%)	
CF	Barclays Bank PLC	2006~2016	71,888	USD 75,000	4.81	5.50	958.51
hedge	Deutsche Bank AG	2006~2016	71,888	USD 75,000	4.81	5.50	958.51
	Barclays Bank PLC	2012~2017	142,500	USD 125,000	3.83	3.13	1,140.00
	Morgan Stanley	2012~2017	142,500	USD 125,000	3.83	3.13	1,140.00
	The Royal Bank of Scotland	2012~2017	142,500	USD 125,000	3.83	3.13	1,140.00
	JPMorgan	2012~2017	142,500	USD 125,000	3.83	3.13	1,140.00
	The Royal Bank of Scotland	2013~2019	118,343	CHF 100,000	3.47	1.625	1,183.43
	Barclays Bank PLC	2013~2019	59,172	CHF 50,000	3.47	1.625	1,183.43
	Nomura Securities Co., Ltd	2013~2019	59,172	CHF 50,000	3.47	1.625	1,183.43
	Barclays Bank PLC	2013~2018	107,360	USD 100,000	3.34	2.875	1073.60
	The Royal Bank of Scotland	2013~2018	107,360	USD 100,000	3.34	2.875	1073.60
	JPMorgan	2013~2018	161,040	USD 150,000	3.34	2.875	1073.60
	SC bank	2013~2018	161,040	USD 150,000	3.34	2.875	1073.60

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9. Derivatives, Continued

(3) Currency forward contracts as of December 31, 2013 are as follows:

In millions of won, In thousands of USD

Type	Counterparty	Contract date	Maturity date	Contract amounts		Contract currency
				Pay	Receive	
Trading	The Royal Bank of Scotland	2013.11.19	2014.05.21	KRW 7,049	USD 6,603	1,067.50
	BNP Paribas	2013.11.19	2014.05.21	KRW 21,352	USD 20,000	1,067.60
	BNP Paribas	2013.11.28	2014.05.21	USD 4,000	KRW 4,270	1,067.60
	BNP Paribas	2013.12.20	2014.05.21	USD 7,695	KRW 8,215	1,067.60

(4) The gain (loss) on valuation of derivatives for the years ended December 31, 2013 and 2012 are as follows:

(i) For the year ended December 31, 2013

In millions of won

Type	Net income effect of valuation gain (loss)	Net income effect of transaction gain (loss)	Accumulated other comprehensive income
Currency forward ₩	(59)	-	4,004
Currency swap	(18,371)	-	(460)
₩	(18,430)	-	3,544

(*) The gain on valuation of derivative instruments using cash flow hedge accounting is recognized as accumulated other comprehensive income amounting to ₩10,908 million, net of tax as of December 31, 2013.

(ii) For the year ended December 31, 2012

In millions of won

Type	Net income effect of valuation gain (loss)	Net income effect of transaction gain (loss)	Accumulated other comprehensive income
Currency forward ₩	-	4	(4,004)
Currency swap	(46,780)	-	7,606
Interest rate swap	-	187	-
₩	(46,780)	191	3,602

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10. Other Financial Assets

Other financial assets as of December 31, 2013 and 2012 are as follows:

In millions of won

		2013		2012	
		Current	Non-current	Current	Non-current
Loans and receivables	₩	1,350	13,292	16,040	12,904
Other financial instruments		-	-	2,000	-
Available-for-sale financial assets		-	14,153	-	11,462
Derivative assets		46	27,463	-	29,892
	₩	<u>1,396</u>	<u>54,908</u>	<u>18,040</u>	<u>54,258</u>

11. Inventories

Inventories as of December 31, 2013 and 2012 are as follows:

In millions of won

		2013	2012
Raw materials	₩	151,805	172,392
Supplies		45,593	38,587
Inventory-in-transit		83,871	65,205
Others		92	145
	₩	<u>281,361</u>	<u>276,329</u>

(*) There are no inventories impaired as of December 31, 2013.

12. Non-financial Assets

Non-financial assets as of December 31, 2013 and 2012 are as follows:

In millions of won

		2013		2012	
		Current	Non-current	Current	Non-current
Advanced payments	₩	14,710	69	58,524	-
Prepaid expenses		2,851	1,986	7,067	7,246
Others		57,666	6,914	31,563	15,609
	₩	<u>75,227</u>	<u>8,969</u>	<u>97,154</u>	<u>22,855</u>

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
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13. Investments in Subsidiaries

(1) Investments in subsidiaries as of December 31, 2013 and 2012 are as follows:

In millions of won

Company	Key operating activities	Location	Rate of ownership or voting right (%)	
			2013	2012
Garolim Tidal power Co., Ltd.(*1,2)	Power generation	Republic of Korea	49.00%	49.00%
Kowepo Australia Pty., Ltd.	Overseas resources development	Australia	100.00%	100.00%
Kowepo International Corporation	Managing power plant	Philippines	99.99%	99.99%
Kowepo America., LLC(*2)	Photovoltaic power generation	United States of America	100.00%	100.00%
Kowepo India Private Limited(*3)	Overseas resources development	India	100.00%	0.00%

(*1) Despite holding less than a majority ownership, the Group has the ability to appoint or dismiss the majority of the Board of Directors by the shareholders' agreements.

(*2) The Group issued new shares to increase capitals during the year ended December 31, 2013.

(*3) This subsidiary was newly acquired during the year ended December 31, 2013.

(2) Summary financials information of investments in subsidiaries as of and for the years ended December 31, 2013 and 2012 are as follows:

(i) As of and for the year ended December 31, 2013

In millions of won

Company	Assets	Liabilities	Sales	Net profit or loss
Garolim Tidal power Co., Ltd.	₩ 43,592	3,350	-	(2,502)
Kowepo Australia Pty., Ltd.	18,724	929	4,728	1,577
Kowepo International Corporation	1,897	31	-	-
Kowepo America., LLC	6,057	21	-	(1,295)
Kowepo India Private Limited	1,370	4	-	(377)

(ii) As of and for the year ended December 31, 2012

In millions of won

Company	Assets	Liabilities	Sales	Net profit or loss
Garolim Tidal power Co., Ltd.	₩ 37,476	1,546	-	(1,404)
Dongducheon Dream Power Co., Ltd.	236,102	892	-	(3,225)
Kowepo Australia Pty., Ltd.	20,036	491	5,301	1,636
Kowepo International Corporation	2,080	34	-	(182)
Kowepo America., LLC	4,517	346	-	(2,144)

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13. Investments in Subsidiaries, Continued

(3) Details of non-controlling interest prior to Garolim Tidal power Co., Ltd. as of and for the year ended December 31, 2013 are as follows:

(i) As of and for the year ended December 31, 2013

In millions of won

	<u>2013</u>
Current assets	₩ 7,002
Non-current assets	36,590
Current liabilities	(3,272)
Non-current liabilities	(78)
Net assets	40,242
Percentage of non-controlling interest	51.00%
Book value of non-controlling interest	20,523
Sales	-
Profit (loss) for the year	(2,502)
Percentage of non-controlling interest	51.00%
Profit (loss) for the year attributable to non-controlling interest	(1,276)
Cash flows from operating activities	(665)
Cash flows from investing activities	(186)
Cash flows from financing activities	3,475
Net increase (decrease) of cash and cash equivalents	2,624

(4) The subsidiary that the controlling company obtained control over during the current year is as follows:

<u>Company</u>	<u>Reason</u>
Kowepo India Private Limited	Issuance of Stocks

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14. Investments in Associates and Joint Ventures

(1) Investments in associates and joint ventures as of December 31, 2013 and 2012 are as follows:

Company	Major operation	Location	Rate of ownership or voting right (%)	
			2013	2012
Associates				
Cheongna Energy Co., Ltd.	Energy supply	Republic of Korea	43.90%	43.90%
Pioneer gas power limited	Energy supply	India	40.00%	40.00%
Eurasia Energy Holdings	Energy supply	Russia	40.00%	40.00%
Xe-Pian Xe-Namnoy Power Co., Ltd.	Energy supply	Laos	25.00%	25.00%
PT Mutiara Jawa	Energy supply	Indonesia	29.00%	29.00%
Korea Offshore Wind Power Co., Ltd.(*1)	Energy supply	Republic of Korea	12.50%	12.50%
Daegu Solar Power Plant Co., Ltd.	Energy supply	Republic of Korea	29.00%	0.00%
Dongducheon Dream Power Co., Ltd.(*2)	Energy supply	Republic of Korea	43.61%	49.00%
Solar power plants happy city Co., Ltd.	Energy supply	Republic of Korea	28.00%	0.00%
Joint ventures				
Rabigh O&M Co., Ltd.(*3)	O&M	Saudi Arabia	40.00%	40.00%
YeongAm F1 Solar Power Plant Co., Ltd.	O&M	Republic of Korea	0.00%	29.00%

(*1) It is included in the scope of investments in associates as the Group can exercise significant influence according to the shareholders agreement even when the Group's ownership interest is less than 20%.

(*2) It is reclassified to investment in associates as the Company is determined to have lost control of the investee company with the unequal share capital increases and the revised shareholders' agreement.

(*3) The Group accounts for its investments of Rabigh O&M Co., Ltd. as investments in joint ventures since the strategic financial and operating policy decisions relating to the activities of the joint ventures require unanimous consent of the parties sharing control.

