

KOREA WESTERN POWER CO., LTD.  
AND SUBSIDIARIES

Consolidated Financial Statements

**December 31, 2015 and 2014**

(With Independent Auditors' Report Thereon)

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# 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 financial statements of Korea Western Power Co., Ltd. and its subsidiaries (the "Group"), which comprise the consolidated statements of financial position as of December 31, 2015 and 2014, the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

## **Management's Responsibility for the Consolidated Financial Statements**

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

## **Auditors' Responsibility**

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

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

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

## **Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2015 and 2014 and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with Korean International Financial Reporting Standards.

KPMG Samjong Accounting Corp.  
Seoul, Korea  
March 9, 2016

This report is effective as of March 9, 2016, 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, 2015 and 2014

*In millions of won*

	<u>Note</u>	<u>2015</u>	<u>2014</u>
<b>Assets</b>			
Cash and cash equivalents	6,7,38	₩ 105,559	74,747
Current financial assets	6,10,11,38	47,328	10,346
Trade and other receivables, net	6,8,38,39	525,443	510,830
Inventories	12	238,824	308,395
Current non-financial assets	13	27,006	90,066
Assets held for sale	15,40	41,170	-
<b>Total current assets</b>		<u>985,330</u>	<u>994,384</u>
Non-current financial assets	6,9,10,11,27,38,39	119,282	65,678
Non-current trade and other receivables, net	6,8,38	2,115	6,429
Property, plant and equipment, net	16,42	7,916,158	6,916,040
Intangible assets, net	17	14,039	18,152
Investments in associates and joint ventures	15,39	164,533	210,293
Non-current non-financial assets	13	6,359	9,406
Deferred tax assets	35	56	4
<b>Total non-current assets</b>		<u>8,222,542</u>	<u>7,226,002</u>
<b>Total assets</b>		<u>₩ 9,207,872</u>	<u>8,220,386</u>

*See accompanying notes to the consolidated financial statements.*

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES  
Consolidated Statements of Financial Position, Continued  
As of December 31, 2015 and 2014

*In millions of won*

	<u>Note</u>	<u>2015</u>	<u>2014</u>
<b>Liabilities</b>			
Trade and other payables	6,18,38,39	₩ 347,791	740,373
Current financial liabilities	6,10,19,20,38	894,500	100,352
Current tax liabilities	35	58,684	27,890
Current non-financial liabilities	23	69,182	55,727
<b>Total current liabilities</b>		<u>1,370,157</u>	<u>924,342</u>
Non-current trade and other payables	6,18,38	78	393
Non-current financial liabilities	6,10,19,20,38	4,067,926	3,823,862
Non-current non-financial liabilities	23	2,632	1,724
Employee benefits obligations, net	21,25,38	58,199	51,608
Deferred tax liabilities	35	218,798	182,516
Non-current provisions	22,43	4,096	27,230
<b>Total non-current liabilities</b>		<u>4,351,729</u>	<u>4,087,333</u>
<b>Total liabilities</b>		<u>5,721,886</u>	<u>5,011,675</u>
<b>Equity</b>			
Share capital	24	1,192,365	1,192,365
Retained earnings	25,26	2,244,738	1,974,058
Other components of equity	9,10,27	(51,125)	(57,671)
Hybrid securities	28	99,750	99,750
<b>Equity attributable to owners of KOWEPO</b>		<u>3,485,728</u>	<u>3,208,502</u>
<b>Non-controlling interests</b>		258	209
<b>Total equity</b>		<u>3,485,986</u>	<u>3,208,711</u>
<b>Total liabilities and equity</b>		<u>₩ 9,207,872</u>	<u>8,220,386</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, 2015 and 2014

In millions of won, except earnings  
per share information

	Note	2015	2014
Sales	5,29,39 ₩	4,224,675	4,844,478
Cost of sales	36,39	(3,653,430)	(4,558,053)
<b>Gross profit</b>		571,245	286,425
Selling and administrative expenses	30,36	(82,344)	(77,728)
<b>Operating income</b>		488,901	208,697
Other non-operating income	31	3,689	3,532
Other non-operating expenses	31	(443)	(413)
Other income, net	32	1,534	3,669
Finance income	6,10,33	124,642	89,206
Finance expenses	6,9,10,34	(192,849)	(150,780)
Income(loss) from associate and joint ventures	14,15	(13,169)	8,854
<b>Profit before income tax</b>		412,305	162,765
Income tax expense	35	(111,996)	(29,537)
<b>Profit for the year</b>		300,309	133,228
<b>Other comprehensive income (loss), net of tax:</b>			
<b>Items that will never be reclassified to profit or loss</b>			
Remeasurements of benefit liability, net of tax	21,25	(3,466)	(7,906)
Share in other comprehensive income of associates and joint ventures, net of tax		(295)	-
<b>Items that are or may be reclassified to profit or loss</b>			
Net change in the unrealized fair value of available-for-sale financial assets, net of tax	9,27	503	120
Net change in the unrealized fair value of derivatives using cash flow hedge accounting, net of tax	10,27	4,773	(22,795)
Share in other comprehensive income of associates and joint ventures, net of tax		1,880	1,271
Foreign currency translation of foreign operations, net of tax		(611)	(667)
<b>Total other comprehensive income (loss), net of tax</b>		2,784	(29,977)
<b>Total comprehensive income for the year</b>	₩	303,093	103,251

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, 2015 and 2014

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

	<u>Note</u>	<u>2015</u>	<u>2014</u>
<b>Profit (loss) attributable to:</b>			
Owners of KOWEPO	₩	300,260	153,575
Non-controlling interests		49	(20,347)
	₩	<u>300,309</u>	<u>133,228</u>
<b>Total comprehensive Income</b>			
<b>(loss) attributable to:</b>			
Owners of KOWEPO	₩	303,044	123,598
Non-controlling interests		49	(20,347)
	₩	<u>303,093</u>	<u>103,251</u>
<b>Earnings per share</b>			
Basic and diluted earnings per share (in won)	37	₩ <u>9,445</u>	<u>4,831</u>

*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, 2014

In millions of won

	Equity attributable to owners of KOWEPO					Non-controlling interests	Total equity
	Share Capital	Retained earnings	Other components of equity	Hybrid securities	Subtotal		
<b>Balance at January 1, 2014</b>	₩ 1,192,365	1,863,516	(35,599)	99,750	3,120,032	20,523	3,140,555
<b>Total comprehensive income for the year:</b>							
Profit (loss) for the year	-	153,575	-	-	153,575	(20,347)	133,228
Remeasurements of benefit liability, net of tax	-	(7,906)	-	-	(7,906)	-	(7,906)
Net change in the unrealized fair value of available-for-sale financial assets, net of tax	-	-	120	-	120	-	120
Net change in the unrealized fair value of derivatives using cash flow hedge accounting, net of tax	-	-	(22,795)	-	(22,795)	-	(22,795)
Share in other comprehensive income of associates and joint ventures, net of tax	-	-	1,271	-	1,271	-	1,271
Foreign currency translation of foreign operations, net of tax	-	-	(667)	-	(667)	-	(667)
<b>Transactions with owners recognized directly in equity:</b>							
Interest payments on hybrid securities	-	(3,079)	-	-	(3,079)	-	(3,079)
Disposal of subsidiary	-	-	(1)	-	(1)	33	32
Dividends paid	-	(32,048)	-	-	(32,048)	-	(32,048)
<b>Balance at December 31, 2014</b>	₩ <u>1,192,365</u>	<u>1,974,058</u>	<u>(57,671)</u>	<u>99,750</u>	<u>3,208,502</u>	<u>209</u>	<u>3,208,711</u>

See accompanying notes to the consolidated financial statements.

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES  
Consolidated Statements of Changes in Equity, Continued  
For the year ended December 31, 2015

In millions of won

	Equity attributable to owners of KOWEPO					Non-controlling interests	Total equity
	Share Capital	Retained earnings	Other components of equity	Hybrid securities	Subtotal		
<b>Balance at January 1, 2015</b>	₩ 1,192,365	1,974,058	(57,670)	99,750	3,208,503	209	3,208,712
<b>Total comprehensive income for the year:</b>							
Profit for the year	-	300,260	-	-	300,260	49	300,309
Remeasurements of benefit liability, net of tax	-	(3,466)	-	-	(3,466)	-	(3,466)
Net change in the unrealized fair value of available-for-sale financial assets, net of tax	-	-	503	-	503	-	503
Net change in the unrealized fair value of derivatives using cash flow hedge accounting, net of tax	-	-	4,773	-	4,773	-	4,773
Share in other comprehensive income of associates and joint ventures, net of tax	-	(295)	1,880	-	1,585	-	1,585
Foreign currency translation of foreign operations, net of tax	-	-	(611)	-	(611)	-	(611)
<b>Transactions with owners recognized directly in equity:</b>							
Interest payments on hybrid securities	-	(3,070)	-	-	(3,070)	-	(3,070)
Dividends paid	-	(22,749)	-	-	(22,749)	-	(22,749)
<b>Balance at December 31, 2015</b>	₩ <u>1,192,365</u>	<u>2,244,738</u>	<u>(51,125)</u>	<u>99,750</u>	<u>3,485,728</u>	<u>258</u>	<u>3,485,986</u>

See accompanying notes to the consolidated financial statements.

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES  
Consolidated Statements of Cash Flows  
For the years ended December 31, 2015 and 2014

In millions of won

	<u>2015</u>	<u>2014</u>
<b>Cash flows from operating activities</b>		
Profit for the year	₩ 300,309	133,228
Adjustments for:		
Income tax expense	111,996	29,537
Depreciation	419,939	388,110
Amortization of intangible assets	5,536	5,131
Retirement benefit expenses	14,233	9,566
Interest expense	70,580	66,885
Interest income	(2,542)	(6,770)
Loss (gain) on disposals of property, plant and equipment and intangible assets, net	3,426	(8,262)
Impairment loss on property, plant and equipment	-	35,094
Loss on disposals of available-for-sale financial assets	82	-
Impairment loss on available-for-sale financial assets	-	1,513
Gain on derivative instruments, net	(120,724)	(51,327)
Loss on foreign currency translations, net	121,043	53,722
Loss (income) from associates and joint ventures	13,169	(8,854)
Provisions for employee benefits	36,637	20,322
Provisions for renewable portfolio standard	19,154	60,179
Provisions for litigation	4,833	27,230
Provisions for greenhouse gas emission	9,315	-
Reversal of provisions for employee benefits	-	(20,363)
Reversal of provisions for renewable portfolio standard	(15,038)	(32,617)
Reversal of provisions for litigation	(1,957)	-
Others, net	222	232
	<u>689,904</u>	<u>569,328</u>
Changes in:		
Trade receivables	42,269	19,636
Other receivables	(58,546)	(50,338)
Inventories	68,535	(26,689)
Current non-financial assets	64,176	(17,165)
Non-current non-financial assets	(205)	(8,626)
Trade payables	(181,703)	83,794
Other current payables	(112,703)	(29,551)
Other non-current payables	(315)	-
Current non-financial liabilities	25	2,248
Non-current provisions	(26,010)	-
Non-current non-financial payables	908	584
Payments of retirement benefit obligations	(10,472)	(17,008)
Increase in plan assets	(5,536)	-
	<u>(219,577)</u>	<u>(43,115)</u>
Cash generated from operating activities:		
Dividend received	-	2,546
Interest received	2,767	7,113
Interest paid	(58,358)	(62,474)
Income tax paid	(44,518)	(943)
<b>Net cash provided by operating activities</b>	<u>₩ 670,527</u>	<u>605,683</u>

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES  
Consolidated Statements of Cash Flows, Continued  
For the years ended December 31, 2015 and 2014

In millions of won

	<u>2015</u>	<u>2014</u>
<b>Cash flows from investing activities</b>		
Collection of loans	₩ 2,594	6,237
Increase in loans	(3,552)	(5,963)
Decrease in guarantee deposits	6,898	880
Increase in guarantee deposits	(147)	(833)
Increase in short-term financial instruments	(500)	(7,500)
Proceeds from disposals of available-for-sale financial assets	50	-
Acquisition of disposals of available-for-sale financial assets	(393)	-
Proceeds from disposals of non-current assets as held for sale	-	46,765
Acquisition of investments in associates and joint ventures	(9,244)	(12,841)
Cash inflow from disposals of subsidiaries	-	33
Acquisition of property, plant and equipment	(1,581,574)	(1,787,722)
Proceeds from disposals of property, plant and equipment	20,858	21,301
Acquisition of intangible assets	(145)	(1)
Proceeds from intangible assets	-	-
Government grants received	5,111	42,146
Increase in other investments	2,751	-
<b>Net cash used in investing activities</b>	<u>(1,557,293)</u>	<u>(1,697,498)</u>
<b>Cash flows from financing activities</b>		
Proceeds from borrowings	2,385,189	1,219,996
Repayment of borrowings	(1,939,189)	(1,220,342)
Proceeds from debentures	598,305	771,675
Repayment of debentures	(99,985)	(80,000)
Dividends paid	(22,749)	(32,048)
Settlement of derivative instruments	-	(59)
Interest payments on hybrid securities	(4,050)	(4,050)
<b>Net cash provided by financing activities</b>	<u>917,521</u>	<u>655,172</u>
<b>Net increase (decrease) in cash and cash equivalents before effect of exchange rate fluctuations</b>	30,755	(436,643)
Effect of exchange rate on foreign operations financial statements translation	61	8,320
Effect of exchange rate fluctuations on cash held	(4)	74
<b>Net increase (decrease) in cash and cash equivalents</b>	<u>30,812</u>	<u>(428,249)</u>
Cash and cash equivalents at beginning of the year	74,747	502,996
<b>Cash and cash equivalents at end of the year</b>	<u>₩ 105,559</u>	<u>74,747</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, 2015 and 2014

### 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, 2015, the KOWEPO owns and operates five power plants with a total annual capacity of 9,321MW.

The KOWEPO's head office is located in Taean-gun, Chungcheongnam-do, Korea. The share capital of the KOWEPO as of December 31, 2015 amounts to ₩158,946 million and the Group's sole shareholder is KEPCO (100%).

In accordance with Korea International Financial Reporting Standards ("K-IFRS") No.1110 'Consolidated Financial Statements', the Group's consolidated financial statements includes the financial results of KOWEPO, the parent company, Garolim Tidal power Co., Ltd. and four other subsidiaries ("consolidated entity"). Cheongna Energy Co., Ltd. and 10 other investments are accounted for as equity method investments.

### 2. Basis of Preparation and Changes in accounting policies

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

The consolidated financial statements will be authorized for issue on March 29, 2016, which will be submitted for approval to the shareholder's meeting to be held on March 30, 2016.

#### (1) Basis of measurement

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

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

#### (2) Functional and presentation currency

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

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES  
Notes to the Consolidated Financial Statements  
For the years ended December 31, 2015 and 2014

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

**(3) Use of estimates and judgments**

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

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

**a. The judgment of management**

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

- ✓ Note 14 : Scope of consolidation - whether the Group has de facto control over an investee

**b. The uncertainty of assumptions and estimates**

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

- ✓ Note 21: Measurement of defined benefit obligations - key actuarial assumptions
- ✓ Note 22 and 43: Recognition and measurement of provisions and contingencies - key assumptions about the likelihood and magnitude of an outflow of resources

**c. Fair Value Measurement**

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

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

Significant valuation issues are reported to the Group Audit Committee.

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

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

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES  
Notes to the Consolidated Financial Statements  
For the years ended December 31, 2015 and 2014

**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 are categorized in different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. The Group recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

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

- ✓ Note 38: Risk management

**3. Changes in accounting policies**

Except for the changes below, the Group has consistently applied the accounting policies 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 January 1, 2015.