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14. Investments in Associates and Joint Ventures, Continued

(2) Changes in investments in associates and joint ventures for the years ended December 31, 2013 and 2012 are as follows:

(i) For the year ended December 31, 2013

In millions of won

Company	Beginning balance	Acquisitions	Disposal	Dividends received	Share of income (loss)	Other comprehensive income (loss)	Other	Ending balance
Associates								
Cheongna Energy Co., Ltd.	₩ 33,330	-	-	-	(5,216)	-	-	28,114
Pioneer gas power limited(*1)	37,795	8,811	-	-	444	1,817	-	48,867
Eurasia Energy Holdings(*2)	-	-	-	-	-	-	-	-
Xe-Pian Xe-Namnoy Power Co., Ltd.	27	-	-	-	(373)	(783)	18,898	17,769
PT Mutiara Jawa	2,695	-	-	-	(541)	(488)	-	1,666
Korea Offshore Wind Power Co., Ltd.	620	-	-	-	(304)	-	-	316
Daegu Solar Power Plant Co., Ltd.(*3)	-	1,230	-	-	111	(7)	-	1,334
Dongducheon Dream Power Co., Ltd.(*4)	-	-	-	-	(5,629)	(52)	140,079	134,398
Solar power plants happy city Co., Ltd.(*3)	-	92	-	-	-	-	-	92
	<u>74,467</u>	<u>10,133</u>	<u>-</u>	<u>-</u>	<u>(11,508)</u>	<u>487</u>	<u>158,977</u>	<u>232,556</u>
Joint ventures								
Rabigh O&M Co., Ltd.	814	-	-	(1,831)	5,151	(52)	-	4,082
YeongAm F1 Solar Power Plant Co., Ltd.(*5)	1,673	-	(2,002)	-	329	-	-	-
	<u>2,487</u>	<u>-</u>	<u>(2,002)</u>	<u>(1,831)</u>	<u>5,480</u>	<u>(52)</u>	<u>-</u>	<u>4,082</u>
₩	<u>76,954</u>	<u>10,133</u>	<u>(2,002)</u>	<u>(1,831)</u>	<u>(6,028)</u>	<u>435</u>	<u>158,977</u>	<u>236,638</u>

(*1) The Company issued new shares to increase capitals during the year ended December 31, 2013.

(*2) Book value is the (-) amount, so it is discontinued using the equity method.

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14. Investments in Associates and Joint Ventures, Continued

(*3) This investment in associate is newly acquired for the year ended December 31, 2013.

(*4) It was reclassified to investment in associates due to substantial dominance loss such as changing the shareholders agreement and uneven paid-in capital increase of the investee company.

(*5) For the year ended December 31, 2013, it is liquidated and the loss on disposal amounting to ₩7,412 million is included in equity method income (loss) of associates and joint ventures.

(ii) For the year ended December 31, 2012

In millions of won

<u>Company</u>	<u>Beginning balance</u>	<u>Acquisitions</u>	<u>Share of income (loss)</u>	<u>Other comprehensive income (loss)</u>	<u>Ending balance</u>
Associates					
Cheongna Energy Co., Ltd. ₩	24,520	13,900	(5,090)	-	33,330
Pioneer gas power limited	-	39,899	-	(2,104)	37,795
Eurasia Energy Holdings	-	461	(461)	-	-
Xe-Pian Xe-Namnoy Power Co., Ltd.	-	29	-	(2)	27
PT Mutiara Jawa	-	2,978	(35)	(248)	2,695
Korea Offshore Wind Power Co., Ltd.	-	625	(5)	-	620
	<u>24,520</u>	<u>57,892</u>	<u>(5,591)</u>	<u>(2,354)</u>	<u>74,467</u>
Joint ventures					
Rabigh O&M Co., Ltd.	137	-	724	(47)	814
YeongAm F1 Solar Power Plant Co., Ltd.	-	1,740	(67)	-	1,673
	<u>137</u>	<u>1,740</u>	<u>657</u>	<u>(47)</u>	<u>2,487</u>
₩	<u>24,657</u>	<u>59,632</u>	<u>(4,934)</u>	<u>(2,401)</u>	<u>76,954</u>

(3) Summary financials information of investments in associates as of and for the years ended December 31, 2013 and 2012 are as follows:

(i) As of and for the year ended December 31, 2013

In millions of won

<u>Company</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Sales</u>	<u>Net profit or loss</u>
Associates				
Cheongna Energy Co., Ltd. ₩	429,095	370,940	44,455	(11,278)
Pioneer gas power limited	199,974	135,845	135	65
Eurasia Energy Holdings	540	963	3,414	(297)
Xe-Pian Xe-Namnoy Power Co., Ltd.	127,858	75,138	70	(1,239)
PT Mutiara Jawa	13,939	8,435	-	(1,987)
Korea Offshore Wind Power Co., Ltd.	4,052	1,598	-	(2,436)
Daegu Solar Power Plant Co., Ltd.	22,580	17,980	1,829	439
Dongducheon Dream Power Co., Ltd.	1,159,917	878,315	-	(9,713)
Solar power plants happy city Co., Ltd.	324	-	-	-
Joint ventures				
Rabigh O&M Co., Ltd.	17,857	7,651	25,636	13,243

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14. Investments in Associates and Joint Ventures, Continued

(ii) As of and for the year ended December 31, 2012

In millions of won

Company	Assets	Liabilities	Sales	Net profit or loss
Associates				
Cheongna Energy Co., Ltd.	₩ 446,396	376,358	31,125	(11,556)
Pioneer gas power limited	65,092	16,371	-	119
Eurasia Energy Holdings	3,421	3,562	-	(1,271)
Xe-Pian Xe-Namnoy Power Co., Ltd.	13,539	13,432	-	-
PT Mutiara Jawa	9,068	16	-	(362)
Korea Offshore Wind Power Co., Ltd.	5,000	-	-	-
Joint ventures				
Rabigh O&M Co., Ltd.	4,350	2,315	9,002	1,810
YeongAm F1 Solar Power Plant Co., Ltd.	55,011	49,241	-	(230)

(4) Summary financials information of investments in joint ventures (Rabigh O&M Co., Ltd.) as of and for the years ended December 31, 2013 and 2012 are as follows:

In millions of won

Company	2013	2012
Current assets		
Cash and cash equivalents	₩ 17,857	4,350
Current liabilities		
Trade and other payables	7,651	2,315
Sales	25,636	9,002
Cost of sales	9,816	7,189
Other profit (loss)	(2,567)	(3)
Income tax expense	10	-
Profit for the year	13,243	1,810

(5) The associates and joint ventures that the controlling company obtained significant influence during the current year are as follows:

Company	Reason	Classification
Daegu Solar Power Plant Co., Ltd.	Issuance of Stocks	Associates
Solar power plants happy city Co., Ltd.	Issuance of Stocks	Associates
Dongducheon Dream Power Co., Ltd.	Loss of control	Associates

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15. Property, Plant and Equipment

(1) Property, plant and equipment as of December 31, 2013 and 2012 are as follows:

(i) As of December 31, 2013

<i>In millions of won</i>		Acquisition cost	Government grants	Accumulated depreciation	Book value
Land	₩	537,438	-	-	537,438
Buildings		680,854	-	(218,755)	462,099
Structures		865,020	-	(296,380)	568,640
Machinery		3,595,048	(170)	(1,185,763)	2,409,115
Vehicles		5,432	-	(4,489)	943
Equipment		52,048	-	(33,169)	18,879
Tools		19,405	-	(15,677)	3,728
Construction-in-progress		1,394,416	(52,839)	-	1,341,577
Finance lease assets		184,391	-	(44,721)	139,670
	₩	<u>7,334,052</u>	<u>(53,009)</u>	<u>(1,798,954)</u>	<u>5,482,089</u>

(ii) As of December 31, 2012

<i>In millions of won</i>		Acquisition cost	Government grants	Accumulated depreciation	Book value
Land	₩	568,436	-	-	568,436
Buildings		644,832	-	(178,839)	465,993
Structures		835,292	-	(263,353)	571,939
Machinery		2,964,760	(199)	(894,933)	2,069,628
Vehicles		5,376	-	(4,022)	1,354
Equipment		43,408	-	(25,542)	17,866
Tools		17,171	-	(13,728)	3,443
Construction-in-progress		616,408	(32,469)	-	583,939
Finance lease assets		132,705	-	(42,319)	90,386
	₩	<u>5,828,388</u>	<u>(32,668)</u>	<u>(1,422,736)</u>	<u>4,372,984</u>

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES
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15. Property, Plant and Equipment, Continued

(2) Changes in property, plant and equipment for the years ended December 31, 2013 and 2012 are as follows:

(i) For the year ended December 31, 2013

<i>In millions of won</i>		Beginning balance	Acquisition/ Capital expenditure	Disposal	Depreciation (*1)	Others (*2,3)	Ending balance
Land	₩	568,436	-	(190)	-	(30,808)	537,438
Buildings		465,993	34	(108)	(40,004)	36,184	462,099
Structures		571,939	-	(123)	(33,111)	29,935	568,640
Machinery		2,069,628	152,913	(6,091)	(293,281)	485,946	2,409,115
Vehicles		1,354	-	-	(484)	73	943
Equipment		17,866	1,195	-	(8,850)	8,668	18,879
Tools		3,443	-	-	(2,280)	2,565	3,728
Construction-in-progress		583,939	1,615,618	-	-	(857,980)	1,341,577
Finance lease assets		90,386	-	(7,457)	(7,085)	63,826	139,670
	₩	<u>4,372,984</u>	<u>1,769,760</u>	<u>(13,969)</u>	<u>(385,095)</u>	<u>(261,591)</u>	<u>5,482,089</u>

(*1) ₩778 million of depreciation expenses are recognized as construction-in-progress and ₩379 million of depreciation expenses are recognized as other losses.

(*2) Other additions (subtractions) in the amount of ₩261,591 million consist of ₩3,886 million replaced as construction-in-progress from retirement benefits expenses and depreciation expenses, ₩260,995 million of decrease due to change in scope of consolidation, ₩23,037 million of capitalized interest expenses, ₩5,492 million of translation effect of overseas operation financial statements, ₩20,369 million of receipt of government subsidy, and ₩1,658 million replaced as intangible assets.

(*3) The weighted average capitalization rates for the years ended December 31, 2013 and 2012 are 3.95% and 3.39%, respectively.