- ✓ Amendments to K-IFRS 1019 'Employee Benefits' – Employee contributions

Amendments to K-IFRS 1019 introduced a practical expedient to accounting for defined benefit plan, when employees or third parties pay contributions if certain criteria are met. According to the amendments, the entity is permitted to recognize those contributions as a reduction of the service cost in the period in which the related service is rendered, instead of forecast future contributions from employees or third parties and attribute them to periods or service as negative benefits.

The Group has applied the above amendments retrospectively and did not make any adjustments on prior year financial statements since the management believes the impact of the amendments on the Group's consolidated financial statements is not significant.

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES  
Notes to the Consolidated Financial Statements  
For the years ended December 31, 2015 and 2014

**4. Significant Accounting Policies**

The significant accounting policies applied by the Group in preparation of its consolidated financial statements are included below. The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, except those as described in Note 2(4).

**(1) Consolidation**

(i) Business combination

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

The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognized in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities. The costs to issue debt or equity securities are recognized in accordance with K-IFRS 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 recognized in profit or loss.

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

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

(ii) Non-controlling interests

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

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



KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES  
Notes to the Consolidated Financial Statements  
For the years ended December 31, 2015 and 2014

**4. Significant Accounting Policies, Continued**

**(1) Consolidation, Continued**

(iii) Subsidiaries

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

(iv) Loss of control

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

(v) Interests in equity-accounted investees

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

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

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

(vi) Transactions eliminated on consolidation

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

(vii) Business combination under common control

For business combinations arising from transfers of interests in the entities that are under common control, the assets and liabilities acquired are recognized at the carrying amounts recognized previously in the Group controlling shareholder's consolidated financial statements. The components of equity of the acquired entities are presented in the same components within the Group's equity except that any share capital of the acquired entities is recognized as part of share premium.

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**4. Significant Accounting Policies, Continued**

**(2) Cash and cash equivalents**

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

**(3) Inventories**

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

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

**(4) Non-derivative financial assets**

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

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

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

A financial asset is classified as financial assets at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Upon initial recognition, transaction costs are recognized in profit or loss when incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss.

(ii) Held-to-maturity investments

A non-derivative financial asset with a fixed or determinable payment and fixed maturity, for which the Group has the positive intention and ability to hold to maturity, are classified as held-to-maturity investments. Subsequent to initial recognition, held-to-maturity investments are measured at amortized cost using the effective interest method.

(iii) Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method except for loans and receivables of which the effect of discounting is immaterial.

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**4. Significant Accounting Policies, Continued**

**(4) Non-derivative financial assets, Continued**

(iv) Available-for-sale financial assets

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

(v) De-recognition of financial assets

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

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

(vi) Offsetting between financial assets and financial liabilities

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

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

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

(i) Hedge accounting

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

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

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**4. 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.

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**4. Significant Accounting Policies, Continued**

**(6) Impairment of financial assets**

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

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

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

(i) Financial assets measured at amortized cost

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

(ii) Financial assets carried at cost

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

(iii) Available-for-sale financial assets

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

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4. Significant Accounting Policies, Continued

(7) Property, plant and equipment

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

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

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

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

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

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

	<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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4. Significant Accounting Policies, Continued

(8) Intangible assets

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

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

	<u>Useful lives (years)</u>
Computer software	5
Development costs	5
Leasehold rights	10
Others	10~20

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

(i) Research and development

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

(ii) Subsequent expenditures

Subsequent expenditures are capitalized only when they increase the future economic benefits embodied in the specific asset to which it relates. All other expenditures, including expenditures on internally generated goodwill and brands, are recognized in profit or loss as incurred.

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**4. Significant Accounting Policies, Continued**

**(9) Borrowing costs**

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

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

**(10) Government grants**

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

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

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

**(11) Impairment of non-financial assets**

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



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**4. Significant Accounting Policies, Continued**

**(11) Impairment of non-financial assets, Continued**

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

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

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

**(12) Leases**

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

(i) Finance leases

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

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

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

(ii) Operating leases

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

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**4. Significant Accounting Policies, Continued**

**(12) Leases, Continued**

(iii) Determining whether an arrangement contains a lease

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

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

**(13) Non-current assets held for sale**

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

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

**(14) Non-derivative financial liabilities**

The Group classifies non-derivative financial liabilities into financial liabilities at fair value through profit or loss or other financial liabilities in accordance with the substance of the contractual arrangement and the definitions of financial liabilities. The Group recognizes financial liabilities in the consolidated statement of financial position when the Group becomes a party to the contractual provisions of the financial liability.

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

Financial liabilities at fair value through profit or loss include financial liabilities held for trading or designated as such upon initial recognition. Subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss. Upon initial recognition, transaction costs that are directly attributable to the acquisition are recognized in profit or loss as incurred.

(ii) Other financial liabilities

Non-derivative financial liabilities other than financial liabilities at fair value through profit or loss are classified as other financial liabilities. At the date of initial recognition, other financial liabilities are measured at fair value minus transaction costs that are directly attributable to the acquisition. Subsequent to initial recognition, other financial liabilities are measured at amortized cost using the effective interest method.

The Group derecognizes a financial liability from the consolidated statement of financial position when it is extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

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**4. Significant Accounting Policies, Continued**

**(15) Employee benefits**

(i) Short-term employee benefits

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

(ii) Retirement benefits: defined benefit plans

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

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

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

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

**(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.

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**4. Significant Accounting Policies, Continued**

**(17) Foreign currencies**

(i) Foreign currency transactions

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

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

(ii) Foreign operations

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

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

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

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.

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**4. Significant Accounting Policies, Continued**

**(18) Equity capital**

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

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

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

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

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement. In the case of hybrid securities that have an unconditional right for the Group to avoid the delivery of financial assets such as cash to settle a contractual obligation, it is classified as equity instruments, presented as part of the equity.

**(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, trade discounts and volume rebates, which are recognized as a reduction of revenue.

(i) Sales of goods

The Group recognizes revenue from the sale of goods when the significant risks and rewards of ownership of the goods are transferred to the buyer. The Group is primarily an electric power generation company through operations of the thermal and combined-cycle plants. Electric energy revenue is recognized upon transmission to the customers.

(ii) Sales of service

Revenue from services rendered is recognized in profit or loss in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed by reference to surveys of work performed or services performed to date as a percentage of total services to be performed or the proportion that costs incurred to date bear to the estimated total costs of the transaction or other methods that reliably measures the services performed.

(iii) Dividend income and interest income

Dividend income is recognized in profit or loss on the date that the Group's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

Interest income is recognized as it accrues in profit or loss, using the effective interest method. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

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**4. Significant Accounting Policies, Continued**

**(20) Finance income and finance costs**

Finance income comprises interest income on funds invested (including available-for-sale financial assets), dividend income, gains on the disposal of available-for-sale financial assets, changes in the fair value of financial assets at fair value through profit or loss, and gains on hedging instruments that are recognized in profit or loss. Interest income is recognized as it accrues in profit or loss, using the effective interest method. Dividend income is recognized in profit or loss on the date that the Group's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions, dividends on preference shares classified as liabilities, changes in the fair value of financial assets at fair value through profit or loss, impairment losses recognized on financial assets, and losses on hedging instruments that are recognized in profit or loss. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in profit or loss using the effective interest method.

**(21) Income taxes**

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

(i) Current tax

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

(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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**4. 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**

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

**(23) Greenhouse gas emission rights**

The Group accounts for greenhouse gases emission right and the relevant liability as below pursuant to the Act on Allocation and Trading of Greenhouse Gas Emission which become effective in 2015.

(i) Greenhouse gases emission right

Greenhouse gases emission right consists of emission allowances which are allocated from the government free of charge or purchased from the market. The cost includes any directly attributable costs incurred during the normal course of business.

Emission rights held for the purpose of performing the obligation is classified as intangible asset and is initially measured at cost and after initial recognition, are carried at cost less accumulated impairment losses.

The Group derecognizes an emission right asset when the emission allowance is unusable, disposed or submitted to government in which the future economic benefits are no longer expected to be probable.

(ii) Emission liability

Emission liability is a present obligation of submitting emission rights to the government with regard to emission of greenhouse gas. Emission liability is recognized when it is probable that outflows of resources will be required to settle the obligation and the costs required to perform the obligation are reliably estimable. Emission liability is an amount of estimated obligations for emission rights to be submitted to the government for the performing period. The emission liability is measured based on

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**4. Significant Accounting Policies, Continued**

**(23) Greenhouse gas emission rights, Continued**

(ii) Emission liability, Continued.

the expected quantity of emission for the performing period in excess of emission allowance in possession and the unit price for such emission rights in the market at the end of the reporting period.

**(24) New standards and interpretations not yet adopted**

The following amendments to existing standards have been published and are not mandatory for the Group for annual periods beginning after January 1, 2015, 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) K-IFRS No. 1109, Financial Instruments

K-IFRS 1109, published in December 2015, replaces the existing guidance in K-IFRS No. 1039, *Financial Instruments: Recognition and Measurement*. K-IFRS 1109 includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from K-IFRS No. 1039. K-IFRS 1109 is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted.

The Group is assessing the potential impact on its consolidated financial statements resulting from the application of K-IFRS 1109.

(ii) K-IFRS No. 1115, Revenue from Contracts with Customers

K-IFRS 1115, published in January 2016, establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces existing revenue recognition guidance, including K-IFRS No. 1018, Revenue, K-IFRS No. 1011, Construction Contracts and K-IFRS No. 2113, Customer Loyalty Programmes. K-IFRS 1115 is effective for annual reporting periods beginning on or after January 1, 2018, with early adoption permitted.

The Group is assessing the potential impact on its consolidated financial statements resulting from the application of K-IFRS 1115.

**5. Operating segment**

(1) Substantially all of the Group's revenue and non-current assets are in Korea, therefore it does not disclose entity-wide geographic information. The Group's chief operating decision maker ("CODM") does not receive and therefore does not review discrete financial information for any component of the Group.

(2) Information about major customer

Sales attributable to KEPCO, the main customer, are ₩4,167,451 million and ₩4,865,796 million for the years ended December 31, 2015 and 2014, respectively.



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6. Categories of Financial Instruments

(1) Financial assets

Categories of financial assets as of December 31, 2015 and 2014 are as follows:

(i) As of December 31, 2015

*In millions of won*

	<b>Financial assets at fair value through profit or loss</b>	<b>Loans and receivables</b>	<b>Available- for-sale financial assets</b>	<b>Derivatives using hedge accounting</b>	<b>Total</b>
<b>Current financial assets:</b>					
Cash and cash equivalents	₩ -	105,559	-	-	105,559
Current financial asset					
Loans and receivables	-	3,523	-	-	3,523
Short-term Financial instruments	-	8,000	-	-	8,000
Derivative assets	1,205	-	-	34,600	35,805
Trade and other receivables, net	-	525,443	-	-	525,443
	<u>1,205</u>	<u>642,525</u>	<u>-</u>	<u>34,600</u>	<u>678,330</u>
<b>Non-current financial assets:</b>					
Non-current financial assets					
Available-for-sale financial assets	-	-	13,720	-	13,720
Loans and receivables	-	11,468	-	-	11,468
Derivative assets	-	-	-	94,094	94,094
Non-current trade and other receivables, net	-	2,115	-	-	2,115
	<u>-</u>	<u>13,583</u>	<u>13,720</u>	<u>94,094</u>	<u>121,397</u>
₩	<u>1,205</u>	<u>656,108</u>	<u>13,720</u>	<u>128,694</u>	<u>799,727</u>

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6. Categories of Financial Instruments, Continued

(1) Financial assets, Continued

Categories of financial assets as of December 31, 2015 and 2014 are as follows, Continued:

(ii) As of December 31, 2014

*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>
<b>Current financial assets:</b>				
Cash and cash equivalents	₩ 74,747	-	-	74,747
Current financial assets				
Loans and receivables	2,846	-	-	2,846
Short-term Financial instruments	7,500	-	-	7,500
Trade and other receivables, net	510,830	-	-	510,830
	<u>595,923</u>	<u>-</u>	<u>-</u>	<u>595,923</u>
<b>Non-current financial assets:</b>				
Non-current financial assets				
Available-for-sale financial assets	-	12,795	-	12,795
Derivative assets	-	-	42,008	42,008
Loans and receivables	10,875	-	-	10,875
Non-current trade and other receivables, net	6,429	-	-	6,429
	<u>17,304</u>	<u>12,795</u>	<u>42,008</u>	<u>72,107</u>
	₩ <u>613,227</u>	<u>12,795</u>	<u>42,008</u>	<u>668,030</u>

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6. Categories of Financial Instruments, Continued

(2) Financial liabilities

Categories of financial liabilities as of December 31, 2015 and 2014 are as follows:

(i) As of December 31, 2015

*In millions of won*

	<b>Financial liabilities at fair value through profit or loss</b>	<b>Financial liabilities measured at amortized cost</b>	<b>Total</b>
<b>Current financial liabilities:</b>			
Borrowings	-	454,751	454,751
Debentures	-	438,916	438,916
Derivative liabilities	833	-	833
Trade and other payables	-	347,791	347,791
	<u>833</u>	<u>1,241,458</u>	<u>1,242,291</u>
<b>Non-current financial liabilities:</b>			
Borrowings	-	2,435	2,435
Debentures	-	4,065,491	4,065,491
Non-current trade and other payables	-	78	78
	<u>-</u>	<u>4,068,004</u>	<u>4,068,004</u>
₩	<u>833</u>	<u>5,309,462</u>	<u>5,310,295</u>

(ii) As of December 31, 2014

*In millions of won*

	<b>Financial liabilities measured at amortized cost</b>	<b>Derivatives using hedge accounting</b>	<b>Total</b>
<b>Current financial liabilities:</b>			
Borrowings	367	-	367
Debentures	99,985	-	99,985
Trade and other payables	740,373	-	740,373
	<u>840,725</u>	<u>-</u>	<u>840,725</u>
<b>Non-current financial liabilities:</b>			
Borrowings	2,811	-	2,811
Debentures	3,781,088	-	3,781,088
Derivative liabilities	-	39,963	39,963
Non-current trade and other payables	393	-	393
	<u>3,784,292</u>	<u>39,963</u>	<u>3,824,255</u>
₩	<u>4,625,017</u>	<u>39,963</u>	<u>4,664,980</u>

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**6. Categories of Financial Instruments, Continued**

(3) Finance income and expenses

Finance income and expenses on each category of financial instruments for the years ended December 31, 2015 and 2014 are as follows:

*In millions of won*

Type	Description	2015	2014
Cash and cash equivalents	Interest income	₩ 1,795	6,221
	Gain (loss) on foreign currency transactions and translations, net	(4)	74
Available-for-sale financial assets	Interest income	22	-
	Gain on valuation of available-for-sale financial assets, net (equity, before tax)	664	158
	Loss on disposal of available-for-sale financial assets	(82)	-
	Impairment loss on available-for-sale financial assets	-	(1,513)
Loans and receivables	Interest income	201	268
	Amortization of present value discount	524	281
Financial liabilities recorded at amortized cost	Loss on foreign currency transactions and translations, net	(120,807)	(51,347)
	Interest expense of borrowings and debentures	(70,486)	(66,675)
	Other interest expense	(94)	(210)
Derivatives (trading)	Gain on valuation of derivative instruments, net	372	-
Derivatives (hedge accounting)	Gain on valuation of derivative instruments, net (profit or loss)	120,352	51,327
	Gain (loss) on valuation of derivative instruments, net (equity, before tax)	6,297	(30,072)

**7. Cash and Cash Equivalents**

Cash and cash equivalents as of December 31, 2015 and 2014 are as follows:

*In millions of won*

	2015	2014
Cash	₩ 1	1
Cash equivalents(*)	105,558	74,746
	₩ 105,559	74,747

(\*) There are no financial instruments restricted in use as of December 31, 2015.

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8. Trade and Other Receivables

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

(i) As of December 31, 2015

*In millions of won*

	<u>Gross receivables</u>	<u>Present value discount</u>	<u>Book value</u>
<b>Current assets:</b>			
Trade receivables	₩ 385,641	-	385,641
Other receivables	139,911	(109)	139,802
	<u>525,552</u>	<u>(109)</u>	<u>525,443</u>
<b>Non-current assets:</b>			
Other receivables	2,259	(144)	2,115
	<u>₩ 527,811</u>	<u>(253)</u>	<u>527,558</u>

(\*) There are no trade and other receivables which are overdue or impaired as of December 31, 2015.

(ii) As of December 31, 2014

*In millions of won*

	<u>Gross receivables</u>	<u>Present value discount</u>	<u>Book value</u>
<b>Current assets:</b>			
Trade receivables	₩ 427,909	-	427,909
Other receivables	83,030	(109)	82,921
	<u>510,939</u>	<u>(109)</u>	<u>510,830</u>
<b>Non-current assets:</b>			
Other receivables	6,634	(205)	6,429
	<u>₩ 517,573</u>	<u>(314)</u>	<u>517,259</u>

(2) Details of other receivables as of December 31, 2015 and 2014 are as follows:

(i) As of December 31, 2015

*In millions of won*

	<u>Gross receivables</u>	<u>Present value discount</u>	<u>Book value</u>
<b>Current assets:</b>			
Non-trade receivables	₩ 9,145	-	9,145
Accrued income	126,181	-	126,181
Guarantee	4,585	(109)	4,476
	<u>139,911</u>	<u>(109)</u>	<u>139,802</u>
<b>Non-current assets:</b>			
Guarantee	1,240	(144)	1,096
Others	1,019	-	1,019
	<u>2,259</u>	<u>(144)</u>	<u>2,115</u>
	<u>₩ 142,170</u>	<u>(253)</u>	<u>141,917</u>

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8. Trade and Other Receivables, Continued

(2) Details of other receivables as of December 31, 2015 and 2014 are as follows, Continued:

(ii) As of December 31, 2014

*In millions of won*

		<u>Gross receivables</u>	<u>Present value discount</u>	<u>Book value</u>
<b>Current assets:</b>				
Non-trade receivables	₩	9,533	-	9,533
Accrued income		66,221	-	66,221
Guarantee		7,276	(109)	7,167
		<u>83,030</u>	<u>(109)</u>	<u>82,921</u>
<b>Non-current assets:</b>				
Guarantee		5,301	(205)	5,096
Others		1,333	-	1,333
		<u>6,634</u>	<u>(205)</u>	<u>6,429</u>
	₩	<u>89,664</u>	<u>(314)</u>	<u>89,350</u>

9. Available-for-sale Financial Assets

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

*In millions of won*

	<u>Ownership</u>	<u>2015 Non-current</u>	<u>2014 Non-current</u>
<b>Equity securities unlisted:</b>			
Korea Power Exchange	7.14% ₩	12,811	12,147
Hanhwa Power Venture Fund	-	-	132
Kepeco UHDE	3.00%	516	516
HeeMang Sunlight Power Co., Ltd	8.33%	393	-
3i Powergen Inc.	15.00%	-	-
Kanan Hydroelectric Power Corp.	-	-	-
	₩	<u>13,720</u>	<u>12,795</u>

(2) Changes in available-for-sale financial assets during the year ended December 31, 2015 are as follows:

*In millions of won*

	<u>Beginning balance</u>	<u>Acquisition</u>	<u>Disposal</u>	<u>Valuation</u>	<u>Ending balance</u>
<b>Equity securities unlisted</b> ₩	12,795	393	(132)	664	13,720

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10. Derivatives

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

*In millions of won*

		2015		2014
		Current	Non-current	Non-current
<b>Derivative Assets:</b>				
Currency forward	₩	1,205	-	-
Currency swap		34,600	94,094	42,008
		<u>35,805</u>	<u>94,094</u>	<u>42,008</u>
<b>Derivative Liabilities:</b>				
Currency forward		833	-	-
Currency swap		-	-	39,963
	₩	<u>833</u>	<u>-</u>	<u>39,963</u>

(2) Currency swap contracts as of December 31, 2015 are as follows:

*In millions of won and thousands of USD and CHF*

Type	Counterparty	Period	Contract amounts		Contract interest rate		Contract currency
			Pay (KRW)	Receive	Pay (%)	Receive (%)	
Cash flow	Barclays Bank PLC	2006~2016	71,888	USD 75,000	4.81	5.50	958.50
hedge	Deutsche Bank AG	2006~2016	71,888	USD 75,000	4.81	5.50	958.50
	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
	Credit Agricole						
	Corporate & Investment Bank	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
	Credit Agricole						
	Corporate & Investment Bank	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	1,073.60
	Credit Agricole						
	Corporate & Investment Bank	2013~2018	107,360	USD 100,000	3.34	2.875	1,073.60
	JPMorgan	2013~2018	161,040	USD 150,000	3.34	2.875	1,073.60
	SC Bank	2013~2018	161,040	USD 150,000	3.34	2.875	1,073.60
	SC Bank	2014~2019	104,490	USD 100,000	2.77	2.625	1,044.90
	Credit Agricole						
	Corporate & Investment Bank	2014~2019	104,490	USD 100,000	2.77	2.625	1,044.90
	Barclays Bank PLC	2014~2019	104,490	USD 100,000	2.77	2.625	1,044.90

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10. Derivatives, Continued

(3) Currency forward contracts as of December 31, 2015 are as follows:

*In millions of won and thousands of USD*

Type	Counterparty	Contract Date	Maturity Date	Contract amounts		Contract currency
				Receive	Purchase	
Trading	Bank of Nova Scotia	2015.11.20	2016.02.24	KRW 5,789	USD 5,000	1,157.86
	Bank of Nova Scotia	2015.12.23	2016.01.28	KRW 1,171	USD 1,000	1,171.10
	Bank of Nova Scotia	2015.12.18	2016.01.29	KRW 5,830	USD 5,000	1,166.00
	Bank of Nova Scotia	2015.12.24	2016.01.04	KRW 7,653	USD 6,538	1,170.53
	SC Bank	2015.11.10	2016.02.12	KRW 3,483	USD 3,000	1,160.90
	SC Bank	2015.12.29	2016.01.05	KRW 13,042	USD 11,173	1,167.28
	Barclays Bank PLC	2015.12.16	2016.03.18	KRW 3,527	USD 3,000	1,175.52
	Barclays Bank PLC	2015.12.18	2016.03.22	KRW 3,562	USD 3,000	1,187.35
	Societe Generale	2015.12.28	2016.01.29	KRW 5,823	USD 5,000	1,164.50
	Societe Generale	2015.11.25	2016.02.29	KRW 5,746	USD 5,000	1,149.25
	Societe Generale	2015.12.21	2016.02.29	USD 3,736	KRW 4,293	1,149.25
	Societe Generale	2015.12.28	2016.02.29	USD 745	KRW 857	1,149.25
	Societe Generale	2015.12.22	2016.03.24	KRW 5,885	USD 5,000	1,177.00
	The Hongkong and Shanghai Banking Co., Ltd.	2015.10.07	2016.01.13	KRW 5,795	USD 5,000	1,158.95
	The Hongkong and Shanghai Banking Co., Ltd.	2015.10.22	2016.01.13	USD 2,313	KRW 2,681	1,158.95
	The Hongkong and Shanghai Banking Co., Ltd.	2015.11.04	2016.02.11	KRW 11,358	USD 10,000	1,135.80
	The Hongkong and Shanghai Banking Co., Ltd.	2015.11.16	2016.02.19	KRW 2,346	USD 2,000	1,173.20
	The Hongkong and Shanghai Banking Co., Ltd.	2015.11.19	2016.01.13	USD 2,687	KRW 3,114	1,158.95
	The Hongkong and Shanghai Banking Co., Ltd.	2015.11.24	2016.02.11	USD 797	KRW 906	1,135.80
	The Hongkong and Shanghai Banking Co., Ltd.	2015.11.24	2016.02.11	USD 9,203	KRW 10,452	1,135.80
	The Hongkong and Shanghai Banking Co., Ltd.	2015.12.29	2016.01.04	KRW 8,396	USD 7,193	1,167.25
	Mizuho Corporate Bank Ltd	2015.11.04	2016.02.11	KRW 5,665	USD 5,000	1,132.91
	Mizuho Corporate Bank Ltd	2015.11.17	2016.02.11	USD 4,776	KRW 5,411	1,132.91
	Mizuho Corporate Bank Ltd	2015.12.08	2016.02.11	USD 224	KRW 254	1,132.91
	Mizuho Corporate Bank Ltd	2015.12.22	2016.01.25	KRW 3,524	USD 3,000	1,174.75
	Mizuho Corporate Bank Ltd	2015.12.24	2016.01.29	KRW 5,853	USD 5,000	1,170.54
	Mizuho Corporate Bank Ltd	2015.12.29	2016.01.29	KRW 5,849	USD 5,000	1,169.80
	Credit Agricole Corporate & Investment Bank	2015.10.07	2016.01.13	KRW 4,700	USD 4,000	1,174.90
	Credit Agricole Corporate & Investment Bank	2015.10.14	2016.01.19	KRW 3,460	USD 3,000	1,153.30
	Credit Agricole Corporate & Investment Bank	2015.10.29	2016.01.13	USD 752	KRW 878	1,167.43
	Credit Agricole Corporate & Investment Bank	2015.11.02	2016.01.13	USD 1,520	KRW 1,774	1,167.40
	Credit Agricole Corporate & Investment Bank	2015.12.10	2016.01.13	USD 1,728	KRW 2,017	1,167.40



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**10. Derivatives, Continued**

(3) Currency forward contracts as of December 31, 2015 are as follows, Continued:

*In millions of won and thousands of USD*

Type	Counterparty	Contract Date	Maturity Date	Contract amounts		Contract currency
				Receive	Purchase	
Trading	Credit Agricole Corporate & Investment Bank	2015.12.28	2016.03.30	KRW 5,833	USD 5,000	1,166.60

(4) The gain (loss) on valuation of derivatives for the years ended December 31, 2015 and 2014 are as follows:

(i) For the year ended December 31, 2015

*In millions of won*

Type	Net income effect of valuation gain	Accumulated other comprehensive income
Currency forward	₩ 372	-
Currency swap	120,352	6,297
	₩ 120,724	6,297

(\*) The loss on valuation of derivative instruments using cash flow hedge accounting is recognized as accumulated other comprehensive loss amounting to ₩7,114 million, net of tax as of December 31, 2015.

(ii) For the year ended December 31, 2014

*In millions of won*

Type	Net income effect of valuation gain	Accumulated other comprehensive loss
Currency swap	₩ 51,327	(30,072)

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**11. Other Financial Assets**

Other financial assets as of December 31, 2015 and 2014 are as follows:

*In millions of won*

		2015		2014	
		Current	Non-current	Current	Non-current
Loans and receivables	₩	3,523	11,468	2,846	10,875
Short-term financial instruments		8,000	-	7,500	-
Derivative assets		35,805	94,094	-	42,008
Available-for-sale financial assets		-	13,720	-	12,795
	₩	<u>47,328</u>	<u>119,282</u>	<u>10,346</u>	<u>65,678</u>

**12. Inventories**

Inventories as of December 31, 2015 and 2014 are as follows:

*In millions of won*

		2015	2014
Raw materials	₩	124,847	172,597
Supplies		57,860	54,191
Inventory-in-transit		56,015	81,408
Others		102	199
	₩	<u>238,824</u>	<u>308,395</u>

(\*) There is no valuation allowance for inventories as of December 31, 2015 and 2014.

**13. Non-financial Assets**

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

*In millions of won*

		2015		2014	
		Current	Non-current	Current	Non-current
Advanced payments	₩	2,160	73	8,470	77
Prepaid expenses		8,454	1,734	5,253	2,492
Others		16,392	4,552	76,343	6,837
	₩	<u>27,006</u>	<u>6,359</u>	<u>90,066</u>	<u>9,406</u>

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14. Information related to the consolidated entities

(1) Information related to the consolidated entities as of December 31, 2015 and 2014 are as follows:

*In millions of won*

Company	Key operating activities	Location	Rate of ownership or voting right (%)	
			2015	2014
Garolim Tidal power Co., Ltd.(*1)	Power generation	Republic of Korea	49.00%	49.00%
Kowepo Australia Pty., Ltd.	Overseas resources development	Australia	100.00%	100.00%
Kowepo International Corporation.	Managing power plant	Philippines	99.99%	99.99%
Kowepo America., LLC.(*2)	Photovoltaic power generation	United States of America	-	100.00%
Kowepo India Private Limited	Overseas resources development	India	100.00%	100.00%
PT Kowepo Sumsel Operation and Maintenance Services	Managing power plant	Indonesia	95.00%	95.00%

(\*1) Despite holding less than a majority ownership, the Group has the ability to appoint or dismiss the majority of the Board of Directors by the shareholders' agreements and to control the entity's operating and financial policies.

(\*2) Kowepo America., LLC. was liquidated during the year ended December 31, 2015.

(2) Summary financial information of the subsidiaries as of and for the years ended December 31, 2015 and 2014 are as follows:

(i) As of and for the year ended December 31, 2015

*In millions of won*

Company	Assets	Liabilities	Sales	Net profit or loss
Garolim Tidal power Co., Ltd.	₩ 655	346	-	(76)
Kowepo Australia Pty., Ltd.	18,390	1,648	4,729	353
Kowepo International Corporation.	-	-	-	-
Kowepo America., LLC.	-	-	-	3,201
Kowepo India Private Limited	911	10	-	(105)
PT Kowepo Sumsel Operation and Maintenance Services	2,053	51	5,405	1,762

(ii) As of and for the year ended December 31, 2014

*In millions of won*

Company	Assets	Liabilities	Sales	Net profit or loss
Garolim Tidal power Co., Ltd.	₩ 772	387	-	(39,856)
Kowepo Australia Pty., Ltd.	19,990	1,004	4,786	2,434
Kowepo International Corporation.	-	-	-	(1,861)
Kowepo America., LLC.	5,813	137	-	(1,006)
Kowepo India Private Limited	997	11	-	(397)
PT Kowepo Sumsel Operation and Maintenance Services	1,628	1,386	-	(408)

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14. Information related to the consolidated entities, Continued

(3) Details of non-controlling interest as of and for the year ended December 31, 2015 are as follows:

*In millions of won*

		<b>Garolim Tidal power Co., Ltd</b>	<b>PT Kowepo Sumsel Operation and Maintenance Services</b>
Current assets	₩	623	2,002
Non-current assets		32	51
Current liabilities		(346)	(51)
Net assets		309	2,002
Percentage of non-controlling interest		51%	5%
Book value of non-controlling interest		158	100
Sales		-	5,405
Income (loss) for the year		(76)	1,762
Income (loss) for the year attributable to non-controlling interest		(39)	88
Cash flows from operating activities		31	(99)
Cash flows from investing activities		5	6
Cash flows from financing activities		-	-
Net increase (decrease) of cash and cash equivalents		36	(93)

(4) Disposal of subsidiary for the years ended December 31, 2015 and 2014 are as follows:

(i) Kowepo America., LLC. was liquidated as of December 22, 2015.