(ii) For the year ended December 31, 2012

<i>In millions of won</i>		Beginning balance	Acquisition/ Capital expenditure	Disposal	Depreciation	Others	Ending balance
Land	₩	535,636	22,618	(930)	-	11,112	568,436
Buildings		485,126	147	(83)	(38,309)	19,112	465,993
Structures		597,456	-	-	(33,430)	7,913	571,939
Machinery		2,005,102	104,587	(3,280)	(285,892)	249,111	2,069,628
Vehicles		761	8	(4)	(482)	1,071	1,354
Equipment		14,829	1,109	-	(8,732)	10,660	17,866
Tools		4,591	30	-	(2,144)	966	3,443
Construction-in-progress		230,254	662,933	-	-	(309,248)	583,939
Finance lease assets		96,262	-	-	(6,033)	157	90,386
	₩	<u>3,970,017</u>	<u>791,432</u>	<u>(4,297)</u>	<u>(375,022)</u>	<u>(9,146)</u>	<u>4,372,984</u>

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16. Intangible Assets

(1) Intangible assets as of December 31, 2013 and 2012 are as follows:

(i) As of December 31, 2013

In millions of won

		Acquisition cost	Accumulated depreciation	Accumulated impairment loss	Book value
Computer software	₩	26,160	(15,446)	-	10,714
Development costs		1,549	(579)	-	970
Rights of use for the loading docks		2,253	(713)	-	1,540
Usage rights of Industrial water facilities		79,947	(79,947)	-	-
Leasehold rights		76	(37)	-	39
Mining rights		9,161	(1,025)	-	8,136
Other deposits provided		442	-	(231)	211
Others		567	(105)	-	462
	₩	<u>120,155</u>	<u>(97,852)</u>	<u>(231)</u>	<u>22,072</u>

(ii) As of December 31, 2012

In millions of won

		Acquisition cost	Accumulated depreciation	Accumulated impairment loss	Book value
Computer software	₩	24,693	(11,029)	-	13,664
Development costs		1,201	(327)	-	874
Rights of use for the loading docks		2,253	(601)	-	1,652
Usage rights of Industrial water facilities		79,947	(79,947)	-	-
Leasehold rights		76	(29)	-	47
Mining rights		10,754	(760)	-	9,994
Other deposits provided		442	-	(231)	211
Others		596	(81)	-	515
	₩	<u>119,962</u>	<u>(92,774)</u>	<u>(231)</u>	<u>26,957</u>

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16. Intangible Assets, Continued

(2) Changes in intangible assets for the years ended December 31, 2013 and 2012 are as follows:

(i) For the year ended December 31, 2013

In millions of won

		Beginning balance	Acquisition/ Capital expenditure	Amortization (*1)	Others (*2)	Ending balance
Computer software	₩	13,664	255	(4,504)	1,299	10,714
Development costs		874	-	(252)	348	970
Rights of use for the loading docks		1,652	-	(113)	1	1,540
Usage rights of Industrial water facilities		-	-	-	-	-
Leasehold rights		47	-	(8)	-	39
Mining rights		9,994	75	(273)	(1,660)	8,136
Other deposits provided		211	-	-	-	211
Others		515	-	(26)	(27)	462
	₩	<u>26,957</u>	<u>330</u>	<u>(5,176)</u>	<u>(39)</u>	<u>22,072</u>

(*1) ₩32 million of amortization expenses are recognized as other losses.

(*2) Other additions (subtractions) of ₩39 million consist of ₩1,658 million replaced from construction-in-progress and ₩10 million of decrease due to change in scope of consolidation and subtractions of ₩1,687 million resulting from translation of overseas operation financial statements.

(ii) For the year ended December 31, 2012

In millions of won

		Beginning balance	Acquisition/ Capital expenditure	Amortization	Others	Ending balance
Computer software	₩	16,346	159	(4,368)	1,527	13,664
Development costs		156	-	(154)	872	874
Rights of use for the loading docks		1,765	-	(113)	-	1,652
Usage rights of Industrial water facilities		-	-	-	-	-
Leasehold rights		55	-	(8)	-	47
Mining rights		343	51	(746)	10,346	9,994
Other deposits provided		210	-	-	1	211
Others		548	5	(32)	(6)	515
	₩	<u>19,423</u>	<u>215</u>	<u>(5,421)</u>	<u>12,740</u>	<u>26,957</u>

(3) The key intangible asset as of December 31, 2013 and 2012 is as follows:

In millions of won

	Contents	Amount	2013		2012	
			Amount	Residual Amortization Period	Amount	Residual Amortization Period
Computer software	ERP system	₩ 6,540		Two years two months	9,578	Three years two months

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17. Trade and Other Payables

Accounts and other payables as of December 31, 2013 and 2012 are as follows:

<i>In millions of won</i>	2013		2012	
	Current	Non-current	Current	Non-current
Trade payables	₩ 249,211	-	379,157	-
Other payables	246,017	-	62,548	25
Accrued expenses	64,080	393	52,500	78
Other deposits	44	-	37	-
	₩ 559,352	393	494,242	103

18. Borrowings and Debentures

(1) Details of borrowings as of December 31, 2013 and 2012 are as follows:

<i>In millions of won</i>	2013	2012
Current Liabilities:		
Current portion of long-term borrowings	₩ 347	100,230
Current portion of long-term debentures	80,000	120,000
Less: discount on debentures	(36)	(104)
	80,311	220,126
Non-current Liabilities:		
Long-term borrowings	3,177	3,524
Debentures	3,051,329	1,576,215
Less: discount on debentures	(14,174)	(6,294)
	3,040,332	1,573,445
	₩ 3,120,643	1,793,571

(2) Long-term borrowings as of December 31, 2013 and 2012 are as follows:

<i>In millions of won</i>		Annual interest rate		Maturity	2013	2012
Lender	Description					
Korea Exchange Bank	Medium & long term-CP	Fixed rate	3.63%	2013.06.24	₩ -	100,000
Others (Domestic)	Other long term borrowings	Floating rate	KTB (three years) - 2.25	2023.06.15	106	112
				2023.12.15	272	272
				2024.06.15	74	74
				2024.09.15	208	208
				2025.07.15	11	11
				2025.12.15	83	83
				2023.03.15	2,770	2,994
					3,524	103,754
Less: current portion					(347)	(100,230)
					₩ 3,177	3,524

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18. Borrowings and Debentures, Continued

(3) Domestic debentures as of December 31, 2013 and 2012 are as follows:

<i>In millions of won</i>		Maturity	Annual interest		2013	2012
	Issue date	date	rate			
Corporate bond #11	2009.05.29	2014.05.29	Fixed rate 5.15%	₩	80,000	80,000
Corporate bond #12	2009.11.24	2013.11.24	Fixed rate 5.12%		-	120,000
Corporate bond #14	2010.03.19	2015.03.19	Fixed rate 4.57%		100,000	100,000
Corporate bond #15-1	2011.05.27	2016.05.27	Fixed rate 4.09%		100,000	100,000
Corporate bond #15-2	2011.05.27	2018.05.27	Fixed rate 4.19%		100,000	100,000
Corporate bond #16-1	2011.11.18	2016.11.18	Fixed rate 3.97%		160,000	160,000
Corporate bond #16-2	2011.11.18	2018.11.18	Fixed rate 4.04%		60,000	60,000
Corporate bond #16-3	2011.11.18	2021.11.18	Fixed rate 4.15%		80,000	80,000
Corporate bond #17-1	2012.10.22	2022.10.22	Fixed rate 3.22%		100,000	100,000
Corporate bond #17-2	2012.10.22	2027.10.22	Fixed rate 3.26%		100,000	100,000
Corporate bond #18-1	2013.05.07	2023.05.07	Fixed rate 2.93%		120,000	-
Corporate bond #18-2	2013.05.07	2028.05.07	Fixed rate 3.03%		80,000	-
Corporate bond #19-1	2013.06.14	2018.06.14	Fixed rate 3.16%		90,000	-
Corporate bond #19-2	2013.06.14	2023.06.14	Fixed rate 3.38%		100,000	-
Corporate bond #20-1	2013.09.12	2018.09.12	Fixed rate 3.46%		110,000	-
Corporate bond #20-2	2013.09.12	2020.09.12	Fixed rate 3.62%		100,000	-
Corporate bond #21	2013.10.22	2023.10.22	Fixed rate 3.67%		110,000	-
Corporate bond #22	2013.10.31	2023.10.31	Fixed rate 3.607%		90,000	-
					<u>1,680,000</u>	<u>1,000,000</u>
Less: discount on debentures					(3,778)	(2,288)
Less: current portion					(79,964)	(119,896)
				₩	<u>1,596,258</u>	<u>877,816</u>

(4) Foreign debentures as of December 31, 2013 and 2012 are as follows:

<i>In millions of won</i>		Maturity	Annual interest		2013	2012
	Issue date	date	rate			
Euro bond #2	2006.09.29	2016.09.29	Fixed rate 5.50%	₩	158,295	160,665
Global bond #1	2012.05.10	2017.05.10	Fixed rate 3.125%		527,650	535,550
Swiss franc bond #1	2013.09.26	2019.03.26	Fixed rate 1.625%		237,734	-
Global bond #2	2013.10.10	2018.10.10	Fixed rate 2.875%		527,650	-
					<u>1,451,329</u>	<u>696,215</u>
Less: discount on debentures					(10,432)	(4,110)
				₩	<u>1,440,897</u>	<u>692,105</u>

19. Other Financial Liabilities

Other financial liabilities as of December 31, 2013 and 2012 are as follows:

<i>In millions of won</i>		2013		2012	
		Current	Non-current	Current	Non-current
Derivative liabilities	₩	104	46,672	4,004	30,270

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20. Employee Benefit Obligations

(1) The principal assumptions used on actuarial valuation as of December 31, 2013 and 2012 are as follows:

	<u>2013</u>	<u>2012</u>
Discount rate	3.98%	3.58%
Future salary increase rate	4.08% ~ 7.97%	2.10% ~ 7.26%

(2) Details of the Group's expense relating to its defined benefit plans for the years ended December 31, 2013 and 2012 are as follows:

In millions of won

	<u>2013</u>	<u>2012</u>
Current service cost	₩ 8,072	7,522
Interest cost	1,883	1,846
Expected return on plan assets	(343)	(315)
	<u>₩ 9,612</u>	<u>9,053</u>

(3) Employee benefit obligation as of December 31, 2013 and 2012 are as follows:

In millions of won

	<u>2013</u>	<u>2012</u>
Present value of defined benefit obligation from funded plans	₩ 57,568	48,696
Fair value of plan assets	(12,708)	(9,500)
Net retirement obligations from defined benefit plans	44,860	39,196
Present value of defined benefit obligation from unfunded plans	78	181
Net employee benefits obligation from defined benefit plans	<u>₩ 44,938</u>	<u>39,377</u>

(4) Changes in retirement benefit obligation the for the years ended December 31, 2013 and 2012 are as follows:

In millions of won

	<u>2013</u>	<u>2012</u>
Beginning balance	₩ 48,877	52,397
Current service cost	8,072	7,522
Interest cost	1,883	1,846
Actuarial gains or losses	1,052	5,610
Actual payments	(2,123)	(18,498)
Changes in scope of consolidation	(115)	-
Ending balance	<u>₩ 57,646</u>	<u>48,877</u>

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20. Employee Benefit Obligations, Continued

(5) Changes in the fair value of the plan assets for the years ended December 31, 2013 and 2012 are as follows:

<i>In millions of won</i>	<u>2013</u>	<u>2012</u>
Beginning balance	₩ 9,500	5,303
Expected return on plan assets	343	315
Actuarial gains or losses	(38)	(48)
Contributions by the employers	2,915	4,155
Actual payments	(12)	(225)
Ending balance	<u>₩ 12,708</u>	<u>9,500</u>

Accumulated actuarial losses on employee benefit obligations recorded as other comprehensive income amounts to ₩15,613 million and ₩14,787 million, respectively, as of the years ended December 31, 2013 and 2012.