① The fair value of disposal price is as follows:

*In millions of won*

		<b>Amount</b>
Cash and cash equivalent received from disposal	₩	10,111

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14. Information related to the consolidated entities, Continued

(4) Disposal of subsidiary for the years ended December 31, 2015 and 2014 are as follows, Continued:

(i) Kowepo America., LLC. was liquidated as of December 22, 2015, Continued.

② At the disposal date, the book value of assets and liabilities of the subsidiary as follows:

<i>In millions of won</i>	<b>Amount</b>
Current assets:	
Cash and cash equivalents	₩ 10,111

③ Gain on disposal of investments in subsidiary during 2015 is as follows:

<i>In millions of won</i>	<b>Amount</b>
The fair value of disposal price	₩ 10,111
Book value of net assets disposed	(10,111)
Non-controlling interests	-
Realization of unrealized gain	470
Gain on disposal of investments in subsidiary	₩ 470

The Group reclassified ₩470 million of exchange differences on translating foreign operations, which was the balance at the disposal, into gain on disposal of interests in subsidiaries. The reclassified amount is included in Income from associates and joint ventures of Consolidated Statements of Comprehensive Income.

④ Net cash flow on disposal of the subsidiary is as follows:

<i>In millions of won</i>	<b>Amount</b>
Consideration received in cash and cash equivalents	₩ 10,111
Less : Disposal of cash and cash equivalents	(10,111)
Net cash flow	₩ -

(ii) There was no disposal of subsidiary for the year ended December 31, 2014.

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

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

<u>Company</u>	<u>Major operation</u>	<u>Location</u>	<u>Rate of ownership or voting right (%)</u>	
			<u>2015</u>	<u>2014</u>
<b>Associates</b>				
Cheongna Energy Co., Ltd.	Energy supply	Republic of Korea	43.90%	43.90%
Pioneer Gas Power., Ltd.	Energy supply	India	40.00%	40.00%
Eurasia Energy Holdings	Energy supply	Russia	40.00%	40.00%
Xe-Pian Xe-Namnoy Power Co., Ltd.	Energy supply	Laos	25.00%	25.00%
PT Mutiara Jawa	Energy supply	Indonesia	29.00%	29.00%
Korea Offshore Wind Power Co., Ltd.(*1)	Energy supply	Republic of Korea	12.50%	12.50%
Daegu Solar Power Plant Co., Ltd.	Energy supply	Republic of Korea	29.00%	29.00%
Dongducheon Dream Power Co., Ltd.	Energy supply	Republic of Korea	33.61%	33.61%
Solar Power Plants Happy City Co., Ltd.	Energy supply	Republic of Korea	28.00%	28.00%
Shin PyeongTaek Power Co., Ltd.	O&M	Republic of Korea	40.00%	40.00%
<b>Joint ventures</b>				
Rabigh O&M Co., Ltd.(*2)	O&M	Saudi Arabia	40.00%	40.00%

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

(\*2) The Group accounts for its investments of Rabigh O&M Co., Ltd. as investments in joint ventures since the strategic financial and operating policy decisions relating to the activities of the joint ventures require unanimous consent of the investors.

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES  
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For the years ended December 31, 2015 and 2014

15. Investments in Associates and Joint Ventures, Continued

(2) Changes in investments in associates and joint ventures during the years ended December 31, 2015 and 2014 are as follows:

(i) For the year ended December 31, 2015

In millions of won

Company	Beginning balance	Acquisitions	Dividends received	Share of income (loss)	Other comprehensive income	Retained earnings	Other	Ending balance
<b>Associates</b>								
Cheongna Energy Co., Ltd.	₩ 28,772	-	-	(9,281)	-	-	-	19,491
Pioneer Gas Power., Ltd.	50,668	-	-	59	459	-	-	51,186
Eurasia Energy Holdings(*1)	-	-	-	-	-	-	-	-
Xe-Pian Xe-Namnoy Power Co., Ltd.(*2)	22,153	9,244	-	(749)	1,216	-	-	31,864
PT Mutiara Jawa(*3)	818	-	-	(818)	-	-	-	-
Korea Offshore Wind Power Co., Ltd.	1,194	-	-	(531)	-	-	-	663
Daegu Solar Power Plant Co., Ltd.	1,581	-	-	305	-	-	-	1,886
Dongducheon Dream Power Co., Ltd.(*4)	100,544	-	-	(3,411)	-	(295)	(41,170)	55,668
Solar Power Plants Happy City Co., Ltd.	222	-	-	(32)	-	-	-	190
Shin Pyeong Taek Power Co., Ltd.(*5)	(288)	-	-	288	-	-	-	-
	<u>205,664</u>	<u>9,244</u>	<u>-</u>	<u>(14,170)</u>	<u>1,675</u>	<u>(295)</u>	<u>(41,170)</u>	<u>160,948</u>
<b>Joint ventures</b>								
Rabigh O&M Co., Ltd.	4,629	-	(1,780)	531	205	-	-	3,585
	₩ <u>210,293</u>	<u>9,244</u>	<u>(1,780)</u>	<u>(13,639)</u>	<u>1,880</u>	<u>(295)</u>	<u>(41,170)</u>	<u>164,533</u>

(\*1) The investment has been reduced to zero, which resulted in discontinuation of the equity method. The accumulated unrecognized loss is ₩188 million as of December 31, 2015.

(\*2) The investee issued additional shares to increase capitals during the year ended December 31, 2015.

## KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

For the years ended December 31, 2015 and 2014

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

(2) Changes in investments in associates and joint ventures during the years ended December 31, 2015 and 2014 are as follows, Continued:

(\*3) The investment has been reduced to zero, which resulted in discontinuation of the equity method. The accumulated unrecognized loss is ₩1,351 million as of December 31, 2015.

(\*4) Shares of Dongducheon Dream Power Co., Ltd. in the amount of ₩ 41,170 million were classified as assets held for sale.

(\*5) The investment has been reduced to zero, which resulted in discontinuation of the equity method. The accumulated unrecognized loss is ₩3,321 million as of December 31, 2015.

(ii) For the year ended December 31, 2014

In millions of won

Company	Beginning balance	Acquisitions	Dividends received	Share of income (loss)	Other comprehensive income (loss)	Other	Ending balance
<b>Associates</b>							
Cheongna Energy Co., Ltd.	₩ 28,114	5,707	-	(5,022)	(27)	-	28,772
Pioneer Gas Power., Ltd.	48,867	1,122	-	298	381	-	50,668
Eurasia Energy Holdings	-	-	-	-	-	-	-
Xe-Pian Xe-Namnoy Power Co., Ltd.	17,769	4,546	-	(915)	753	-	22,153
PT Mutiara Jawa	1,666	-	-	(885)	37	-	818
Korea Offshore Wind Power Co., Ltd.	316	1,325	-	(428)	(19)	-	1,194
Daegu Solar Power Plant Co., Ltd.	1,334	-	-	247	-	-	1,581
Dongducheon Dream Power Co., Ltd.	134,398	-	-	(4,072)	-	(29,782)	100,544
Solar Power Plants Happy City Co., Ltd.	92	101	-	31	(2)	-	222
Shin Pyeong Taek Power Co., Ltd.	-	40	-	(328)	-	-	(288)
	<u>232,556</u>	<u>12,841</u>	<u>-</u>	<u>(11,074)</u>	<u>1,123</u>	<u>(29,782)</u>	<u>205,664</u>
<b>Joint ventures</b>							
Rabigh O&M Co., Ltd.	4,082	-	(2,546)	2,945	148	-	4,629
	<u>₩ 236,638</u>	<u>12,841</u>	<u>(2,546)</u>	<u>(8,129)</u>	<u>1,271</u>	<u>(29,782)</u>	<u>210,293</u>



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

(3) Summary financial information of investments in associates and joint ventures as of and for the years ended December 31, 2015 and 2014 are as follows:

(i) As of and for the year ended December 31, 2015

*In millions of won*

<b>Company</b>	<b>Assets</b>	<b>Liabilities</b>	<b>Sales</b>	<b>Net profit or loss</b>
<b>Associates</b>				
Cheongna Energy Co., Ltd.	₩ 458,205	419,353	48,519	(21,108)
Pioneer Gas Power., Ltd.	310,761	240,833	-	148
Eurasia Energy Holdings	599	1,069	-	-
Xe-Pian Xe-Namnoy Power Co., Ltd.	506,970	341,261	-	2,760
PT Mutiara Jawa	25,013	29,913	1,943	(7,247)
Korea Offshore Wind Power Co., Ltd.	7,582	2,359	-	(4,252)
Daegu Solar Power Plant Co., Ltd.	21,039	14,535	3,977	1,051
Dongducheon Dream Power Co., Ltd.	1,668,235	1,397,026	1,003,346	(10,307)
Solar Power Plants Happy City Co., Ltd.	3,128	2,452	490	81
Shin Pyeong Taek Power Co., Ltd.	25,875	29,190	-	(2,595)
<b>Joint ventures</b>				
Rabigh O&M Co., Ltd.	18,186	9,222	22,203	2,144

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15. Investments in Associates and Joint Ventures, Continued

(3) Summary financial information of investments in associates and joint ventures as of and for the years ended December 31, 2015 and 2014 are as follows, Continued:

(ii) As of and for the year ended December 31, 2014

*In millions of won*

Company	Assets	Liabilities	Sales	Net profit or loss
<b>Associates</b>				
Cheongna Energy Co., Ltd.	₩ 443,672	384,020	47,075	(11,585)
Pioneer Gas Power., Ltd.	237,922	169,289	-	96
Eurasia Energy Holdings	562	1,003	-	-
Xe-Pian Xe-Namnoy Power Co., Ltd.	248,773	181,560	-	(2,326)
PT Mutiara Jawa	28,407	25,827	15	(3,114)
Korea Offshore Wind Power Co., Ltd.	11,762	2,287	-	(3,424)
Daegu Solar Power Plant Co., Ltd.	22,340	16,887	3,633	739
Dongducheon Dream Power Co., Ltd.	1,516,412	1,234,544	-	615
Solar Power Plants Happy City Co., Ltd.	3,422	2,632	289	111
Shin Pyeong Taek Power Co., Ltd.	5,075	5,794	-	(819)
<b>Joint ventures</b>				
Rabigh O&M Co., Ltd.	16,667	5,097	22,911	7,417

(4) Summary financial information of investments in joint ventures (Rabigh O&M Co., Ltd.) as of and for the years ended December 31, 2015 and 2014 are as follows:

*In millions of won*

Company	2015	2014
Current assets		
Cash and cash equivalents	₩ 16,869	15,047
Non-current assets		
Long-term financial Instruments	1,317	1,620
Current liabilities		
Trade and other payables	6,048	3,328
Non-current liabilities		
Trade and other payables	3,174	1,769
Sales	22,203	22,911
Cost of sales	17,142	14,936
Other profit or loss	(2,897)	(554)
Income tax expense	20	4
Profit for the year	2,144	7,417

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**16. Property, Plant and Equipment**

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

(i) As of December 31, 2015

*In millions of won*

		<b>Acquisition cost</b>	<b>Government grants</b>	<b>Accumulated depreciation</b>	<b>Accumulated impairment loss</b>	<b>Book value</b>
Land	₩	630,245	-	-	-	630,245
Buildings		977,432	(487)	(290,210)	-	686,735
Structures		946,820	-	(366,197)	-	580,623
Machinery		4,485,717	(88)	(1,813,497)	-	2,672,132
Vehicles		7,004	-	(5,839)	-	1,165
Equipment		72,126	(49)	(47,417)	-	24,660
Tools		21,805	-	(18,357)	-	3,448
Construction-in-progress		3,310,448	(99,546)	-	(35,094)	3,175,808
Finance lease assets		201,702	-	(60,360)	-	141,342
	₩	10,653,299	(100,170)	(2,601,877)	(35,094)	7,916,158

(ii) As of December 31, 2014

*In millions of won*

		<b>Acquisition cost</b>	<b>Government grants</b>	<b>Accumulated depreciation</b>	<b>Accumulated impairment loss</b>	<b>Book value</b>
Land	₩	560,071	-	-	-	560,071
Buildings		734,464	(98)	(252,265)	-	482,101
Structures		908,342	-	(330,607)	-	577,735
Machinery		4,155,860	(129)	(1,488,681)	-	2,667,050
Vehicles		6,602	-	(5,136)	-	1,466
Equipment		55,464	-	(39,331)	-	16,133
Tools		20,714	-	(17,026)	-	3,688
Construction-in-progress		2,602,265	(94,885)	-	(35,094)	2,472,286
Finance lease assets		187,990	-	(52,480)	-	135,510
	₩	9,231,772	(95,112)	(2,185,526)	(35,094)	6,916,040

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16. Property, Plant and Equipment, Continued

(2) Changes in property, plant and equipment during the years ended December 31, 2015 and 2014 are as follows:

(i) For the year ended December 31, 2015

In millions of won

	<u>Beginning balance</u>	<u>Acquisition/ Capital expenditure</u>	<u>Disposal</u>	<u>Depreciation (*1)</u>	<u>Others (*2)</u>	<u>Ending balance</u>
Land	₩ 560,071	-	(643)	-	70,817	630,245
Buildings	482,199	10	(4,419)	(39,564)	248,996	687,222
(Government grants)	(98)	-	-	12	(401)	(487)
Structures	577,735	-	-	(35,590)	38,478	580,623
Machinery	2,667,179	68,378	(13,544)	(328,465)	278,672	2,672,220
(Government grants)	(129)	-	-	41	-	(88)
Vehicles	1,466	-	-	(745)	444	1,165
Equipment	16,133	86	(2)	(8,647)	17,139	24,709
(Government grants)	-	-	-	1	(50)	(49)
Tools	3,688	43	-	(1,675)	1,392	3,448
Construction-in-progress	2,567,171	1,287,548	(5,676)	-	(573,689)	3,275,354
(Government grants)	(94,885)	-	-	-	(4,661)	(99,546)
Finance lease assets	135,510	-	-	(7,881)	13,713	141,342
	₩ <u>6,916,040</u>	<u>1,356,065</u>	<u>(24,284)</u>	<u>(422,513)</u>	<u>90,850</u>	<u>7,916,158</u>

(\*1) ₩2,382 million of depreciation expenses are recognized as construction-in-progress and ₩193 million of depreciation expenses are recognized as other losses.

(\*2) Other additions (decreases) in the amount of ₩90,850 million consist of ₩6,198 million transferred from retirement benefits expense and depreciation expense, ₩91,493 million of capitalized interest expense, ₩218 million of translation effect of overseas operation financial statements, ₩5,111 million of receipt of government subsidy, and ₩1,948 million transferred to intangible assets. The weighted average capitalization rates for the years ended December 31, 2015 and 2014 are 3.43% and 3.69%, respectively.

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16. Property, Plant and Equipment, Continued

(2) Changes in property, plant and equipment during the years ended December 31, 2015 and 2014 are as follows, Continued:

(ii) For the year ended December 31, 2014

*In millions of won*

	<u>Beginning balance</u>	<u>Acquisition/ Capital expenditure</u>	<u>Disposal</u>	<u>Depreciation</u>	<u>Impairment</u>	<u>Others</u>	<u>Ending balance</u>
Land	₩ 537,438	-	(92)	-	-	22,725	560,071
Buildings	462,099	85	(236)	(33,624)	-	53,875	482,199
(Government grants)	-	-	-	2	-	(100)	(98)
Structures	568,640	-	-	(34,227)	-	43,322	577,735
Machinery	2,409,285	110,647	(12,682)	(304,847)	-	464,776	2,667,179
(Government grants)	(170)	-	-	41	-	-	(129)
Vehicles	943	-	-	(647)	-	1,170	1,466
Equipment	18,879	784	(28)	(7,120)	-	3,618	16,133
Tools	3,728	3	(1)	(1,697)	-	1,655	3,688
Construction-in-progress	1,394,415	1,740,311	-	-	(35,094)	(532,461)	2,567,171
(Government grants)	(52,838)	-	-	-	-	(42,047)	(94,885)
Finance lease assets	139,670	-	-	(7,759)	-	3,599	135,510
₩	<u>5,482,089</u>	<u>1,851,830</u>	<u>(13,039)</u>	<u>(389,878)</u>	<u>(35,094)</u>	<u>20,132</u>	<u>6,916,040</u>

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**17. Intangible Assets**

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

(i) As of December 31, 2015

*In millions of won*

		<b>Acquisition cost</b>	<b>Accumulated depreciation</b>	<b>Accumulated impairment loss</b>	<b>Book value</b>
Computer software	₩	28,465	(24,678)	-	3,787
Development costs		2,690	(1,387)	-	1,303
Leasehold rights		76	(52)	-	24
Mining rights		8,620	(1,621)	-	6,999
Others		83,195	(81,038)	(231)	1,926
	₩	<u>123,046</u>	<u>(108,776)</u>	<u>(231)</u>	<u>14,039</u>

(ii) As of December 31, 2014

*In millions of won*

		<b>Acquisition cost</b>	<b>Accumulated depreciation</b>	<b>Accumulated impairment loss</b>	<b>Book value</b>
Computer software	₩	27,155	(20,068)	-	7,087
Development costs		2,051	(948)	-	1,103
Leasehold rights		76	(44)	-	32
Mining rights		8,935	(1,073)	-	7,862
Others		83,201	(80,902)	(231)	2,068
	₩	<u>121,418</u>	<u>(103,035)</u>	<u>(231)</u>	<u>18,152</u>

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17. Intangible Assets, Continued

(2) Changes in intangible assets during the years ended December 31, 2015 and 2014 are as follows:

(i) For the year ended December 31, 2015

*In millions of won*

		<b>Beginning balance</b>	<b>Acquisition/ Capital expenditure</b>	<b>Amortization (*1)</b>	<b>Others (*2)</b>	<b>Ending balance</b>
Computer software	₩	7,087	3	(4,609)	1,306	3,787
Development costs		1,103	-	(440)	640	1,303
Leasehold rights		32	-	(8)	-	24
Mining rights		7,862	142	(601)	(404)	6,999
Others		2,068	-	(137)	(5)	1,926
	₩	<u>18,152</u>	<u>145</u>	<u>(5,795)</u>	<u>1,537</u>	<u>14,039</u>

(\*1) ₩259 million of amortization expenses are recognized as other losses.

(\*2) Other additions (subtractions) of ₩1,537 million consist of ₩1,948 million replaced from construction-in-progress and offset by ₩411 million resulting from translation of overseas operation financial statements.

(ii) For the year ended December 31, 2014

*In millions of won*

		<b>Beginning balance</b>	<b>Acquisition/ Capital expenditure</b>	<b>Amortization</b>	<b>Others</b>	<b>Ending balance</b>
Computer software	₩	10,714	1	(4,623)	995	7,087
Development costs		970	-	(369)	502	1,103
Leasehold rights		39	-	(7)	-	32
Mining rights		8,136	-	(50)	(224)	7,862
Others		2,212	-	(138)	(6)	2,068
	₩	<u>22,071</u>	<u>1</u>	<u>(5,187)</u>	<u>1,267</u>	<u>18,152</u>

(3) Residual amortization period for major intangible asset as of December 31, 2015 and 2014 is as follows:

*In millions of won*

	Contents		2015		2014	
			Amount	Residual amortization period	Amount	Residual amortization period
Computer software	ERP system	₩	503	Two months	3,521	One year and two months

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**18. Trade and Other Payables**

Accounts and other payables as of December 31, 2015 and 2014 are as follows:

*In millions of won*

	2015		2014	
	Current	Non-current	Current	Non-current
Trade payables	₩ 204,772	-	352,578	-
Other payables	58,455	-	318,861	-
Accrued expenses	84,485	78	68,765	393
Other deposits	79	-	169	-
	₩ 347,791	78	740,373	393

**19. Borrowings and Debentures**

(1) Details of borrowings as of December 31, 2015 and 2014 are as follows:

*In millions of won*

	2015	2014
<b>Current Liabilities:</b>		
Short-term borrowings	₩ 454,375	-
Current portion of long-term borrowings	376	367
Current portion of long-term debentures	439,175	100,000
Less: discount on debentures	(259)	(15)
	893,667	100,352
<b>Non-current Liabilities:</b>		
Long-term borrowings	2,435	2,811
Debentures	4,077,303	3,796,126
Less: discount on debentures	(11,812)	(15,038)
	4,067,926	3,783,899
	₩ 4,961,593	3,884,251



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19. Borrowings and Debentures, Continued

(2) Short-term borrowings as of December 31, 2015 are as follows:

*In millions of won*

Type	Lender	Interest rate	2015
Domestic short-term borrowings	Woori Investment Bank Co., Ltd.	1.80%	₩ 30,000
		1.80%	30,000
		1.80%	50,000
		1.93%	10,000
	KTB Investments & Securities Co., Ltd.	1.90%	30,000
		1.80%	20,000
		1.93%	30,000
	SK Securities Co., Ltd.	1.90%	20,000
		1.80%	50,000
	Samsung Securities Co., Ltd.	1.93%	10,000
		1.80%	10,000
		1.93%	10,000
	Dongbu Securities Co., Ltd.	1.90%	10,000
		1.80%	30,000
1.93%		40,000	
NH Bank	1.90%	40,000	
	MOR(3months)+0.8%	9,000	
NH Bank	MOR(3months)+0.8%	11,000	
			<u>440,000</u>
Foreign short-term borrowings	Citi Bank	Libor(3months) +0.35%	14,375
			₩ <u>454,375</u>

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

*In millions of won*

Lender	Description	Annual interest rate	Maturity	2015	2014
Korea Resource Corporation.	Long term borrowings	Floating rate KTB (three years) - 2.25%	2023.03.15	₩ 2,171	2,471
			2023.06.15	84	95
			2023.12.15	218	245
			2024.06.15	63	70
			2024.09.15	182	203
			2025.07.15	10	11
			2025.12.15	83	83
				<u>2,811</u>	<u>3,178</u>
	Less:current portion			(376)	(367)
				₩ <u>2,435</u>	<u>2,811</u>

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19. Borrowings and Debentures, Continued

(4) Domestic debentures as of December 31, 2015 and 2014 are as follows:

<i>In millions of won</i>	<b>Issue date</b>	<b>Maturity date</b>	<b>Annual interest rate</b>		<b>2015</b>	<b>2014</b>
Corporate bond #14	2010.03.19	2015.03.19	Fixed rate 4.57%	₩	-	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	120,000
Corporate bond #18-2	2013.05.07	2028.05.07	Fixed rate 3.03%		80,000	80,000
Corporate bond #19-1	2013.06.14	2018.06.14	Fixed rate 3.16%		90,000	90,000
Corporate bond #19-2	2013.06.14	2023.06.14	Fixed rate 3.38%		100,000	100,000
Corporate bond #20-1	2013.09.12	2018.09.12	Fixed rate 3.46%		110,000	110,000
Corporate bond #20-2	2013.09.12	2020.09.12	Fixed rate 3.62%		100,000	100,000
Corporate bond #21	2013.10.22	2023.10.22	Fixed rate 3.67%		110,000	110,000
Corporate bond #22	2013.10.31	2023.10.31	Fixed rate 3.61%		90,000	90,000
Corporate bond #23-1	2014.10.23	2019.10.23	Fixed rate 2.47%		80,000	80,000
Corporate bond #23-2	2014.10.23	2024.10.23	Fixed rate 2.82%		120,000	120,000
Corporate bond #24-1	2014.11.20	2017.11.20	Fixed rate 2.21%		90,000	90,000
Corporate bond #24-2	2014.11.20	2024.11.20	Fixed rate 2.81%		110,000	110,000
Corporate bond #25	2014.12.11	2019.12.11	Fixed rate 2.49%		80,000	80,000
Corporate bond #26-1	2015.03.05	2020.03.05	Fixed rate 2.14%		110,000	-
Corporate bond #26-2	2015.03.05	2025.03.05	Fixed rate 2.43%		90,000	-
Corporate bond #27-1	2015.05.08	2020.05.08	Fixed rate 2.33%		120,000	-
Corporate bond #27-2	2015.05.08	2025.05.08	Fixed rate 2.70%		80,000	-
Corporate bond #28	2015.07.17	2020.07.17	Fixed rate 2.27%		80,000	-
Corporate bond #29	2015.09.12	2020.09.21	Fixed rate 2.00%		120,000	-
					<u>2,580,000</u>	<u>2,080,000</u>
Less: discount on debentures					(5,075)	(4,404)
Less: current portion					(259,889)	(99,985)
				₩	<u>2,315,036</u>	<u>1,975,611</u>

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**19. Borrowings and Debentures, Continued**

(5) Foreign debentures as of December 31, 2015 and 2014 are as follows:

*In millions of won*

	<u>Issue date</u>	<u>Maturity date</u>	<u>Annual interest rate</u>		<u>2015</u>	<u>2014</u>
Euro bond #2	2006.09.29	2016.09.29	Fixed rate	5.50%	₩ 179,175	164,880
Global bond #1	2012.05.10	2017.05.10	Fixed rate	3.125%	586,000	549,600
Swiss franc bond #1	2013.09.26	2019.03.26	Fixed rate	1.625%	237,078	222,286
Global bond #2	2013.10.10	2018.10.10	Fixed rate	2.875%	586,000	549,600
Euro bond #3	2014.09.22	2019.09.22	Fixed rate	2.625%	348,225	329,760
					1,936,478	1,816,126
Less: discount on debentures					(6,995)	(10,649)
Less: current portion					(179,028)	-
					₩ <u>1,750,455</u>	<u>1,805,477</u>

(6) Retirement plans of debentures and borrowings as of December 31, 2015 are as follows:

*In millions of won*

		<u>Less than 1 year</u>	<u>1 - 2 years</u>	<u>2 - 5 years</u>	<u>More than 5 years</u>	<u>Total</u>
Short-term borrowings	₩	454,375	-	-	-	454,375
Long-term borrowings		376	375	1,126	933	2,810
Debentures		439,175	676,000	2,221,303	1,180,000	4,516,478
	₩	<u>893,926</u>	<u>676,375</u>	<u>2,222,429</u>	<u>1,180,933</u>	<u>4,973,663</u>

**20. Other Financial Liabilities**

Other financial liabilities as of December 31, 2015 and 2014 are as follows:

*In millions of won*

		<u>2015</u>		<u>2014</u>	
		<u>Current</u>	<u>Non-current</u>	<u>Current</u>	<u>Non-current</u>
Derivative liabilities	₩	833	-	-	39,963

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**21. Employee Benefit Obligations**

(1) The principal assumptions used on actuarial valuation as of December 31, 2015 and 2014 are as follows:

	<u>2015</u>	<u>2014</u>
Discount rate	2.52%	3.03%
Future salary increase rate	4.08%~7.97%	4.08 ~ 7.97%

(2) Details of the Group's expense relating to its defined benefit plans for the years ended December 31, 2015 and 2014 are as follows:

*In millions of won*

		<u>2015</u>	<u>2014</u>
Current service cost	₩	10,628	5,169
Interest cost		2,035	2,119
Gain on settlement		(221)	(4)
Expected return on plan assets		(421)	(510)
	₩	<u>12,021</u>	<u>6,774</u>

(3) Employee benefit obligation as of December 31, 2015 and 2014 are as follows:

*In millions of won*

		<u>2015</u>	<u>2014</u>
Present value of defined benefit obligation from funded plans	₩	76,519	64,106
Fair value of plan assets		<u>(18,873)</u>	<u>(13,076)</u>
Net employee benefits obligation from defined benefit plans	₩	<u>57,646</u>	<u>51,030</u>

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**21. Employee Benefit Obligations, Continued**

(4) Changes in retirement benefit obligation during the years ended December 31, 2015 and 2014 are as follows:

<i>In millions of won</i>		<u>2015</u>	<u>2014</u>
Beginning balance	₩	64,106	57,646
Current service cost		10,628	5,169
Gain on settlement		(221)	(4)
Interest cost		2,035	2,119
Remeasurements losses		4,447	10,286
Actual payments		(4,476)	(11,110)
Ending balance	₩	<u>76,519</u>	<u>64,106</u>

(5) Changes in the fair value of the plan assets during the years ended December 31, 2015 and 2014 are as follows:

<i>In millions of won</i>		<u>2015</u>	<u>2014</u>
Beginning balance	₩	13,076	12,708
Expected return on plan assets		421	510
Remeasurements losses		(126)	(142)
Contributions by the employers		5,535	-
Actual payments		(33)	-
Ending balance	₩	<u>18,873</u>	<u>13,076</u>

Accumulated remeasurements losses on employee benefit obligations recorded as other comprehensive loss amounts to ₩26,984 million and ₩23,518 million, respectively, for the years ended December 31, 2015 and 2014.

(6) Fair value of major categories of plan assets as of December 31, 2015 and 2014 are as follows:

<i>In millions of won</i>		<u>2015</u>	<u>2014</u>
Equity instrument	₩	684	181
Debt instrument		2,665	1,602
Deposits		8,770	6,701
Others		6,754	4,592
	₩	<u>18,873</u>	<u>13,076</u>

Actual returns for the years ended December 31, 2015 and 2014 are ₩296 million and ₩367 million, respectively.

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

<i>In millions of won</i>		<u>2015</u>	<u>2014</u>
Long-service leave	₩	553	578

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**22. Provisions**

(1) Provisions as of December 31, 2015 and 2014 are as follows:

<i>In millions of won</i>		2015		2014	
		Current	Non-current	Current	Non-current
Litigation provisions(*1)	₩	-	4,096	-	27,230

(\*1) On December 18, 2013, the Supreme Court of Korea made a ruling regarding the scope of Ordinary Wage which could be the basis for overtime payment, allowance for night work and others. As of December 31, 2015, the Group recognized the litigation provisions for such amount expected to be paid to employees in relation to the on-going litigation over the Ordinary Wage.

(2) Changes in provisions during the years ended December 31, 2015 and 2014 is as follows:

(i) For the year ended December 31, 2015

<i>In millions of won</i>		Beginning balance	Transfer to provision	Reversal	Payment	Ending balance
Litigation Provisions	₩	27,230	4,833	(1,957)	(26,010)	4,096

(ii) For the year ended December 31, 2014

<i>In millions of won</i>		Beginning balance	Transfer to provision	Reversal	Payment	Ending balance
Litigation Provisions	₩	-	27,230	-	-	27,230

**23. Non-financial Liabilities**

Other non-financial liabilities as of December 31, 2015 and 2014 are as follows:

<i>In millions of won</i>		2015		2014	
		Current	Non-current	Current	Non-current
Advance received	₩	-	2,492	100	1,604
Unearned revenue		8	-	10	-
Withholdings		5,116	-	4,716	-
Others(*)		64,058	140	50,901	120
	₩	<u>69,182</u>	<u>2,632</u>	<u>55,727</u>	<u>1,724</u>

(\*) Others are primarily comprised of renewable portfolio standard (RPS) provisions for the governmental regulations requiring the production of energies from renewable energy sources, and provisions for the greenhouse gas emission rights.