(6) The amount of major categories of the fair value of plan assets as of December 31, 2013 and 2012 are as follows:

<i>In millions of won</i>	<u>2013</u>	<u>2012</u>
Equity instrument	₩ 174	709
Debt instrument	1,663	1,743
Deposits	7,201	4,962
Others	3,670	2,086
	<u>₩ 12,708</u>	<u>9,500</u>

Actual returns for the years ended December 31, 2013 and 2012 are ₩305 million and ₩267 million.

(7) Other long-term employee benefit obligations as of December 31, 2013 and 2012 are as follows:

<i>In millions of won</i>	<u>2013</u>	<u>2012</u>
Long-service bonus	₩ 1,871	1,695
Long-service leave	974	1,079
	<u>₩ 2,845</u>	<u>2,774</u>

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21. Provisions

(1) Provisions as of December 31, 2013 and 2012 are as follows:

<i>In millions of won</i>	2013		2012	
	Current	Non-current	Current	Non-current
Tax provision	₩ -	-	-	199

(2) Changes in the provisions for the years ended December 31, 2013 and 2012 are as follows:

(i) For the year ended December 31, 2013

<i>In millions of won</i>	Beginning balance	Transfer to provision	Provision used	Ending balance
Tax provision	₩ 199	-	(199)	-

(ii) For the year ended December 31, 2012

<i>In millions of won</i>	Beginning balance	Transfer to provision	Provision used	Ending balance
Tax provision	₩ 199	-	-	199

22. Non-financial Liabilities

Other non-financial liabilities as of December 31, 2013 and 2012 are as follows:

<i>In millions of won</i>	2013		2012	
	Current	Non-current	Current	Non-current
Advance received	₩ -	1,035	-	641
Unearned revenue	9	-	7	-
Withholdings	4,441	-	3,212	-
Others(*)	39,560	105	6,552	-
	₩ 44,010	1,140	9,771	641

(*) Others are primarily comprised of renewable portfolio standard (RPS) provisions which are recognized for the governmental regulations to require the production of energies from renewable energy sources such as solar, wind and biomass.

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23. Share Capital

(1) Share capital as of December 31, 2013 and 2012 are as follows:

<i>In millions of won , except par value</i>				2013		2012	
Type	Number of shares authorized	Number of shares issued	Par value	Govt.	Non-govt.	Govt.	Non-govt.
Common Stock	100,000,000	31,789,285	₩ 5,000	-	158,946	-	158,946

(2) There were no changes in number of outstanding capital stock for the years ended December 31, 2013 and 2012.

(3) Share premium as of December 31, 2013 and 2012 are as follows:

<i>In millions of won</i>	2013	2012
Paid-in capital in excess of par value	₩ 1,033,419	1,033,419

24. Retained Earnings and Dividends

(1) Retained earnings as of December 31, 2013 and 2012 are summarized as follows:

<i>In millions of won</i>	2013	2012
Legal reserves (*1)	₩ 56,912	50,996
Voluntary reserves	1,014,411	966,163
Retained earnings before appropriations	792,193	811,541
	₩ <u>1,863,516</u>	<u>1,828,700</u>

(*1) The Commercial Code of the Republic of Korea requires the Group to appropriate as a legal reserve, an amount equal to a minimum of 10% of annual cash dividends paid, until the reserve equals 50% of its issued capital stock. The reserve is not available for the payment of cash dividends, but may be transferred to capital stock through a resolution of the Board of Directors or used to reduce accumulated deficit, if any, with the ratification of the shareholders.

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24. Retained Earnings and Dividends, Continued

(2) Composition of voluntary reserves as of December 31, 2013 and 2012 are as follows:

<i>In millions of won</i>	<u>2013</u>	<u>2012</u>
Reserve for business stabilization (*1)	₩ 181	181
Reserve for research and human development (*2)	18,388	18,388
Reserve for investment on social overhead capital	13,000	13,000
Reserve for business expansion	982,842	934,594
	₩ <u>1,014,411</u>	<u>966,163</u>

(*1) Prior to 2002, the Group 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 Group to use as qualified tax credits to reduce corporate tax liabilities. The reserve is available for cash dividends for a certain period as defined by the Tax Incentive Control Law of Korea.

(3) Changes in retained earnings before appropriations for the years ended December 31, 2013 and 2012 are as follows:

<i>In millions of won</i>	<u>2013</u>	<u>2012</u>
Beginning balance	₩ 811,541	714,866
Profit for the year - Controlling company	97,670	107,792
Dividends paid	(59,160)	(31,386)
Actuarial losses	(826)	(4,163)
Transfers from reserves	-	28,403
Funding reserves	(54,164)	(3,139)
Dividends on hybrid securities	(2,868)	(832)
Ending balance	₩ <u>792,193</u>	<u>811,541</u>

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24. Retained Earnings and Dividends, Continued

(4) Dividends paid for the years ended December 31, 2013 and 2012 are as follows:

(i) For the year ended December 31, 2013

Type	Number of shares issued (shares)	Number of treasury shares	Number of share eligible for dividends (shares)	Dividends per share (in won)	Total dividends (in millions of won)
Common Stock	31,789,285	-	31,789,285	1,861	59,160

(ii) For the year ended December 31, 2012

Type	Number of shares issued (shares)	Number of treasury shares	Number of share eligible for dividends (shares)	Dividends per share (in won)	Total dividends (in millions of won)
Common Stock	31,789,285	-	31,789,285	987	31,386

(5) Changes in actuarial losses on employee benefit obligations for the years ended December 31, 2013 and 2012 are as follows:

<i>In millions of won</i>	2013	2012
Beginning balance	₩ (14,787)	(10,624)
Changes for the year	(1,090)	(5,658)
Income tax effect	264	1,495
Ending balance	₩ (15,613)	(14,787)

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25. Statement of appropriation of retained earnings

Statements of appropriation of retained earnings for the years ended December 31, 2013 and 2012 are as follows:

Date of appropriation for 2013: March 26, 2014

Date of appropriation for 2012: March 29, 2013

In millions of won

	<u>2013</u>	<u>2012</u>
Unappropriated retained earnings		
Balance at beginning of year	₩ 711,596	711,595
Hybrid securities interest	(2,868)	(832)
Net income	106,829	118,319
Actuarial losses	(826)	(4,163)
Balance at end of year before appropriation	<u>814,731</u>	<u>824,919</u>
Reverse of reserve for research and human development	6,129	-
	<u>820,860</u>	<u>824,919</u>
Appropriated retained earnings		
Cash dividends	(32,048)	(59,160)
Legal reserve	(3,205)	(5,916)
Reserve for business expansion	(74,011)	(48,247)
Unappropriated retained earnings to be carried over	<u>₩ 711,596</u>	<u>711,596</u>

26. Other Components of Equity

(1) Other components of equity as of December 31, 2013 and 2012 are as follows:

In millions of won

	<u>2013</u>	<u>2012</u>
Accumulated other comprehensive income	₩ 6,185	4,280
Other equity	(41,784)	(41,636)
	<u>₩ (35,599)</u>	<u>(37,356)</u>

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26. Other Components of Equity, Continued

(2) Changes in accumulated other comprehensive income for the years ended December 31, 2013 and 2012 are as follows:

(i) For the year ended December 31, 2013

In millions of won

		Available -for-sale financial assets valuation reserve	Reserve for gain (loss) on valuation of derivatives	Reserve for gain (loss) on overseas operations translation credit	Share in other comprehensive income (loss) of associates	Total
Beginning balance	₩	(204)	8,222	(968)	(2,770)	4,280
Valuation of available-for-sale financial assets		2,370	-	-	-	2,370
Valuation of derivatives		-	2,686	-	-	2,686
Overseas operations translation		-	-	(3,607)	-	(3,607)
Valuation of investments in associates		-	-	-	456	456
Ending balance	₩	<u>2,166</u>	<u>10,908</u>	<u>(4,575)</u>	<u>(2,314)</u>	<u>6,185</u>

(ii) For the year ended December 31, 2012

In millions of won

		Available -for-sale financial assets valuation reserve	Reserve for gain (loss) on valuation of derivatives	Reserve for gain (loss) on overseas operations translation credit	Share in other comprehensive income (loss) of associates	Total
Beginning balance	₩	(341)	5,491	(556)	(379)	4,215
Valuation of available-for-sale financial assets		137	-	-	-	137
Valuation of derivatives		-	2,731	-	-	2,731
Overseas operations translation		-	-	(412)	-	(412)
Valuation of investments in associates		-	-	-	(2,391)	(2,391)
Ending balance	₩	<u>(204)</u>	<u>8,222</u>	<u>(968)</u>	<u>(2,770)</u>	<u>4,280</u>

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26. Other Components of Equity, Continued

(3) Changes other components of equity for the years ended December 31, 2013 and 2012 are as follows:

(i) For the year ended December 31, 2013

In millions of won

	<u>Loss on capital reduction</u>	<u>Other capital adjustments</u>	<u>Total</u>
Beginning balance	₩ (41,046)	(590)	(41,636)
Capital reduction	-	-	-
Tax effect	-	(148)	(148)
Ending balance	<u>₩ (41,046)</u>	<u>(738)</u>	<u>(41,784)</u>

(ii) For the year ended December 31, 2012

In millions of won

	<u>Loss on capital reduction</u>	<u>Other capital adjustments</u>	<u>Total</u>
Beginning balance	₩ (41,046)	-	(41,046)
Capital reduction	-	-	-
Tax effect	-	(590)	(590)
Ending balance	<u>₩ (41,046)</u>	<u>(590)</u>	<u>(41,636)</u>

27. Hybrid Securities

Hybrid securities classified as equity as of December 31, 2013 is as follows :

In millions of won

<u>Type</u>	<u>Description</u>	<u>Issue date</u>	<u>Maturity date</u>	<u>Annual interest rate</u>	<u>Amount</u>
Bond-hybrid capital securities#1	Interest-bearing, unwarranted and subordinated bonds to bear	2012.10.18	2042.10.18	KTB(five years) +1.20	₩ 100,000
Issuance costs					(250)
					<u>₩ 99,750</u>

In October 2012, the Group issued a hybrid securities and the Group has a right to extend the maturity date of the hybrid securities with the same condition of it at the maturity date, continually.