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**24. Share Capital**

(1) Share capital as of December 31, 2015 and 2014 are as follows:

*In millions of won , except par value and number of shares*

Type	Number of shares authorized	Number of shares issued	Par value	2015		2014	
				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 during the years ended December 31, 2015 and 2014.

(3) Share premium as of December 31, 2015 and 2014 are as follows:

*In millions of won*

	2015	2014
Paid-in capital in excess of par value	₩ 1,033,419	1,033,419

**25. Retained Earnings and Dividends**

(1) Retained earnings as of December 31, 2015 and 2014 are as follows:

*In millions of won*

	2015	2014
Legal reserves(*1)	₩ 62,392	60,117
Voluntary reserves	1,197,947	1,082,293
Retained earnings before appropriations	984,399	831,648
	₩ <u>2,244,738</u>	<u>1,974,058</u>

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

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**25. Retained Earnings and Dividends, Continued**

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

<i>In millions of won</i>		<u>2015</u>	<u>2014</u>
Reserve for business stabilization(*1)	₩	181	181
Reserve for research and human development(*2)		6,129	12,259
Reserve for investment on social overhead capital		13,000	13,000
Reserve for business expansion		1,178,637	1,056,853
	₩	<u>1,197,947</u>	<u>1,082,293</u>

(\*1) Prior to 2002, KOWEPO appropriated certain tax-deductible benefits as reserve for business stabilization, for offsetting future deficit in accordance with the relevant tax laws. Due to the amendment of such tax laws on December 11, 2002, the reserve is no longer required. However, KOWEPO continues to maintain such reserve on a voluntary basis.

(\*2) The reserve for research and human development is appropriated by KOWEPO to use as qualified tax credits to reduce corporate tax liabilities. The reserve is available for cash dividends for a certain period as defined by the Tax Incentive Control Law of Korea.

(3) Changes in retained earnings before appropriations during the years ended December 31, 2015 and 2014 are as follows:

<i>In millions of won</i>		<u>2015</u>	<u>2014</u>
Beginning balance	₩	831,648	792,193
Profit for the year - Controlling company		300,260	153,575
Dividends paid		(22,749)	(32,048)
Actuarial losses		(3,466)	(7,906)
Transfers to reserves		(124,058)	(77,216)
Appropriation to reserves		6,129	6,129
Dividends on hybrid securities		(3,070)	(3,079)
Adjustment of retained earnings of equity method		(295)	-
Ending balance	₩	<u>984,399</u>	<u>831,648</u>



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**25. Retained Earnings and Dividends, Continued**

(4) Dividends paid for the years ended December 31, 2015 and 2014 are as follows:

(i) For the year ended December 31, 2015

<b>Type</b>	<b>Number of shares issued (shares)</b>	<b>Number of treasury shares</b>	<b>Number of share eligible for dividends (shares)</b>	<b>Dividends per share (in won)</b>	<b>Total dividends (in millions of won)</b>
Common Stock	31,789,285	-	31,789,285	716	22,749

(ii) For the year ended December 31, 2014

<b>Type</b>	<b>Number of shares issued (shares)</b>	<b>Number of treasury shares</b>	<b>Number of share eligible for dividends (shares)</b>	<b>Dividends per share (in won)</b>	<b>Total dividends (in millions of won)</b>
Common Stock	31,789,285	-	31,789,285	1,008	32,048

(5) Changes in retained earnings of equity method during the years ended December 31, 2015 and 2014 are as follows:

<i>In millions of won</i>	<b>2015</b>	<b>2014</b>
Beginning balance	₩ -	-
Changes during the year	(295)	-
Ending balance	₩ (295)	-

(6) Changes in accumulated actuarial losses on employee benefit obligations during the years ended December 31, 2015 and 2014 are as follows:

<i>In millions of won</i>	<b>2015</b>	<b>2014</b>
Beginning balance	₩ (23,518)	(15,613)
Changes for the year	(4,573)	(10,429)
Income tax effect	1,107	2,524
Ending balance	₩ (26,984)	(23,518)

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**26. Statement of appropriation of retained earnings**

Statements of appropriation of retained earnings of KOWEPO based on its separate financial statements for the years ended December 31, 2015 and 2014 are as follows:

Date of appropriation for 2015: March 30, 2016

Date of appropriation for 2014: March 27, 2015

*In millions of won*

	<u>2015</u>	<u>2014</u>
<b>Unappropriated retained earnings</b>		
Balance at beginning of year	₩ 711,596	711,596
Hybrid securities interest	(3,070)	(3,079)
Net income	294,617	151,662
Remeasurements losses	(3,466)	(7,905)
<b>Balance at end of year before appropriation</b>	<u>999,677</u>	<u>852,274</u>
Reverse of reserve for research and human development	6,129	6,129
	1,005,806	858,403
<b>Appropriated retained earnings</b>		
Cash dividends	(36,238)	(22,749)
Legal reserve	(3,624)	(2,275)
Reserve for business expansion	(254,348)	(121,783)
<b>Unappropriated retained earnings to be carried over</b>	<u>₩ 711,596</u>	<u>711,596</u>

**27. Other Components of Equity**

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

*In millions of won*

	<u>2015</u>	<u>2014</u>
Accumulated other comprehensive loss	₩ (9,340)	(15,886)
Other equity	(41,785)	(41,785)
	<u>₩ (51,125)</u>	<u>(57,671)</u>

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

(2) Changes in accumulated other comprehensive income (loss) during the years ended December 31, 2015 and 2014 are as follows:

(i) For the year ended December 31, 2015

*In millions of won*

		<b>Available- for-sale financial assets valuation reserve</b>	<b>Reserve for gain (loss) on valuation of derivatives</b>	<b>Reserve for loss on overseas operations translation credit</b>	<b>Share in other comprehensive income (loss) of associates</b>	<b>Total</b>
Beginning balance	₩	2,286	(11,887)	(5,241)	(1,043)	(15,885)
Valuation of available-for-sale financial assets		664	-	-	-	664
Valuation of derivatives		-	6,297	-	-	6,297
Overseas operations translation		-	-	(611)	-	(611)
Valuation of investments in associates		-	-	-	2,480	2,480
Tax effect		(161)	(1,524)	-	(600)	(2,285)
Ending balance	₩	<u>2,789</u>	<u>(7,114)</u>	<u>(5,852)</u>	<u>837</u>	<u>(9,340)</u>

(ii) For the year ended December 31, 2014

*In millions of won*

		<b>Available- for-sale financial assets valuation reserve</b>	<b>Reserve for gain (loss) on valuation of derivatives</b>	<b>Reserve for loss on overseas operations translation credit</b>	<b>Share in other comprehensive income (loss) of associates</b>	<b>Total</b>
Beginning balance	₩	2,166	10,908	(4,574)	(2,314)	6,186
Valuation of available-for-sale financial assets		158	-	-	-	158
Valuation of derivatives		-	(30,072)	-	-	(30,072)
Overseas operations translation		-	-	(667)	-	(667)
Valuation of investments in associates		-	-	-	1,271	1,271
Tax effect		(38)	7,277	-	-	7,239
Ending balance	₩	<u>2,286</u>	<u>(11,887)</u>	<u>(5,241)</u>	<u>(1,043)</u>	<u>(15,885)</u>

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

(3) Changes in other components of equity for the years ended December 31, 2015 and 2014 are as follows:

(i) For the year ended December 31, 2015

No changes occurred during the year ended December 31, 2015.

(ii) For the year ended December 31, 2014

*In millions of won*

	<u>Loss on capital reduction</u>	<u>Other capital adjustments</u>	<u>Total</u>
Beginning balance	₩ (41,046)	(738)	(41,784)
Disposal of subsidiary	-	(1)	(1)
Ending balance	₩ (41,046)	(739)	(41,785)

**28. Hybrid Securities**

Hybrid securities classified as equity as of December 31, 2015 and 2014 are 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>December 31, 2015</u>	<u>December 31, 2014</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	100,000
Issuance costs						(250)	(250)
					₩	<u>99,750</u>	<u>99,750</u>

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

Interest payments may be deferred under certain conditions, such as resolution from the general meeting of stockholders that a dividend not be paid.

The hybrid securities holders' preference in the event of liquidation is higher than the common stock holders, but lower than other creditors.

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**29. Sales**

Details of sales for the years ended December 31, 2015 and 2014 are as follows:

(i) For the year ended December 31, 2015

<i>In millions of won</i>		<u>Domestic</u>	<u>Overseas</u>
Sales of electricity	₩	4,205,989	4,730
Services		4,571	9,385
	₩	<u>4,210,560</u>	<u>14,115</u>

(ii) For the year ended December 31, 2014

<i>In millions of won</i>		<u>Domestic</u>	<u>Overseas</u>
Sales of electricity	₩	4,825,711	4,786
Services		10,446	3,535
	₩	<u>4,836,157</u>	<u>8,321</u>

**30. Selling and Administrative Expenses**

Composition of selling and administrative expenses for the years ended December 31, 2015 and 2014 are as follows:

<i>In millions of won</i>		<u>2015</u>	<u>2014</u>
Employee health and welfare benefit funds	₩	5,342	1,748
Salaries		21,590	11,745
Retirement benefit expense		1,639	655
Welfare and benefit expense		2,043	1,686
Insurance expense		41	48
Depreciation		7,377	3,063
Amortization		4,881	4,473
Commission		13,680	10,055
Advertising expense		594	947
Training expense		68	48
Vehicle maintenance expense		70	110
Publishing expense		152	148
Business promotion expense		100	171
Rent expense		4,207	4,236
Telecommunication expense		344	188
Transportation expense		204	1
Taxes and dues		600	410
Expendable supplies expense		464	72
Water, light and heating expense		295	14
Repairs and maintenance expense		1,147	79
Ordinary development expense		12,114	9,239
Travel expense		813	342
Clothing expense		-	1
Survey and analysis expense		1	-
Others		4,578	28,249
	₩	<u>82,344</u>	<u>77,728</u>

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**31. Other Non-operating Income and Expense**

(1) Other non-operating income for the years ended December 31, 2015 and 2014 are as follows:

<i>In millions of won</i>	<u>2015</u>	<u>2014</u>
Rental income	₩ 3,689	3,532

(2) Other non-operating expenses for the years ended December 31, 2015 and 2014 are as follows:

<i>In millions of won</i>	<u>2015</u>	<u>2014</u>
Donations	₩ 443	413

**32. Other Income and Loss**

Composition of other income and loss for the years ended December 31, 2015 and 2014 are as follows:

<i>In millions of won</i>	<u>2015</u>	<u>2014</u>
Gain on disposal of property, plant, and equipment	₩ 9,885	11,695
Gain on foreign currency translation	242	108
Gain on foreign currency transaction	3,196	10,837
Other gains	20,645	28,595
Loss on disposal of property, plant, and equipment	(13,310)	(3,433)
Impairment loss on property, plant, and equipment	-	(35,094)
Loss on foreign currency translation	(164)	(2,577)
Loss on foreign currency transaction	(3,880)	(2,098)
Other losses	(15,080)	(4,364)
	₩ <u>1,534</u>	<u>3,669</u>

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**33. Finance Income**

(1) Finance income for the years ended December 31, 2015 and 2014 are as follows:

<i>In millions of won</i>	<u>2015</u>	<u>2014</u>
Interest income	₩ 2,542	6,770
Gain on valuation of derivatives	121,557	66,775
Gain on foreign currency translation(*)	-	15,522
Gain on foreign currency transaction(*)	543	139
	<u>₩ 124,642</u>	<u>89,206</u>

(\*) Incurred from Group's financing activities

(2) Interest income included in finance income for the years ended December 31, 2015 and 2014 are as follows:

<i>In millions of won</i>	<u>2015</u>	<u>2014</u>
Cash and cash equivalents	₩ 1,795	6,221
Loans and receivables	725	549
Available-for-sale financial assets	22	-
	<u>₩ 2,542</u>	<u>6,770</u>

**34. Finance Expenses**

(1) Finance expenses for the years ended December 31, 2015 and 2014 are as follows:

<i>In millions of won</i>	<u>2015</u>	<u>2014</u>
Interest expense	₩ 70,580	66,885
Loss on disposal of financial assets	82	-
Loss on valuation of derivatives	833	15,448
Impairment loss on available-for-sale financial assets	-	1,513
Loss on foreign currency translation	121,121	66,775
Loss on foreign currency transaction	233	159
	<u>₩ 192,849</u>	<u>150,780</u>

(2) Interest expenses included in finance expenses for the years ended December 31, 2015 and 2014 are as follows:

<i>In millions of won</i>	<u>2015</u>	<u>2014</u>
Short term borrowings	₩ 7,243	2,894
Long term borrowings	23	25
Debentures	154,713	123,393
Trade and other payables	94	210
	<u>162,073</u>	<u>126,522</u>
Less: capitalized borrowing costs	(91,493)	(59,637)
	<u>₩ 70,580</u>	<u>66,885</u>

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**35. Income Tax Expense**

(1) Components of incomes tax expense for the years ended December 31, 2015 and 2014 are as follows:

<i>In millions of won</i>	<u>2015</u>	<u>2014</u>
<b>Current income tax expense</b>		
Tax payable	₩ 74,016	31,583
Adjustment for prior period	1,296	(2,627)
Income tax charged directly to equity	402	10,745
	<u>75,714</u>	<u>39,701</u>
<b>Deferred income tax expense</b>		
Generation and realization of temporary differences	2,217	(5,308)
Adjustment due to changes in estimates related to prior years	-	9,942
Changes in tax rates or tax laws	34,065	(14,798)
	<u>36,282</u>	<u>(10,164)</u>
<b>Income tax expense</b>	₩ <u>111,996</u>	<u>29,537</u>

(2) Reconciliation between the actual income tax expense and that amount computed by applying 24.2% to profit before income tax expense (benefit) for the years ended December 31, 2015 and 2014 are as follows:

<i>In millions of won</i>	<u>2015</u>	<u>2014</u>
Profit before income tax expense	₩ 412,305	162,765
Income tax expense in accordance with statutory tax rate (tax rate: 24.2%)	98,171	44,791
Adjustments		
Effects of the application of accumulative tax rate	(462)	(462)
Effects of non-deductible expenses	1,448	4,817
Effects of tax credits or reductions	11,543	(26,924)
Adjustment due to changes in estimates related to prior years	-	9,942
	12,529	(12,627)
Adjustment for prior period	1,296	(2,627)
Income tax expense (benefit) recognized in profit or loss	₩ <u>111,996</u>	<u>29,537</u>

The average effective tax rates for the years ended December 31, 2015 and 2014 are 27.16% and 18.15%, respectively.