Interest payments may be deferred under certain conditions, especially if the general meeting of stockholders resolves that a dividend not be paid.

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28. Sales

Details of sales for the years ended December 31, 2013 and 2012 are as follows:

(i) For the year ended December 31, 2013

<i>In millions of won</i>	<u>Domestic</u>	<u>Overseas</u>
Sales of product	₩ 5,741,722	4,728
Services	13,894	533
	<u>₩ 5,755,616</u>	<u>5,261</u>

(ii) For the year ended December 31, 2012

<i>In millions of won</i>	<u>Domestic</u>	<u>Overseas</u>
Sales of product	₩ 5,962,115	5,317
Services	-	-
	<u>₩ 5,962,115</u>	<u>5,317</u>

29. Selling and Administrative Expenses

Composition of selling and administrative expenses for the years ended December 31, 2013 and 2012 are as follows:

<i>In millions of won</i>	<u>2013</u>	<u>2012</u>
Salaries	₩ 16,826	16,521
Retirement benefit expense	1,468	2,435
Welfare and benefit expense	5,881	4,506
Insurance expense	85	62
Depreciation	3,275	2,419
Amortization	4,480	4,045
Commission	11,295	12,017
Advertising expense	1,187	591
Training expense	135	92
Vehicle maintenance expense	157	153
Publishing expense	136	160
Business promotion expense	211	213
Rent expense	4,054	3,955
Telecommunication expense	918	990
Transportation expense	-	19
Taxes and dues	1,390	591
Expendable supplies expense	59	103
Water, light and heating expense	23	31
Repairs and maintenance expense	135	438
Ordinary development expense	9,840	8,196
Travel expense	722	786
Clothing expense	-	34
Survey and analysis expense	2	2
Others	2,393	1,856
	<u>₩ 64,672</u>	<u>60,215</u>

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30. Other Non-operating Income and Expense

(1) Other non-operating incomes for the years ended December 31, 2013 and 2012 are as follows:

<i>In millions of won</i>	<u>2013</u>	<u>2012</u>
Rental income	₩ 3,196	3,673

(2) Other non-operating expenses for the years ended December 31, 2013 and 2012 are as follows:

<i>In millions of won</i>	<u>2013</u>	<u>2012</u>
Donations	₩ 1,355	1,111

31. Other Income and Loss

Composition of other income and loss for the years ended December 31, 2013 and 2012 are as follows:

<i>In millions of won</i>	<u>2013</u>	<u>2012</u>
Gain on disposal of property, plant, and equipment	₩ 47	89
Gain on foreign currency translation	267	208
Gain on foreign currency transaction	9,235	12,773
Other gains	27,615	8,776
Loss on disposal of property, plant, and equipment	(13,730)	(3,482)
Loss on foreign currency translation	(141)	(7)
Loss on foreign currency transaction	(8,066)	(8,890)
Other losses	(4,844)	(6,850)
	₩ <u>10,383</u>	<u>2,617</u>

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32. Finance Income

(1) Finance income for the years ended December 31, 2013 and 2012 are as follows:

<i>In millions of won</i>		<u>2013</u>	<u>2012</u>
Interest income	₩	12,389	17,311
Gain on valuation of derivatives		1,094	-
Gain on transactions of derivatives		-	812
Gain on foreign currency translation (*)		19,420	46,780
Gain on foreign currency transaction (*)		2,016	9,904
Gain on disposal of available-for-sale financial assets		37	-
	₩	<u>34,956</u>	<u>74,807</u>

(*) Incurred from Group's financing activities

(2) Interest income included in finance income for the years ended December 31, 2013 and 2012 are as follows:

<i>In millions of won</i>		<u>2013</u>	<u>2012</u>
Cash and cash equivalents	₩	10,981	16,624
Loans and receivables		1,408	687
	₩	<u>12,389</u>	<u>17,311</u>

33. Finance Expenses

(1) Finance expenses for the years ended December 31, 2013 and 2012 are as follows:

<i>In millions of won</i>		<u>2013</u>	<u>2012</u>
Interest expense	₩	67,556	66,829
Loss on valuation of derivatives		19,524	46,780
Loss on transaction of derivatives		-	621
Loss on foreign currency translation		6,179	-
Loss on foreign currency transaction		418	-
	₩	<u>93,677</u>	<u>114,230</u>

(2) Interest expenses included in finance expenses for the years ended December 31, 2013 and 2012 are as follows:

<i>In millions of won</i>		<u>2013</u>	<u>2012</u>
Trade and other payables	₩	1	107
Short term borrowings		646	1,860
Long term borrowings		1,632	7,215
Debentures		88,314	58,588
Other financial liabilities		-	3,397
		<u>90,593</u>	<u>71,167</u>
Less: capitalized borrowing costs		<u>(23,037)</u>	<u>(4,338)</u>
	₩	<u>67,556</u>	<u>66,829</u>

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34. Income Tax Expenses

(1) Components of incomes tax expense for the years ended December 31, 2013 and 2012 are as follows:

<i>In millions of won</i>	<u>2013</u>	<u>2012</u>
Current income tax expenses		
Tax payable	₩ 9,931	71,821
Adjustment for prior period	(48,301)	5,678
Income tax charged (credited) directly in equity	(46)	404
	<u>(38,416)</u>	<u>77,903</u>
Deferred income tax expense		
Generation and realization of temporary differences	7,079	(32,079)
Recognition of unrecognized tax losses in the past, tax credit and temporary differences previously occurred	42,007	-
Changes in tax rates or tax laws	(30,700)	-
	<u>18,386</u>	<u>(32,079)</u>
Income tax expense (benefit)	₩ <u>(20,030)</u>	<u>45,824</u>

(2) Reconciliation between the actual income tax expense and that amount computed by applying 24.2% to profit before income tax expense for the years ended December 31, 2013 and 2012 are as follows:

<i>In millions of won</i>	<u>2013</u>	<u>2012</u>
Profit before income tax expense	₩ 74,730	151,255
Income tax expense in accordance with applicable tax rate (tax rate: 24.2%)	18,085	36,605
Adjustments		
Step-by-step application of accumulative tax rate	(201)	(462)
Effects of non-deductible revenue	(1,826)	-
Effects of non-deductible expenses	3,934	337
Effects of a tax credit and exemption	(37,362)	(1,876)
Recognition of unrecognized tax losses in the past, tax credit, and temporary differences previously occurred	42,007	5,678
Others	3,634	5,542
	<u>10,186</u>	<u>9,219</u>
Prior period adjustments recognized in respect of current income tax	(48,301)	-
Income tax expense (benefit) recognized in profit or loss	₩ <u>(20,030)</u>	<u>45,824</u>

In 2012, the average effective tax rate is 30.30% and in 2013, the average effective tax rate was not estimated as the income tax benefit is recognized.

(3) Relating to items directly to equity in income taxes for the years ended December 31, 2013 and 2012 are as follows:

<i>In millions of won</i>	<u>2013</u>	<u>2012</u>
Interest payments on hybrid securities	₩ 1,181	-

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34. Income Tax Expenses, Continued

(4) Income tax recognized in other comprehensive income for the years ended December 31, 2013 and 2012 are as follows:

<i>In millions of won</i>	<u>2013</u>	<u>2012</u>
Gain (loss) on valuation of available-for-sale financial assets, net	₩ (756)	(44)
Gain (loss) on valuation of derivatives using cash flow hedge accounting, net	(858)	(872)
Defined benefit plan actuarial gains (losses), net	264	1,329
Change in equity using equity method	21	11
Conversion effect of foreign financial statements	102	(20)
Income tax expense	₩ <u>(1,227)</u>	<u>404</u>

(5) Reconized in the statement of financial position of deferred income tax assets(liabilities) for the years ended December 31, 2013 and 2012 are as follows:

(i) For the year ended December 31, 2013

In millions of won

	<u>Balance as of January 1, 2013</u>	<u>Amounts recognized in profit or loss</u>	<u>Amounts recognized in other comprehensive income</u>	<u>Amounts recognized directly in equity</u>	<u>Balance as of December 31, 2013</u>
Deferred tax on temporary differences					
Long-term employee benefits	₩ 8,521	(18)	264	-	8,767
Cash flow hedges	1,014	5,081	(858)	-	5,237
Property, plant and equipment	(182,309)	(60,916)	-	-	(243,225)
Intangible assets	56	-	-	-	56
Available-for-sale financial assets	65	-	(756)	-	(691)
Foreign currency translation	(3,561)	(3,186)	-	-	(6,747)
Allowance for doubtful accounts	(1,116)	-	-	-	(1,116)
Other provision	(4,383)	143	-	-	(4,240)
Reserve for research and human development	(4,268)	1,423	-	-	(2,845)
Others	11,922	8,404	123	1,181	21,630
	<u>(174,059)</u>	<u>(49,069)</u>	<u>(1,227)</u>	<u>1,181</u>	<u>(223,174)</u>
Tax credit	-	30,700	-	-	30,700
Total	₩ <u>(174,059)</u>	<u>(18,369)</u>	<u>(1,227)</u>	<u>1,181</u>	<u>(192,474)</u>

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34. Income Tax Expenses, Continued

(ii) For the year ended December 31, 2012

In millions of won

	Balance as of January 1, 2012	Amounts recognized in profit or loss	Amounts recognized in other comprehend- sive income	Balance as of December 31, 2012
	₩			
Deferred tax on temporary differences				
Long-term employee benefits	10,187	(2,995)	1,329	8,521
Cash flow hedges	(9,303)	11,189	(872)	1,014
Property, plant and equipment	(211,770)	29,461	-	(182,309)
Intangible assets	54	2	-	56
Available-for-sale financial assets	161	(52)	(44)	65
Foreign currency translation	10,447	(14,008)	-	(3,561)
Allowance for doubtful accounts	(1,087)	(29)	-	(1,116)
Other provision	(4,270)	(113)	-	(4,383)
Reserve for research and human development	(4,155)	(113)	-	(4,268)
Others	3,458	8,473	(9)	11,922
Total	₩ <u>(206,278)</u>	<u>31,815</u>	<u>404</u>	<u>(174,059)</u>

(6) Shown in the statement of financial position of deferred tax assets (liabilities) are as follows:

In millions of won

	2013	2012
Deferred income tax assets	₩ 303	333
Deferred income tax liabilities	(192,777)	(174,392)
	₩ <u>(192,474)</u>	<u>(174,059)</u>

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35. Expenses Classified by Nature

Expenses classified by nature for the years ended December 31, 2013 and 2012 are as follows:

(i) For the year ended December 31, 2013

In millions of won

	Selling and administrative expenses	Cost of sales	Total
Raw materials used	₩ -	4,866,215	4,866,215
Salaries	16,826	108,994	125,820
Retirement benefit expense	1,468	11,036	12,504
Welfare and benefit expense	5,881	9,755	15,636
Insurance expense	85	7,236	7,321
Depreciation	3,275	380,663	383,938
Amortization	4,480	664	5,144
Commission	11,295	11,524	22,819
Advertising expense	1,187	342	1,529
Training expense	135	271	406
Vehicle maintenance expense	157	71	228
Publishing expense	136	80	216
Business promotion expense	211	155	366
Rent expense	4,054	9,913	13,967
Telecommunication expense	918	200	1,118
Transportation expense	-	11	11
Taxes and dues	1,390	5,375	6,765
Expendable supplies expense	59	228	287
Water, light and heating expense	23	314	337
Repairs and maintenance expense	135	104,963	105,098
Ordinary development expense	9,840	14,627	24,467
Travel expense	722	260	982
Clothing expense	-	420	420
Survey and analysis expense	2	142	144
Others	2,393	42,903	45,296
	<u>64,672</u>	<u>5,576,362</u>	<u>5,641,034</u>

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35. Expenses Classified by Nature, Continued

(ii) For the year ended December 31, 2012

In millions of won

	Selling and administrative expenses	Cost of sales	Total
Raw materials used	₩ -	5,041,377	5,041,377
Salaries	16,521	122,295	138,816
Retirement benefit expense	2,435	11,135	13,570
Welfare and benefit expense	4,506	11,470	15,976
Insurance expense	62	4,916	4,978
Depreciation	2,419	372,359	374,778
Amortization	4,045	1,335	5,380
Commission	12,017	12,518	24,535
Advertising expense	591	320	911
Training expense	92	252	344
Vehicle maintenance expense	153	64	217
Publishing expense	160	104	264
Business promotion expense	213	159	372
Rent expense	3,955	10,242	14,197
Telecommunication expense	990	225	1,215
Transportation expense	19	12	31
Taxes and dues	591	4,735	5,326
Expendable supplies expense	103	231	334
Water, light and heating expense	31	271	302
Repairs and maintenance expense	438	98,114	98,552
Ordinary development expense	8,196	14,888	23,084
Travel expense	786	701	1,487
Clothing expense	34	469	503
Survey and analysis expense	2	143	145
Others	1,856	8,449	10,305
	<u>60,215</u>	<u>5,716,784</u>	<u>5,776,999</u>

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36. Earnings per Share

(1) The basic of earnings per share for the years ended December 31, 2013 and 2012 are as follows:

<i>In won</i>	<u>2013</u>	<u>2012</u>
Basic earnings per share	₩ 3,072	3,391

(*) The Group does not own dilutive securities and a basic earnings per share is identical to dilutive earnings per share.

(2) Controlling interest in profit for the year and weighted average number of common shares outstanding for the years ended December 31, 2013 and 2012 are as follows:

<i>In millions of won, except for shares</i>	<u>2013</u>	<u>2012</u>
Net income from continuing operations	₩ 97,670	107,792
Weighted average number of common share	31,789,285	31,789,285

37. Risk Management

(1) Capital risk management

The Group manages its capital to ensure that it will be able to continue as a going concern while maximizing the return to shareholder through the optimization of the debt and equity balance. The capital structure of the Group consists of net debt (offset by cash and bank balances) and equity. The Group's overall capital risk management strategy remains unchanged from that of the prior year.

Details of the Group's capital management accounts as of December 31, 2013 and 2012 are as follows:

<i>In millions of won</i>	<u>2013</u>	<u>2012</u>
Total borrowings and debentures	₩ 3,120,643	1,793,571
Cash and cash equivalents	502,996	408,729
Net borrowings and debentures	<u>2,617,647</u>	<u>1,384,842</u>
Total shareholder's equity	<u>3,140,555</u>	<u>3,221,740</u>
Debt to equity ratio	<u>83.35%</u>	<u>42.98%</u>

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37. Risk Management, Continued

(2) Financial risk management

The Group is exposed to various risks related to its financial instruments, such as, market risk (currency risk, interest rate risk, price risk), credit risk. The Group monitors and manages the financial risks relating to the operations of the Group through internal risk reports which analyse exposures by degree and magnitude of risks.

The Group uses derivative financial instruments to certain hedge risk exposures. The Group's overall financial risk management strategy remains unchanged from the prior year.

1) Credit risk

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 a 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.

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37. Risk Management, Continued

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, 2013 and 2012 are as follows:

<i>In millions of won</i>		<u>2013</u>	<u>2012</u>
Cash and cash equivalents	₩	502,996	408,729
Loans and receivables		14,642	28,944
Other financial instruments		-	2,000
Derivative assets (trading)		46	-
Derivative assets (hedge accounting)		27,463	29,892
Trade and other receivables		487,549	484,296

2) Market risk

Market risk is the risk that the Group's fair values of the financial instruments or future cash flows are affected by the changes in the market. Market risk consists of interest rate risk, currency risk and other price risk.

3) Sensitivity analysis

a) Major assets and liabilities with uncertainties in underlying assumptions

① Defined benefit obligation

A sensitivity analysis on the Group's defined benefit obligation assuming a 1% increase or decrease in various assumptions as of December 31, 2013 and 2012 are as follows:

<i>In millions of won</i>			<u>2013</u>		<u>2012</u>	
<u>Type</u>	<u>Accounts</u>		<u>1%</u> <u>Increase</u>	<u>1%</u> <u>Decrease</u>	<u>1%</u> <u>Increase</u>	<u>1%</u> <u>Decrease</u>
Future salary increase rate	Defined benefit obligation	₩	6,623	(5,783)	7,669	(6,634)
Discount rate	Defined benefit obligation		(5,988)	7,020	(6,682)	8,093
Expected return rate on plan assets	Retirement benefit expense		(25)	25	(19)	19

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37. Risk Management, Continued

b) Management judgment effected by uncertainties in underlying assumptions

① Foreign currency risk

The Group undertakes transactions denominated in foreign currencies; consequently, exposures to currency exchange rate fluctuations arise. The carrying amount of the Group's, except for the Group's foreign subsidiary, foreign currency denominated monetary assets and monetary liabilities at the end of the reporting year are as follows:

<i>In thousands of foreign currencies</i>	Assets		Liabilities	
	2013	2012	2013	2012
USD	251,422	-	1,259,891	85,491
JPY	1	-	54,351	-
CHF	-	-	200,000	-

A sensitivity analysis on the Group's income for the year assuming a 10% increase or decrease in currency exchange rates for the years ended December 31, 2013 and 2012 are as follows:

<i>In millions of won</i>	2013		2012	
	10%	10%	10%	10%
	Increase	Decrease	Increase	Decrease
Increase (decrease) of income before income tax	₩ (130,252)	130,252	(75,883)	75,883
Increase (decrease) of shareholder's equity	(130,252)	130,252	(75,883)	75,883

Sensitivity analysis above is conducted for monetary assets and liabilities denominated in foreign currencies other than functional currency as of December 31, 2013 and 2012.

It is a thing of the measurement of the risk of fluctuations in exchange rates hedge before reflecting from derivatives. The Group signed a contract currency swaps in order to avoid payments foreign trade payables and recovery foreign trade receivables. Also Group signed currency forward contract in order to avoid currency risk expected purchase transaction and sales transaction.

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES

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37. Risk Management, Continued

To manage its foreign currency risk related to foreign currency denominated receivables and payables, the Group has a policy to enter into currency swap agreements. In addition, to manage its foreign currency risk related to foreign currency denominated expected sales transactions and purchase transactions, the Group enters into cross-currency forward agreements.

② Interest rate risk

The Group is exposed to interest rate risk due to its borrowing with floating interest rates. A 1% increase or decrease is used when reporting interest rate risk internally to key management personnel which represents management's assessment of the reasonably possible change in interest rates.

The Group's long-term borrowings and debentures with floating interest rates as of December 31, 2013 and 2012 are as follows:

<i>In millions of won</i>		2013	2012
Long-term borrowings	₩	3,524	3,754

A sensitivity analysis on the Group's long-term borrowings and debentures assuming a 1% increase or decrease in interest rates for the year ended December 31, 2013 and 2012 are as follows:

<i>In millions of won</i>		2013		2012	
		1% Increase	1% Decrease	1% Increase	1% Decrease
Increase (decrease) of net income	₩	(35)	35	(38)	38
Increase (decrease) of shareholder's equity		(35)	35	(38)	38

To manage its interest rate risks, the Group in addition to maintaining an appropriate mix of fixed and floating rate loans, the Group enters into certain interest rate swap agreements.

4) Liquidity risk

The Group has established an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities.