(3) Relating to items directly to equity in income tax for the years ended December 31, 2015 and 2014 are as follows:

<i>In millions of won</i>	<u>2015</u>	<u>2014</u>
Interest payments on hybrid securities	₩ 980	983



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**35. Income Tax Expense, Continued**

(4) Income tax recognized in other comprehensive income (loss) for the years ended December 31, 2015 and 2014 are as follows:

<i>In millions of won</i>	<u>2015</u>	<u>2014</u>
Gain on valuation of available-for-sale financial assets, net ₩	(161)	(38)
Loss (gain) on valuation of derivatives using cash flow hedge accounting, net	(1,524)	7,277
Defined benefit plan actuarial loss, net	1,107	2,524
Income tax benefit (expenses) ₩	<u>(578)</u>	<u>9,763</u>

(5) Recognized deferred income tax assets (liabilities) in the statement of financial position for the years ended December 31, 2015 and 2014 are as follows:

(i) For the year ended December 31, 2015

*In millions of won*

	<u>Balance as of January 1, 2015</u>	<u>Amounts recognized in profit or loss</u>	<u>Amounts recognized in other comprehen- sive income</u>	<u>Amounts recognized directly in equity</u>	<u>Balance as of December 31, 2015</u>
<b>Deferred tax on temporary differences</b>					
Long-term employee benefits ₩	10,871	1,046	1,107	-	13,024
Cash flow hedges	(324)	(29,089)	(1,524)	-	(30,937)
Property, plant and equipment	(255,298)	(15,760)	-	-	(271,058)
Intangible assets	56	-	-	-	56
Available-for-sale financial assets	(729)	-	(161)	-	(890)
Foreign currency translation	5,682	29,315	-	-	34,997
Allowance for doubtful accounts	(1,116)	1,116	-	-	-
Other provision	(4,239)	-	-	-	(4,239)
Reserve for research and human development	(1,896)	1,896	-	-	-
Others	28,284	8,910	-	980	38,174
	(218,709)	(2,566)	(578)	980	(220,873)
Tax credit	36,197	(34,066)	-	-	2,131
<b>Total</b> ₩	<u>(182,512)</u>	<u>(36,632)</u>	<u>(578)</u>	<u>980</u>	<u>(218,742)</u>

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35. Income Tax Expense, Continued

(5) Recognized deferred income tax assets (liabilities) in the statement of financial position for the years ended December 31, 2015 and 2014 are as follows, Continued:

(ii) For the year ended December 31, 2014

*In millions of won*

	<b>Balance as of January 1, 2014</b>	<b>Amounts recognized in profit or loss</b>	<b>Amounts recognized in other comprehen- sive income</b>	<b>Amounts recognized directly in equity</b>	<b>Balance as of December 31, 2014</b>
<b>Deferred tax on temporary differences</b>					
Long-term employee benefits	₩ 8,767	(419)	2,524	-	10,872
Cash flow hedges	5,237	(12,838)	7,277	-	(324)
Property, plant and equipment	(243,225)	(12,073)	-	-	(255,298)
Intangible assets	56	-	-	-	56
Available-for-sale financial assets	(691)	-	(38)	-	(729)
Foreign currency translation	(6,747)	12,429	-	-	5,682
Allowance for doubtful accounts	(1,116)	-	-	-	(1,116)
Other provision	(4,240)	1	-	-	(4,239)
Reserve for research and human development	(2,845)	949	-	-	(1,896)
Others	21,630	5,670	-	983	28,283
	(223,174)	(6,281)	9,763	983	(218,709)
Tax credit	30,700	5,497	-	-	36,197
<b>Total</b>	₩ (192,474)	(784)	9,763	983	(182,512)

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

*In millions of won*

	<b>2015</b>	<b>2014</b>
Deferred income tax assets	₩ 56	4
Deferred income tax liabilities	(218,798)	(182,516)
	₩ (218,742)	(182,512)

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**36. Expenses Classified by Nature**

Expenses classified by nature for the years ended December 31, 2015 and 2014 are as follows:

(1) For the year ended December 31, 2015

*In millions of won*

	<b>Selling and administrative expenses</b>	<b>Cost of sales</b>	<b>Total</b>
Raw materials used	₩ -	2,890,622	2,890,622
Employee health and welfare benefit funds	5,342	-	5,342
Salaries	21,590	120,945	142,535
Retirement benefit expense	1,639	12,594	14,233
Welfare and benefit expense	2,043	10,610	12,653
Insurance expense	41	7,962	8,003
Depreciation	7,377	412,562	419,939
Amortization	4,881	655	5,536
Commission	13,680	14,244	27,924
Advertising expense	594	437	1,031
Training expense	68	221	289
Vehicle maintenance expense	70	53	123
Publishing expense	152	105	257
Business promotion expense	100	140	240
Rent expense	4,207	13,163	17,370
Telecommunication expense	344	467	811
Transportation expense	204	98	302
Taxes and dues	600	19,831	20,431
Expendable supplies expense	464	324	788
Water, light and heating expense	295	240	535
Repairs and maintenance expense	1,147	120,774	121,921
Ordinary development expense	12,114	13,876	25,990
Travel expense	813	319	1,132
Clothing expense	-	350	350
Survey and analysis expense	1	95	96
Others	4,578	12,743	17,321
	₩ <u>82,344</u>	<u>3,653,430</u>	<u>3,735,774</u>

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**36. Expenses Classified by Nature, Continued**

Expenses classified by nature for the years ended December 31, 2015 and 2014 are as follows,  
Continued:

(2) For the year ended December 31, 2014

*In millions of won*

	<b>Selling and administrative expenses</b>	<b>Cost of sales</b>	<b>Total</b>
Raw materials used	₩ -	3,856,966	3,856,966
Employee health and welfare benefit funds	1,748	-	1,748
Salaries	11,745	111,055	122,800
Retirement benefit expense	655	8,910	9,565
Welfare and benefit expense	1,686	8,433	10,119
Insurance expense	48	7,600	7,648
Depreciation	3,063	385,047	388,110
Amortization	4,473	658	5,131
Commission	10,055	15,383	25,438
Advertising expense	947	314	1,261
Training expense	48	286	334
Vehicle maintenance expense	110	62	172
Publishing expense	148	111	259
Business promotion expense	171	174	345
Rent expense	4,236	10,172	14,408
Telecommunication expense	188	567	755
Transportation expense	1	10	11
Taxes and dues	410	11,983	12,393
Expendable supplies expense	72	269	341
Water, light and heating expense	14	308	322
Repairs and maintenance expense	79	106,924	107,003
Ordinary development expense	9,239	17,625	26,864
Travel expense	342	592	934
Clothing expense	1	225	226
Survey and analysis expense	-	102	102
Others	28,249	14,277	42,526
	₩ <u>77,728</u>	<u>4,558,053</u>	<u>4,635,781</u>

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**37. Earnings per Share**

(1) Basic earnings per share for the years ended December 31, 2015 and 2014 are as follows:

<i>In won</i>	<u>2015</u>	<u>2014</u>
Basic earnings per share	₩ 9,445	4,831

(\*) Since KOWEPO does not own dilutive securities, basic earnings per share is identical to dilutive earnings per share.

(2) Controlling interest in profit and weighted average number of common shares outstanding for the years ended December 31, 2015 and 2014 are as follows:

<i>In millions of won, except for number of share</i>	<u>2015</u>	<u>2014</u>
Net income from continuing operations	₩ 300,260	153,575
Weighted average number of common share	31,789,285	31,789,285

**38. Risk Management**

(1) Capital risk management

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

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

<i>In millions of won</i>	<u>2015</u>	<u>2014</u>
Total borrowings and debentures	₩ 4,961,593	3,884,251
Cash and cash equivalents	(105,559)	(74,747)
Net borrowings and debentures	<u>4,856,034</u>	<u>3,809,504</u>
Total shareholder's equity	₩ <u>3,485,986</u>	<u>3,208,711</u>
Debt to equity percentage	<u>139.30%</u>	<u>118.72%</u>

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**38. Risk Management, Continued**

(2) Financial risk management

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

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

1) Credit risk

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

<i>In millions of won</i>		<u>2015</u>	<u>2014</u>
Cash and cash equivalents	₩	105,559	74,747
Loans and receivables		14,991	13,721
Short-term financial instruments		8,000	7,500
Derivative assets (trading)		1,205	-
Derivative assets (hedge accounting)		128,694	42,008
Trade and other receivables		527,558	517,259
Available-for-sale financial assets		13,720	12,795

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, 2015 and 2014 are as follows:

<i>In millions of won</i>			<u>2015</u>		<u>2014</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	₩	9,514	(8,243)	8,203	(7,025)
Discount rate	Defined benefit obligation		(8,641)	10,247	(7,318)	8,763

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**38. Risk Management, Continued**

(2) Financial risk management, Continued.

3) Sensitivity analysis, Continued.

b) Management judgment effected by uncertainties in underlying assumptions

① Foreign currency risk

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

<i>In thousands of foreign currencies</i>	<b>Assets</b>		<b>Liabilities</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
USD	333	38	1,547,284	1,516,538
JPY	-	-	50,879	6,688
EUR	-	-	67	-
CHF	-	-	200,000	200,000
GBP	-	-	2	-

A sensitivity analysis on the Group's profit with a 10% increase or decrease in currency exchange rates for the years ended December 31, 2015 and 2014 are as follows:

<i>In millions of won</i>	<b>2015</b>		<b>2014</b>	
	<b>10% Increase</b>	<b>10% Decrease</b>	<b>10% Increase</b>	<b>10% Decrease</b>
Increase (decrease) of income before income tax	₩ (205,069)	205,069	(188,928)	188,928
Increase (decrease) of shareholder's equity(*)	(205,069)	205,069	(188,928)	188,928

(\*) Tax effect is not considered.

Sensitivity analysis above is conducted for monetary assets and liabilities denominated in foreign currencies other than functional currency, without consideration of hedge effect of related derivatives, as of December 31, 2015 and 2014.

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**38. Risk Management, Continued**

(2) Financial risk management, Continued.

3) Sensitivity analysis, Continued.

b) Management judgment effected by uncertainties in underlying assumptions, Continued.

① Foreign currency risk, Continued.

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

② Interest rate risk

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

The Group's borrowings and debentures with floating interest rates as of December 31, 2015 and 2014 are as follows:

<i>In millions of won</i>		<u>2015</u>	<u>2014</u>
Short-term borrowings	₩	34,375	-
Long-term borrowings		2,810	3,178
	₩	<u>37,185</u>	<u>3,178</u>

Sensitivity analysis on the Group's borrowings and debentures assuming a 1% increase or decrease in interest rates for the year ended December 31, 2015 and 2014 are as follows:

<i>In millions of won</i>		<u>2015</u>		<u>2014</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>
Increase (decrease) of net income	₩	(372)	372	(32)	32
Increase (decrease) of shareholder's equity(*)		(372)	372	(32)	32

(\*) Tax effect is not considered.

To manage its interest rate risks, in addition to maintaining an appropriate mix of fixed and floating rate loans, the Group enters into certain interest rate swap agreements. This analysis measures interest rate risk before reflecting hedging effect of derivatives.

4) Liquidity risk

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



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**38. Risk Management, Continued**

(2) Financial risk management, Continued.

4) Liquidity risk, Continued.

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

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

(i) As of December 31, 2015

*In millions of won*

	<b>Less than 1 year</b>	<b>1-2 years</b>	<b>2-5 years</b>	<b>More than 5 years</b>	<b>Total</b>
Borrowings and debentures	₩ 1,029,811	784,987	2,427,864	1,315,686	5,558,348
Trade and other payables	347,791	78	-	-	347,869
	<u>₩ 1,377,602</u>	<u>785,065</u>	<u>2,427,864</u>	<u>1,315,686</u>	<u>5,906,217</u>

(ii) As of December 31, 2014

*In millions of won*

	<b>Less than 1 year</b>	<b>1-2 years</b>	<b>2-5 years</b>	<b>More than 5 years</b>	<b>Total</b>
Borrowings and debentures	₩ 231,080	528,944	2,493,228	1,257,402	4,510,654
Trade and other payables	740,373	393	-	-	740,766
	<u>₩ 971,453</u>	<u>529,337</u>	<u>2,493,228</u>	<u>1,257,402</u>	<u>5,251,420</u>

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**38. Risk Management, Continued**

(2) Financial risk management, Continued.

4) Liquidity risk, Continued.

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

(i) As of December 31, 2015

*In millions of won*

		<b>Less than 1 year</b>	<b>1-5 years</b>	<b>Over 5 years</b>	<b>Uncertain</b>	<b>Total</b>
Cash and cash equivalents	₩	105,559	-	-	-	105,559
Available-for-sale financial assets		-	-	-	13,720	13,720
Loans and receivables		3,684	12,923	-	-	16,607
Short-term financial instruments		8,000	-	-	-	8,000
Trade and other receivables		525,553	2,258	-	-	527,811
	₩	<u>642,796</u>	<u>15,181</u>	<u>-</u>	<u>13,720</u>	<u>671,697</u>

(ii) As of December 31, 2014

*In millions of won*

		<b>Less than 1 year</b>	<b>1-5 years</b>	<b>Over 5 years</b>	<b>Uncertain</b>	<b>Total</b>
Cash and cash equivalents	₩	74,747	-	-	-	74,747
Available-for-sale financial assets		-	-	-	12,795	12,795
Loans and receivables		2,922	12,646	-	-	15,568
Short-term financial instruments		7,500	-	-	-	7,500
Trade and other receivables		510,939	6,634	-	-	517,573
	₩	<u>596,108</u>	<u>19,280</u>	<u>-</u>	<u>12,795</u>	<u>628,183</u>

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES  
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**38. Risk Management, Continued**

(2) Financial risk management, Continued.

4) Liquidity risk, Continued.

Derivative financial liabilities classified by maturity periods which from reporting date to maturity date of contract as of December 31, 2015 and 2014 as follows:

(i) As of December 31, 2015

<i>In millions of won</i>		<b>Less than 1 year</b>	<b>1-2 years</b>	<b>2-5 years</b>	<b>More than 5 years</b>	<b>Total</b>
Net settlement						
-Trading purpose	₩	-	-	-	-	-
Gross settlement						
-Trading purpose		833	-	-	-	833
-Hedge accounting purpose		-	-	-	-	-
	₩	<u>833</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>833</u>

(ii) As of December 31, 2014

<i>In millions of won</i>		<b>Less than 1 year</b>	<b>1-2 years</b>	<b>2-5 years</b>	<b>More than 5 years</b>	<b>Total</b>
Net settlement						
-Trading purpose	₩	-	-	-	-	-
Gross settlement						
-Trading purpose		-	-	-	-	-
-Hedge accounting purpose		-	27,539	12,424	-	39,963
	₩	<u>-</u>	<u>27,539</u>	<u>12,424</u>	<u>-</u>	<u>39,963</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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**38. Risk Management, Continued**

(3) Fair value risk, Continued.

1) Fair value and book value of financial assets and liabilities as of December 31, 2015 and 2014 are as follows:

*In millions of won*

	2015		2014	
	Book value	Fair value	Book value	Fair value
<b>Assets recognized at fair value</b>				
Available-for-sale financial assets	₩ 13,720	13,720	12,795	12,795
Derivatives assets (trading)	1,205	1,205	-	-
Derivatives assets (hedge accounting)	128,694	128,694	42,008	42,008
	₩ <u>143,619</u>	<u>143,619</u>	<u>54,803</u>	<u>54,803</u>
<b>Assets carried at amortized cost</b>				
Trade and other receivables	₩ 527,558	527,558	517,259	517,259
Loans and receivables	14,991	14,991	13,721	13,721
Short-term financial instruments	8,000	8,000	7,500	7,500
	₩ <u>550,549</u>	<u>550,549</u>	<u>538,480</u>	<u>538,480</u>
<b>Liabilities carried at fair value</b>				
Derivatives liabilities (trading)	₩ 833	833	-	-
Derivatives liabilities (hedge accounting)	-	-	39,963	39,963
	₩ <u>833</u>	<u>833</u>	<u>39,963</u>	<u>39,963</u>
<b>Liabilities carried at amortized cost</b>				
Borrowings	₩ 457,185	457,185	3,178	3,178
Debentures	4,504,408	4,665,108	3,881,073	3,865,679
Trade and other payables	347,869	347,869	740,766	740,766
	₩ <u>5,309,462</u>	<u>5,470,162</u>	<u>4,625,017</u>	<u>4,609,623</u>

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

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

Type	December 31, 2015 (%)	December 31, 2014 (%)
Derivatives	1.42 ~ 1.85	0.58 ~ 2.14
Debentures	0.15 ~ 2.58	0.45 ~ 3.02

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**38. Risk Management, Continued**

(3) Fair value risk, Continued.

3) Fair value hierarchy

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

(i) As of December 31, 2015

*In millions of won*

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b>Financial assets at fair value:</b>				
Available-for-sale financial assets	₩ -	-	13,720	13,720
Derivative assets (trading)	-	1,205	-	1,205
Derivative assets (hedge accounting)	-	128,694	-	128,694
	<u>-</u>	<u>129,899</u>	<u>13,720</u>	<u>143,619</u>
<b>Financial liabilities at fair value:</b>				
Derivative liabilities (trading)	-	833	-	833
	<u>-</u>	<u>833</u>	<u>-</u>	<u>833</u>

(ii) As of December 31, 2014

*In millions of won*

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b>Financial assets at fair value:</b>				
Available-for-sale financial assets	₩ -	-	12,795	12,795
Derivative assets (hedge accounting)	-	42,008	-	42,008
	<u>-</u>	<u>42,008</u>	<u>12,795</u>	<u>54,803</u>
<b>Financial liabilities at fair value:</b>				
Derivative liabilities (hedge accounting)	-	39,963	-	39,963
	<u>-</u>	<u>39,963</u>	<u>-</u>	<u>39,963</u>

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**39. Related Party Transactions**

(1) The nature of the Group's relationship as of December 31, 2015 is as follows:

<b>Type</b>	<b>Related party</b>
Parent company	Korea Electric Power Corporation
Associate company	Cheongna Energy Co., Ltd. Pioneer Gas Power., Ltd. Eurasia Energy Holdings Xe-Pian Xe-Namnoy Power Co., Ltd. PT Mutiara Jawa Korea Offshore Wind Power Co., Ltd. Daegu Solar Power Plant Co., Ltd. Dongducheon Dream Power Co., Ltd. Solar Power Plants Happy City Co., Ltd. Shin Pyeongtaek Power Co., Ltd.
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

# KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

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### 39. Related Party Transactions, Continued

(2) All transactions between KOWEPO and its consolidated subsidiaries are eliminated upon consolidation, and transactions with related parties other than subsidiaries for the years ended December 31, 2015 and 2014 are as follows:

<i>In millions of won</i>	<b>Related parties</b>	<b>Sales and others</b>		<b>Purchase and others</b>	
		<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
	Korea Electric Power Corporation	₩ 4,167,451	4,865,796	91,718	72,939
	Korea Hydro & Nuclear Power Co., Ltd.	-	-	89	81
	Korea Southern Power Co., Ltd.	1,742	2,149	983	1,168
	Korea East-West Power Co., Ltd.	-	-	41	114
	Korea South-East Power Co., Ltd.	-	-	-	3
	Korea Midland Power Co., Ltd.	-	-	37	105
	KEPCO Engineering & Construction Company Inc.	-	-	18,556	22,262
	KEPCO KPS Co., Ltd.	1,739	1,692	86,352	86,185
	KEPCO KDN Co., Ltd.	-	-	9,788	7,578
	Cheongna Energy Co., Ltd.	19,671	12,899	-	-
	Korea Offshore Wind Power Co., Ltd.	252	218	-	-
	Daegu Solar Power Plant Co., Ltd.	-	-	2,864	2,007
	Dongducheon Dream Power Co., Ltd.	473	9,297	-	-
	Solar Power Plants Happy City Co., Ltd.	-	-	296	119
	Rabigh O&M Co., Ltd.	1,780	2,822	-	-
	Korea Gas Corporation	2,670	2,947	1,254,351	2,296,668
	Korea Electronic Power Industrial Development Co., Ltd.	6,735	9,921	36,073	28,110
	Korea Power Exchange	-	-	4,053	4,240
	Pioneer Gas Power., Ltd.	274	214	-	-
	Shin Pyeongtaek Power Co., Ltd.	5,109	173	-	-
	Xe-Pian Xe-Namnoy Power Co., Ltd.	584	1,332	-	-
		₩ <u>4,208,480</u>	<u>4,909,460</u>	<u>1,505,201</u>	<u>2,521,579</u>

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39. Related Party Transactions, Continued

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

<i>In millions of won</i>		<b>Receivables</b>		<b>Payables</b>	
<b>Company name</b>	<b>Type</b>	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
Korea Electric Power Corporation	Trade receivables	₩ 376,933	424,836	-	-
	Non-trade receivables and others	132,437	59,934	-	-
	Trade payables	-	-	6,379	3,343
	Non-trade payables and others	-	-	11	71
Korea Hydro & Nuclear Power Co., Ltd.	Non-trade payables and others	-	-	23	22
Korea Southern Power Co., Ltd.	Non-trade receivables and others	689	36	-	-
	Non-trade payables and others	-	-	83	191
Korea East-West Power Co., Ltd.	Non-trade receivables and others	227	-	-	-
	Non-trade payables and others	-	-	22	1,149
Korea South-East Power Co., Ltd.	Non-trade payables and others	-	-	11	-
Korea Midland Power Co., Ltd.	Non-trade payables and others	-	-	23	-
KEPCO Engineering & Construction Company Inc.	Non-trade payables and others	-	-	-	560
KEPCO KPS Co., Ltd.	Non-trade receivables and others	13	-	-	-
	Non-trade payables and others	-	-	11,013	13,912
KEPCO KDN Co., Ltd.	Non-trade payables and others	-	-	-	767
Cheongna Energy Co., Ltd.	Non-trade receivables and others	375	5,073	-	-
Korea Offshore Wind Power Co., Ltd.	Non-trade receivables and others	-	-	-	-
		277	240	-	-
Rabigh O&M Co., Ltd.	Non-trade receivables	1,780	-	-	-
Shin Pyeongtaek Power Co., Ltd.	Non-trade receivables and others	56	191	-	-
Pioneer Gas Power., Ltd.	Non-trade receivables and others	26	214	-	-
Korea Gas Corporation	Non-trade receivables and others	23	-	-	-
	Trade payables	-	-	85,480	283,772
	Non-trade payables and others	-	-	68	-
Korea Electronic Power Industrial Development Co., Ltd.	Trade receivables	396	652	-	-
	Non-trade receivables and others	33	-	-	-
	Non-trade payables and others	-	-	2,921	3,187
Korea Power Exchange	Non-trade payables and others	-	-	128	1
Xe-Pian Xe-Namnoy Power Co., Ltd.	Non-trade receivables and others	-	547	-	-
	Loans	1,413	1,413	-	-
PT Mutiara Jawa	Loans	450	-	-	-



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**39. Related Party Transactions, Continued**

(4) The salaries and other compensations to the key members of management for the years ended December 31, 2015 and 2014 are as follows:

*In millions of won*

Type	2015	2014
Short-term employee benefits	₩ 607	540
Retirement and severance benefits	36	35

(5) Guarantees provided to affiliates as of December 31, 2015 are as follows:

*In millions of won, In thousands of USD, SAR*

Debt repayment guarantee provider	Related Parties	Type of guarantees	Credit limit	Guarantee
Korea Western Power Co., Ltd.	Cheongna Energy Co., Ltd.	Investments in associate pledged as collateral	KRW 27,211	KEB Hana Bank
Korea Western Power Co., Ltd.	Dongducheon Dream Power Co., Ltd.	Investments in associate pledged as collateral	KRW 111,134	Woori Bank
Korea Western Power Co., Ltd.	Daegu Solar Power Plant Co., Ltd.	Investments in associate pledged as collateral	KRW 1,230	Industrial Bank of Korea
Korea Western Power Co., Ltd.	PT Mutiara Jawa	Investments in associate pledged as collateral	USD 2,610	Shinhan Bank 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 2,500	Krung Thai Bank
Korea Western Power Co., Ltd.	Xe-Pian Xe-Namnoy Power Co., Ltd.	Investments in associate pledged as collateral	USD 29,357	Krung Thai Bank
Korea Western Power Co., Ltd.	Xe-Pian Xe-Namnoy Power Co., Ltd>(*1)	Guarantees of Impounding bonus	USD 5,000	SK E&C
Korea Western Power Co., Ltd.	Solar Power Plants Happy City Co., Ltd.	Investments in associate pledged as collateral	KRW 194	Shinhan Capital, NH bank
Korea Western Power Co., Ltd.	Shin Pyeongtaek Power Co., Ltd.	Investments in associate pledged as collateral	KRW 40	Kookmin Bank

(\*1) Xe-Pian Xe-Namnoy Power Co., Ltd. signed the agreement to pay incentives to SK E&C when the impoundment occurs upon the completion of the hydropower project. If Xe-Pian Xe-Namnoy Power Co., Ltd. becomes unable to pay the incentives to SK E&C, the Group guarantees payment of USD 5,000,000.

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

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**40. Asset held for sale**

Asset held for sale as of December 31, 2015 and 2014 are as follows:

<i>In millions of won</i>		<u>2015</u>	<u>2014</u>
Investments in associates(*1)	₩	41,170	-

(\*1) Representing the carrying amount for the portion of investment in Dongducheon Dream Power Co., Ltd., that the Group intends to sell.

**41. Non-cash Transactions**

Significant non-cash transactions for the years ended December 31, 2015 and 2014 are as follows:

<i>In millions of won</i>		<u>2015</u>	<u>2014</u>
Reclassification of long-term borrowings and debentures to current portion	₩	428,291	100,277
Reclassification of construction-in-progress		671,793	596,344
Reclassification of non-cash purchases of property, plant and equipment's acquisition		(225,509)	(64,108)
Reclassification of long-term loans to current portion		1,409	2,406
Reclassification of long-term prepaid expenses to current portion		1,028	(2,326)
Reclassification of long-term deposit to current portion		125	(4,156)

**42. Commitments for Expenditure**

Agreements for acquisition of property, plant and equipment as of December 31, 2015 and 2014 are as follows:

<i>In millions of won</i>		<u>2015</u>		<u>2014</u>	
		<u>Contract</u>	<u>Residual</u>	<u>Contract</u>	<u>Residual</u>
	<b>Description</b>				
Payments	₩	2,142,336	252,320	2,299,954	657,998

**43. Commitments and Contingencies**

(1) Ongoing litigations of December 31, 2015 and 2014 are as follows:

<i>In millions of won</i>	<u>2015</u>		<u>2014</u>	
	<u>Number of cases</u>	<u>Claim amount</u>	<u>Number of cases</u>	<u>Claim amount</u>
As the defendant(*)	10 ₩	26,872	8 ₩	23,745
As the plaintiff	2	3,049	1	20

(\*) As of December 31, 2015, the Group recorded ₩4,096 million as litigation provisions. Except for the lawsuits that resulted in litigation provisions, the outcome of the other litigations cannot be determined. However, management of the Group believes that the ultimate outcomes will not have a significant impact on the Group's operations and financial position.

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43. Commitments and Contingencies, Continued

(2) Credit lines provided by financial institutions as of December 31, 2015 are as follows:

*In millions of won, In thousands of USD*

Description	Financial Institutions	Currency	Amount
Commitments on Bank-overdraft	NH Bank	KRW	200,000
	KEB Hana Bank	KRW	100,000
Loan limit	NH Bank	KRW	30,000
	KEB Hana Bank	USD	18,000
	SC Bank	USD	50,000
	Bank of Communications	USD	100,000
	Bank of Nova Scotia	USD	20,000
	BNP PARIBAS	USD	60,000
	Credit Agricole Corporate & Investment Bank	USD	50,000
	Deutsche Bank AG	USD	70,000
	DBS Bank	USD	100,000
	Korea Development Bank	USD	80,000
	Mizuho Corporate Bank Ltd	USD	100,000
Certification of payment on L/C	Societe Generale	USD	50,000
	The Hongkong and Shanghai Banking Co., Ltd.	USD	50,000
	Kookmin Bank	USD	40,000
	NH Bank	USD	50,000
	Shinhan Bank	USD	30,000
	Woori Bank	USD	30,000
	KEB Hana Bank	USD	53,000

(3) Main raw material purchase agreements as of December 31, 2015 are as follows:

Raw materials	Supplier	Contract period	Amount for year (thousand tons, thousand kls)
Bituminous coal	Australia	2016.01~2020.09	1,787
	Indonesia	2016.01~2020.03	1,500
	Russia	2016.01~2020.08	1,540
			4,827
Bunker-C Oil	DAE KYUNG OIL & TRANSPORTATION CO.,LTD.	2015.11~2016.03	3
	DAELIM INDUSTRIAL CO.,LTD	2015.12~2016.03	3
	POSCO DAEWOO CORPORATION	2015.12~2016.01	90
	Pacific Bio Co., Ltd.	2015.12~2016.03	3
			99
LNG	Korea Gas Corporation	2007~2026	Determined annually

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**43. Commitments and Contingencies, Continued**

(4) Details of long-term marine transportation commitment for the safe transport of bituminous coal as of December 31, 2015 are as follows:

Shipping company	Ship name	Contract period
Daebo International Shipping Co., Ltd.	Glovis Daylight	2015.10~2030.09
Hanjin Shipping Co., Ltd.	Hanjin Balikpapan	2011.07~2026.06
Hansung Line Co., Ltd.	Western Marine	2012.01~2026.12
Hyundai Merchant Marine Co., Ltd.	Hyundai Leader	2016.01~2031.03
K-Line	CSK Brilliance	2011.11~2021.10
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	Pacific Power	2008.11~2018.10
NYK	LOWLANDS PHOENIX	2013.02~2028.01
SK Shipping Co., Ltd.	Western Dream	2016.01~2028.03
Wuyang Merchant Marine Co., Ltd	Undecided	2016.07~2026.09
Five Ocean Corporation	Undecided	2016.10~2026.12
Hyundai Merchant Marine Co., Ltd.	Undecided	2018.01~2036.06
SK Shipping Co., Ltd.	Undecided	2018.07~2036.12

(5) As described in Note 39, the Group provides financial supports including the debt repayment guarantees to related parties.

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES  
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44. Subsequent Events

(1) The Group has issued interest-bearer coupon debentures for facilities and operation funds as follows:

*In millions of won*

	<u>Issue date</u>	<u>Maturity date</u>	<u>Interest rate</u>		<u>Amounts</u>
Corporate bond #30-1	2016.01.28	2021.01.28	1.884%	₩	90,000
Corporate bond #30-2	2016.01.28	2026.01.28	2.103%		110,000
				₩	<u>200,000</u>

(2) Subsequent to December 31, 2015, the Group has issued short-term bonds for funds of facilities and operation as follows:

*In millions of won*

<u>Type</u>	<u>Lender</u>	<u>Issue date</u>	<u>Maturity date</u>	<u>Interest rate</u>		<u>Amounts</u>
Domestic short-term borrowings	Woori Investment Bank Co., Ltd.	2016.01.05	2016.03.23	1.71%	₩	20,000
	KTB Investments & Securities. Co., Ltd.	2016.01.05	2016.03.23	1.71%		20,000
	Dongbu Securities. Co., Ltd.	2016.01.05	2016.03.23	1.71%		20,000
	Samsung Securities Co., Ltd.	2016.01.05	2016.03.23	1.71%		20,000
	SK Securities. Co., Ltd.	2016.01.21	2016.01.22	1.46%		70,000
	Woori Investment Bank Co., Ltd.	2016.01.21	2016.01.22	1.46%		30,000
	SK Securities. Co., Ltd.	2016.01.21	2016.01.28	1.52%		100,000
					₩	<u>280,000</u>