In addition, the Group has established credit lines on its trade financing and bank overdrafts, and through payment guarantees it has received, it maintains an adequate credit (borrowing) line. In addition, in case of major construction investment, the Group has the ability to use reserve cash or utilize long-term borrowings.

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES

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37. Risk Management, Continued

Details of remaining maturities of the Group's non-derivative financial liabilities based on agreement terms are as follows. The amount disclosed below represents the undiscounted cash flows of the principal and interest amounts that the Group is obligated to pay in the future based on the earliest repayment date:

(i) As of December 31, 2013

In millions of won

	Less than 1 year	1-2 years	2-5 years	More than 5 years	Total
Borrowings and debentures	₩ 183,028	199,489	2,056,257	1,272,302	3,711,076
Trade and other payables	559,352	393	-	-	559,745
	<u>₩ 742,380</u>	<u>199,882</u>	<u>2,056,257</u>	<u>1,272,302</u>	<u>4,270,821</u>

(ii) As of December 31, 2012

In millions of won

	Less than 1 year	1-2 years	2-5 years	More than 5 years	Total
Borrowings and debentures	₩ 220,230	80,000	1,156,215	343,524	1,799,969
Trade and other payables	494,242	103	-	-	494,345
	<u>₩ 714,472</u>	<u>80,103</u>	<u>1,156,215</u>	<u>343,524</u>	<u>2,294,314</u>

The Group is required to include the information on non-derivative financial liabilities to understand the liquidity risk management as the management is based on net assets and net liabilities.

The expected maturities for non-derivative financial assets as of December 31, 2013 and 2012 in detail are as follows:

(i) As of December 31, 2013

In millions of won

	Less than 1 year	1-5 years	Over 5 years	Uncertain	Total
Cash and cash equivalents	₩ 502,996	-	-	-	502,996
Available-for-sale financial assets	-	-	-	14,153	14,153
Loans and receivables	1,489	14,920	-	-	16,409
Trade and other receivables	481,476	6,400	-	-	487,876
	<u>₩ 985,961</u>	<u>21,320</u>	<u>-</u>	<u>14,153</u>	<u>1,021,434</u>

(ii) As of December 31, 2012

In millions of won

	Less than 1 year	1-5 years	Over 5 years	Uncertain	Total
Cash and cash equivalents	₩ 408,729	-	-	-	408,729
Available-for-sale financial assets	-	-	-	11,462	11,462
Loans and receivables	16,173	14,471	-	-	30,644
Other financial instruments	2,000	-	-	-	2,000
Trade and other receivables	478,504	6,063	-	-	484,567
	<u>₩ 905,406</u>	<u>20,534</u>	<u>-</u>	<u>11,462</u>	<u>937,402</u>

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37. Risk Management, Continued

Derivative financial liabilities classified by maturity periods which from reporting date to maturity date of contract as of December 31, 2013 and 2012 as follows:

(i) As of December 31, 2013

<i>In millions of won</i>	Less than 1 year	1-2 years	2-5 years	More than 5 years	Total
Net settlement					
-Trading purpose	₩ -	-	-	-	-
Gross settlement					
-Trading purpose	104	-	-	-	104
-Hedge accounting purpose	-	-	46,672	-	46,672
₩	<u>104</u>	<u>-</u>	<u>46,672</u>	<u>-</u>	<u>46,776</u>

(ii) As of December 31, 2012

<i>In millions of won</i>	Less than 1 year	1-2 years	2-5 years	More than 5 years	Total
Net settlement					
-Trading purpose	₩ -	-	-	-	-
Gross settlement					
-Trading purpose	-	-	-	-	-
-Hedge accounting purpose	4,004	-	30,270	-	34,274
₩	<u>4,004</u>	<u>-</u>	<u>30,270</u>	<u>-</u>	<u>34,274</u>

(3) Fair value risk

The fair value of the Group's actively-traded financial instruments (i.e. available-for-sale financial assets, etc.) is based on the traded market-price as of the reporting period end. The fair value of the Group's financial assets is the amount which the asset could be exchanged for or the amount a liability could be settled for.

The fair values of financial instruments where no active market exists or where quoted prices are not otherwise available are determined by using valuation techniques. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the Group uses that technique.

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

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37. Risk Management, Continued

1) Fair and book value of financial assets and liabilities as of December 31, 2013 and 2012 are as follows:

In millions of won

	2013		2012	
	Book value	Fair value	Book value	Fair value
Assets recognized at fair value				
Available-for-sale financial assets	₩ 14,153	14,153	11,462	11,462
Other financial instruments	-	-	2,000	2,000
Derivatives assets (trading)	46	46	-	-
Derivatives assets (hedge accounting)	27,463	27,463	29,892	29,892
	₩ <u>41,662</u>	<u>41,662</u>	<u>43,354</u>	<u>43,354</u>
Assets carried at amortized cost				
Trade and other receivables	₩ 487,549	487,549	484,296	484,296
Loans and receivables	14,642	14,642	28,944	28,944
	₩ <u>502,191</u>	<u>502,191</u>	<u>513,240</u>	<u>513,240</u>
Liabilities carried at fair value				
Derivatives liabilities (trading)	₩ 104	104	-	-
Derivatives liabilities (hedge accounting)	46,672	46,672	34,274	34,274
	₩ <u>46,776</u>	<u>46,776</u>	<u>34,274</u>	<u>34,274</u>
Liabilities carried at amortized cost				
Borrowings	₩ 3,524	3,524	103,754	103,754
Debentures	3,117,119	3,138,650	1,689,817	1,782,820
Trade and other payables	559,745	559,745	494,345	494,345
	₩ <u>3,680,388</u>	<u>3,701,919</u>	<u>2,287,916</u>	<u>2,380,919</u>

2) The discount rate used for calculating fair value is derived from interest rates which are observable from the market, such as government bond interest rate, after considering credit spread.

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

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37. Risk Management, Continued

Fair values of financial instruments by hierarchy level as of December 31, 2013 and 2012, respectively, are as follows:

(i) As of December 31, 2013

<i>In millions of won</i>		Level 1	Level 2	Level 3	Total
Financial assets at fair value:					
Available-for-sale financial assets	₩	-	-	14,153	14,153
Derivative assets (trading)		-	46	-	46
Derivative assets (hedge accounting)		-	27,463	-	27,463
		<u>-</u>	<u>27,509</u>	<u>14,153</u>	<u>41,662</u>
Financial liabilities at fair value:					
Derivative liabilities (trading)		-	104	-	104
Derivative liabilities (hedge accounting)		-	46,672	-	46,672
	₩	<u>-</u>	<u>46,776</u>	<u>-</u>	<u>46,776</u>

(ii) As of December 31, 2012

<i>In millions of won</i>		Level 1	Level 2	Level 3	Total
Financial assets at fair value:					
Available-for-sale financial assets	₩	-	-	11,462	11,462
Other financial assets		2,000	-	-	2,000
Derivative assets (hedge accounting)		-	29,892	-	29,892
		<u>2,000</u>	<u>29,892</u>	<u>11,462</u>	<u>43,354</u>
Financial liabilities at fair value:					
Derivative liabilities (hedge accounting)		-	34,274	-	34,274
	₩	<u>-</u>	<u>34,274</u>	<u>-</u>	<u>34,274</u>

Changes in Level 3 available-for-sale financial assets for the year ended December 31, 2013 are as follows:

<i>In millions of won</i>		Beginning	Acquisition	Evaluation	Disposal	Net Exchange Difference	Ending
Available-for-sale financial assets	₩	11,462	-	3,126	(288)	(147)	14,153

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38. Related Party Transactions

(1) The nature of the Group's relationship as of December 31, 2013 is as follows:

Type	Related party
Parent company	Korea Electric Power Corporation
Associate company	Cheongna Energy Co., Ltd. Pioneer gas power limited Eurasia Energy Holdings Xe-Pian Xe-Namnoy Power Co., Ltd. PT Mutiara Jawa Korea Offshore Wind Power Co., Ltd. Daegu Solar Power Plant Co., Ltd. Dongducheon Dream Power Co., Ltd. Solar power plants happy city Co., Ltd.
Joint venture company	Rabigh O&M Co., Ltd.
Other related company	Korea Hydro & Nuclear Power Co., Ltd. Korea South-East Power Co., Ltd. Korea Southern Power Co., Ltd. Korea East-West Power Co., Ltd. Korea Midland Power Co., Ltd. KEPCO Engineering & Construction Company Inc. KEPCO KDN Co., Ltd. KEPCO KPS Co., Ltd. KEPCO Nuclear Fuel Co., Ltd. Korea Gas Corporation Korea Electronic Power Industrial Development Co., Ltd. Korea Power Exchange

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38. Related Party Transactions, Continued

(2) All transactions between KOWEPO and its consolidated subsidiaries are eliminated in consolidation, and transactions with related parties other than subsidiaries for the years ended December 31, 2013 and 2012 are as follows:

<i>In millions of won</i>	Related parties	Sales and others		Purchase and others	
		2013	2012	2013	2012
	Korea Electric Power Corporation	₩ 5,760,810	5,936,416	50,394	78,154
	Korea Hydro & Nuclear Power Co., Ltd.	-	-	86	21
	Korea South-East Power Co., Ltd.	-	-	-	93
	Korea Midland Power Co., Ltd.	-	-	-	108
	Korea Southern Power Co., Ltd.	3,473	1,838	121	921
	Korea East-West Power Co., Ltd.	-	-	15	-
	KEPCO Engineering & Construction Company Inc.	-	-	30,293	2,469
	KEPCO KPS Co., Ltd.	1,311	1,287	85,630	78,466
	KEPCO KDN Co., Ltd.	-	-	6,975	4,352
	Cheongna Energy Co., Ltd.	11,930	2,291	-	-
	Korea Offshore Wind Power Co., Ltd.	159	-	-	-
	Daegu Solar Power Plant Co., Ltd.	-	-	1,070	-
	Dongducheon Dream Power Co., Ltd.(*)	11,603	5,868	-	1,082
	Rabigh O&M Co., Ltd.	2,091	-	-	-
	Korea Gas Corporation	316	-	3,389,174	2,838,391
	Korea Electronic Power Industrial Development Co., Ltd.	9,299	6,827	26,799	24,234
	Korea Power Exchange	-	-	4,809	4,642
		₩ <u>5,800,992</u>	<u>5,954,527</u>	<u>3,595,366</u>	<u>3,032,933</u>

(*) It is the annual amount of internal trading. And amount of the sales in a internal trading and others excluded from scope of consolidation is ₩6,886 million for the year ended December 31, 2013.

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38. Related Party Transactions, Continued

(3) Receivables and payables arising from related party transactions as of December 31, 2013 and 2012 are as follows:

In millions of won

Company name	Type	Receivables		Payables	
		2013	2012	2013	2012
Korea Electric Power Corporation	Trade receivables	₩ 444,729	447,984	-	-
	Non-trade receivables and others	20,974	406	-	-
	Trade payables	-	-	8	767
	Non-trade payables and others	-	-	808	19,797
Korea Hydro & Nuclear Power Co., Ltd.	Non-trade payables and others	-	-	22	21
Korea Midland Power Co., Ltd.	Non-trade receivables and others	-	2,075	-	-
	Non-trade payables and others	-	-	-	2,545
Korea Southern Power Co., Ltd.	Non-trade receivables and others	498	436	-	-
	Non-trade payables and others	-	-	101	171
KEPCO Engineering & Construction Company, Inc.	Non-trade payables and others	-	-	7,508	6,809
	Non-trade payables and others	-	-	6,588	5,635
KEPCO KPS Co., Ltd.	Non-trade receivables and others	247	-	-	-
	Non-trade payables and others	-	-	1,281	292
Cheongna Energy Co., Ltd.	Non-trade receivables and others	1,805	2,093	-	-
Korea Offshore Wind Power Co., Ltd.	Non-trade receivables and others	175	-	-	-
Daegu Solar Power Plant Co., Ltd.	Non-trade payables and others	-	-	212	-
Korea Gas Corporation	Non-trade receivables and others	1,507	204	-	-
	Trade payables	-	-	116,941	316,309
Korea Electronic Power Industrial Development Co., Ltd.	Trade receivables	548	-	-	-
	Non-trade receivables and others	28	549	-	-
	Non-trade payables and others	-	-	1,544	166
Korea Power Exchange	Non-trade payables and others	-	-	128	-

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38. Related Party Transactions, Continued

(4) The salaries and other compensations to the key members of management for the years ended December 31, 2013 and 2012 are as follows:

In millions of won

Type	2013	2012
Short-term employee benefits	₩ 1,311	991
Retirement and severance benefits	111	181

(5) Guarantees provided to an affiliate as of December 31, 2013 are as follows:

In millions of won, In thousands of USD, SAR

Debt repayment guarantee provider	Related Parties	Type of guarantees	Credit limit	Guarantee
Korea Western Power Co., Ltd.	Cheongna Energy Co., Ltd.(*1)	Investments in associate pledged as collateral	KRW 43,900	Hana Bank, etc
Korea Western Power Co., Ltd.	Dongducheon Dream Power Co., Ltd.(*2)	Investments in associate pledged as collateral	KRW 144,200	Kookmin Bank
Korea Western Power Co., Ltd.	Daegu Solar Power Plant Co., Ltd.	Investments in associate pledged as collateral	KRW 1,230	Shinhan Capital
Korea Western Power Co., Ltd.	PT.Mutiara Jawa	Investments in associate pledged as collateral	USD 2,610	Shinhan Singapore
Korea Western Power Co., Ltd.	Rabigh O&M Co., Ltd.	Contract Performance guarantees, etc.	SAR 4,800	Saudi Arabia British Bank
Korea Western Power Co., Ltd.	Xe-Pian Xe-Namnoy Power Co., Ltd.	Performance guarantees	USD 2,310	Krung Thai Bank
Korea Western Power Co., Ltd.	Xe-Pian Xe-Namnoy Power Co., Ltd.	Investments in associate pledged as collateral	USD 16,934	Krung Thai Bank

(*1) Cheongna Energy Co., Ltd., an investment in associate, is in an agreement with Foreign exchange bank and Hana bank regarding project financing loan agreements, and the Group provides guarantees of payment. The Group provides Cheongna Energy Co., Ltd.'s stocks owned by the Group as collaterals for guarantees of payment.

(*2) The Company entered into the asset pledge agreement with the stocks of Dongducheon Dream Power Co., Ltd. as the part of the project finance agreements to initiate the Dongducheon combined cycle power project.

(6) Cheongna Energy Co., Ltd., an investment in associate, operates integrated energy transports and distributions and provided with loans from the financial institutions. In relation to the loans, the Company entered into the supplemental funding agreement for Cheongna Energy Co., Ltd. According to the agreement, all shareholders of Cheongna Energy Co., Ltd are required to raise the additional funds based on the shareholders' equity ratios when Cheongna Energy Co., Ltd. is unable to repay the principal and interest amounts.

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39. Non-cash Transactions

Significant non-cash transactions for the years ended December 31, 2013 and 2012 are as follows:

<i>In millions of won</i>		<u>2013</u>	<u>2012</u>
Reclassification of long-term borrowings and debentures to current portion	₩	80,311	220,126
Reclassification of construction-in-progress		632,830	291,767
Reclassification of long-term loans to current portion		1,367	1,776
Reclassification of long-term prepaid expenses to current portion		(427)	-
Reclassification of long-term deposit to current portion		(2,184)	(2,638)

40. Commitments for Expenditure

Agreements for acquisition of property, plant and equipment as of December 31, 2013 and 2012 are as follows:

<i>In millions of won</i>	Description	2013		2012	
		Contract	Residual	Contract	Residual
	Payments	₩ 2,279,326	1,474,676	2,152,018	1,976,172

41. Commitments and Contingencies

(1) Ongoing litigations of December 31, 2013 and 2012 are as follows:

<i>In millions of won</i>	2013		2012	
	Number of cases	Claim amount	Number of cases	Claim amount
As the defendant	11	₩ 18,054	2	₩ 16,564
As the plaintiff	2	180	3	901

(*) Due to the disputes with employees over the wages, the Group and other four related parties are co-defendants with claimed amounts of ₩17,767 million. At the end of the reporting period the results of litigation cannot be reasonably predicted. Management does not expect the impact of the outcome of any of the claims will have a material impact on the Group's financial position or operating results.

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41. Commitments and Contingencies, Continued

(2) Credit lines provided by financial institutions as of December 31, 2013 are as follows:

In millions of won, In thousands of USD

Description	Financial Institutions	Currency	Amount
Commitments on Bank-overdraft	National Agricultural Cooperative Federation	KRW	100,000
	Korea Exchange Bank	KRW	100,000
Limit amount available for CP	Korea Exchange Bank	KRW	84,000
	Shinhan Bank	KRW	100,000
Loan limit	Korea Exchange Bank	USD	18,000
	Royal Bank of Scotland	USD	130,000
	BNP Paribas	USD	60,000
	Standard Chartered First Bank Korea	USD	50,000
	Shinhan Bank	USD	30,000
	The Hongkong and Shanghai Banking Co., Ltd	USD	100,000
	Mizuho Corporate Bank Ltd	USD	100,000
	Deutsche Bank AG	USD	100,000
	Bank of Communications	USD	100,000
	Bank of Nova Scotia	USD	50,000
Certification of payment on L/C	Korea Development Bank	USD	80,000
	Kookmin Bank	USD	80,000
	Hana Bank	USD	40,000
	Shinhan Bank	USD	30,000
	Industrial Bank of Korea	USD	50,000
	Woori Bank	USD	30,000
	Korea Exchange Bank	USD	90,730

(3) The main raw material purchase agreements as of December 31, 2013 are as follows:

Raw materials	Supplier	Contract period	Amount for year (thousand tons, thousand kls)
Bituminous coal	Australia	2011.01~2018.12	3,203
	Indonesia	2010.10~2019.03	2,471
	Russia	2012.08~2019.03	290
	Canada, America	2012.04~2017.12	883
			6,847
BC oil	Vitol	2013.09~2014.04	135
	Daewoo	2014.01~2014.03	45
			180
LNG	Korea Gas Corporation	2007~2026	Annually to determine

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41. Commitments and Contingencies, Continued

(4) Details of long-term marine transportation commitment for the safe transport of bituminous coal as of December 31, 2013 are as follows:

Shipping company	Ship name	Contract period
Korea Line Co., Ltd.	BlueBell	1996.10~2014.09
K-Line	CSK Brilliance	2011.11~2021.10
NYK	LOWLANDS PHOENIX	2013.02~2028.01
K-Line	Elettra	2009.02~2019.01
K-Line	Serenata	2009.02~2019.01
K-Line	Dolce	2007.08~2017.07
MOL	Gloriosa Lily	2008.10~2018.09
MOL	TTM HOPE	2008.10~2018.09
MOL	Suikai	2008.11~2018.10
Hanjin Shipping Co., Ltd.	Hanjin Balikpapan	2011.07~2026.06
Hansung Line Co., Ltd.	Western Marine	2012.01~2026.12
Daebo International Shipping Co., Ltd.	Undecided	2015.10~2030.09
Wuyang Merchant Marine Co., Ltd	Undecided	2016.07~2026.09
Hwayibeu Ocean Co., Ltd.	Undecided	2016.10~2026.12
Hundai Merchant Marine Co., Ltd.	Undecided	2018.01~2036.06
Hundai Merchant Marine Co., Ltd.	Undecided	2016.01~2031.03
SK Shipping Co., Ltd.	Undecided	2018.07~2036.12
SK Shipping Co., Ltd.	Undecided	2016.01~2028.03

(5) As described in note 38, the Group provides the financial supports including the debt repayment guarantees provided to related parties.

(6) Korea Western Power Co., Ltd. is under an agreement to make an investment to Dongducheon Dream Power Co., Ltd., subsidiary of Korea Western Power Co., Ltd., in relation with the project financing related with Dongducheon Conventional Combined Cycle Project, and the shares of Dongducheon Dream Power Co., Ltd. owned by Korea Western Power Co., Ltd are pledged for the above investment agreement.

(7) In January 1, 2011, the Group transferred the pumped storage unit to Korea Hydro & Nuclear Power Co., Ltd.. The Group and Korea Hydro & Nuclear Power Co., Ltd are jointly responsible for the liabilities of the pumped storage unit occurred before the transfer date.